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EUROPEAN MONETARY MECHANISMS

Однією з найважливіших подій 20-го століття було створення єдиної європейської валюти – євро. Ця подія внесла зміни не лише в європейську валютну систему, а й у міжнародну. Євро стало валютою, яка змогла вийти на світовий ринок і стати альтернативою долару.

У статті зроблено спробу дослідити історичні аспекти формування європейської валютної системи; визначити основні принципи та цілі ЄВС; виявити особливості європейської фінансової системи.

Ключові слова: *європейські грошові механізми, грошова одиниця, євро, єдина валюта, єврозона, Центральний банк.*

One of the most important events of the 20th century was the creation of a single European currency – the euro. This event brought changes not only to the European monetary system, but also to the international one. The euro has become a currency that has been able to enter the world market and become an alternative to the dollar.

The article attempts to explore the historical aspects of the formation of the European monetary system; define the basic principles and goals of EMS; identify the features of the European financial system.

Key words: *European monetary mechanisms, monetary unit, euro, common currency, Eurozone, Central Bank, union.*

1. Introduction

The monetary system plays a very important role in the economy of the state. To a large extent, the level of economic development of the country depends on how well it is organized. Each state has historically had its own monetary system, with its own traditions and peculiarities.

However, today a unique example of a union of states that have created for themselves a new monetary system with a single currency, which is successfully functioning and developing can be observed. Such an example is the European Monetary Union. Of interest is the process of creating this new system, its features, and elements.

This success of Western European countries is of great importance not only for the direct participants of integration, but also for the further development of the world monetary system both on a global scale and in individual regions.

2. European monetary system

The European Monetary System (EMU) is a form of state-monopolistic regulation of currency relations of the countries of the Western European integration complex, a characteristic feature of which is the strengthening of this regulation at the interstate, and in the future at the supranational levels.

The EMU is the latest attempt by the EEC countries to implement interstate regulation of currency relations. It gradually acquires the features of a regional monetary system, which is a form of organization of monetary relations of the EEC countries, serving intraregional economic relations, one of the poles of the polycentric monetary system.

2.1. The main stages of EMU development

The formation and development of the European Union is the integration of Western European countries in political, economic, and cultural aspects. This process continues today: the European Union is constantly expanding; it is possible that the expansion of the EU will take place in the future. The monetary union of European states is also growing. And although not all EU members have switched to the euro now, many of these countries are going to join the monetary union in the next decade.

The main goal of the formation of the European Union was to create a single market for more than 370 million Europeans, ensuring the freedom of movement of people, goods, services, and capital.

In the middle of the twentieth century, for the first time in modern history, Europe found itself without a world currency: the post-war Bretton Woods model of the international monetary system was based on the US dollar, which in the 30s displaced the British pound sterling from the leading positions. Therefore, in 1950, the European Payment Union was created. In April 1951, the Paris Agreement on the Establishment of the European Coal and Steel Association was signed, which marked the beginning of European economic integration. Since January 1, 1958, according to the agreement signed in March 1957 in Rome, the European Economic Area (EEC), known as the Common Market, is being created [1]. The economic unification of Europe by the whole logic of its development led to the need for single banknotes, and already in 1962, the EEC Commission put forward the idea of a single currency for these countries.

In April 1975, the European unit of account (EUA) was introduced, the exchange rate of which no longer depended on the dollar, but on the market value of its constituent European currencies. This unit was used in interstate settlements and the EEC budget, in the operations of the European Investment Bank.

Certain economic successes of the Common Market countries in the late 1970s and early 1980s allowed the European Community to create a new international unit of the ECU on the basis of its economic union, which began to play the role of an international means of payment in world trade, credit transactions and the capital market [2].

As a result, on March 13, 1979, the European currency unit (ECU) and the European Monetary System (EMU) based on it appeared. An important feature of the EMU was that it included all the EEC countries in its composition. The definition of the goals and ways of creating an Economic and monetary Union in Western Europe was enshrined in the text of the Maastricht Treaty on the Formation of the European Union. This historic treaty was approved by the Heads of State and Government of the EU at the session of the European Council on December 10-11, 1991 and signed on February 7, 1992 in Maastricht (the Netherlands). The Maastricht Treaty, which entered into force on November 1, 1993, provided not only for the creation of an Economic and Monetary Union, but also for the formation of a political union. In fact, it was only after the signing of this treaty that the EU countries switched to a common economic and financial policy, the goal of which was the introduction of a single currency. The agreement provided for a phased schedule of its introduction and established general rules in the field of the state budget, inflation, and interest rates for all members of the future monetary union.

The Maastricht Agreement established that in order to be admitted to the EMU, EU countries must meet the following macroeconomic criteria of "convergence":

1. The inflation rate in an EMU candidate country should not exceed the average inflation rate for the three countries with the most stable price levels by more than 1.5%.
2. The country should maintain a stable exchange rate of its currency through the use of the EMU exchange rate mechanism and not carry out devaluation on its own initiative.
3. The country's budget deficit should not exceed 3% of GDP (except in the case of temporary emergencies).
4. The national debt of a country should not exceed 60% of its GDP. [3]

The Pact pursues two important goals: firstly, to avoid excessive budget deficits through strict control over the budgetary policies of the member States of the Union. Secondly, in case of violation by one of the EMU member States, it becomes possible to oblige it to eliminate the deficit. Otherwise, it provides for the application of sanctions to the violator in the form of fines. [4]

The progress towards modern EMU is divided into several stages:

1. Creation of an economic and monetary union. In 1998, the first group of countries participating in this EU union (8) is determined, the European Central Bank is established. Preparations for a new currency are being accelerated in the participating countries. All economic life continues to function in the same mode, i.e. on the basis of national currencies.
2. This stage will begin on 01.01.1999 and end on 31.12.2001, i.e. it is designed for three years. The real activity of the EMU begins. The exchange rates of the national currencies of the participating countries are rigidly fixed in relation to

the euro, the euro becomes an independent full-fledged monetary unit. Business entities can start settlements in euros. At this stage, both the euro and national currencies function in parallel and on an equal footing.

3. At this stage, a full transition to the euro is carried out. After 31.12.2001, all accounts, which until then were expressed in the national currencies of the participating countries, must necessarily be converted at official rates into euros. Since 01.01.2002, during the period that each country determines independently (but no more than 6 months), new banknotes and coins in euros are introduced into circulation, replacing the previous banknotes and coins in national monetary units.

Thus, by January 1, 2003, the full transition to the euro in all EMU member countries was completed. From now on, the euro has become the only legal tender in the Eurozone countries. The new currency unexpectedly quickly gained popularity and the location of Europeans. The leadership of the European Union positively assessed this process. The European currency has even become popular in countries that have not joined the Eurozone.

2.2. The main objectives of the EMU:

- The creation of a zone of stable exchange rates in Europe, the absence of which made it difficult for the member States of the European Community to cooperate in the implementation of common programs and in mutual trade relations;
- Convergence of economic and financial policies of the participating countries. The fulfillment of these tasks would contribute to the construction of a European monetary organization capable of repelling speculative market attacks, as well as containing fluctuations in the international monetary system (especially changes in the dollar).

2.3. The mechanism of action of the EMU

The EMU mechanism is formed by three elements: the European currency unit – the ECU; the regime of joint exchange rate fluctuations – the "super snake"; the European Monetary Cooperation Fund. The European currency unit, the ECU, became the center of the new system. The specific weight of each national monetary unit in the currency cocktail depends on the share of the country's gross domestic product in the total GDP of the EEC. According to the plans of the initiators of the EMU, the ECU should become an alternative to the dollar as an international means of payment and reserve. The second element of the EMU is the system of joint fluctuations in exchange rates, which replaced the "European currency snake". The parity grid is used to measure mutual deviations of market rates of any currency pair. The parity grid serves as the basis for conducting currency interventions. The European Monetary Cooperation Fund, which has a certain flexibility, has helped to increase the role of gold as a reserve asset: it is used as a partial provision of the ECU, a large interstate gold fund has been created. The EEC countries have about 40% of the world's gold reserves. [5]

3. Monetary system of the European Monetary Union

Integration processes in Europe led to the creation of not only political, cultural, and economic unions, but also to the formation of a single monetary system. The movement towards the creation of a single monetary system EMU went through several stages in its development and ended with the creation of a single currency – the euro. However, initially the common currency was the ECU.

Ecu is an old French gold and silver coin, which in 1979 was adopted as a unit of account by the countries of the EEC. Initially, it was estimated on the basis of 12 currencies of European countries. From a unit of account, the ecu gradually turned into almost real money – a tool for settling international settlements. But the creators of the ecu saw in it a prototype of a future monetary system capable of meeting the needs of a uniting Western Europe. In 1979, a new European Monetary System (EMS) was introduced on its basis, and the ECU became its basis, which was supposed to perform the tasks of mutual settlements within the framework of the EMU. At the EU session in December 1991 in Maastricht, it was decided to turn the ecu into a real means of payment before the end of the 20th century.

According to the idea of the creators of the new currency, the role of a universal tool capable of determining real values within the EU was to be performed by the European currency unit, the creation of which also pursued another goal, namely, to free the EMU from possible irreversible fluctuations of only one national (i.e., American) currency and from the policy of one country. Thus, it was not a simple unit of value, but a really functioning currency on which the monetary system of the European Community was based, allowing it to become relatively independent of the US dollar. In 1993, the ecu became the single European currency, which was controlled by the European Central Bank (ECB). But the choice was ultimately made in favor of the euro. [6]

Now the official currency of the EMU is the euro. On January 1, 2002, the cash circulation of this youngest currency of the modern world began. The euro is subdivided into 100 euro cents. The Euro is issued by the United European Central Bank. This currency has replaced the circulation of national currencies in 12 member countries of the European Union.

The single issuing center of the European Union is the European Central Bank, while almost all eurozone countries are engaged in the physical production of banknotes: two money factories in Germany and one in each EU country, except for Luxembourg. All banknotes have a single thematic and style solution.

The issue of cash (banknotes and coins), the organization of their circulation and withdrawal from circulation in the territory of the European Union are carried out exclusively by the European Central Bank. Counterfeiting of funds and their illegal manufacture are punishable by law.

Among the least difficult obstacles to the creation of a monetary union was the choice of appearance and name for the new euro currency. However, reaching agreement on this issue proved to be very difficult. The problem was that some European leaders wanted to keep the national symbols on the wrong new banknotes that their national central banks were supposed to put into circulation. It was decided that there would be no national symbols on euro banknotes, and that on coins one side should be "European" and the other side "national". At the same time, national symbols were allowed to be placed on the "national" side of the coins.

The final version of the appearance of banknotes was presented in December 1996 at a meeting of the European Council in Dublin. All banknotes have numerous degrees of protection provided using modern technologies. The final appearance of the coins was approved at the meeting of the European Council, held June 11, 1997 in Amsterdam. Finding a name for the new currency was also a difficult task until, in December 1995, it was decided to call it "euro". Thus, the gradual strengthening of the international position of the euro, the historical record of its appreciation against the dollar in the early 2000s testify to the emergence of a real competitor to the US dollar as a functional form of world money.

3.1. European Central Bank and Eurozone

The European Central Bank (ECB) was established in May 1998 and began operating on January 1, 1999. This stage marked the transition to a unified monetary policy and the introduction of a single currency (1999–2002). Since 1999, 11 participating countries have fixed their exchange rates against the euro, and the euro has been introduced into non-cash circulation.

The European System of Central Banks (ESCB), which implements monetary policy in the euro area, consists of the European Central Bank, and eleven national central banks. The decisions of the ESCB are taken by the members of the ECB's executive board, which consists of six members of the executive committee and the heads of the national central banks. Thus, the top management of the ECB, consisting of members of its executive committee, interacts with representatives of national central banks in the development of monetary policy for the entire euro area. In other words, all national central banks of the countries of the union, regardless of whether their countries are members of the euro zone, are represented in the ESCB and their leaders participate in the work of the "general council" of the ECB.

The Maastricht Agreement gives the ESCB the primary rights to use measures aimed at ensuring price stability, and contains numerous provisions designed to isolate the decision-making process on monetary policy from the influence of various political forces. The ESCB operates completely independently of any national government.

The tasks of the ESCB and the ECB include:

1. definition and implementation of the monetary policy of the EU;
2. conducting international currency transactions;
3. storage and management of the official foreign exchange reserves of the EMU

member countries (while part of the reserves will remain at the disposal of the governments of the participating countries);
4. Ensuring the normal functioning of the payment system.

The statute of the ESCB and the ECB declares the independence of these organizations from other EU bodies, from the governments of member countries and from any other institutions. The ECB created a favorable economic environment through monetary policy.

The activities of the ECB include:

1. provision of loans, including pawn loans, to financial institutions;
2. open market operations with various financial instruments;
3. establishment of minimum reserve requirements for credit institutions of the EMU member countries.

The Charter prohibits the ECB and national banks from lending to interstate, state, regional and local authorities and organizations operating on the basis of state law. This provision does not apply to public credit institutions. Each of the eurozone countries maintains its own, independent and distinctive banking system. The degree of influence of the European Central Bank on these issues is negligible. The powers of the European Central Bank are limited to the conduct of monetary policy and the formation of the monetary area. The President of the European Central Bank speaks to the media every month to explain the policy. Monetary policy is coordinated, and budgetary and taxation is carried out by the national government of each country.

The Eurozone is a country where the Euro is used instead of the national currency. Since January 1, 2002, cash Euro has replaced national currencies for the first time in a number of European countries. At the same time, states that did not have their own currency also switched to the Euro: Andorra (previously using French francs) and Montenegro (using German marks).

Of the last countries, the following countries switched to Euro cash:

- Slovenia since January 1, 2007,
- Cyprus and Malta since 2008,
- Slovakia since January 1, 2009,
- Estonia since January 1, 2011,
- Latvia since January 1, 2014.
- Lithuania since January 1, 2015. [9]

Thus, at the moment the Eurozone includes 19 countries.

3.2. The European monetary system in the modern world

More than 20 years have passed since the introduction of the euro in 1999, and all this time the single European currency has constantly expanded its presence in the world market. By 2005, the euro had become the most popular currency in the international capital market, with euro-denominated debt exceeding dollar-denominated debt for the first time. In 2006, the value of euro banknotes in circulation exceeded the value of all US dollar banknotes. The euro consistently ranks second in terms of world central bank reserves, in terms of operations in the commodity and foreign exchange markets. [10]

Speaking about the current position of the euro, there are positive factors:

1) The Euro is not only an idea that unites different European countries, but also a currency that is a reflection of the centuries-old and extremely successful history of the mainstream human civilization.
2) Even if the current economic indicators of various European countries do not look ideal, it is still important to understand that we are talking about Europe – there are a huge number of developed companies in all spheres of human activity, many outstanding scientists and specialists capable of creating new unique technologies. The European economy is a huge list of real achievements, well-structured trade and the ability to negotiate with each other.

However, it is difficult to imagine that the current epidemic could have a positive impact on the euro. The panic in different countries and the general non-compliance with measures and rules showed that Europe was not sufficiently prepared for all sorts of stressful situations, and this also affected the exchange rate. Relations between different countries within the EU are also not always so harmonious. Attempts to centralize power in recent years have caused especially active resistance from various countries – the agenda of various governments is changing, uncomfortable questions are being asked, and certain decisions are not being made. That is, in general, politics in Europe is in order, but the title of the main political center and an example for other countries does not suit this region at all – hence the weakening of the currency.

What can the euro expect in the future:

1) there will be difficulties in solving the main and fundamental problem – the euro is definitely not ready to replace the dollar as the main currency of the world;
2) the complex relationship between the United States of America and China helps Europe think more of itself and pay minimal attention to foreign policy – the longer this time goes on, the more confident this region will become stronger;
3) dependence on the dollar and the constant comparison of these currencies does not allow us to perceive the euro as something separate and independent. Until other countries and individual specialists in the currency markets perceive this currency pair as an independent force, it will be difficult for the euro to start moving independently to new heights.

4. Conclusion

The integration process in Europe has led to the formation of a large and economically developed union of countries – the European Monetary Union. To date, this is so far the only example of such a successful unification of the monetary systems of different states and the creation of a completely new system – the monetary system of the European Monetary Union.

The modern monetary system of the EMU is based on a single currency – the euro, which is used in most EMU member countries. Although the path to the formation of this monetary unit was long and difficult.

Monetary regulation in the European Monetary Union is carried out by the European Central Bank and the European System of Central Banks.

The transition of the European Monetary Union to the single currency euro, undoubtedly, was the most significant event of recent years. And it had a great impact on the world economy and the world monetary system.

At present, a high level of economic and political integration has been achieved within the European Union. The currencies of the EU member states are relatively strong and stable compared to the currencies of most countries in the world. In recent years, there has been a noticeable convergence of the main macroeconomic indicators of the EMU member countries, real progress has been made in ensuring price stability, improving public finances, reducing long-term interest rates, and stabilizing the exchange rates of national currencies. The EURO is based on a single monetary and foreign exchange policy, which is fully transferred to the supranational European Central Bank and the Council of the EU. The fight against inflation has been declared the highest priority of the EMU policy, which is the most important condition for the stability of the single currency. The modern EMU monetary system is still quite young and has great development prospects.

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