A long preparatory journey, 24 years of EURO, 20 years of EURO banknotes and coins.

Prof. Dr. Bruno Colmant, Head of Private Banking Degroof Petercam

Monday 7 february 2022

A long preparatory journey

1957 : Treaty of Rome

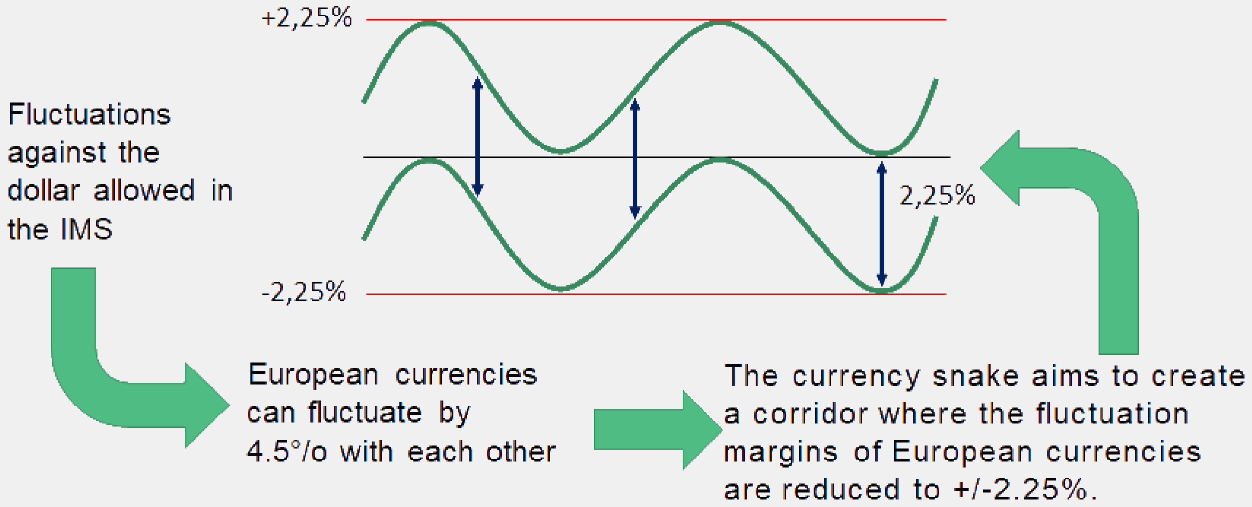
The Treaty of Rome, which was signed by six countries on 25 March 1957 (Belgium, Netherlands, Luxembourg, Germany, France and Italy) was intended to set up a common market and an Economic and Monetary Union.

1970 : WERNER REPORT

The Werner Report (named after the Luxembourg prime minister) dated October 1970 contained a blueprint for the progressive creation of the Economic and Monetary Union.

The European currency snake

- **15 August 1971** : **Collapse of Bretton Woods System** : the United States decided to temporarily suspend the dollar's convertibility into gold.
- **18 December 1971** : **Smithsonian agreement - Currency tunnel**: introduced a new realignment of European currencies and a new set of exchange rates pegged to the dollar, which was devalued by nearly 8 % in relation to gold. The fluctuation range of European currencies was widened to 2.25 %. That decision led European officials to see the need to narrow the margins between European currencies.
- **10 April 1972** : **Basle Agreement - European currency snake - SNAKE IN THE TUNNEL.**: concluded with a view to implementing, as from 24 April, the intervention system of the central banks to limit fluctuation between currencies to a maximum of 2.25 %. The snake was reduced to half its size in relation to the width of the tunnel.



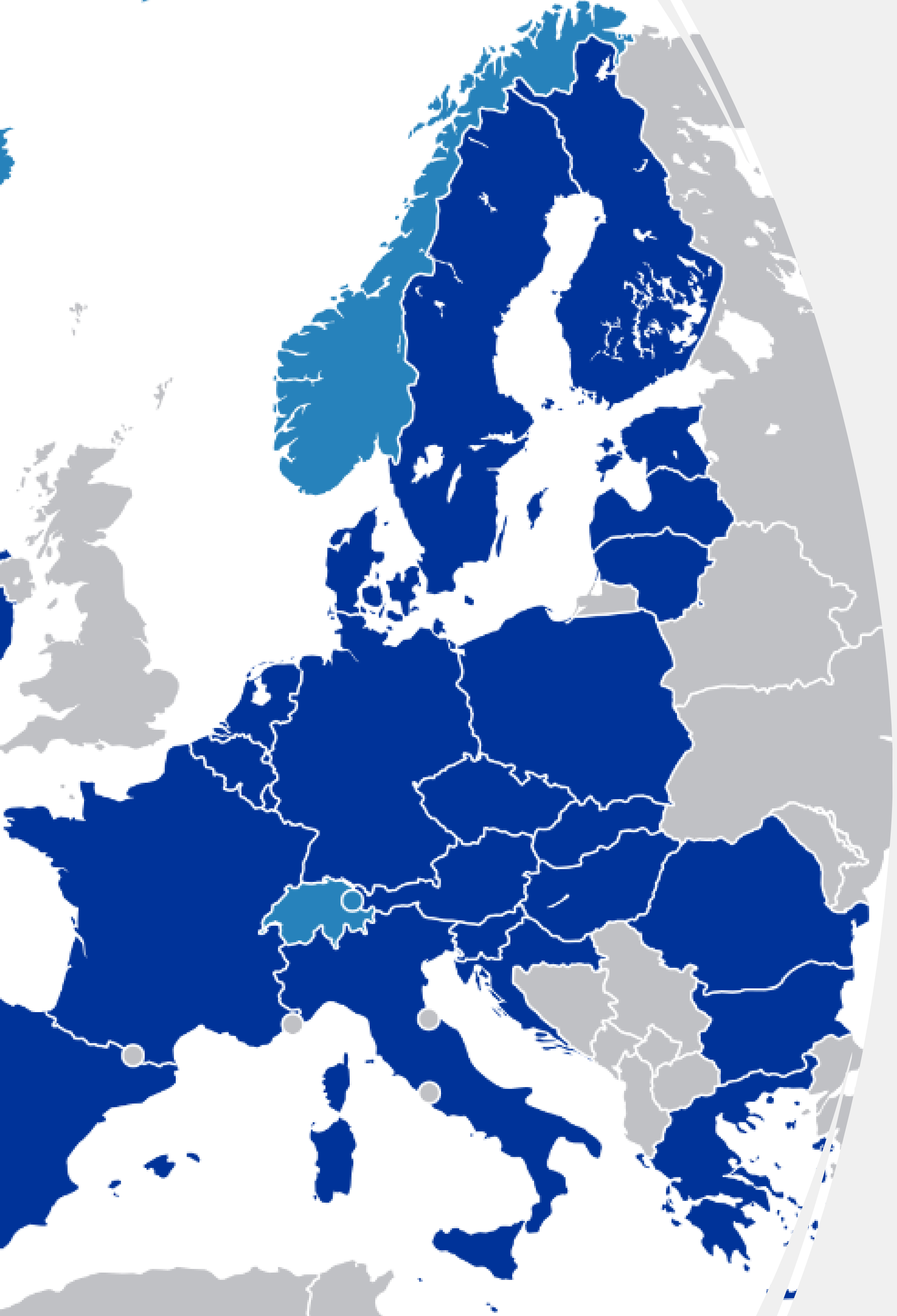
1979 : LAUNCH OF THE ECU (EUROPEAN CURRENCY UNIT)

A unit of account introduced by the European Economic Community when forming the European Monetary System in 1979. The Ecu was a form of international money used by various official European bodies in their accounting, but very little by other financial markets. Its value was equal to a weighted average of the currencies of several member countries. The Ecu was superseded by the Euro, when this was adopted in 1999.

1979 : LAUNCH OF THE EUROPEAN MONETARY SYSTEM

The European Monetary System, abbreviated as EMS, was an exchange rate regime set up in 1979 (and which ended in 1999) to foster closer monetary policy co-operation between the central banks of the Member States of the European Economic Community (EEC). The objective of the EMS was to promote monetary stability in Europe.

Source : Eurostat Statistics Explained



1985 : Single European Market

- Intended to **increase competition**, labour specialisation, and economies of scale, allowing goods and factors of production to move to the area where they are most valued, thus improving the efficiency of the allocation of resources. I
- Intended to **drive economic integration** whereby the once separate economies of the member states become integrated within a single EU-wide economy.
- The creation is an **ongoing process**,
- According to a 2019 estimate, because of the single market the GDP of member countries is **on average 9 percent higher** than it would be if tariff and non-tariff restrictions were in place

German reunification

Timeline 1989–1990

Sep 4, 1989
First Monday demonstration in Leipzig
1,200 people demand freedom of travel and assembly.

Sep 11, 1989
Hungary opens border to Austria
As the first state of the Eastern Bloc, Hungary completely opens its border to Austria, paving way for 30,000 East Germans fleeing.

Sep 30, 1989
East German refugees allowed to leave Prague
Vice Chancellor of West Germany, Genscher, announces to cheering refugees from embassy balcony: They can leave!

Oct 9, 1989
70,000 citizens take to the streets in Leipzig
People demand opening the border to the West. This day is considered the first climax of the Peaceful Revolution.

Nov 9, 1989
Fall of the Berlin Wall
In an unprepared press briefing, spokesman Schabowski announces that the GDR would open its borders “with immediate effect.”

Feb 2, 1990
Beginning of the “Two Plus Four Agreement” negotiations
Also called the “German Treaty” it would allow a reunited Germany to become fully sovereign the following year.

Mar 18, 1990
Free Elections
The first and only free elections are held in the GDR—with a 93% turnout. Clear winner with 48% of votes was the “Alliance for Germany”

Aug 31, 1990
German Reunification Treaty
The “Einigungsvertrag" that had been negotiated between the two German states, was signed by the two Governments.

Sep 24, 1990
The GDR leaves the Warsaw Pact
After the collapse of the communist governments of all member states, the WP treaty will be disestablished a year later.

Oct 3, 1990
GERMAN REUNIFICATION
This day marks the official unification of the former East and West Germany. Since then it is the official national holiday, the Day of German Unity (*Tag der deutschen Einheit*).

Dec 2, 1990
First all-German elections
The governing CDU/CSU-FDP coalition was returned to office with a landslide majority, and Helmut Kohl remained chancellor.

1992 : Maastricht Treaty

The Maastricht Treaty, officially known as the **Treaty on European Union**, laid the foundations for a single European currency and for the European Union as we know it today.

The Treaty was signed by 12 countries in Maastricht on 7 **February 1992** and came into force on 1 November 1993. It was the culmination of several decades of debate on closer economic cooperation in Europe.

It lays down a **three-stage process** for the establishment of the **Economic and Monetary Union**.

The third stage, which comprises the introduction of the single currency, began on 1 January 1999. In addition, the Treaty sets out the rules or convergence criteria to be met by countries wishing to join the euro area.

The Maastricht convergence criteria

Low inflation. The average inflation rate observed during a one-year period before a country is examined for admission to the single currency must not be more than 1.5% higher than the average of the three best performing Member States in terms of price stability.

Sound public finances. The government deficit must not exceed 3% of gross domestic product (GDP) and the public debt must not exceed 60 % of GDP, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. This latter criterion is therefore more flexible with greater scope for discretion.

Stable exchange rates. Candidate countries must have observed the normal fluctuation margins provided for by the exchange rate mechanism of the European Monetary System for at least two years, without devaluing their currency against that of any other Member State.

Low interest rates. During the year preceding the examination, the average long-term interest rate must not be more than 2% above that of the three best performing Member States in terms of price stability.

1995 : Madrid European Summit

The formal undertakings given by the 15 Member States in favour of a single currency, accompanied by a timetable, are adopted at the Madrid European Summit on the basis of the Green Paper drawn up by the European Commission on the practical arrangements for the transition.

1997 :
Stability and Growth Pact

The Stability and Growth Pact is adopted by all the member countries at the Amsterdam European Council. For the countries joining the euro, it lays down certain **common constraints relating to public finance**, mainly a 3% ceiling on the budget deficit, and provides for financial sanctions. These constraints are necessary in an asymmetrical system in which the countries of the euro area have a single monetary policy while retaining their national fiscal policy.

1999 : Stage 3 of Economic and Monetary Union

- Stage 3 of Economic and Monetary Union begins on 1 January. **The exchange rates of the participating currencies are irrevocably fixed**. The countries of the euro area implement a single monetary policy. The euro is introduced as legal tender.
- **Until 2001** the euro exists **only in the form of cashless payments** (cheques, transfers, bank cards). Payments to tax and social security authorities can be made in francs or in euros: there is no prohibition and no compulsion regarding the use of the single currency.
- Greece adopts the euro in January 2001.

1 January 2002 : Euro notes and coins introduced

The 2002 launch of the Euro banknotes marked the conclusion of European Monetary Institute’s most visible work.

Supervised by the European Central Bank in Frankfurt, the Euro was adopted by 12 countries representing over 300 million citizens with another 7 members joining in the following decade. Almost immediately, the Euro became the second most widely used currency in the world.

Did the EURO deliver on its promises?

Did the EURO deliver on its promises?

- Was it a good idea?
- The deal between Germany and France
- Can a currency only be defied by its inflation rate
- The ideological mistake
- The sovereign crisis
- The covid-crisis

What will 2022 bring ?

Contact

Prof. Dr. Bruno Colmant

Head of Private Banking

Banque Degroof Petercam

b.colmant@degroofpetercam.com

Tel.: +32 (0) 2 287 93 90

Follow our blog posts at https://blog.degroof.be/fr/experts/bruno-colmant

Follow us on Twitter: @BrunoColmant

Discover our website at www.degroofpetercam.com