

The European Monetary Union: A Pioneering Experience in Optimal Currency Areas

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Abstract

Monetary unity represents the highest form of monetary integration between two or more countries, prompting inquiries into the theoretical basis of such integration. The theory of Optimal Currency Area emerged in the early 1960s through studies comparing fixed and flexible exchange rates, aiming to identify the necessary and sufficient conditions for forming such a region. The theory evolved by adding criteria in the '70s and '80s and took a new direction in the late '90s. After the establishment of the Eurozone as an applied case of the theory, a new approach called self-evolutionary criteria emerged, signifying that the monetary union determines its optimality standards. This paper reviews the experience of the European Monetary Union as one of the most significant experiments in optimal currency areas in world history.

Keywords:

Optimal Currency Area;
Fixed exchange rates;
European Union.

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1. INTRODUCTION

Monetary integration is considered one of the most significant economic measures that pave the way for the freedom of labour, capital, and goods. This is achieved through coordinating monetary and fiscal policies, unifying them, and creating a supra-economic and monetary authority whose decisions are binding on member countries. An area is deemed an optimal currency area if it uses a single currency or two or more currencies whose values are linked to each other, essentially forming one currency. For the performance of multiple currencies to be equivalent to that of a single currency, the exchange rate must be fixed and easily convertible. It is also essential for the relevant monetary authorities to coordinate their policies in a way that facilitates currency stability among member countries. Economists have identified a set of criteria that must be met in the economies of a group of countries to form an optimal currency area. The Eurozone fulfils these criteria, making it an outstanding example of an optimal currency area. We will attempt, through this research paper, to answer the following question: **What are the criteria for an optimal currency area? What are the stages the European Monetary Union went through to evolve into an optimal currency area?**

2. Criteria for an Optimal Currency Area:

Although there are no specific rules to precisely determine the group of countries fully qualified to be within an optimal currency area, some economists have attempted to elucidate this through general indicators. The first contribution to defining an optimal currency area was made by Mundell in 1961, followed by studies from McKinnon in 1963 and Kenen in 1969. These

economists sought to identify the countries that could ideally form a currency union and whether a common currency would provide them with benefits and advantages exceeding those offered by a flexible exchange rate system with multiple currencies.(Mckinnon, 2002, p. 343)

2.1 Traditional Criteria for Optimal Currency Area:

2.1.1 Freedom of Movement of Production Factors:

Mundell defines an optimal currency area as a region characterised by high mobility of production factors, especially labour, internally and limited mobility externally. The flow of production factors into this region results in increased utilisation and gross domestic product.

In this context, the movement of production factors serves as an alternative to exchange rate adjustments or changes in real wage levels, which would be automatically adjusted through the movement of production factors. Mundell concludes that the criterion for an optimal currency area is based on long-term factors primarily related to the free mobility of production factors. Any country engaging in free exchange of labour and capital with another country would thus form part of an optimal currency area with that country.(Mundell, 1961, pp. 717-725)

2.1.2 The Degree of Economic Openness:

In an article published in 1963 titled 'Optimum Currency Areas,' Robert Mundell proposed another criterion for determining the optimum currency area, which is the degree of economic openness.

An open economy refers to an economy where a significant proportion of the Gross Domestic Product (GDP) comes from tradable goods (exports and imports). Mundell's analysis measures the degree of economic openness by comparing tradable and non-tradable goods—those goods that are not

involved in foreign trade due to transportation costs. Mundell argues that the more open an economy is, the greater the benefit of forming a currency area. The need to use monetary and fiscal policies to maintain external balance decreases with increased economic openness. Additionally, as the proportion of tradable goods to total domestic consumption increases, the impact of exchange rate adjustments on local prices also increases. (Armand, 2000, p. 574)

2.1.3 Production Diversity

Kenen argues that the optimum currency area is linked to the diversity of the production mix within a country. He explains that local production diversity suggests that exports, employment, and domestic investments in diverse economies are less affected by external shocks compared to those that lack diversity. This reduces the need for flexible exchange rates to shield the local economy from such changes. Consequently, fixed exchange rates become more suitable for diverse economies, making the establishment of an optimum currency area more feasible for them. (De Graue, 1999, p. 64)

2.2 The Theory of Costs and Benefits

It considers that beyond the shortcomings of the previous three criteria in adequately confirming the benefits and costs resulting from an optimum currency area, a new approach has been developed to provide a comprehensive framework for determining the optimum currency area. This involves considering all relevant factors and evaluating the total costs and benefits associated with entering a currency zone from the perspective of the participating country. (Riccardo, 2017-2018, pp. 9-18)

2.3 Additional Criteria for Determining the Optimal Currency Area

The theory of optimal currency area has evolved by incorporating a set of criteria over the last three decades. Here are some of them:

2.3.1 The Similarity in Inflation Rates

In the 1970s, economists such as Haberler (1970), Fleming (1971), and Magnifico (1972) introduced the similarity in inflation rates as a criterion for optimality. They affirmed that the resemblance in inflation rates serves as a facilitator for coordinating monetary policies among unionised countries. In cases where inflation rates diverge among member states, it becomes impractical to apply identical monetary policies due to imbalances in the current accounts of member countries. This situation necessitates a currency devaluation (via exchange rate mechanisms) to address the imbalance. However, such a mechanism cannot be employed under a unified currency system.

2.3.2 The Financial Integration Criterion

Ingram (1973–1969) adds the financial integration criterion to the previous standards for an optimal currency area. He argues that regions with a high level of financial market integration can constitute an optimal currency area. The transfers of capital across integrated financial markets, according to Ingram, would restore balance to payment accounts. As a result, they become a source of stability for the balance of payments, eliminating the need to exert pressure on exchange rates or interest rates to correct the imbalance. (Armand, 2000, p. 548)

2.3.3 Preference Homogeneity Criteria (Degree of Economic Policy Integration)

Cooper (1977) and Kindleberger (1986) introduced a new criterion called "Preference Homogeneity" through the

convergence of economic policy objectives among various governments, particularly in the areas of inflation and unemployment. According to these economists, monetary union, above all, is a presumed benefit for everyone. Therefore, member states should share similar preferences and choices to meet the conditions of an optimal currency area. (Mougani, 2014, p. 8)

2.4 Shock Similarity Criterion

Another criterion added to the previous ones is the Shock Similarity criterion, which is associated with demand and supply shocks and economic cycles in countries using a common currency. Similar shocks are those that affect all member countries in the region with the same degree of impact. For example, if the monetary area faces inflationary pressures, all member countries will experience the same pressures to the same extent. In such a scenario, identical economic policies can be applied to adapt to the situation.

3. Providing an Evaluation of the Optimal Currency Area.

These criteria that determine the optimal currency area may not be sufficient to identify such an area in different regions of the world. What may be an optimal criterion for determining a currency area in one region might not be optimal in another. Therefore, other criteria have emerged, known as self-evolution criteria, where the monetary union in a specific region possesses its own conditions for optimality.

It can be said that the optimal currency area is not a comprehensive and universally applicable theory for all regions. Therefore, determining this area should be based on the actual economic, political, and social characteristics present in that specific region. Optimality occurs when the region can use its appropriate tools to achieve internal and external balance,

ensuring its development and continued growth.(Mougani, 2014, p. 7)

4.The European Monetary Union as a Pioneering Experience in Optimal Currency Areas

The experience of the European Monetary Union is considered one of the richest and most enriching integration experiences in world history. When studying any topic related to the possibility of establishing a monetary union among a group of countries, it is essential to examine the successful European experience to understand the factors and reasons that contributed to this success, extract lessons, and draw insights.

4.1 The Historical Evolution of the European Economic Community

The birth of the European Union dates back to over six decades ago, when the French Foreign Minister, Robert Schuman, proposed his plan on May 9, 1950. The plan aimed at the unification of coal and steel production in France and Germany. Schuman believed that the close economic integration between the two countries would render war impossible between them.(Baldwin & Wyplosez, 2022, p. 8)

In March 1951, six Western European countries, namely Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands, embraced Schuman's proposal. They signed the founding treaty of the European Coal and Steel Community in Paris, which later served as the nucleus for the formation of the European Economic Community and eventually the European Monetary Union.(Miroslav, 2013, p. 10)

4.1.1 The Treaty of Rome

The countries of the European Coal and Steel Community signed the Treaty of Rome on March 24, 1957, establishing two new European communities: the European Economic

Community (EEC) and the European Atomic Energy Community (EURATOM). The treaty came into effect in January 1958. This marked a significant and new phase in the journey of European integration, introducing the European Common Market and the European Atomic Energy Community and paving the way for further collaboration and integration. (Baldwin & Wyplosez, 2022, p. 9)

The most important points in this agreement include the following:

1. Removal of customs duties among member countries, as well as quantitative restrictions on imports and exports, and facilitating the movement of capital and people between group countries.
2. Standardising the customs tariff for non-member countries.
3. Facilitating the operation of the common market by harmonising the legislation of member countries, so that significant differences do not hinder the integration process.
4. Coordination in economic policies, including adopting common policies in agriculture and transportation, and addressing balance of payments issues
5. Establishment of a European investment bank to support economic growth.

The tariffs and fees imposed on trade were gradually eliminated between 1958 and 1968. On July 1, 1968, member countries succeeded in abolishing all customs duties among themselves. A unified customs tariff for external parties was adopted, marking a significant step towards a unified internal market. The industry responded positively, and cross-border trade grew rapidly, reaching more than double that during that decade. (Miroslav, 2013, p. 19)

4.1.2 Expanding membership in the European Common Market

Geographically, the European Union has gone through various stages of expansion. In 1973, Denmark, Ireland, and Britain joined the group, bringing the total to nine members. In the 1970s, Greece, Portugal, and Spain underwent profound socio-political transformations that led to the overthrow of military and dictatorial regimes. Inspired by the prosperity and stability within the European Union, these countries joined the European project: Greece in 1981 and Spain and Portugal in 1987, bringing the total number of members to twelve.

In January 1995, Austria, Sweden, and Finland joined, increasing the number of Union members to 15 countries. The Union now encompasses over 377 million people.

4.2 The Evolution of the European Monetary System

After World War II, European countries began to consider creating a monetary and economic unit. The first step was the establishment of the European Payments Union in 1950, allowing creditors and debtors to settle accounts without resorting to any foreign exchange reserves.

In 1969, Germany proposed the creation of a European monetary union. After a study led by Pierre Werner, the Finance Minister and Prime Minister of Luxembourg, a plan was developed for the formation of a monetary and economic unit in 1971. It was named the "Werner Report" and consisted of three stages over a period of 7 to 10 years.(Verdun, p. 3)

- **The first stage:** from 1971 to 1974, forms the core of this report and aims to eliminate all barriers to trade and capital flow. It also seeks to support coordination between the fiscal and monetary policies of different governments, in addition to central banks focusing on

reducing fluctuations between the currencies of the group compared to their relationships with the US dollar.

- **The second stage:** involves coordinating short-term economic policies by taking specific monetary and membership measures. It also includes coordination between financial markets and eliminating fluctuations in exchange rates between the currencies of member countries.
- **The third stage:** involves the establishment of unified central banking systems.

The international monetary system faced unfavourable developments that led to abandoning the Bretton Woods system, which aimed to stabilise exchange rates globally. A new foreign exchange system called the Managed Float System emerged. As a result, the Werner Report failed to achieve its desired goals within the specified timeline. However, it laid the groundwork for the spread of a monetary union and the issuance of a unified currency for the European group. Before reaching the common currency, European countries went through several arrangements, including the Snake in the Tunnel, the European Monetary System, the Delors Report, and finally, the Maastricht Treaty.

4.2.1 System of the Snake Inside the Tunnel

In April 1972, an agreement was reached among the European Group countries to adhere to a 2.25% margin for the exchange rates of their currencies against the dollar and a 1.25% margin for the exchange rates of their currencies against each other. This system is called the "Snake in the Tunnel" system, meaning that currency movements are taken seriously but within certain limits. It requires the central banks of the group countries

to intervene to maintain the exchange rate fluctuations of their currencies within the specified margins on both sides of the central rate.(Wittich & Shiratori, p. 11)

Some countries within the group faced difficulties in trying to keep their currencies within the allowed range. As a result, the Snake in the Tunnel system became impractical and was subsequently abandoned, replaced by a monetary system.

4.2.2 The European Monetary System (EMS)

After the failure of the Snake system, the European group established the European Monetary System and issued the European Currency Unit (ECU) as a unit of account. It consists of a basket of relative weights for the currencies of the member countries in the group. It allows currency exchange rates to fluctuate within a 2.25% range. All member countries in the group, except for Britain, participated in this system. This system came into effect in July 1979.

4.2.3 Delors Report

Achieving monetary integration requires the member states to unify their currencies into a single currency used among these countries. This high level of monetary integration necessitates the presence of a single central bank for the entire region. This way, there is a single monetary authority responsible for implementing monetary policy throughout the region.

For this reason, the European Council established in June 1988 a committee chaired by Jacques Delors, consisting of central bank governors from member countries. The committee was tasked with outlining the steps leading to the establishment of an economic and monetary union. The committee proposed a plan to achieve monetary unity through three fundamental principles, which are:(Verdun, p. 4)

- Comprehensive currency conversion.

- Integration of banks and other financial markets.
- Elimination of fluctuating margins and maintaining exchange rate parity for member currencies.

And as the committee proposed, the establishment of a monetary system for central banks would be responsible for formulating and implementing monetary policy and exchange rate policies.

4.3 The Maastricht Treaty and the Gradual Move Towards Monetary Union

As an extension of the previous financial cooperation, the Maastricht Treaty was signed in December 1991 in the Dutch city of Maastricht by the European Council. It was approved and ratified on February 7, 1992, and came into effect on November 1, 1993. According to this treaty, the European Community transformed into the European Union. (Miroslav, 2013, p. 27)

4.3.1 The Objectives of the Treaty:

The agreement in Article 2 stipulates that the goal is to establish a common market and economic and monetary union by unifying policies and activities to support non-inflationary economic growth. This includes expanding the workforce, ensuring social protection, and raising living standards for member countries. The agreement encompasses the regulation of all aspects of life legislatively and socially, serving as a future-friendly constitution for Europe.

4.3.2. Stages of Progression Towards Unity

The agreement outlines three stages to achieve the currency, as stated in the Delors report:

- **First Stage (July 1990–December 1993):** During this phase, the movement of capital is liberalised, and there is coordination between monetary and economic policies to

achieve a high degree of convergence. This stage concludes by the end of 1993.

- **Second Stage (January 1994–Late 1997):** This stage sees the establishment of a European system of central banks. It marks the transition from mere coordination of unified monetary policies in preparation for the next stage. It spans from January 1994 to late 1997.
- **Third Stage (Planned for 1998):** This stage, scheduled to begin in 1998 or early 1999, involves the final determination of the exchange rates of member countries. The exchange rates are fixed irreversibly, and a single currency, the "euro," is introduced. The transitional period from 1999 to 2002 allows for the use of both the euro and national currencies, with a gradual withdrawal of national currencies in favour of the widespread adoption of the euro.

Starting on January 1, 1999, the European Union introduced a new currency, the "euro," replacing the national currencies of 11 member countries. These countries were Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, and Finland. In January 2001, Greece also adopted the euro. Consequently, the euro became the second most widely used currency in international transactions, following the U.S. dollar. These countries collectively formed what is known as the Eurozone. Out of the original 15 EU member states, three countries—Denmark, Sweden, and the United Kingdom—chose not to adopt the euro and retained their national currencies.(Mckinnon, 2002, p. 356)

4.3.3 Terms of Joining the Currency

The Maastricht Treaty established criteria that member states must meet to enter the monetary union. These criteria are called convergence criteria and include: (Bogdan, 2009, p. 117)

- **Price stability:** The inflation rate should not exceed 1.5% or 2% above the average inflation rates of the three member states with the lowest inflation.
- **Budget deficit:** The budget deficit should not exceed 3% of the Gross Domestic Product (GDP).
- **Public debt:** The public debt should not exceed 60% of the Gross Domestic Product (GDP).
- **Long-term interest rates:** The long-term interest rates should not exceed 2% above the average long-term interest rates in the three countries with the lowest inflation.
- **Exchange rate stability:** The national currency of the member state should not fluctuate by more than 2.5% increase or decrease over the previous two years.

Indeed, many countries managed to meet these criteria during the specified period, originally intended to conclude in 1997. However, there was a deviation in the criteria related to public debt, exceeding 60% in most member states. Despite this, approval for entry into the European Monetary System was granted based on the provisions of the Maastricht Treaty. It's interesting how the treaty allows for flexibility, recognising that a country showing significant progress can be admitted into the system even if it hasn't fully met the criteria, with the expectation of achieving them in the future.

4.3.4 The Expansion to 28 Members

The expansion of the European Union towards Eastern Europe, starting in 2004 after the collapse of the Soviet Union,

marked a significant chapter. Ten new countries, including the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, joined the EU. Additionally, Cyprus and Malta became members. Croatia became the latest country to join in July 2013, bringing the total number of member states to 28.

The accession of these countries highlighted the EU's ongoing role in ensuring peace and stability in the region. However, it's interesting to note that while Croatia's accession emphasised the EU's importance, it didn't prevent the UK from deciding to withdraw from the union, which it officially did on January 31, 2020. Brexit has indeed stirred concerns within the EU.

4.4 The Main Pillars of the European Monetary System

To achieve the goals of the European monetary system, which include stability in the exchange rates of member countries' currencies and coordination of their fiscal and monetary policies, these countries agreed that the system should be based on three main pillars, which are: (KONDONASSIS & MALLIARIS, 1994, p. 296)

4.4.1 Exchange Rate Mechanism

This mechanism is considered the central axis of the European monetary system, and member countries agreed that this mechanism should be based on two fundamental principles:

- The margin of fluctuation in the exchange rate of any member country's currency against the currencies of the other member countries in the system should not exceed 2.25.
- Central rates should only be adjusted with the agreement of all member countries, ensuring the stability of the European monetary unit.

4.4.2 Credit Mechanisms

The credit system in the European monetary system is based on the following main mechanisms:

4.4.2.1 Very short-term credit facilities: These facilities are provided automatically, without conditions, and without a specified quantity. The European Monetary Cooperation Fund is responsible for providing them. These facilities are characterised by a short maturity period, typically 45 days, which can be extended to 3 months. The primary aim of this mechanism within the European monetary system is to limit speculative activities in financial markets and address fluctuations that may occur in the exchange rates of member countries' currencies.

4.4.2.2 Short-term and medium-term credit mechanisms include the following:

a) Short-term cash support: This involves financial assistance to finance the temporary deficit in the balance of payments of the beneficiary country. Initially, this support is granted for a period of 3 months and can be renewed twice for an additional 3 months, reaching a maximum limit of nine months.

b) Medium-term financial assistance: This is medium-term financing that extends from two to five years and is granted to any member facing difficulties in its balance of payments.

4.4.3 The European Currency Unit (ECU)

The European Currency Unit (ECU) is considered one of the fundamental components of the European monetary system. It serves as a monetary unit around which the other local currencies of the member countries revolve. Despite not existing in the form of paper or metal currency since its inception, the ECU practically possesses currency-like characteristics. It functions as a computational unit used for accounting and

reserve exchange among central banks. Since its establishment, it has been utilised for issuing bonds and granting loans. In 1996, at the suggestion of Germany, the ECU's name was changed to EURO. On January 1, 1999, the new currency, the EURO, was launched, and starting on July 1, 2002, it became the sole legal tender in the European Monetary Union.

4.5 Monetary policy in the European Union

Monetary policy in the Eurozone is determined by the European System of Central Banks, which consists of the European Central Bank and the central banks of all member states of the European Union.

4.5.1 The European Central Bank (ECB)

The European Central Bank began implementing a unified monetary policy in the Eurozone on January 1, 1999. The Maastricht Treaty established price stability as the primary objective of monetary policy. The treaty also outlined the functions of the European Central Bank, which include:(Mouna, 2011, p. 5)

1. Maintaining price stability.
2. Issuing the euro, both banknotes and coins
3. Setting short-term interest rates in the Eurozone countries.
4. Managing cash reserves for member countries in the Union.
5. Formulating and implementing the monetary policy of the Union.
6. Providing advice and guidance to Union institutions and governments regarding financial and monetary systems, such as reviewing monetary policy before presenting it to the European Parliament.

The European Central Bank faces several challenges in ensuring the success of monetary policy to maintain the stability of the euro. These challenges include: (Bogdan, 2009, p. 81)

- Avoiding any economic shocks in the member countries of the Eurozone because any member country experiencing an economic shock can harm the rest of the member countries, rendering the overall monetary policy of the central bank ineffective in addressing the shock.
- The necessity of coordinating the national fiscal policies of member countries with the unified monetary policy of the euro system to maintain price stability and achieve the credibility of the euro's monetary policy.
- The unified monetary policy of the euro system should successfully achieve long-term growth goals and create employment opportunities while maintaining price stability and reducing unemployment.

4.5.2 Monetary Policy Objectives

The monetary policy of the Euro system aims to maintain price stability and support the overall economic policies of the European Union, prioritising price stability as a crucial condition for increasing production growth, creating more job opportunities, and achieving a high standard of living. In 1998, the Governing Council of the European Central Bank defined price stability as follows: Price stability is defined as an annual increase in the harmonised index of consumer prices for the Eurozone, and this increase should be below 2%. The harmonised index of consumer prices is the standard index for consumer prices after achieving consistency between the statistical methods used in the Eurozone countries. To achieve its objectives, the monetary policy followed by the European

Central Bank focuses on two fundamental elements:(Mouna, 2011, p. 6)

- **Money:** It is assigned a prominent role in this regard, considering that inflation is a monetary phenomenon. Therefore, the Board of Governors establishes controls on the monetary expansion process that align with achieving an appropriate growth rate for production to preserve price stability.
- **Some financial and economic indicators:** Among the most important are long-term interest rates, wages, and the prices of imported goods. The Board of Governors uses these indicators to assess the risks to price stability and swiftly overcome them.

4.5.3 Monetary Policy Tools

Monetary policy tools are various instruments that a central bank can employ to influence liquidity conditions and continue to achieve its monetary policy objectives. The Maastricht Treaty granted full independence to the European Central Bank, empowering it with the authority to use monetary policy tools, which include the following:(Micossi, 2015, pp. 3,4)

4.5.3.1 Open Market Operations

Open Market Operations are considered the primary tool for monetary operations in the European Union. These operations are conducted in the form of financial transactions, the issuance of debt certificates, foreign exchange swaps, and the collection of fixed-term deposits. National central banks execute these operations, and there are four types of them, namely:

a) Primary Financing (Weekly Open Market Operations): This is carried out through regular repurchase agreements and plays a pivotal role in guiding interest rates, managing liquidity for the financial system, and providing advice

on monetary policy. These operations cover the majority of refinancing for the financial sector.

b) Long-Term Financing: Implemented through regular repurchase agreements, it provides long-term funding with a maturity of up to three months, contributing to covering a limited portion of the liquidity of the European Central Banks system. Long-Term Financing: Implemented through regular repurchase agreements, it provides long-term funding with a maturity of up to three months, contributing to covering a limited portion of the liquidity of the European Central Banks system.

c) Fine-Tuning Operations: Conducted through quick auctions or bilateral transactions, it is used to control fluctuations within the market in case of a permanent change in currency demand. It is also used to equalise or align interest rates.

d) Structural Operations: Carried out through regular tenders or bilateral transactions, these operations have a variable number and maturity and are used to guide the structural position of the banking sector.

4.5.3.2 Mandatory Cash Reserve

Considered one of the most important monetary policy tools in the European Union, the mandatory cash reserve serves as a tool for monetary control. It helps stabilise the money supply and its responsiveness to changes in interest rates. Additionally, it is utilised as a tool to manage money markets by controlling the volume of banks' demand for reserves and maintaining interest rates within their natural range.

4.5.3.3 Permanent Facilities

These facilities aim to achieve self-stability for the Eurozone, alleviate liquidity shortages, or support stability in interest rates. These facilities are divided into two types:

- a) **Lombard Facility (Credit Facility):** Through this, banks can obtain liquidity immediately.
- b) **Deposit Facility:** Banks deposit their funds in it instantly. The Lombard Facility and the Deposit Facility play a fundamental role in reducing interest rate fluctuations in the market.

4.5.3.4 The Unified European Payment System

It's a payment system specific to European central banks, designed to provide a secure and stable payment system in the Eurozone. Its goal is to swiftly execute monetary policy for European central banks by instantly connecting local cash markets, ensuring the stability of the Euro. The European Payment System links payment systems in member countries through a unified network and consists of two main components:

- The first axis: involves the national system for gross settlement in each member country of the union.
- The second axis: It connects the national systems together.

5. Conclusion

Critical integration can be partial and narrow, involving various forms of critical collaboration. It can also be complete and broad through the creation of a unified currency, replacing national currencies in circulation. In this context, the theory of the optimum currency area emerged in 1961 by Mundell and was gradually enriched with new standards until the end of the last decade of the previous century. It became clear that each region that forms an optimum currency area would determine its own optimal conditions based on the economic, political, and social characteristics of that region. The experience of the European Monetary Union is considered one of the richest and most enriching experiences in the history of global monetary

integration. This experience went through several stages before reaching the unified currency. A common financial structure, including the European Central Bank, was established, allowing the coordination of monetary and economic policies to achieve stability and address economic challenges. Monetary union led to increased economic integration among member states, contributing to the enhancement of trade and economic cooperation.

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