INTRODUCTION OF THE EURO COMPLETED

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From January 1, 2002, the euro finally replaced the national currencies of twelve member countries of the European Union as the new European currency. This is a significant event in the world history of money, the importance of which we are perhaps as yet not entirely aware.

The idea of introducing a common European currency is not new – it appeared in the Treaty of Rome of 1958 and then again in 1973 – 1978. However, during this period the concept clearly prevailed that monetary union would be the culmination of the process of economic and political unification of Europe and would therefore be the last step in the unification.

The Maastricht conference in December 1991 signified a fundamental change in this position. Slow progress with political unification of Europe led proponents of a faster approach (above all the then German Chancellor Helmut Kohl) to propose a change in the succession of unification steps and introduction of a common currency before political unification of Europe. This idea won support at the summit in Maastricht and set a concrete timetable for the date of the EMU and January 1, 1999 was set as the date of its inception. Introduction of a common European currency was motivated by various reasons of macroeconomic, microeconomic, and political nature.

An important **macroeconomic motive** was above all the effort to create a strong international currency that would have be capable of competing with the U.S. dollar, and thus add weight to the European Union as the strongest economic group in the world. This motive was not solely economic, but surely politically prestigious as well.

The greatest interest in the introduction of a unified economic currency came from the **micro sphere**. The establishment of a common European currency means a definite end to exchange rate risks in the eurozone and this makes the financial deliberations of companies significantly easier. Simultaneously, existing and not insignificant fees for converting one currency to another are eliminated for companies and the inhabitants once and for all. The downside of this is the loss of revenue from those fees in commercial banks, which does not go down so well with the banks.

However serious were the macroeconomic and microeconomic reasons for the introduction of the common European currency, it would certainly have not taken place by the set deadline without massive **political pressure**, which eventually proved decisive and contributed to maintaining the original deadlines despite many doubts on the part of sceptics.

The formation of the European Monetary Union and the common European currency was not unanimously accepted in the beginning. Serious reservations were raised by economists, as well as lawyers and political scientists. Economic reservations against the establishment of the European Monetary Union were based on doubts whether the large area represented by the EMU could be deemed optimal from the monetary point of view. Were the economic conditions in Portugal, Ireland, and Finland similar enough to warrant the introduction of a common currency?

Very serious reservations about the euro were also raised by lawyers and political scientists. In legal theory a national currency was considered an inseparable attribute of national sovereignty. Would countries that abandon their own currency be able to preserve their sovereignty? What would the position of the economic and fiscal policy be that remained under the jurisdiction of member countries? What would the relationship be between the common monetary policy of the European Monetary Union and economic and fiscal policy of individual member countries?

Despite serious doubts posed by some of these arguments, they were unable to stop or slow down the process of introduction of the common European currency. In Maastricht, conditions were agreed-upon for entry into the European Monetary Union (so-called Maastricht criteria) and a timetable for its introduction. The objective of the Maastricht criteria was to create conditions for stability of the new currency. Three monetary and two fiscal criteria were agreed-upon that applicants for membership in the EMU must meet.

The monetary criteria are:

• the inflation rate must not exceed the rate of inflation achieved in the three countries of the EU with the lowest inflation, by more than 1.5 percent,

• the interest rate on long-term government securities must not exceed the interest rate in the three countries of the EU with the lowest inflation, by more than 2 percent,

• a member country must be a member of the European monetary system for two years without initiating a devaluation of its currency.

Fiscal criteria for membership in the European Monetary Union are:

• the annual deficit of the state budget must not exceed 3 percent of the gross domestic product,

• the aggregate state debt must not exceed 60 percent of the GDP.

The selection of the Maastricht criteria for entry into the European Monetary Union was a result of compromise between participants of the Maastricht summit and was not received with universal approval. Several economists, in particular those of a leftist orientation, criticized the absence of criteria such as for example GDP [growth] and unemployment, etc.

Subsequent events showed that those interested in joining the EMU would not have problems with meeting the monetary criteria – positive development of inflation in the nineties generally brought down inflation and to a large degree offset differences between individual countries (apart from Greece, where inflation in 1998 exceeded the set limit). Applicants for EMU membership had much greater difficulty with meeting the fiscal criteria. As late as 1996, only Luxembourg had met both fiscal criteria. In 1997, which was the last year for meeting the criteria, most of the applicants managed to meet the fiscal criteria, however, often only with the help of somewhat nonstandard measures (for example by extensive sale of government property). The permissible level of government debt in that year was greatly exceeded by Belgium and Italy. Nevertheless, a summit of EU representatives decided on May 2, 1998 that all applicants would become members of the EMU, i.e., including the two aforementioned countries, with a not very convincing explanation that the situation in these countries was improving – this was apparently a political and not an economic decision.

On January 1, 1999, eleven member countries of the European Union became members of the EMU (staying out of the EMU for the time being of EU member countries were Great Britain, Denmark, and Sweden, which for political reasons were not interested in joining). Greece joined the EMU on January 1, 2000, after having met the inflation criterion.

The first step toward realization of the European Monetary Union was the establishment of the **European Central Bank** (ECB) in Frankfurt on July 1, 1998, which has extensive rights and is fully independent of the EU executive and of governments of individual member countries. Following lengthy political negotiations, the Dutch banker, Wim Duisenberg, became the first president of the ECB.

Simultaneously, a system of European central banks was set up, in which all participating European central banks lose the possibility to decide their own monetary policies and become – while retaining their legal independence – executive organs of the European Central Bank (in the same way as federal reserve banks in the USA). National central banks will only have the possibility of influencing monetary policy of the EMU through their representatives in the European Central Bank.

The European Central Bank is headed by the ECB Council, which consists of members of the directorate and of presidents of central banks of participating countries. National banks are shareholders of the ECB, whereby their capital share is determined according to the population and the GDP of the home country.

The new European currency – the euro – began functioning on January 1, 1999, so far only in the form of paperless (bank) money. From 1999 to 2001, paperless euros and cash national currencies circulated alongside each other, though their exchange rates could no longer be changed after January 1, 1999. The process of introduction of the euro was completed in the year 2002, when national currencies were replaced in circulation by euro bank notes and the national currencies ceased to exist.

Realization of the European Monetary Union is also a significant event for Slovakia with far reaching immediate and lasting consequences. Immediate consequences of the introduction of the euro affect primarily the corporate sphere and the inhabitants. For the corporate sphere this means significant simplification of payments and settlement with countries of the EMU, where the necessity to convert individual national currencies has ceased. For businesses and the inhabitants this makes price comparisons easy, which contributes to competition.

However, the long-term macroeconomic consequences of the introduction of the euro as the common European currency are much more significant. Slovakia as a candidate for membership in the European Union will certainly be interested in joining the European Monetary Union in the shortest possible term (at the earliest two years after accession to the European Union). In the case of Slovakia, we can rule out nostalgic clinging to the national currency or its own monetary policy. It is already necessary to begin the process of gradually getting closer to meeting the Maastricht criteria, which will undoubtedly be binding for those interested in membership at the time of our potential entry into the EMU. It is also obvious for an ordinary observer that Slovakia is still rather far away from meeting the Maastricht criteria – for now it only meets the criterion of aggregate debt. Getting gradually closer to meeting the Maastricht criteria should therefore be understood as a long-term objective of monetary and fiscal policy in Slovakia.

The creation of the European Monetary Union is an enormous and in history, unparalleled experiment. Future development will show whether the opinions of the euro-optimists will be confirmed, who see in it the first step to political unification of Europe, or those of the euro-sceptics, who do not believe in the success of this experiment and predict that the European Monetary Union will collapse under the influence of centrifugal interests of individual national states.