# ANNEX. A CHRONOLOGY OF THE EURO FROM ITS ORIGINS TO ITS 25TH ANNIVERSARY

As 25 years ago, on 1 January 1999, the euro was launched in 11 Member States, this chronology recalls the euro's history since its origins. It shows the intrinsic links of monetary unification with the Single Market and the experience of the previous currency arrangements. The euro delivered significant benefits to the economies in the euro area, which has meanwhile expanded to 20 Member States, and it is a tangible symbol of the European identity and prosperity. The euro helped its members in 'weathering the storms' of various crises during its first 25 years that also paved the way towards a stronger governance, making the euro area more resilient.

**The origins**

**The project of a single currency for Europe was in great part motivated by the aim of implementing the single market.** The first steps towards creating a single market in the EU date back to the 1957 Treaty on the European Economic Community (EEC), with the agreement to form a customs union among the six signing Member States ([110]). The project was further developed by the Single European Act of 1986 reforming the EEC Treaty, which declared end-1992 as the target date for implementing a single market with free movement of goods, services, capital and labour within the EU. Against this background, exchange rate fluctuations among Member States' currencies and the possibility of competitive devaluations would be detrimental to trade and financial flows and were seen as a potential threat to the single market. A single currency would achieve the objective of eliminating such fluctuations, with benefits that would go beyond economics, as a tangible symbol of European identity and prosperity, further deepening integration. The 1990 Commission study on economic and monetary union, called 'One Market, One Money', reflected these intrinsic links between economic integration and monetary unification.

**The currency arrangements of the 1970s were key steps towards more exchange rate stability and paved the way for closer monetary integration in the EU.** The first specific proposals for creating a European monetary union in several stages (1969 Barre Plan, 1970 Werner Report) were not further pursued due to the collapse of the Bretton Woods system and the oil price shock in the early 1970s. Instead, in 1972, an intermediate step was agreed, aiming to keep the fluctuations of exchange rates between European currencies within certain limits ('European currency snake'). In 1979, another important step towards closer monetary integration was taken with the creation of the European monetary system (EMS) and its exchange rate mechanism (ERM), pegging participating currencies to the European Currency Unit (ECU) ([111]).

**In 1989, the Delors Report reflected the awareness that national monetary policies and fixed exchange rates would be incompatible with the free movement of capital.** A study led by Tommaso Padoa-Schioppa, on the implications of the single market for the future of the EEC, warned that liberalised capital movements as part of the single market were inconsistent with the objectives of exchange rate stability and autonomous national monetary policies ('the impossible trinity' as developed by the economists Fleming and Mundell in the early 1960s). In June 1988, in Hanover, the EU Heads of State or Government mandated a committee, mainly composed of central bank governors with Padoa-Schioppa as rapporteur and chaired by Jacques Delors, to prepare a report on European economic and monetary union (Delors Report of April 1989). The report proposed, in further detail, a process in three stages, building on the ideas of the Werner Report. In the background, economists were also exploring the conditions that should be in place in countries forming a monetary union ('optimum currency area' theory). In December 1990, the EU Heads of State or Government launched intergovernmental

([110]) Belgium, Germany, France, Italy, Luxembourg and the Netherlands.

([111]) The ECU was only a unit of account and not a currency yet, whose value was calculated as a basket of the currencies participating in the ERM. It did not replace national currencies and its practical use was limited.

conferences to revise the Treaty along these lines, as well as other policies, which culminated in the Maastricht summit in December 1991.

**The Maastricht Treaty, which was signed in February 1992 and entered into force in November 1993, laid the legal foundations of the European Economic and Monetary Union (EMU) on the basis of the proposals in the Delors Report.** Stage One (1 July 1990 to 31 December 1993) aimed to remove barriers to the free movement of capital within the EU, improve coordination of economic policies, and strengthen cooperation between central banks. Stage Two (from 1 January 1994) aimed to set up the European Monetary Institute, prepare the introduction of the single currency, and bring about convergence of policies to ensure stable prices and sound public finances (the Maastricht convergence criteria). Stage Three (by 1 January 1999 at the latest) aimed to set conversion rates between the national currencies and the single currency, transfer monetary policy powers to the independent European Central Bank (ECB), and introduce the single currency. The United Kingdom – and later Denmark – had negotiated special conditions and would not be legally obliged to adopt the euro ([112]).

**A succession of ERM crises in 1992-1993 strengthened the case for monetary unification.** These crises showed how fixed or managed floating exchange rates would always remain fragile and exposed to market pressures. Among the underlying reasons were the inflationary pressures and investment needs following German reunification, coupled with Germany's central role in the ERM. The Bundesbank increased its policy rates, triggering capital inflows and upward pressure on the value of the Deutschmark and conversely downward pressure on the currencies of other ERM countries, which were required to take unilateral action to stay within the ERM bands. This fundamental asymmetry in the system, coupled with speculation, led to the collapse of the system. The UK pound exited from the EMS in September 1992, while the central parities of several other currencies in the ERM had to be realigned and the fluctuation bands were substantially widened to stall further speculative attacks. In subsequent years, policy action to meet the convergence criteria of the Maastricht Treaty (on sound public finances and stable prices and exchange rates) supported Member States' commitment to exchange rate stability.

**The single currency was baptised 'euro' at the Madrid summit in December 1995.** With the memory of the ERM crises still fresh, the Madrid summit was crucial to overcome internal differences between Member States as to their readiness to launch the EMU by 1999, while acknowledging that the initial launch date of 1997 could not be met. The name 'euro' for the single currency was agreed, a more popular name and easier to pronounce in all languages than that of its predecessor, the ECU.

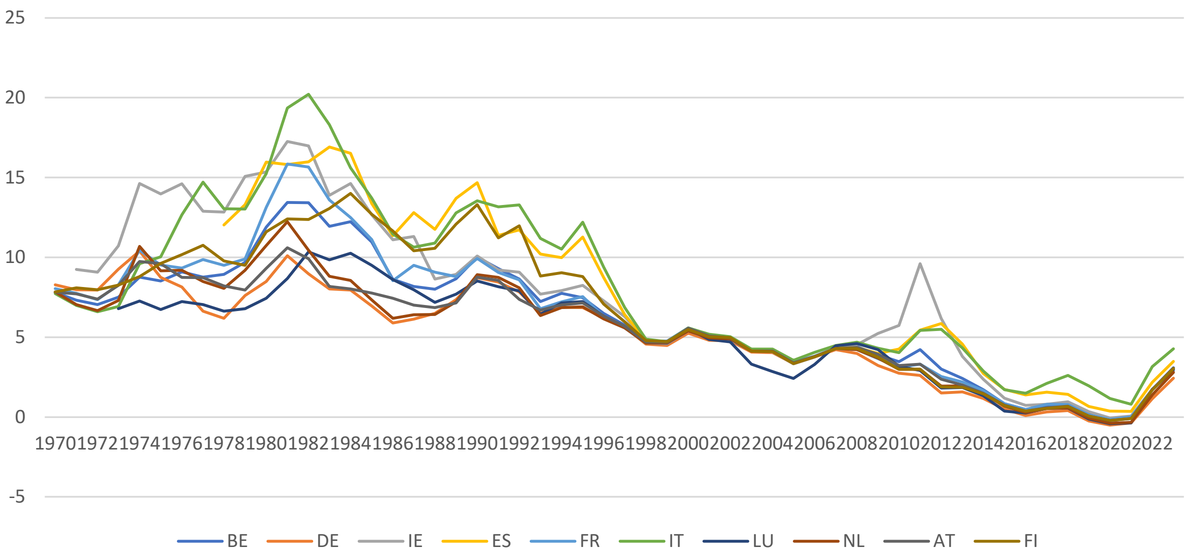
**The years of fast integration and convergence**

**On 1 January 1999, the euro was born and set to grow fast, and the ERM gave way to the ERM II as a gateway for future euro area members.** At that moment, the currency conversion rates of the initial 11 participating countries ([113]) that had met the convergence criteria as laid down in the Treaty were fixed and the euro replaced the ECU on a one-for-one basis, representing in practice a basket of euro area currencies. The ECB, which had been set up in mid 1998 – replacing the European Monetary Institute – and was following the model of the Bundesbank, including its independence, was given the responsibility for a single monetary policy with the primary objective of price stability. While initially the euro could only be used as an accounting currency and for electronic payments, the introduction of euro banknotes and coins in the participating 12 countries (as Greece had joined the initial group of 11 countries) followed on 1 January 2002. Another eight Member States would join the euro between 2007 and 2023, following their successful participation in ERM II and having met the

([112]) The UK eventually left the EU in 2020 after a referendum in 2016.

([113]) These were the currencies of Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, The Netherlands, Austria, Portugal and Finland. Greece joined the euro in 2001.

Graph Annex.1: **Convergence of long-term interest rates in the euro area**




(1) 10-year government bonds yield (according to the Maastricht criterion) reference rate, based on government bonds with a maturity close to 10 years.

**Source**: AMECO.

convergence criteria for joining the euro ([114]). The euro soon became the second-most used international currency after the US dollar, and several countries outside the euro area have pegged their currencies to the euro. In 2023, the single currency covered nearly 350 million people (close to 80% of the EU population).

**The monetary union was not accompanied by a fiscal union.** Unlike the United States of America, the EMU was set up without a common fiscal policy that could act as a mechanism of adjustment to smoothen asymmetric shocks across participating countries. Rather, the Maastricht Treaty further specified the legal basis for EU surveillance of Member States' economic policies, in particular with respect to the reference values for budget deficits (3% of GDP) and public debt (60% of GDP) (Art. 126), and for the broader coordination of economic policies (Art. 121). The fiscal constraints set by the Treaty were to ensure that Member States themselves would have the fiscal capacity to respond to shocks on an individual basis. The Treaty's rules for ensuring compliance with these criteria were further specified in the Stability and Growth Pact that was agreed in 1997 and continued to develop in the following decades.

**The first decade of the euro already delivered significant benefits to the economies in the euro area.** It was a period of solid economic growth, in particular in participating countries with lower income per capita, allowing them to converge towards those with a higher income. The ECB's monetary policy ensured price stability, also by credibly anchoring inflation expectations to its 2% target from the outset. The burst of the 'dot com' bubble in early 2000 also showed the benefits of being in a monetary union as the financial fallout was limited and the usual volatility of exchange rates in such situations was no longer possible among euro area countries.

([114]) Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015), and Croatia (2023).

### Weathering the storms

**In 2008-2013, a succession of economic crises showed the weaknesses in the governance of the euro area but also its readiness to act in solidarity.** When the global financial crisis (GFC) started in the US in 2007, there was quite some optimism that the consequences for Europe would be limited ('decoupling hypothesis'). Unfortunately, this assessment turned out to be wrong. The exposure of European banks triggered a credit crunch that impacted negatively on the highly leveraged private and public sectors of a number of euro area countries and further exposed banks, requiring government bailouts of the banking sector (the 'doom loop'). The risks associated with the build-up of high private and public sector debt in some Member States became fully visible. These risks had been largely ignored in the first decade of the euro as a natural by-product of financial integration and convergence. Now, the euro area was faced with a widening of spreads among sovereigns (and, by extension, among private issuers of different countries) to an extent that would eventually cut some of them off from international capital markets and cause financial fragmentation. Financial assistance was provided to Greece, Ireland, Portugal and Cyprus, as well as to Spain specifically to re-capitalise banks, coupled with a policy agenda to address the country-specific underlying causes of the crisis. To finance these assistance programmes, euro area Member States initially created several financial stability instruments that were mostly intergovernmental arrangements, notably in the form of the Greek Loan Facility (GLF, 2010) and the European Financial Stability Facility (EFSF, 2011). In 2013, the European Stability Mechanism (ESM) was created as a permanent mechanism to fund macro-financial assistance in the euro area. The ECB's monetary policy response helped resolve the crisis, delivering on a commitment by ECB President Mario Draghi in July 2012 that its institution would do 'whatever it takes' to save the euro area.

**Alongside these developments, the euro area and the EU underwent the first major overhaul of their governance framework.** In 2010, the European Semester was created to provide a more integrated approach to EU policy coordination, with country-specific recommendations for Member States to guide their policies, reforms and investments. The intergovernmental Treaty on Stability, Coordination and Governance (2011, 'Fiscal Compact') added further requirements related to the surveillance of fiscal and structural policies and created the Euro Summit. Additional legislation was adopted to strengthen the Stability and Growth Pact and budgetary frameworks in Member States and to extend the scope of economic surveillance via the Macroeconomic Imbalance Procedure (the 'six-pack' legislation in 2011 and the 'two-pack' in 2013).

### The calm after the storms

**The period following the GFC and the euro area sovereign debt crisis was characterised by policy action to support growth and fight the risk of deflation.** Interest rates at the 'zero lower bound' facilitated debt deleveraging in high-debt countries, and the ECB followed other major central banks in providing liquidity to the economy through unconventional monetary policy and quantitative easing ([115]). The European Fund for Strategic Investments (EFSI, also called 'Juncker Plan', 2015) was launched to support investment and lift productivity; the predecessor of InvestEU. In this period, major structural reforms at Member State level took place, including in areas such as insolvency, labour markets, and pensions. Economic growth strengthened from 2015 onwards as the policy reform agenda in the euro area and the EU started to bear fruits, including a strengthening of banks' balance sheets and an improved performance of labour markets.

**There was also a renewed ambition and continuous effort to deepen the EMU.** Most initiatives were based on proposals in the Four Presidents' Report of December 2012 and in the Five Presidents' Report of June 2015 as well as the Commission's white paper on completing the EMU of March 2017.

([115]) In this period, the ECB deployed targeted longer-term refinancing operations (TLTROs), with a first series announced in June 2014, to provide banks long-term funding at attractive conditions. In October 2014, the ECB launched its Asset Purchase Programme (APP) in October 2014, also with the aim of providing liquidity to the economy. This programme lasted until June 2023.

Some of the proposed additional steps for completing the Banking Union (BU) progressively became reality, in particular with the creation of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), but proposals for a European deposit insurance scheme, concrete steps to implement the Capital Markets Union (CMU) or initiatives to create a central fiscal capacity at EMU level did not gain similar traction.

**Resilience in a poly-crisis world**

**When the COVID-19 pandemic started in early 2020, the euro area benefited from past reforms and lessons learned, and was able to respond swiftly and in a coordinated manner.** The EU and the euro area were quickly faced with the risk of fragmentation and related lasting damage to the single market and to medium- and long-term growth prospects. To avoid repeating the hysteresis effects of high unemployment, collapsing investment and non-performing debt experienced in the aftermath of the GFC, this time there was an unprecedented coordinated EU policy response to safeguard jobs and incomes. The activation of the general escape clause in the Stability and Growth Pact gave Member States more flexibility for their own policy response and related spending. In addition, there was a better coordination of fiscal and monetary policy. The ECB deployed its pandemic emergency purchase programme (PEPP) and set up a Transmission Protection Instrument (TPI) to avert risks of financial fragmentation. The EU-level response included, among other things, the provision of substantial financial support through the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and the launch of NextGenerationEU to finance the Recovery and Resilience Facility (RRF). These measures led to a strong recovery of the euro area economy in 2021-2022, with virtually unscarred labour and credit markets, also benefiting from previously implemented reforms. When Russia started its unprovoked war of aggression against Ukraine in February 2022, another crisis hit, coming along with high energy and food prices and ensuing high inflation. This time around, the framework for coordination was already in place, and Member States were able to continue to support their economies. At the same time, the ECB showed commitment to pursuing price stability and maintained inflation expectations well anchored.

**More united to face the challenges ahead**

**On approaching the euro's 25th birthday, significant steps have been taken to prepare the EMU for the challenges ahead, including another reform of its governance and initiatives that will boost the resilience of the euro.** In 2022, work on the economic governance review, launched in 2020 but interrupted by the pandemic, was resumed. The Commission presented its legislative proposals in 2023 and an agreement among the co-legislators was reached in February 2024. In the course of the year, Member States are to design and present medium-term fiscal structural plans that set out their net expenditure path and their reform and investment strategies. The central objective is to strengthen public debt sustainability while promoting sustainable and inclusive growth in Member States by facilitating reforms and investment in common EU priorities. Further, in 2023, the Commission presented a proposal for the legal framework of the digital euro, and the ECB concluded its investigation phase. Supplementing euro banknotes and coins, the digital euro will ensure that people and businesses have an additional choice – on top of private sector options – that allows them to pay digitally with a widely accepted, cheap, secure and resilient form of public money in the euro area. In addition, there is a renewed impulse to deepen the CMU as a crucial tool to pool the necessary funding to strengthen the euro area's competitiveness, to secure the green and digital transitions, and to strengthen the international role of the euro.

Graph Annex.2: **Overview of the euro's history**

#EURO at25

## Key milestones of the euro

| | |
|---|---|
| **1958** | Treaty on the European Economic Community (6 Member States) |
| **1968** | Customs union completed |
| **1969-1970** | Barre plan and Werner plan proposing a way towards European Monetary Union (EMU) |
| **1979** | European Monetary System |
| **1986** | Single European Act |
| **1989** | Delors Report |
| **1992-1993** | Maastricht Treaty; completion of the Single Market (with four freedoms of goods, services, labour and capital in the 12 Member States) |
| **1995** | Madrid Summit with key decisions on EMU |
| **1997** | Stability and Growth Pact |
| 1998 | The European Central Bank becomes operational on 1 June |
| **1999** | Launch of the euro in 11 Member States |
| **2001** | Greece adopts the euro |
| **2002** | Introduction of euro banknotes and coins in 12 Member States |
| **2007** | Slovenia adopts the euro |
| **2008** | Cyprus and Malta adopt the euro; global financial crisis |
| **2009** | Slovakia adopts the euro |
| **2010-2013** | Euro area sovereign debt crisis and policy responses (e.g. financial assistance programmes financed by EFSF/ESM) |
| **2011** | Estonia adopts the euro |
| **2014** | Latvia adopts the euro |
| **2015** | Lithuania adopts the euro |
| **2023** | Croatia adopts the euro; Commission proposals to protect cash and enable the possible creation of a digital euro |


**Source**: European Commission, DG ECFIN's staff.