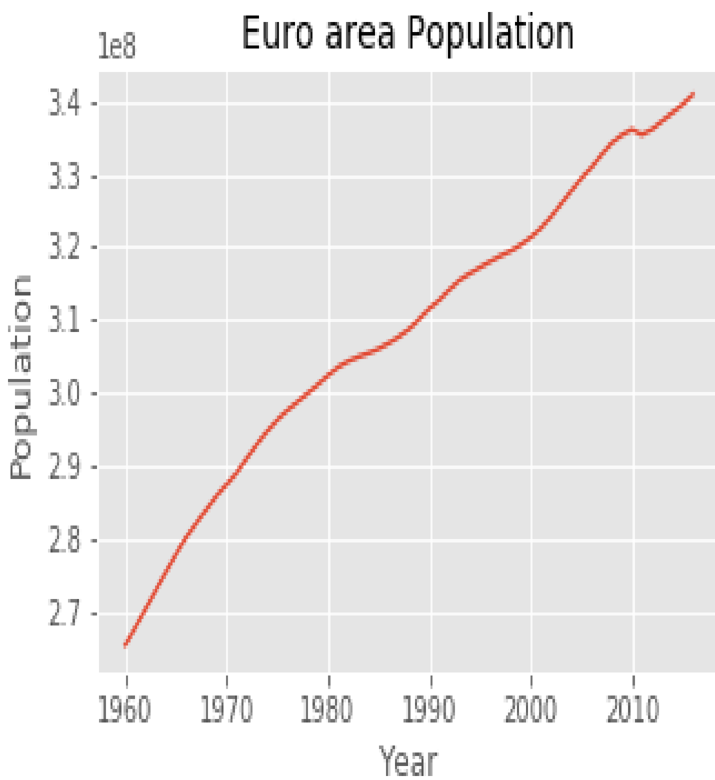
Euro area



The eurozone (pronunciation), officially called the euro area, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro (€) as their common currency and sole legal tender. The monetary authority of the eurozone is the Eurosystem. The other nine members of the European Union continue to use their own national currencies, although most of them are obliged to adopt the euro in the future. The eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Other EU states (except for Denmark and the United Kingdom) are obliged to join once they meet the criteria to do so. No state has left, and there are no provisions to do so or to be expelled. Andorra, Monaco, San Marino, and Vatican City have formal agreements with the EU to use the euro as their official currency and issue their own coins. Kosovo and Montenegro have adopted the euro unilaterally, but these countries do not officially form part of the eurozone and do not have representation in the European Central Bank (ECB) or in the Eurogroup. The ECB, which is governed by a president and a board of the heads of national central banks, sets the monetary policy of the zone. The principal task of the ECB is to keep inflation under control. Though there is no common representation, governance or fiscal policy for the currency union, some co-operation does take place through the Eurogroup, which makes political decisions regarding the eurozone and the euro. The Eurogroup is composed of the finance ministers of eurozone states, but in emergencies, national leaders also form the Eurogroup. Since the financial crisis of 2007–08, the eurozone has established and used provisions for granting emergency loans to member states in return for enacting economic reforms. The eurozone has also enacted some limited fiscal integration, for example in peer review of each other's national budgets. The issue is political and in a state of flux in terms of what further provisions will be agreed for eurozone change. == Territory == === European Union member states === In 1998 eleven member states of the European Union had met the euro convergence criteria, and the eurozone came into existence with the official launch of the euro (alongside national currencies) on 1 January 1999. Greece qualified in 2000 and was admitted on 1

January 2001 before physical notes and coins were introduced on 1 January 2002 replacing all national currencies. Between 2007 and 2015, seven new states acceded. The 2012 data above of eurozone states were published by World Bank in May 2014. Latvia and Lithuania were not in the eurozone in 2012. === Dependent territories of EU member states — outside EU === Five of the dependent territories of EU member states not part of the EU, have adopted the euro: Akrotiri and Dhekelia (British territory, with Cyprus ensuring eurozone laws are implemented, adopted 2008-01-01, replacing Cypriot Pound) Collectivity of Saint Martin (French territory, with France ensuring eurozone laws are implemented) Territorial collectivity of Saint Barthélemy (French territory, with France ensuring eurozone laws are implemented) Overseas Collectivity of Saint-Pierre and Miquelon (French territory, with France ensuring eurozone laws are implemented) French Southern and Antarctic Lands (French territory, with France ensuring eurozone laws are implemented) === Non-member usage === ==== With formal agreement ==== The euro is also used in countries outside the EU. Four states – Andorra, Monaco, San Marino, and Vatican City — have signed formal agreements with the EU to use the euro and issue their own coins. Nevertheless, they are not considered part of the eurozone by the ECB and do not have a seat in the ECB or Euro Group. ==== Other ==== Kosovo and Montenegro officially adopted the euro as their sole currency without an agreement and, therefore, have no issuing rights. These states are not considered part of the eurozone by the ECB. However, sometimes the term eurozone is applied to all territories that have adopted the euro as their sole currency. Further unilateral adoption of the euro (euroisation), by both non-euro EU and non-EU members, is opposed by the ECB and EU. === Historical eurozone enlargements and exchange-rate regimes for EU members === The chart below provides a full summary of all applying exchange-rate regimes for EU members, since the European Monetary System with its Exchange Rate Mechanism and the related new common currency ECU was born on 13 March 1979. The euro replaced the ECU 1:1 at the exchange rate markets, on 1 January 1999. During 1979-1999, the D-Mark functioned as a de facto anchor for the ECU, meaning there was only a minor difference between pegging a currency against ECU and pegging it against the D-mark. Sources: EC convergence reports 1996-2014, Italian lira, Spanish peseta, Portuguese escudo, Finish markka, Greek drachma, UK pound The eurozone was born with its first 11 member states on 1 January 1999. The first enlargement of the eurozone, to Greece, took place on 1 January 2001, one year before the euro had physically entered into circulation. The next enlargements were to states which joined the EU in 2004, and then joined the eurozone on 1 January in the year noted: Slovenia (2007), Cyprus (2008), Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), and Lithuania (2015). All new EU members joining the bloc after the signing of the Maastricht treaty in 1992 are obliged to adopt the euro under the terms of their accession treaties. However, the last of the five economic convergence criteria which need first to be complied with in order to qualify for euro adoption, is the exchange rate stability criterion, which requires having been an ERM-member for a minimum of two years without the presence of "severe tensions" for the currency exchange rate. In September 2011, a diplomatic source close to the euro adoption preparation talks with the seven remaining new member states who had yet to adopt the euro (Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania), claimed that the monetary union (eurozone) they had thought they were going to join upon their signing of the accession treaty may very well end up being a very different union entailing much closer fiscal, economic and political convergence. This changed legal status of the eurozone could potentially cause them to conclude that the conditions for their promise to join were no longer valid, which "could force them to stage new referendums" on euro adoption. === Future enlargement === Nine countries (Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, and the United Kingdom) are EU members but do not use the euro. Before joining the eurozone, a state must spend two years in the European Exchange Rate Mechanism (ERM II). As of January 2017, only the National Central Bank (NCB) of Denmark participates in ERM II. Denmark and the United Kingdom obtained special opt-outs in the original Maastricht Treaty. Both countries are legally exempt from joining the eurozone unless their governments decide otherwise, either by parliamentary vote or referendum. The other seven countries are obliged to adopt the euro in future, although the EU has so far not tried to enforce any time plan. They should join as soon as they fulfil the convergence criteria, which include being part of ERM II for two years. Sweden, which joined the EU in 1995 after the Maastricht Treaty was signed, is required to join the eurozone. However, the Swedish people turned down euro adoption in a 2003 referendum and since then the country has intentionally avoided fulfilling the adoption requirements by not joining ERM II, which is voluntary. Interest in joining the eurozone increased in Denmark, and initially in Poland, as a result of the 2008 financial crisis. In Iceland, there was an increase in interest in joining the European Union, a pre-condition for adopting the euro. However, by 2010 the debt crisis in the eurozone caused interest from Poland, as well as the Czech Republic, to cool. Latvia adopted the Euro in 2014, followed by Lithuania in 2015. === Expulsion and withdrawal === Although the eurozone is open to all EU member states to join once they meet the criteria, the treaty is silent on the matter of states leaving the eurozone, neither prohibiting nor permitting it. Likewise there is no provision for a state to be expelled from the euro. Some, however, including the Dutch government, favour such a provision being created in the event that a heavily indebted state in the eurozone refuses to comply with an EU economic reform policy. Jens Dammann has argued that even now EU law contains an implicit right for member states to leave the eurozone if they no longer meet the criteria that they had to meet in order to join the eurozone. Furthermore, he has suggested that, under narrow circumstances, the European Union can expel member states from the eurozone. The outcome of leaving the euro would vary depending on the situation. If the country's own replacement currency was expected to devalue against the euro, the state might experience a large-scale exodus of money, whereas if the currency were expected to appreciate then more money would flow into the economy. A rapidly appreciating currency would be detrimental to the country's exports. In 2015 Greece's case, one additional problem is that if Greece were to replace the euro with a new currency, this cannot be achieved very quickly. Banknotes must be printed for example, which takes up to six months. The changeover would likely require bank deposits be converted from euros to the new devalued currency. The prospect of this could lead to currency leaving the country and people withdrawing cash, causing a bank run and necessitating capital controls. == Administration and representation == The monetary policy of all countries in the eurozone is managed by the European Central Bank (ECB) and the Eurosystem which comprises the ECB and the central banks of the EU states who have joined the eurozone. Countries outside the eurozone are not represented in these institutions. Whereas all EU member states are part of the European System of Central Banks (ESCB). Non EU member states have no say in all three institutions, even those with monetary agreements such as Monaco. The ECB is entitled to authorise the design and printing of euro banknotes and the volume of euro coins minted, and its president is currently Mario Draghi. The eurozone is represented politically by its finance ministers, known collectively as the Eurogroup, and is presided over by a president, currently Mário Centeno. The finance ministers of the EU member states that use the euro meet a day before a meeting of the Economic and Financial Affairs Council (Ecofin) of the Council of the European Union. The Group is not an official Council formation but when the full EcoFin council votes on matters only affecting the eurozone, only Euro Group members are permitted to vote on it. Since the global financial crisis of 2007–08, the Euro Group has met irregularly not as finance ministers, but as heads of state and government (like the European Council). It is in this forum, the Euro summit, that many eurozone reforms have been decided upon. In 2011, former French President Nicolas Sarkozy pushed for these summits to become regular and twice a year in order for it to be a 'true economic government'. === Reform === In April 2008 in Brussels, European Commission President Jean-Claude Juncker suggested that the eurozone should be represented at the IMF as a bloc, rather than each member state separately: "It is absurd for those 15 countries not to agree to have a single representation at the IMF. It makes us look absolutely ridiculous. We are regarded as buffoons on the international scene". In 2017 Juncker stated that he aims to have this agreed by the end of his mandate in 2019. However, Finance Commissioner Joaquín Almunia stated that before there is common representation, a common political agenda should be agreed upon. Leading EU figures including the Commission and national governments have proposed a variety of reforms to the eurozone's architecture; notably the creation of a Finance Minister, a larger eurozone budget, and reform of the current bailout mechanisms into either a "European Monetary Fund" or a eurozone Treasury. While many have similar themes, details vary greatly. == Economy == === Comparison table === ^a GDP in PPP, exports/imports of goods and services excluding intra-EU trade. === Inflation === HICP figures from the ECB, taken from May of each year: === Interest rates === Interest rates for the eurozone, set by the ECB since 1999. Levels are in percentages per annum. Between June 2000 and October 2008, the main refinancing operations were variable rate tenders, as opposed to fixed rate tenders. The figures indicated in the table from 2000 to 2008 refer to the minimum interest rate at which counterparties may place their bids. === Public debt === The following table states the ratio of public debt to GDP in percent for eurozone countries given by EuroStat. The euro convergence criterion is 60%. === Fiscal policies === The primary means for fiscal coordination within the EU lies in the Broad Economic Policy Guidelines which are written for every member state, but with particular reference to the 19 current members of the eurozone. These guidelines are not binding, but are intended to represent policy coordination among the EU member states, so as to take into account the linked structures of their economies. For their mutual assurance and stability of the currency, members of the eurozone have to respect the Stability and Growth Pact, which sets agreed limits on deficits and national debt, with associated sanctions for deviation. The Pact originally set a limit of 3% of GDP for the yearly deficit of all eurozone member states; with fines for any state which exceeded this amount. In 2005, Portugal, Germany, and France had all exceeded this amount, but the Council of Ministers had not voted to fine those states. Subsequently, reforms were adopted to provide more flexibility and ensure that the deficit criteria took into account the economic conditions of the member states, and additional factors. The Organisation for Economic Co-operation and Development downgraded its economic forecasts on 20 March 2008 for the eurozone for the first half of 2008. Europe does not have room to ease fiscal or monetary policy, the 30-nation group warned. For the eurozone, the OECD now forecasts first-quarter GDP growth of just 0.5%, with no improvement in the second quarter, which is expected to show just a 0.4% gain. The Fiscal Compact (formally, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), is an intergovernmental treaty introduced as a new stricter version of the Stability and Growth Pact, signed on 2 March 2012 by all member states of the European Union (EU), except the Czech Republic, the United Kingdom, and Croatia (subsequently acceding the EU in July 2013). The treaty entered into force on 1 January 2013 for the 16 states which completed ratification prior of this date. As of 1 April 2014, it had been ratified and entered into force for all 25 signatories. Olivier Blanchard suggests that a fiscal union in the EZ can mitigate devastating effects of the single currency on the EZ peripheral countries. But he adds that the currency bloc will not work perfectly even if a fiscal transfer system is built, because, he argues, the fundamental issue about competitiveness adjustment is not tackled. The problem is, since the EZ peripheral countries do not have their own currencies, they are forced to adjust their economies by decreasing their wages instead of devaluation. == Bailout provisions == The financial crisis of 2007–08 prompted a number of reforms in the eurozone. One was a u-turn on the eurozone's bailout policy that led to the creation of a specific fund to assist eurozone states in trouble. The European Financial Stability Facility (EFSF) and the European Financial Stability Mechanism (EFSM) were created in 2010 to provide, alongside the International Monetary Fund (IMF), a system and fund to bail out members. However the EFSF and EFSM were temporary, small and lacked a basis in the EU treaties. Therefore, it was agreed in 2011 to establish a European Stability Mechanism (ESM) which would be much larger, funded only by eurozone states (not the EU as a whole as the EFSF/EFSM were) and would have a permanent treaty basis. As a result of that its creation involved agreeing an amendment to TEFU Article 136 allowing for the ESM and a new ESM treaty to detail how the ESM would operate. If both are successfully ratified according to schedule, the ESM would be operational by the time the EFSF/EFSM expire in mid-2013. In February 2016, the UK secured further confirmation that countries that do not use the Euro would not be required to contribute to bailouts for Eurozone countries. == Peer review == In June 2010, a broad agreement was finally reached on a controversial proposal for member states to peer review each other's budgets prior to their presentation to national parliaments. Although showing the entire budget to each other was opposed by Germany, Sweden and the UK, each government would present to their peers and the Commission their estimates for growth, inflation, revenue and expenditure levels six months before they go to national parliaments. If a country was to run a deficit, they would have to justify it to the rest of the EU while countries with a debt more than 60% of GDP would face greater scrutiny. The plans would apply to all EU members, not just the eurozone, and have to be approved by EU leaders along with proposals for states to face sanctions before they reach the 3% limit in the Stability and Growth Pact. Poland has criticised the idea of withholding regional funding for those who break the deficit limits, as that would only impact the poorer states. In June 2010 France agreed to back Germany's plan for suspending the voting rights of members who breach the rules. In March 2011 was initiated a new reform of the Stability and Growth Pact aiming at straightening the rules by adopting an automatic procedure for imposing of penalties in case of breaches of either the deficit or the debt rules. == Criticism == Nobel prize-winning economist James Tobin thought that the euro project would not succeed without making drastic changes to European institutions, pointing out the difference between the US and the eurozone. Concerning monetary policies, the US central bank FRB aims at both growth and reducing unemployment, while the ECB tends to give its first priority to price stability under Bundesbank's supervision. As the price level of the currency bloc is kept low, the unemployment level of the region has become higher than that of US since 1982. When it comes to fiscal policies, 12 percent of the US federal budget is used for transfers to states and local governments. Also, when a state has financial or economic difficulties, a fair amount of money is automatically transferred to the state. The US government does not impose restrictions on state budget policies. This is different from the fiscal policies of the eurozone, where Treaty of Maastricht requires each eurozone member country to run its budget deficit smaller than 3 percent of its GDP. === Economic policemen === In 1997, Arnulf Baring expressed concern that the European Monetary Union would make Germans the most hated people in Europe. Baring was aware of the possibility that the people in Mediterranean countries would regard Germans as economic policemen, predicting that the currency bloc would end up with blackmailing its member countries. == See also == Greek withdrawal from the eurozone List of acronyms associated with the eurozone crisis List of people associated with the eurozone crisis Sixpack (European Union law) Special member state territories and the European Union == Notes == == References == == External links == Eurozone official portal European Central Bank European Commission – Economic and Financial Affairs – Eurozone Media related to Eurozone at Wikimedia Commons