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# THE INTRODUCTION OF THE EURO

## *The Introduction of the Euro as Single Currency of the European Monetary Union (EMU)*

The introduction of the single currency for Europe, the "***Euro***", was established by the Treaty of the European Union, signed in Maastricht on 7 February 1992 and in force from 1 November 1993, which provides for terms and conditions and procedural aspects of the entering into force at Article 109 ff.

Especially, Article 109 J of the Maastricht Treaty sets out a series of conditions that national economies have to fulfil in order to be admitted to the "*Euro zone*". That article gives specific criteria on the subject of inflation, public finance, exchange rates stability and long term interest rates. Moreover, it provides that the admission of each member State to the "*Euro zone*" shall be determined with reference to the progress made relating to market integration, to the situation of the payments balance, to the situation of labour unit cost and to other price indexes. These are conditions that should ensure that member States have reached a sufficient level of economic stability and a "high degree of sustainable convergence". In fact, once entered into the "*Euro zone*", economic difficulties of a country would have repercussions on the other participating States. (For further in depth considerations on the subject and for wider indications on the three stages previewed for the achievement of the Economic and Monetary Union provided for by the Maastricht Treaty see: A. SANTA MARIA, *EC Commercial Law*, London-The Hague-Boston, 1996, 163 ff).

According to the Maastricht Treaty, the European Council, the institution formed by the heads of State and the Government of the member States together with the President of the European Commission - met in Madrid on 15 and 16 December 1995 - prepared the reference scenario for changeover to the single currency setting the necessary guidelines and fixing the respective starting date on 1 January 1999. According to the decisions taken in that occasion, on **25 March 1998**, the European Commission published the

Report on convergence and on that base, issued a recommendation on the States admitted (eleven, Italy is among them) to participate *ab initio* to the "*Euro zone*" which is preparatory to the definition of a stability pact that should guarantee the maintenance of parameters in the future, as well as the irreversible progressive reduction of the national debt for some States.

Supported by these evaluations and on the basis of an equivalent "report" prepared by the European Monetary Institute, that will analyse a series of indicators, among which are market integration and independence of central national banks, on **1 May 1998** the Council of the Ministries of Economic Affairs and Finance of the European Union (ECOFIN) will transmit a recommendation expressing its conclusions to the European Council.

The latter, once reviewed by the European Parliament, will then decide which Countries will be part of the first "round" of the "*Euro zone*" that will start on **1 January 1999**. Moreover, it will set bilateral exchange parities between the national currencies (applying as a reference parameter the central exchange rate used in the EMS) as well as conversion rates of the member States that will not join the EMU from the very beginning (indicating, in this latter case, the average rates to which minimal fluctuation margins will be allowed). The eleven member States which are likely to be admitted since the beginning are: Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxemburg, the Netherlands, Portugal and Spain.

Conversely to other member States - that once fulfilled the parameters provided for by Article 109 J of the Treaty will have to join the EMU from 1 January 1999 - some countries were granted the option of not joining into the single currency. In particular, the United Kingdom, Sweden and Denmark were granted the power of not joining the Monetary Union in 1999, yet fulfilling the converging criteria. Greece, which just entered into the EMS is, therefore, the only country not immediately joining the Monetary Union, because of not yet having reached the required parameters.

The European Central Bank will have to be established (ECB) before 31 December 1998 . It will have consulting functions for the adoption of any community act on monetary matters and, moreover, together with the other central national banks, it will form the European System of Central Banks (ESCB). The latter, starting on 1 January 1999, will take control over the common monetary policy of the EU member States, while the central national banks will be limited to operative support functions.

On the very same **1 January 1999**, the European Council, on the base of a Draft Regulation that will soon be adopted, annexed to the legal framework for the introduction of the Euro of 7 July 1997 (97/C236/04) will ***irrevocably*** fix the conversion rates and the rounding criteria to be applied between the Euro and the EMU countries currencies (Art. 109 L, paragraph 4 of the Maastricht Treaty). The Institute for the Monetary Union has already declared that present EMS bilateral central

exchange rates, fixed on 14 March by the Monetary Committee, will be applied to determine irreversible rates. Nonetheless, since the declaration is a not binding document, those values can be adjusted in order to guarantee the maximum stability of the markets, considering that convergence of interest rates might not be complete ( Article 109 L par. 4 of the Treaty).

In fact, conversely to what was allowed by the EMS with respect to the ECU, already during the so called transitional period (***from 1 January 1999 to 31 December 2001***), it will not be possible for the national currencies of the EMU to vary their value with respect to the Euro. On the contrary national currencies will be formally ***redefined as sub-divisions of the Euro*** according to the rounding and conversion rates irreversibly fixed mentioned above. This will be done in order to determine an ***immediate and automatic equivalence legally binding*** between the Euro, and the currency of the interested countries. More precisely, national currencies will be configured as legal monetary units, but no longer as the autonomous expression of the sovereignty of the single States participating to the EMU. They will be the expression in ***national currencies of the common monetary unit, the Euro, at the agreed conversion rate***.

During the transitional period (this means ***until 31 December 2001***), within the States joining the EMU there will be a coexistence of the European currency and the national currencies. ***The Euro will exist only as unit of account and as a documentary payment method***. There will not be any issues of the Euro as circulating money and therefore the cash payments will have to be carried out in national currencies, but the latter will start being present in all operation that will not require any effective physical exchange of cash.

According to the general principle “no compulsion, no prohibition” set out by Article 8 of the above mentioned Draft Regulation of the European Council, the Euro ***(though its application not being compulsory) might*** be used essentially as ***virtual*** money for the redefinition in Euro of the debt expressed in national currency up to that time. Furthermore, it could be adopted to enable organised markets to change the unit of account used for their operative procedures and for the new issuing of public securities (Bot, Cct, etc); for operations on the financial markets (stocks, government securities, bonds) and for the payments carried out through banking operation (e.g. credit on current account).

From 1 January 2002 on States participating to EMU will be allowed to issue banknotes and coins in Euro. The Euro will be ***legal tender*** in that area, but not the ***only one***. In fact, until 30 June 2002, the Euro will coexist together with the old national currencies. The definitive withdrawal of the latter will have to take place, before ***1 July 2002,*** at the latest. And only from that date on the Euro will be the only currency with legal tender. From that time on, all indications referred to national currencies will automatically be considered as referred to the Euro ***at already fixed conversion rates***.

The Euro will not be limited to the replacement of the national currencies, but starting as well from 1 **January 1999**, it will then substitute the ***ECU*** at a 1:1 ratio.

The ECU is the unit of account presently operating in the European Union, which is formed by a currency basket of European Union member States as defined by Council Regulation No 3320/94 of 22 December 1994 (97/L 250). According to it, not all the currencies of the 15 signatories of the Maastricht Treaty are part of the ECU. In fact, excluding Austria, Finland and Sweden, only 12 countries form the ECU basket at present. Nonetheless, given the fact that, according to Article 109 of the Maastricht Treaty, the conversion into Euro shall not alter the external value of the ECU, while the introduction of the Euro will cause relevant technical problems, since it is already certain that the 12 countries whose currencies form the ECU basket, will not be the same member States which *ab initio* will join the EMU. Further to Denmark, which had already made known that it would not take part to the third stage of the Monetary Union, and to Greece, which is already regarded as not being able to comply with the convergence parameters, Great Britain as well made use of its option aiming at not immediately joining the single currency.

Finally, the present legal framework has to be completed with respect to Italy. With the recent adoption of Law 17 December 1997, No 433, the Government was delegated to issue one or more legislative decrees in order to give full implementation to the European provisions concerning the passover to the single European currency and to favour a clear changeover from the Lira to the Euro.

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