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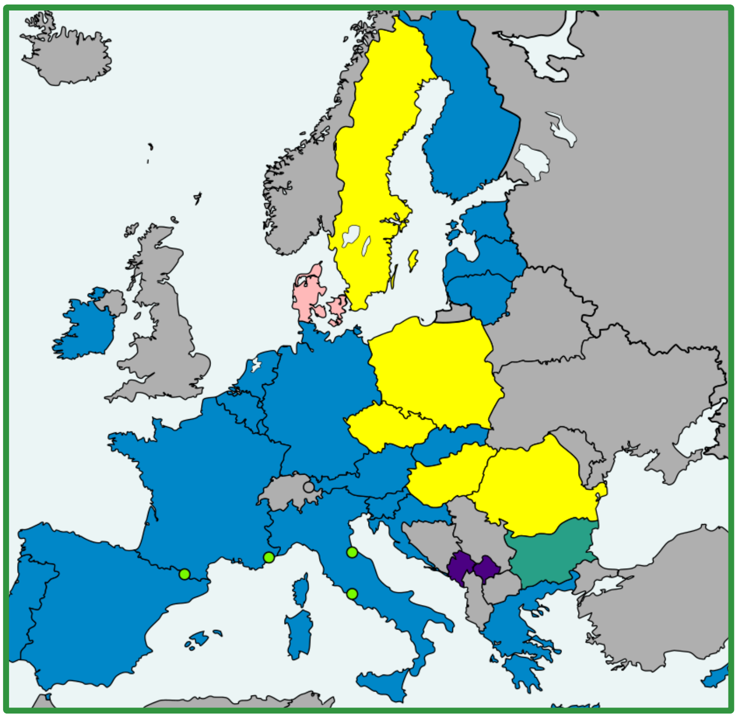
EUROZONE & ITS LIMITS

The way the Eurozone works explains its limits, but also shows how EU cooperation always relies on a “cost-benefit analysis”.



The Eurozone gathers very diverse countries and will keep growing:

Got it: 20 countries, Croatia being the newest member since 2023.

Will get it eventually: Bulgaria, Czechia, Hungary, Poland, Romania and Sweden, once their economies are ready.

Opted out entirely: Denmark is the only EU member who negotiated to keep its national currency forever.

Fun fact: 6 non-EU countries have decided to use the euro too! Andorra, Monaco, San Marino, Vatican City, Kosovo and Montenegro

THE EUROPEAN CENTRAL BANK

Based in Frankfurt, the ECB is the institution taking care of the “monetary policy”:

- **Interest rates** in the Eurozone

- Controlling the **supply of money**

Its main goal is to maintain stable prices: this is the “**2% inflation target**” you hear about in the news sometimes!

THE STABILITY & GROWTH PACT

Each country still controls its own budget and taxes, but **all EU members must follow certain rules** to keep their economies healthy and avoid endangering the Eurozone.

This “**Stability & Growth Pact**” sets limits to a country’s public deficit or national debt especially. A recent revision gives them a bigger margin though!

Benefits > Costs

No country gives up that kind of power without expecting getting more in return! If EU countries freely decide to bind themselves to a single currency and common rules, it is because the **benefits of such a sacrifice are bigger than its costs***.

Actually, most if not all EU policies rely on a similar reasoning!

** check the dedicated Factsheet to get the full picture!*

Source: A short guide to the euro, European Commission, 2023 [Online: https://bit.ly/3Lcuzj0]