Monetary policy and its implications in belgium

Literature, Russian Literature

Monetary Policy and Its Implications in Belgium al affiliation Monetary Policy and Its Implications in Belgium The Euro’s history

The Euro came into existence on January 1st in the year 1999. The currency is accepted in 17 countries belonging to the European Union. The currency came with the signing of the Maastricht treaty (Mulhearn & Vane 2008). The treaty had the guidelines on how the countries would move from their own currency to the euro. The treaty excluded countries with weak economies and made sure there was a stable relationship of countries with the same economic might. The treaty was signed in the year 1992. The process started by signatories of the treaty fixing their currencies to the Euro. This meant that the signatories’ domestic currencies would not fluctuate against the Euro and each other. The Euro was initially launched as electronic money and eventually became a legal tender on 1st January the year 2002. The European Central Bank was tasked with the responsibility of implementing monetary policies on countries using the Euro (Gunyé 2004).

Purpose of the Euro

One of the main reasons why the Euro was introduced was to provide a common currency that could be used all over Europe. It is important to note that European countries are small and trade with each other. A common currency would make trade between the European countries easier. This eliminated exchange rates that were a common hindrance to trade among the countries. The common currency was expected to be stronger than other currencies of the individual countries and this would have increased the competitiveness of exporters using the Euro.

Belgium uses the Euro as its currency. The Euro started being used as the legal tender in Belgium as from January 1st the year 2002 (Marsh 2011).

Fluctuations of the Euro against the value of the U. S. dollar

Since the Euro was incepted in the year 1999, it has remained fairly stable against the US dollar. The euro in 1999 would buy the US dollar at $1. 18. This figure has since risen to $1. 38. The lowest amount that the Euro has ever bought the US dollar is $0. 82 and the highest ever level the Euro has ever bought the dollar remains at $1. 60.

Challenges facing the common currency in the European Union

The Euro has been experiencing some changes that affect its existence. The following are some of the challenges facing the Euro;

No lender of last resort

The European central bank is unwilling to buy government bonds to solve liquidity problems affecting member countries.

Devaluation

Some of the member countries have been experiencing high labor costs and this has been affecting their export competitiveness in the market. In such a case a currency would devalue to solve the scenario. It is, however, impossible to devalue the Euro and this has led to major problems for countries like Greece, Portugal and Italy. This is due to the fact that they are experiencing a fall in exports.

Limits fiscal policy

A common currency requires that the national debt of all the member countries be similar. However, this is not the case and it has proved impossible to attract buyers of national debt.

Lack of incentives

It is widely thought member countries are protected from financial crisis. However, this is not the case as Greece is experiencing a major financial crisis. The member countries are given less incentives to implement structural reform (The Economist).

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