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The European Monetary & Economic Union: The euro

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The EU and The Euro

- **Copenhagen Criteria →** defines whether a country is eligible to join the EU:
  - Institutions to:
    - preserve democratic governance,
    - rule of law,
    - human rights,
    - market economy,
    - and capacity to cope with competitive pressure, and accept the obligation and adhere to
    - the aims of political, economic and monetary union.
      - (http://www.eurotreaties.com/compenhageneu.pdf)

WHY A COMMON CURRENCY?

The Theory of Optimum Currency Areas by Robert Mundell

- Mundell ➔ “the most dramatic change in the international monetary system since President Nixon took the dollar off gold in 1971.”
- In 1961: paper entitled “A Theory of Optimal Currency Areas.”
- In 1970 in Madrid, during a conference on optimum currency areas, he presented two major papers:
  - “Uncommon Arguments for Common Currencies,”
  - and “A Plan for a European Currency” in which he proposed to name the new currency ¨Europa.¨
  - After the conference he received a phone call in his home in Siena from Lorenzo Bini-Smaghi, a senior staff member of the European Monetary Institute (EMI):
    - Three questions (1) the first to name the currency ¨europa¨?, (2) would be still a good name now? and (3) how long would it take to be operative?
    - “it is more difficult than you think. Even if there were no political impediments, it would take **at least three weeks**¨.
- In 2003, he claimed the benefits of a world currency—an idea that he had already promoted in a paper published in 1968—the “INTOR”.

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The Delors Report

- Stage one of the Delors Report (AKA the preparatory phase) from July 1990 to December 1993
  - the Member States of the EU needed to implement the first of the “four freedoms”: the liberalization of capital movements
  - ***The Maastricht criteria was established***

- Stage two of the Delors Report (AKA the transitional phase) from January 1994 to December 1998.
  - a exchange rate mechanism was set up in order to provide currency stability between the euro and the national currencies of those countries that were not yet part of the Eurozone.

- Stage three on January 1, 1999: Enforcement of the conversion rate triggered the start of the final stage of the Delors Report, which continues to this day.

The Maastricht Treaty

- Set the standards to ADOPT the euro and to MAINTAIN the euro.
- **To ADOPT the euro**: The protocol ¨On the Convergence criteria”

Target	Requirement
Inflation Rate	No more than 1.5 percentage points higher than the 3 best-performing Member States of the EU.
Public finances	The ratio of the annual government deficit to gross domestic product must not exceed 3% at the end of the preceding fiscal year.
Interest rates	The nominal long-term interest rate must not be more than 2 percentage points higher than the 3 best-performing Member States.
Exchange rate stability	Applicant countries should have joined the exchange rate mechanism under the European Monetary System for 2 consecutive years and should not have devaluated its currency during the period.

The Euro and...

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The EU 28 and the Eurozone

Country	**Entry Date Actual**
Austria	January 1, 1999
Belgium	January 1, 1999
Netherlands	January 1, 1999
Finland	January 1, 1999
France	January 1, 1999
Germany	January 1, 1999
Ireland	January 1, 1999
Italy	January 1, 1999
Luxembourg	January 1, 1999
Portugal	January 1, 1999
Spain	January 1, 1999
Greece	January 1, 2001
Denmark	Never joined
Sweden	Never joined
United Kingdom	Never joined

Enlargements: 2004 & 2007

Country	EMU entry date	Expected
Cyprus	January 1, 2008	
C.Republic		2013
Estonia	January 1, 2011	
Hungary		2012
Latvia		2013
Lithuania		2013
Malta	January 1, 2008	
Poland		2012
Slovenia	January 1, 2007	
Slovakia	January 1, 2009	
Bulgaria		2012
Romania		2014

Due to economic turmoil these countries will not be making this deadlines since they are far from complying with the Maastricht requirements

Greece and market instability

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The stability of the international monetary system can't hinge on the currency of one single country, even thought that is the largest economy in the world

Zhou Ziaochuan

Structure

- 1. Summary Greek situation by analyzing the two rescue plans
- 2. reviews and compares default cases such as Asia and Argentina
- 3. actions that have been taken to save the rest of the euro area countries
- 4. pinpoints the measures taken are not enough to settle the financial markets.

A SOUP OF LETTER

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Churchill once said:

you can always count on the Americas to do the right things---after they have tried everything else.

ESM and EFSF: the No Bailout rule

- EU approved 3 lending facilities in May 2010 to deal with Greek sovereign debt crisis and stop it might spread to other countries.
  - Deal with the no bail-out rule and art 125:
    - Article 12531 (ex Article 103 TEC) states that neither the EU nor a member state should be liable or assume the commitment of any public body or entity of any member state.
    - This article directly bans any direct fiscal transfers from one member state to another and also seems to ban purchases of sovereign debt in the primary market
- On May 11, 2010: the Council of the European Union approved the Council Regulation (EU) No 407/2010, which established the European financial stabilization mechanism
  - the No-Bail out rule of Article 125 was bypassed using Article 122(2) of the Treaty.

EFSM

- On May 9, 2010, the EU's finance ministers adopted a regulation establishing a European Financial Stabilization Mechanism (EFSM)
  - 2nd Facility: maximum total lending capacity of €60bn from the EU budget and administered by the European Commission
  - 3rd Facility: the capacity to issue bonds guaranteed by EAMS for up to €440 billion for on-lending to euro area member states (EAMS) in difficulty, subject to conditions negotiated with the European Commission, and in liaison with the European Central Bank and International Monetary Fund, and to be approved by the Eurogroup.
  - International Monetary Fund: €250bn

The EU, Eurozone and TRADE around the WORLD

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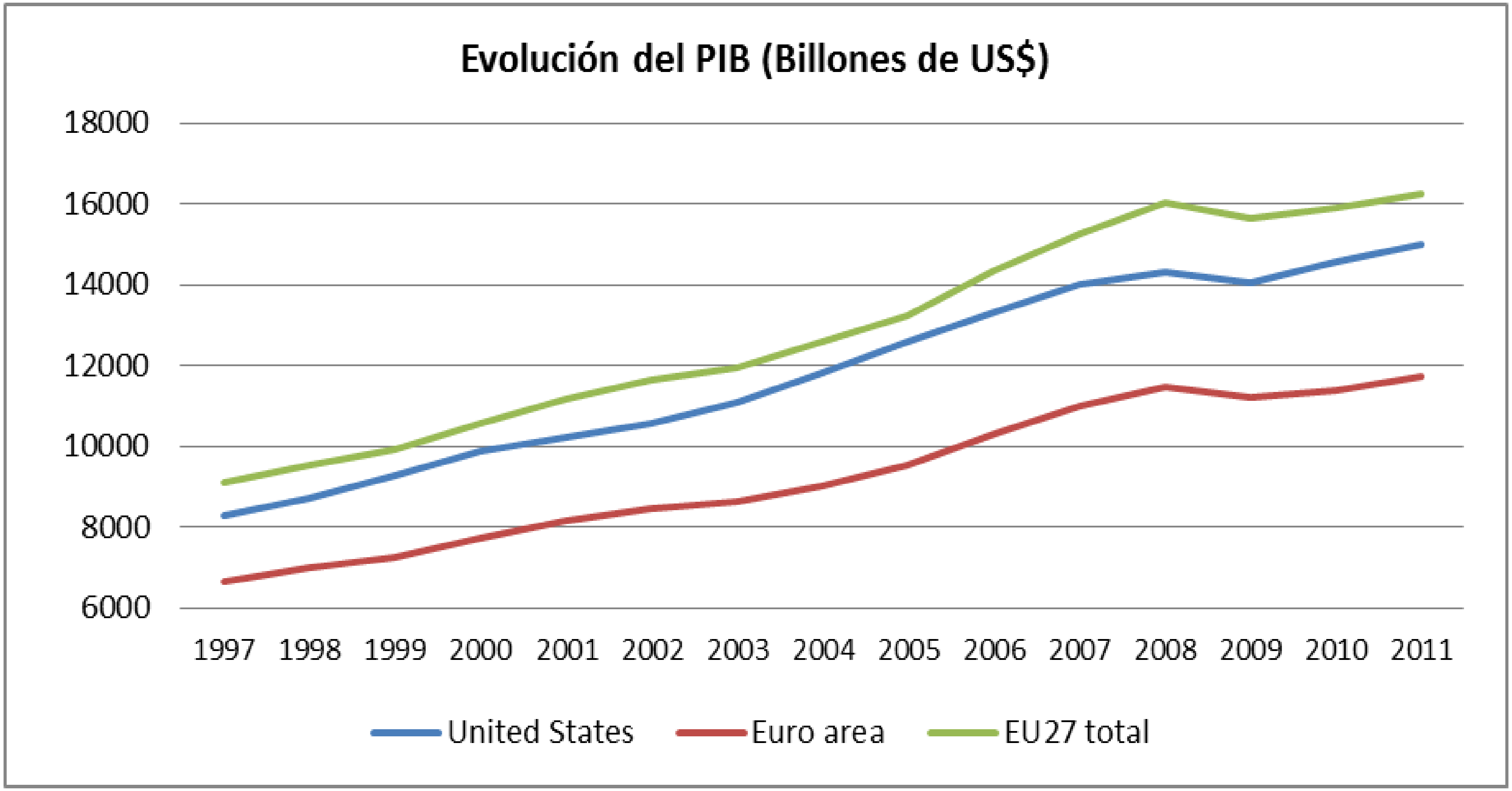
The EU and the Eurozone



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Thank you