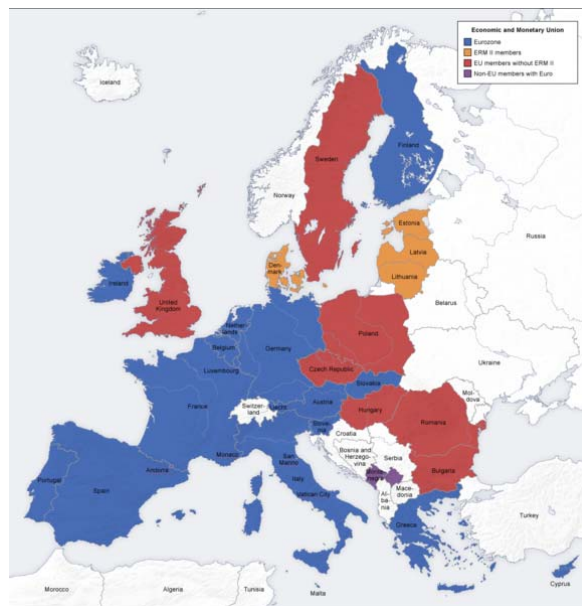


The European Experience



EUROZONE as of 2006

Bloc/State	Population (millions)	GDP Main (in € trillions calculated at purchasing power parity)	Share of world GDP (% at PPP)	Exports* (goods and services, as % of GDP)	Imports* (goods and services, as % of GDP)
Eurozone	326	8.4	14.6	21.7	20.9
EU (27)	494	11.9	21.0	14.3	15.0
United States	306	11.2	19.7	10.8	16.6
Japan	128	3.5	6.3	16.8	15.3

Brief History

1952 – European Coal and Steel Community

1957 – Treaty of Rome (West Germany, France, Italy, Benelux)

1958 – European Economic Community; European Atomic Energy Community

1967 – European Community

1973 – Denmark, UK, and Ireland joined

Brief History

1979 – European Monetary System (EMS)

France, Germany, Italy, Benelux, Denmark, Ireland, joined by Spain (1989), UK (1990), and Portugal (1992)

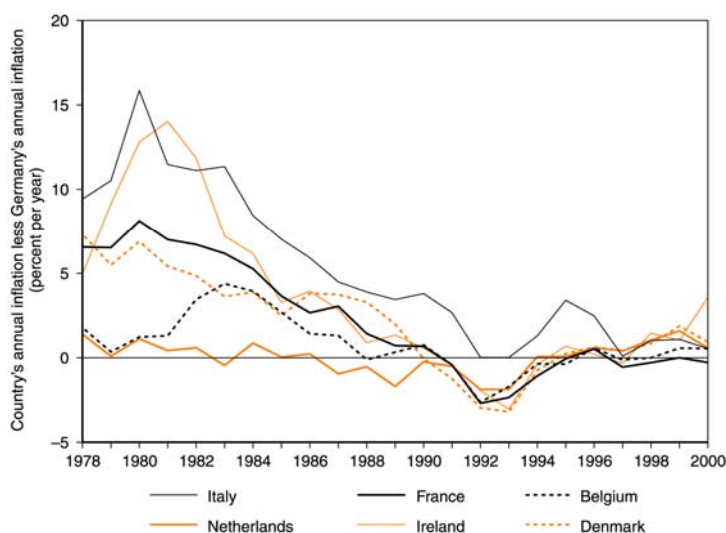
1980s – Emphasis placed on capital controls, lax on the band for the exchange rate fluctuation

1990s – Financial liberalization; became tougher on the band

1991 – Maastricht Treaty

- Specified conditions for entry to EMU
- ERM commitment
- Budget deficit less than 3%
- Price stability $1.5\% + \pi_{low}$
- Gov't debt less than 60% of GDP

1992 – Financial crisis



Shown are the differences between domestic inflation and German inflation for six of the original EMS members, Belgium, Denmark, France, Ireland, Italy, and the Netherlands. As of 1997 all national inflation rates were very close to the German levels.

Source: CPI inflation rates from IMF, *International Financial Statistics*.

EMU

- By May 1998, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxemburg, Netherlands, Portugal, and Spain joined EMU
- Launched Euro in Jan. 1999
- Greece joined in 2001
- Slovenia (2007), Cyprus (2008), Malta (2008), Slovakia (2009)

