Ten years of the euro
10 success stories
The euro: celebrating the first decade

It is now ten years since a pioneering group of EU Member States took a momentous step and launched the single currency, the euro. After many years of careful preparations, on 1 January 1999 the euro became the official currency for over 300 million citizens in the newly created euro area. And three years later, on New Year’s Day 2002, shiny new euro coins and crisp new euro banknotes began to appear, replacing 12 national currencies in people’s purses and pockets. A decade into its existence, we are celebrating economic and monetary union and the euro, and looking at how it has fulfilled its promise.

There have been welcome changes since the euro was launched: today, the euro area has grown to 15 countries with the arrival of Slovenia in 2007 and Cyprus and Malta in 2008. And employment and growth are rising as economic performance improves. Furthermore, the euro is progressively becoming a truly international currency and giving the euro area a bigger voice in international economic affairs.

Yet the benefits that the euro has brought are not only found in numbers and statistics. It has also introduced more choice, more certainty, more security and more opportunities in citizens’ everyday lives. In this brochure, we present some examples of how the euro has achieved, and continues to achieve, real improvements on the ground for people across Europe.*

* The people featured in these ten success stories are fictional: they describe typical situations based on real data.
A symbol of Europe

More integrated financial markets

Price transparency

Lower interest rates

Elimination of exchange costs

A stable currency and lower inflation

A better-performing economy

Sounder public finances

The euro: a world currency

A boost to trade

A symbol of Europe
The euro forms a powerful combination with the internet when trying to find the best price and save money across national borders, helping Birgit Fischer, an independent IT consultant in Stuttgart, Germany, to discover better deals for her business and for herself.
Price transparency

Finding the best deal

It’s great going on-line and looking for the best deal, whether for an office fax machine or for gadgets for my friends or clients. I’m not constrained to just shopping in Germany. I can compare prices so much more easily with the euro. I don’t have to figure out the conversion when deciding where to buy. I can see the price immediately, then add on the shipping charges to see whether it’s cheaper or not.

“There are so many sites developed specifically so I can compare prices across a number of countries using the euro. Over the past five years I’ve noticed I’m actually finding some of the cheapest deals right at home. I guess local retailers are trying to get my business back. With the savings I can get something for myself!”

The introduction of the euro makes Europe’s single market (in place since 1993) even more efficient, by allowing retailers in different countries to compete on a more level playing field.

With prices expressed in euro in 15 countries, consumers can find the best deal without having to calculate fluctuating exchange rates or factor in conversion costs.

The additional competition brought by this price transparency keeps downward pressure on prices in the euro area, helping prevent large price rises, and leading in some cases to a convergence in prices.

As well as increasing competition, the larger, more integrated market created by the euro allows companies to reap economies of scale.

Price convergence – motor cars

Index: 2005=100
Over the years, health worker Maria Almeida from Portugal has put aside money into a savings account on a regular basis. As a relatively low-income worker, Maria appreciates the benefits of low inflation and stability.
Back in the 1970s and 1980s when I started work as a nurse I saw the difficulties that high inflation brings and I was concerned about the future. The prices of everyday goods kept going up quite a lot every year with inflation, but my wages less so – and it was even worse for those on fixed incomes, such as pensioners. Over the years, I have managed to save money for big expenses, like replacing my car or major repairs to my house, but I always worried that the value of my savings would be eroded by inflation and rising living costs.

“Fortunately, the euro seems to have changed things. My savings seem to keep their value better, which means that I can plan my spending better and even have something left over for my retirement.”

Average inflation in the euro-area countries fell from 9.3% in the 1970s and 7.5% in the 1980s to 2.1% since 1999.

In Portugal, inflation averaged 8% in the early 1990s, but dropped in the run-up to the euro to around 2%.

The central task of the European Central Bank (ECB) is to maintain price stability. The ECB aims to keep inflation at close to, but below, 2%.

A low, controlled inflation rate and a stable currency enable businesses and individuals to plan for the future and living standards to be maintained. This is particularly so for people on low incomes.

Price developments vary: some goods have got cheaper, others more expensive – for reasons that generally have nothing to do with the euro, such as higher oil or food prices. This has led some people to believe that the euro brought higher prices, but consumer price data has shown consistently that this is not the case.
Maria and George Savvas have recently bought their own home in Rhodes, Greece. The strong drop in interest rates seen in several countries as they prepared their economies for the euro opened new possibilities for many people to borrow to invest in the future and spread their costs.
When our children arrived a few years ago we decided to buy our own home, both as an investment for the future and to give us the security that home ownership brings. Getting affordable mortgages and bank loans is quite new for us," says George. "In the past, for a young couple like us to have our own home meant our parents would have to buy it for us. Bank loans for house purchases were very limited and quite expensive.

"Since the euro arrived, interest rates have fallen strongly in Greece and the banks have launched many new ways of borrowing to help spread the costs of big purchases, such as houses and cars and even the costs of studying abroad. And as the economy seems more stable than before, we are more confident that the repayments won’t be too high in the future. Our generation is the first to enjoy these opportunities that the euro has created."

![Mortgage rates graph](image)

Once economic preparations for the euro began, many EU Member States saw large falls in interest rates, from double digits in the early 1990s to the single-digit rates of today.

Lower interest rates have given EU citizens better access to credit. A borrower with a €100,000 outstanding loan today is saving between €170 and €750 per month, on interest payments depending on the country, compared to 20 years ago.

For example, a Greek who buys a house for €100,000 with a 15-year loan will now pay around €790 each month compared to almost €1,100 in 1999. Over the 15 years, he or she will have saved around €55,000.

Interest repayments on government debt have also fallen, saving several billion euros a year of taxpayers’ money in some cases, which can be used instead to consolidate national budgets or invest in public services. For example, Italy’s debt-servicing costs in 2005 were about 6% lower than in the 1990s, saving about €1,415 per capita.
Alise Ulmanis and Nikolajs Rutkis from Latvia decided to do a “grand tour” of Europe before beginning university in Riga. As Alise explains, they did not have to carry around a variety of currencies when visiting countries in the euro area.
Elimination of exchange costs
Going further with the euro

We could really see the difference between travelling in countries that did not use the euro and ones that did. Those exchange rates really took a bit out of our travel budget. It was also hard to figure out how much we were spending each day. And you’re always left with all that change.

“But when we travelled from Germany, through Belgium, France, Italy, and Malta and back, we did not have to exchange money once. Our euros were good for a bockwurst in Hamburg and a room in Valletta. We also picked up some bargains when we shopped for new clothes.

“I just try to imagine what it was like before the euro. What a hassle that must have been to carry around so many currencies on your travels, such as German marks, French francs and Italian lire.”

The costs of exchanging money are eliminated in the euro area, making it cheaper to travel, whether on vacation, studying, or on business.

It is also easier to travel with the euro: all the hassle of exchanging money has gone within the euro area, and because the euro is a major world currency it is often accepted as payment in other countries too.

Travellers and companies doing business across borders within the euro area can plan ahead without having to worry about a drop in the value of their purchasing power due to fluctuations in currency values in the euro area.

These businesses also benefit because the costs associated with exchanging currencies have gone. Before the euro, it is estimated that these transaction costs amounted to roughly 1% of GDP in the European Union.

The phasing in of SEPA (Single Euro Payments Area) during 2008 and 2009 will eliminate differences in the euro area between national and cross-border retail payments. This will bring estimated net gains over the next six years of up to €123 billion.

Some key benefits of SEPA

<table>
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<tr>
<th>Consumers</th>
<th>Use your debit card anywhere in the euro area</th>
<th>Only one bank account needed for the whole euro area</th>
<th>Direct debits from anywhere in the euro area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses</td>
<td>Only one terminal for payment cards</td>
<td></td>
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Jan Korteweg, who manages large pension funds from the Netherlands on behalf of clients throughout Europe, says the creation of the euro area made the region a more attractive investment option and brings higher returns for investors. He points out that one currency, managed centrally, gives greater economic stability to the region.
More integrated financial markets
Europe-wide investment and capital flows – in euro

We manage funds from a lot of small savers who regularly put funds aside for their future. With the euro, it is easier to invest in companies based in other countries, such as Germany, Spain or Belgium. So, although I am dealing with 15 different countries, I do not have to deal with 15 different monetary policies and currencies. This makes it easier for me to make my forecasts and investment decisions.

“With the economic stability fostered by a single central bank, I can feel more confident about investing in the euro area, especially since it has made the flow of money easier. This is better for my customers, as I have more opportunities to diversify their portfolios, without the currency exchange risk, and get better returns for them. So our clients, people putting money into the pension funds, will get more when they retire.”

The euro acts as a catalyst for financial integration which, in turn, makes the economy more efficient and helps it weather shocks, for example by allowing investment capital to move quickly to where it can give the best return. Euro-area residents’ holdings of equity issued in another euro-area country almost doubled in 1997-2005, to 29% of total euro-area portfolios.

Investment firms can now trade more easily across the EU within a common regulatory framework. This lowers costs, sharpens competition and makes capital markets larger and more liquid.

Euro-area bond markets have become highly integrated and efficient, making the euro area an attractive location for investment.

The volume of euro-denominated bonds issued has grown substantially to rival and, by some measures, even overtake the dollar on international debt markets.
Aleksi Mäkelä, who is a line manager in Finland’s pulp and paper sector, says he is confident that the country can survive the onslaught of global competition.
A better-performing economy

Growth and jobs

Our country’s economic growth has never been as good as it is now. Exports are going up and so are the jobs available. Because of this growth, I had a chance to get promoted. I now have responsibility for a new line we put in the factory three years ago.

“We have also had to hire more people to cope with the increase in demand for our products. We are exporting a lot to the other euro-area countries. The euro has simplified things for us and opened up new possibilities. And all this growth and the extra jobs mean more financing for government. In recent years, we have seen our taxes cut while inflation remains low. That means more money in our pockets.

“While there is more competition from our neighbours and on the other side of the Atlantic, I believe our economic stability and strength, and the solid framework provided by EMU, will help keep us on this prosperous road.”

The euro operates within an economic framework that all the participating countries sign up to. The Stability and Growth Pact sets rules designed to keep their national budgets in good shape. And they coordinate their economic policies to make sure the whole euro area works together harmoniously to create growth, jobs and stability.

The economic stability of the euro area makes it more resilient to economic shocks, such as a steep rise in costs of commodities like oil or food.

The economic reforms that countries have implemented in order to qualify for EMU and keep their economy in shape once inside it have helped boost employment. Unemployment has fallen from 9% in 1999 to an estimated 7% in 2008. Sixteen million jobs have been created in the euro area. Employment has grown twice as fast as in the previous decade.

The euro has also helped generate growth by reducing the cost of capital for businesses and reducing transaction costs.

Employment rate

% of 15- to 64-year-olds in employment
Declan and Caitlin O'Leary are retired and live in Dublin. Relying on their savings to boost their retirement income, they know the benefits of proper budgeting for the future.
Sounder public finances
Prudent government budgeting for a fairer future

“Back in the 1970s and 1980s, when we were both working, things were not as stable as they are now. The government ran up huge deficits, which put an increasing burden on public finances.

“We’re retired now, living on our pensions and using our savings to supplement our lifestyle – such as taking holidays abroad or treating the grandchildren. Our purchasing power is better preserved because inflation is low, but we do worry about their future. We know the ageing population in Europe could cause problems in the future. That’s why we believe it’s important for the government to keep its public finances in order. If you want to have money to spend in the future, then you need to control what you spend today, to avoid overspending. At the end of the day it’s only fair isn’t it – we shouldn’t be burdening our children and grandchildren unfairly to pay for our needs today, should we?”

A commitment to sound public finances is one of the cornerstones of Economic and Monetary Union.

The rules on sound and sustainable public finances mean that euro-area Member States live within their means and do not build up excessive debts that will burden future generations of taxpayers. This is important as Europe is ageing, and in the future there will be fewer working people supporting more pensioners.

In order to join the euro, EU members must bring their government deficit and debt within the limits of 3% and 60% of GDP, respectively, set by the Maastricht Treaty (the Treaty on European Union).

In the case of Ireland, public debt has dropped from an average of 95% of GDP in the 1980s-1990s to less than 25% at present.

Once they are in EMU, they must keep their budgets within these same limits. Under what is known as the Stability and Growth Pact, the members of EMU, together with the European Commission, monitor each other’s public finances to ensure they do.
Francesca Zaffagni is a political reporter for a national TV station in her native Italy. She reports from around the world on economic and political matters affecting Italy and the EU. Francesca has followed the growing significance of the euro area with professional interest.
The euro: a world currency
A stronger voice for Europe

In the past, my reporting was limited to the Italian economy, but today much of my work is on the economy of the euro area. Increasingly, reporting on the euro area means taking a global view, comparing it to other economies, such as the US, China or Japan. The euro area is seen as an important economic bloc by the international financial institutions, such as the International Monetary Fund and the World Bank.

“This is not only because of the economic strength of the euro area, but also because more trade is done in euro, and countries around the world are holding euro as a reserve currency. The euro is giving the EU a stronger voice in world affairs and the global economy. So more and more we see EU institutions present at international gatherings, as the single currency increasingly demands a single voice on economic matters for the euro area and the EU.”

The euro has emerged as a key international currency and the euro area as a new economic entity comparable only to the US.

The euro is increasingly used as a reserve currency by foreign governments – around 25% of worldwide reserves are held in euro today, compared with around 17% ten years ago.

The euro is also used as a reference currency by around 40 countries, particularly neighbouring countries or those which have special institutional arrangements with the EU, for example candidates for membership.

Many people outside the euro area use the euro as a parallel currency, for example for their savings. This usage is estimated at around €70 billion.

All the new EU Member States will adopt the euro when the time is right – increasing the size of the euro area and its importance in the world still further.

In 2006, the euro overtook the US dollar to become the currency with the largest value of notes in circulation.

Key indicators (2006)

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<th>Euro area</th>
<th>EU-27</th>
<th>US</th>
<th>Japan</th>
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<tbody>
<tr>
<td>Population (millions)</td>
<td>317</td>
<td>494</td>
<td>300</td>
<td>128</td>
</tr>
<tr>
<td>GDP (€ trillions at PPP)</td>
<td>8.4</td>
<td>11.9</td>
<td>11.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Share of world GDP (%)</td>
<td>14.6</td>
<td>21.0</td>
<td>19.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Exports(*) (as % of GDP)</td>
<td>21.7</td>
<td>14.3</td>
<td>10.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Imports(*) (as % of GDP)</td>
<td>20.9</td>
<td>15.0</td>
<td>16.6</td>
<td>15.3</td>
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(*) Excluding intra-EU trade

Source: European Commission, ECB and IMF, 2007
Jaume Ferrer’s family business has been manufacturing decorative tiles in the Valencia region of Spain for over a hundred years – since his great-grandfather’s time. When he took over the business it was mainly serving the Spanish market – but not any more.
A boost to trade
Helping Europeans do business across borders

The launch of the single market in 1993 brought big changes. Before, most of our business was in Spain. Even though our tile designs were well known, exporting was just not competitive. Then, all the barriers came down and we began building our export business to the rest of the EU. However, we were still dealing in several currencies.

“It was when the euro came that our sales abroad really took off. The risks and costs of dealing in several currencies simply disappeared and we became more competitive. Today, over 80% of our business goes for export, mostly to the euro area. A customer can see our tiles in a shop in Helsinki and know that they are available quickly and at the right price, now and in the future.

“As our business has expanded, so we are creating jobs, and it is all due to the mixture of the single market and the single currency.”

The euro area is the largest trading power in the world. By 2006, the euro area accounted for over 13% of world trade, slightly more than the United States.

The euro is estimated to have increased trade between the euro-area countries by between 5% and 15% – and this is expected to increase even more.

Because of its weight in world trade, the euro is now used extensively for invoicing and settling international trade transactions.
Janez Kobilca is a teacher in Maribor in Slovenia, and feels both Slovenian and European.
Slovenia is a small country but we are proud of our history and culture. Here, in between Italy, Hungary and the Balkans, we are virtually at the heart of Europe, and have to be open to our neighbours – there are only 2 million of us after all. In the space of a century we’ve been part of the Austro-Hungarian empire and of Yugoslavia, but still we’ve kept our own identity and language.

“So we know that we can be part of something larger and still be ourselves. I feel proud that we not only joined the EU so soon after becoming independent in 1991, but were then the first of the ‘new Europeans’ to adopt the euro in 2007. For me, the euro represents all the opportunities the EU offers. And we still feel like the euro is our own national currency as well as Europe’s. If you are lucky you might find one of our Slovenian euro coins in your pocket with an inscription from our national anthem or a picture of our beautiful Mount Triglav!”

Recent surveys show that the euro is one of the things that EU citizens most closely associate with the idea of the European Union, second only to freedom of movement to travel, study and work. It rates particularly highly in the euro-area countries themselves, where almost half of all citizens say the euro is what they most associate with the EU.

The design of the euro reflects a Europe ‘united in diversity’. Each euro-area country has coins with its own national motifs, which celebrate its own national history and culture, while the designs on euro banknotes, which are issued centrally, represent Europe’s common history through the changing architectural styles of past centuries.

Economic and Monetary Union has brought closer co-operation and more dialogue between the member countries of the European Union. It is also a huge step forward in the process of European integration. As former German Chancellor Helmut Kohl said in 2002, “The introduction of the euro is not only an important decision for the European Union; it is an important turning point in European history. The single European currency has made European integration irreversible.”
The euro area

EU Member States with an opt-out from the euro

EU Member States which have not yet adopted the euro
(Slovakia is expected to join the euro area on 1 January 2009)
Further information at:

EMU@10 - more information on the first ten years of the euro and Economic and Monetary Union
www.ec.europa.eu/emu10

The euro
www.ec.europa.eu/euro

European Commission Directorate-General for Economic and Financial Affairs
www.ec.europa.eu/economy_finance

European Central Bank
www.ecb.eu

European Commission
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