

## Chapter 18 Update

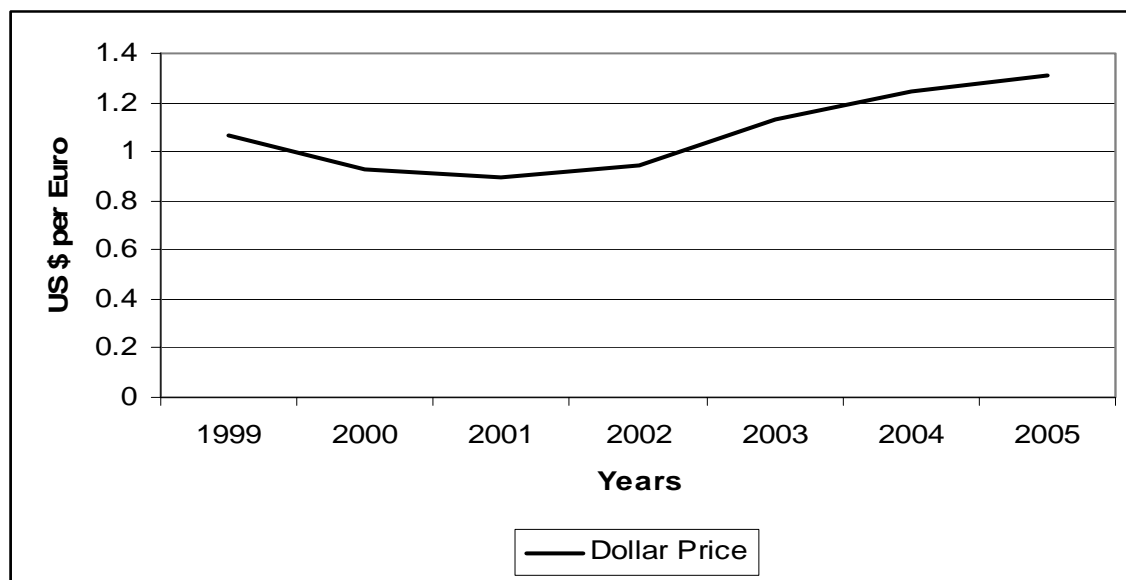
### *Implementing the European Monetary Union*

In recent years, the US dollar has fallen against the euro. Figure 18.2 updates the old figure in the text to January 2005 when the dollar value of the euro was 1.131, the lowest value since the euro's introduction in 1999. This reflects continue US government budget and current account deficits.

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Figure 18.2 The Dollar Value of the Euro, 1999 to 2005

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Source: European Central Bank, *Statistics Pocket Book*.

### *Adjustment in the EMU*

The European Central Bank has defended the Stability Pact, stating that it “represents an important commitment to maintaining fiscal policies conducive to overall macroeconomic stability” (2001, p. 17). However, the above issues surfaced in a significant way beginning in 2002 as the EU entered into recession. Portugal had violated the Pact in 2001, but Germany and France began to violate it as well in 2002. As a result, the EU’s Council of Ministers suspended the Pact’s enforcement mechanism. The European Commission objected to this and the European Court of Justice ruled in the Commission’s favor in 2004. As a consequence of these events, the future of the Growth and Stability Pact remains in doubt.

*References*

*The Economist* (2004) "The Stability Pact," September 12.