explainity explains
topic: European monetary Union
date of publishing: 05/03/2019
YouTube: https://www.youtube.com/watch?v=StZhbA7HMcQ

explainity explains: „European Monetary Union“

This is Jonas. When cleaning his room, he found a two D-Mark coin. He still remembers buying his sweets with D-Mark at the corner store when he was younger. Nowadays he pays everything with Euros. But why is that? Well, we have to elaborate a little to explain this.

Some time ago Italy for example used the Lira, France used the Franc and Germany its Deutsch-Mark. As early as in 1992, in the Maastricht treaty, the founding members of the European Union decided to set up the European Central Bank in order to establish a common European currency. Thus, the European Monetary Union was introduced.

Upon uniting the currency, the value of the money and products is preserved. If you had 20 Deutsch-Mark of pocket money before the introduction of the Euro for example, they would then be worth the equivalent of around 10 Euros.

Those countries that wanted to instate the Euro had to – and still have to – comply with four criteria of convergence. One year before joining the shared currency the concerning country has to:

- Verify stable prices. That is to say the rate of inflation must not exceed 1.5% of the three most stable countries' inflation rate.
- Government bonds – this is something similar to a loan taken by the state and bought by investors – need to verify low interest rates. One year before joining the currency, the long-term interest rates that the state guarantees on its loans must not be higher than 2% of the other three states' interest rates.
- Furthermore, the states' finances have to be solid. Governmental debt has to be below 60% of the gross domestic product. The rate of new debt made every year should not exceed 3% of the GDP.
- Last but not least the joining country has to prove a stable exchange rate for the past 2 years. This rate is calculated using the European Exchange Rate Mechanism introduced in 1999.

At the dawn of the monetary union on 1st of January 1999, 11 countries met these criteria. They were later joined by Greece. On January 1st of 2002 the old currencies were outdated, and the Euro introduced as the sole currency. In 2015 19 countries were already part of the monetary union and exchanged their former currency for Euros.

But what about the other countries in the European Union? Some of them have yet to meet the relevant criteria, before being able to join the monetary union. Some have deliberately chosen to keep their own currency.

There have been many advantages to the introduction of the Euro: for example, not needing to exchange money when traveling within European countries. But there are also a few detriments. Think about the term Euro-Crisis! This will be the topic of our next clip, so stay tuned.

Back to Jonas and his Deutsch-Mark coin. He exchanges it for a Euro at the local national bank. And just like in good old times he heads to the corner store to buy himself some sweets.