BRIEFING

Monetary Dialogue January 2019

The EURO at 20 - A Critical Assessment

Background

Twenty years ago, 11 EU countries launched **the euro as a common currency** and introduced a **shared monetary policy** under the European Central Bank (ECB). The historic moment was a milestone on a journey driven by the ambition of ensuring **stability and prosperity** in Europe.

Today, still young, the euro is already the currency of 340 million Europeans in 19 Member States. The euro has brought tangible benefits to European households, businesses and governments alike. During its 20 years long journey, the common currency has shown a remarkable capacity to keep its **international value,** deliver **price stability** and **resilience**, particularly in turbulent times.

To mark the 20th anniversary of the euro, **the January 2019 session of the Monetary Dialogue** explored the following key aspects of the euro project:

i. **Credibility and stability** of the single currency in relation to its international dimension (exchange rate movements, global payment currency shares) as well as its domestic dimension (capacity to deliver stable prices, inflation);

ii. **Resilience** in terms of membership, confidence and popular support;

iii. **Economic performance** of the Economic and the Monetary Union in terms of long-term per capita GDP growth compared to relevant jurisdictions and in terms of **unfair or uneven developments**;

iv. Directions and challenges for the years to come.

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The publications are prepared by Policy Department A of the European Parliament and are available in the relevant section (**Monetary Dialogue**) of the ECON committee website.

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The **Committee on Economic and Monetary Affairs** (ECON) of the European Parliament requested the contributions of leading experts on this topic.

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In-depth analyses of the January 2019 Monetary Dialogue

Happy birthday? The euro at 20 by K. BERNOTH, F. BREMUS, G., DANY-KNEDLIK, H. ENDERLEIN, M. FRATZSCHER, L. GUTTENBERG, A. KRIWOLUZKY and R. LASTRA (DIW Berlin, JDI Berlin, QMU London, Hertie School of Governance)

The authors analyse the first twenty years of the euro both from an economic and an institutional perspective. They find that in particular during the period since the financial crisis, convergence as measured by a variety of indicators has not improved. Design flaws in the euro area institutional architecture have contributed importantly to this lack of convergence. This is why further reforms are urgently needed.

Euro at 20: The Monetary Union from a Bird's-eye View by Klaus-Jürgen GERN, Stefan KOOTHS and Ulrich STOLZENBURG (Kiel Institute for the World Economy)

20 years after the start of the monetary union, this briefing takes stock of accomplishments and challenges. In response to the sovereign debt crisis and in its attempts to support fiscal and structural reforms and later to lift inflation back to target, the Eurosystem has manoeuvred itself in a difficult position causing unintended side-effects. At the same time, broad consensus on reforming the institutional framework of monetary and fiscal affairs is still lacking among euro area members.

Twenty years of the euro by Daniel GROS and Cinzia ALCIDI (CEPS)

The paper finds that the first 20 years of the euro were very different from what had been anticipated. Deflation, rather than inflation became a problem. Financial markets, which had been neglected, became a major source of instability. However, the euro area proved resilient and support for the euro is at historic highs. Looking to the future, the greatest danger might not be another financial crisis, but sluggish growth and an increasing gulf between countries that have successfully adjusted their public finances and those where this goal remains increasingly distant.

The euro at 20: Successes, Problems, Progress and Threats by Karl WHELAN (University College Dublin)

The euro project has had a difficult second decade but it is worth remembering its successes. The ECB has successfully achieved its primary goal of price stability and the common currency is popular among the euro area's citizens. This popularity has made the euro more resilient than many people thought possible twenty years ago. A significant number of improvements have been made to the architecture of the Monetary Union, have been implemented in the past decade but serious problems remain, relating to fiscal capacity, sovereign default and financial stability. To keep the euro together, Europe's politicians need to make the euro area less crisis-prone and also an easier place to be during the inevitable cyclical downturns that will happen in the future. The economics profession has provided many plans for future improvements. It is up to Europe's politicians to implement them.

The Economic and Monetary Union: Past, Present and Future by Marek Dabrowski (Center for Social and Economic Research)

Twenty years of euro history confirms the euro's stability and position as the second global currency. It also enjoys the support of majority of the euro area population and is seen as a good thing for the EU. The ECB has been successful in keeping inflation at a low level. However, the European debt and financial crisis in the 2010s created a need for deep institutional reform and this task remains unfinished.

The euro at 20 by Christophe BLOT, Jérôme CREEL and Xavier RAGOT (Sciences Po, CNRS & Sciences Po-OFCE)

Euro area monetary governance was framed for a stable macroeconomic environment. While the ECB policy framework changed much after the global financial crisis, this did not prevent important nominal divergences. These ones prove the importance of non-monetary factors affecting relative nominal prices, such as fiscal policy and labor market institutions. New tools are necessary to limit these nominal divergences, otherwise real divergence will continue to weaken the euro.

EURO project, 20 years on by Eddie GERBA (London School of Economics)

20 years have passed since the euro was first introduced in 1999. Several restructurings and crises later, the Monetary Union remains, but in a different shape and size to when it was first introduced. Against this background, the current paper critically explores the following dimensions of the euro area project: Credibility and stability, economic performance, uneven developments, and the main avenues/challenges for the project in the years to come. The document includes two comparative aspects: a domestic dimension from a historical perspective and a global comparison in terms of economic and monetary performance to other advanced economies during the past two decades.

The Euro@20 by Andrew HUGHES HALLETT (Copenhagen Business School)

To review the strengths, weaknesses and robustness of the Euro system after 20 years is an enormous project. This paper picks out three of the less usually discussed themes in this context. It focuses on the policy lessons and where design improvements are needed. It makes three points: i) the achievements in the single market are palpable and substantial, but they derive more from investment and productivity growth than they do from trade as such. This carries its own dangers: if the markets are allowed to use low real wages to substitute cheap labour for more expensive capital, these gains will be lost. ii) The euro area needs to reassess its use of monetary policy, and the need to introduce an explicit financial stability mandate. We find that financial stability and traditional monetary objectives can be achieved without one limiting the achievement of the other because the ECB has new policy tools derived from the regulatory metrics introduced to handle the expanded balance sheets of the post-crisis macro-prudential framework. iii) Fiscal governance remains a crucial issue. The North remains divided from the South over how much coordination (possibly loans or transfers) to allow. But, despite the Euro system being based on the separation of monetary and fiscal powers, the economic consequences of using those powers cannot be separated in practice. More active debt management policies offer a better and more robust way to deal with this difficulty.

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