Legal and Economic Framework for the Euro

The decision to introduce a single currency was an integral part of the Treaty on European Union signed in Maastricht, Netherlands, in February 1992. To be able to join the euro area, the member states must bring their economies closer together: they must achieve "convergence." The four convergence criteria are:

Budget Discipline
The annual deficit must not exceed 3% of the Gross Domestic Product (GDP) and overall government debt must not exceed 60% of the GDP.

Inflation Rate
Inflation should not exceed by more than 1.5 percentage points the average rate of the three best performing member states in terms of price stability.

Currency Stability
The country's currencies must have remained with the normal fluctuation margins of the European Monetary System (EMS) for the last two years.

Long-term Interest Rates
Long-term interest rates should not exceed by more than 2 percentage points the average of the three members states with the lowest rates in the Union.

On January 1, 2002, euro notes and coins were introduced in the countries of the euro area.

Twelve Member States in the European Union have adopted the single currency.

Denmark and UK have opt-out clauses, which imply that they are not obliged to adopt the euro. Sweden will join the euro area as soon as it has fulfilled all the conditions.

The euro area is composed of: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, The Netherlands, Austria, Portugal, Finland.

Germany and France have had trouble keeping to the EU Stability and Growth Pact. As predicted, their state deficit will breach the three percent ceiling in 2004 again for the third time in a row due to weak growth and high unemployment. Others also continue to face growing difficulties in living up to the demands of the pact, which entered into force in 1999 to support the strength and the confidence in the new single currency. (i.e. Italy, Belgium, Greece and Austria had breached the upper limit for the total indebtedness.) Since some of the member states (among them Germany, Portugal and France) infringed against the indebetdness limit in 2001 and 2002, the member states argued about the sense of the stability pact again and again. On March 25, 2005, the twelve member states agreed to revise the EU's Stability and Growth Pact: All members must still keep their public deficits under a 3% GDP/deficit ratio and their dept unter a 60% GDP/debt ratio. The pact's rules have however been made more 'flexible'. For example, member states will avoid an excessive deficit procedure (EDP) if they experience any negative growth at all (previously -2%), can draw on more "relevant factors" to avoid an EDP and will have longer deadlines if they do move into an EDP.