

01 ECONOMIC DEVELOPMENTS

THE EURO: PLATFORM FOR STABILITY, SPRINGBOARD TO SUCCESS

In this year's ESM Annual Report, the Governors of the ESM Board, the euro area Finance Ministers, reflect on the benefits of the euro, a cornerstone of European integration. The creation of a single currency in January 1999 meant both an extraordinary challenge and an exceptional opportunity and, despite the crisis, it remains a simple truth: the euro is good for Europe and its citizens.

Throughout the pages of this annual report, the ESM Governors express their views on the euro's benefits. Their words underline a series of advantages the euro has brought to the area's citizens, societies, businesses, and countries. They point out that the euro means people no longer need to exchange currencies when travelling across Europe. The euro also eliminates exchange rate risk for trade and investment within the euro area. Citizens and firms no longer need to pay transaction fees for exchanging money, nor do they face exchange rate uncertainty within the area. They have more price and cost transparency across borders, promoting a greater choice of products and facilitating trade and investment. That transparency also fosters competition and, in turn, growth. By creating conditions for deeper economic integration, the euro ultimately adds to sustainable growth and the wellbeing of euro area citizens. The easier flow of goods, capital, and services, backed by a common currency, also creates a safer economic environment, in particular for small states,

and contributes to economic and financial stability. The common currency allows companies to compete on a level playing field. The euro's introduction put an end to intra-European currency turmoil. On a broader scale, the common currency therefore supports peace and unity.

All these features that the ESM governors mention have helped to consolidate the euro as the second most important currency in the global monetary system, accounting for some 30% of transactions. In an increasingly challenging global geopolitical environment, visibility and bargaining power are strongly linked to size. Hence, the euro area is more powerful in a global environment than any individual country could be.

The recent financial crisis revealed shortcomings both in the euro's underlying architecture and in national growth models. But Europe drew the lessons from this crisis and tackled these problems. National governments undertook tough, far-reaching reforms to correct economic imbalances. Banking union was launched, economic governance at the EU level was reinforced, and the EFSF/ESM stability fund was established to provide a credible backstop for the euro area. The euro, whose very existence the crisis had called into question, emerged stronger and fitter from the crisis.

Citizens' continued support for the single currency is allowing member countries to take further steps to strengthen and complete the economic and financial architecture of the Economic and Monetary Union. Most Europeans have now put the crisis behind them. In the Eurobarometer poll, the popularity of the European Union and of the euro is consistently high. When asked whether the EU is a place of stability, 66% agree. A full 80% support the four freedoms – the free movement of goods, services, capital, and labour. And 70% support the euro. This is a ringing endorsement of the EU's work over the past decade and of European integration in general.

The ESM Governors acknowledge that, despite all these achievements, the euro area architecture needs to be developed further. Their remarks underscore that euro area countries remain committed to a challenging but promising reform agenda, which will contribute to a smoother functioning of the area both for the benefit of member countries and of those seeking to join. Completing this process will further demonstrate the long-run benefits of belonging to a large and stable economic area with robust governance.



JEROEN DIJSSELBLOEM

**Minister of Finance of the Kingdom of the Netherlands,
Chairperson of the Board of Governors**

“ The euro is key for our prosperity, opportunity, and stability in Europe. Easier trade and travel, eliminating exchange rate uncertainty and reducing transaction costs provide just that. In the long run people benefit from sustainable economic growth based on innovation and productivity growth. ”