



The Importance of the Euro and European Union

Many think that the Euro has been around longer than it has, likely because it was a topic of discussion since the late 1960s. However, many factors (largely political and economic) delayed implementation until the late 1990s. In fact, the Euro was first introduced to the financial markets in 1999 and banknotes began circulating in 2002. The Eurozone consists of 19 countries in Europe that use the Euro as their official currency. In contrast, the European Union is broader with 27 countries, consisting of all the countries in the Eurozone plus a handful of other European nations. The European Union was created to provide economic growth and political cohesiveness to the region.

Ultimately, the Euro helped create a single financial market across Europe, which was designed to maximize the flow of capital across the area's many countries that had previously operated with multiple different currencies. The creation of the Euro was also desirable because of the high number of political agendas across countries. Thus, the single currency homogenized the region and resulted in monetary efficiency across the Eurozone countries.

Today, if you drive across Europe, you can put a charge on your debit card with minimal problems. This was not easily done more than twenty years ago. Twenty years ago, the Euro did not exist and countries like Germany and France had their own currencies. In order to complete the transaction, there would be costly currency exchange fees that lacked transparency. Or, even worse, you might not have been able to make the transaction. This is one of the many barriers the Euro took down.

The Euro has also removed cross border boundaries. Capital is not only free to flow from one nation to the next more easily but there is more capital to allocate. When the European countries combine their capital, it is advantageous because it keeps borrowing costs competitive which allow the ability for entrepreneurs the opportunity to take out a bank loan at a more competitive interest rate. Cheap borrowing causes companies to invest more, creating more employment and economic growth.

The Euro also creates competition between financial intermediaries. For example, more banks accept Euros and because they want deposits they incentivize depositors into opening accounts with them. If one bank is charging to have a checking account and another bank offers free checking, all other factors being equal many consumers will choose the free option. The existence of the Euro causes this competition between the banks.

In 2016, the United Kingdom of Great Britain voted to leave the European Union in what has been called "Brexit." This has resulted in cross border transactions and currency exchange rates to be less transparent and more costly. It has also made it more difficult for capital to flow between Great Britain and the Euro nations and has resulted in new rules and guidance for how business can be done with Europe. These difficulties illustrate some of the very the reasons why the Euro was created in the

first place - to tear down the walls and allow for cross border capital to flow more freely.

The Eurozone may not be perfect, but in our view, it has helped to create a strong financial market across Europe and has spurred economic growth. Although Brexit was a surprise to some, it represents what could happen if political tensions arise and irrational human behavior becomes present.

As the old adage goes: "United we stand, divided we fall." We believe that Europe is stronger together than separated. In addition, a strong central currency helps to mitigate wars between members because financing a war with a shared currency would be very difficult. At the core though, the European Union is a unique relationship among European nations and we see the Euro to be a strong foundation to further economic growth and prosperity in the region.

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Source: The European Union

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