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Papers are available at

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Topic: **The EURO@20 - A critical assessment**

Monetary experts have been asked to critically explore different dimensions of the Euro project: Credibility and stability of the single currency in relation to its international dimension - e.g. in terms of exchange rate movements, global payment currency shares - as well as its domestic dimension - e.g. in terms of capacity to deliver stable prices (inflation); Resilience of the single currency, e.g. in terms of membership and confidence/popular support, including in turbulent times and in the context of the current governance framework for EMU; Economic performance of the Monetary Union in terms of long-term per-capita GDP growth compared to relevant jurisdictions (and particularly the US, Japan, UK, EU countries outside the euro area) and/or in terms of unfair/uneven developments; Main avenues/challenges for the Euro project in the years to come.

The euro at 20: A concise critical assessment - Christophe BLOT, Jérôme CREEL, Xavier RAGOT (OFCE - Observatoire Français Conjonctures Économiques)

Eurozone 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.

The adoption of the euro in 1999 was a new step in the process of European integration. To strengthen the credibility of the euro area, the mandate of the newly created independent central bank, the European Central Bank (ECB), imposed a hierarchy between the inflation and output objectives: the former has the priority. The framework at the origin of this institutional setting assumed that inflation was a monetary phenomenon. Overall, the institutional setting was framed for a stable macroeconomic environment. On average, inflation has been close to 2% until the Global financial crisis (GFC), in accordance with the definition of the inflation target decided upon by the ECB.

The advent of the GFC highlighted the contradiction between the original monetary setting and the real economy. While conventional monetary tools like lower short-term rates initially managed the economic slump, the protracted crisis at the zero-lower bound urged the ECB to resort to a long list of unconventional tools that culminated with the Assets Purchase program of 2015-2018. These ones have highlighted the lack of coordination with national fiscal policies and the lack of a stabilization tool at the Eurozone level. The under-estimation of non-monetary determinants to

inflation has also proved harmful to the euro area where the unemployment rate still stands close to 8% of the labour force 10 years after the GFC. Despite below-target average inflation, it is remarkable that the discrepancy of inflation rates across Eurozone member states has remained stable since 1999. This has testified for the persistency of nominal divergence within the euro area. Nominal divergence has led to financial imbalances and to real divergence within the euro area, e.g. in France, Germany, Italy or Spain.

The euro area thus requires operational tools to limit imbalances: a stabilization function at the Eurozone level, such as a European unemployment insurance or a European budget, and a change of mandate for the ECB. The latter has proved pragmatic during the crisis but the single mandate shall not impair the future use of pragmatism if a new crisis occurs. Consequently, the adoption of a double mandate, like the Fed, or a triple mandate, embedding price, output and financial stability, should be on the agenda. The monitoring of macroeconomic imbalances should also be refocused on these domestic imbalances with large spillovers and general equilibrium analyses should originate from national productivity boards and coordination improved in the European Semester.

Twenty years of the euro: Resilience in the face of unexpected challenges - Daniel GROS, Cinzia ALCIDI (CEPS - Centre for European Policy Studies)

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 first 20 years of the euro were very different from what had been anticipated. Deflation, rather than inflation became the key problem. Moreover, financial markets, which had been neglected by the Maastricht construction, became a major source of instability for which the euro area was ill prepared.

The economic performance of the euro area has been modest on average, when considering the two decades as a whole. However, other advanced economies have not done much better over the same period. The labour force participation rate in the euro area continued to increase and has surpassed that of the US today. Moreover, the growth rate on a per capita basis declined after 2007/8, but not more so than that of the US or the UK. This relative resilience of the euro area is also surprising in light of the fact that both fiscal and monetary policy were less used to stimulate the economy than across the Atlantic and across the Channel. In fact, the dramatic increase in public debt in the US and in the UK has not led to spectacular outperformance by these countries relative to the euro area.

The modest economic performance of the euro, coupled with the ambivalence of many Europe's national leaders and the widespread tendency to blame the euro for most problems, has perhaps resulted in the euro being not much loved. However, the currency appears to be recognised as an integral part of European integration and of peoples' lives. Support for the euro reached historic highs in 2017/2018, with about 65% of the population expressing support for it.

Financial markets were the neglected pillar in the construction of EMU and the main source of instability, both economic and political. The financial crisis and the understanding of how it played out in the euro area led to two important lessons. First, the financial cycle has become more

important than the traditional business cycle, leading to very long expansions and sometimes deep recessions. The second is that while financial integration in the euro area is key for the purpose of the transmission of monetary policy, deep integration driven by cross-border exposures can contribute to financial instability, instead of risk sharing.

The biggest challenge today for the euro might be to avoid looking in the rear-view mirror: the greatest danger for the euro area might not be another outsized financial crisis. If history is any guide, dynamics in the real economy (and politics) will shape the challenges in the years to come, rather than financial market turbulence. The resilience of EMU will be tested by sluggish growth in key sectors due to a lack of an integrated market and an increasing gulf between those countries that have adjusted successfully in bringing their public finances under control and those where this goal remains increasingly distant.

Happy birthday? The euro at 20 - Kerstin BERNOTH, Franziska BREMUS, Geraldine, DANY-KNEDLIK, Henrik ENDERLEIN, Marcel FRATZSCHER, Lucas GUTTENBERG, Alexander KRIWOLUZKY, Rosa LASTRA (DIW Berlin, Jacques Delors Institute Berlin, Queen Mary University London, Hertie School of Governance)

The paper analyses the first twenty years of the euro both from an economic and an institutional perspective. It finds 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 Eurozone institutional architecture have contributed importantly to this lack of convergence. This is why further reforms are urgently needed.

With the introduction of the new currency, the Euro was established next to the US Dollar as the second most important currency on international capital markets and the nominal value of the Euro remained stable over the last 20 years.

Business cycles and inflation dynamics for the core countries of the Eurozone have converged and financial market integration further increased after the introduction of the common currency.

Especially after the financial crisis, the differences in inflation dynamics and business cycles between core and periphery countries became more pronounced and financial market structures remain dispersed across Eurozone member countries.

Already at the start of the euro the fiscal space across member states differed strongly. The divergence of business cycles and the asymmetric impact of the GFC led to a further increase in these differences.

While some of the economic and financial developments in the euro area are very encouraging; others point the weaknesses in the institutional setup, which turned out to be incomplete. It did not acknowledge a whole host of potential risks, i.e. financial stability risks, the build-up of macroeconomic imbalances and a potential loss of market access by member states.

The original Maastricht framework is no longer alive. The institutional architecture has changed considerably over the last twenty years in four main areas, i.e. fiscal and economic policy, financial policies and crisis management. But we do not yet have a new comprehensive narrative for the post-Maastricht world that would logically tie together the steps taken in recent years.

The status quo remains far from perfect. The crisis let the spectre of a euro exit emerge – and we have not yet been able to fully make it disappear again. Member states have not settled the question whether they are willing once and for all to forego exit as a policy option and to solve all problems

within the family. Until this is the case, the euro is at risk. To make the Eurozone fit for the next 20 years, we have to continue with institutional reforms.

The reform package adopted by the Euro Summit in December 2018 is clearly not enough. It contains some steps in the right direction, but fails to respond to the main underlying challenges because many of the main elements largely consist in window-dressing.

Euro at 20: The Monetary Union from a Bird's-eye View (Klaus-Jürgen GERN, Stefan KOOTHS, 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 Eurozone members.

On the surface, the euro performed well during the first 20 years of its existence, with price stability broadly achieved according to the ECB's definition (although with a tendency to undershoot the target in recent years) and the external value broadly stable over time. However, in the early years of the monetary union, the seed of future crises and conflict was sown as monetary policy allowed rapid money and credit growth and macroeconomic imbalances gradually built up under the surface of thriving economies. The reduction of financing costs and a strong credit expansion triggered a boom in the periphery of the Eurozone that was insufficiently recognized by policy makers and supervisors.

The Global Financial Crisis 2007/2008 and the subsequent Great Recession 2008/2009 strained government finances, triggering a confidence crisis in several Eurozone member states that was aggravated by the disclosure of domestic mal-investments during the preceding boom. The Eurosystem took drastic actions to provide extra liquidity in the crisis countries involving it in monetary balance-of-payments financing as reflected in accelerating Target2-imbalances.

Policy makers responded to the European debt crisis by substantially changing the Eurozone fiscal architecture. Following the financial and sovereign debt crises, banking sector and capital market regulation received renewed attention globally as well as in the European Union. In its attempts to support fiscal and structural reforms and later to lift inflation back to target the Eurosystem has manoeuvred itself in a critical position causing unintended side-effects. Considerable macroeconomic vulnerabilities within the Eurozone persist.

Two paradigms struggle to dominate the political debate for institutional reforms in the Eurozone with one emphasizing diversity, competition and self-responsibility (Maastricht 2.0) and the other promoting harmonization, coordination and risk-sharing (Fiscal Union). The search for consensus is complicated by a legacy-restart-nexus, meaning that restart (the adoption of a new framework) requires resolution of legacy problems, while resolution of legacy problems (debt overhang) in turn requires consensus on a new framework.

The European sovereign debt crisis has revealed problems in the architecture of the Eurozone with its combination of centralized monetary policy and decentralized fiscal policies and raised demands for increased fiscal risk sharing. Numerous ways to implement fiscal risk sharing have been proposed implying steps in the direction of a fiscal union, but all of them need to be designed carefully in order to keep the incentives to employ prudent policies that help preventing a crisis in the first place.

Strict enforcement of fiscal rules and imposition of painful reforms as a condition for fiscal support risk reducing the political fabric of the Union. Policies such as fiscal consolidation or structural

reforms on goods and labour markets to increase the growth potential will be more successful if they are owned by national decision makers and their voters.

Progress in the direction of Maastricht 2.0 around the cornerstone of a re-established no-bailout clause seems to be the most promising direction for future reforms for more self-responsibility. A necessary condition for the no-bailout rule to be credible is to break the sovereign-bank-doom loop. Thus, completing the banking union, including a financial backstop on a supranational level, appropriate regulation of banks to reduce the vulnerability of banks to their own sovereign, and implementation of an orderly debt restructuring mechanism for countries in fiscal distress should be given top priority.

EURO project, 20 years on: A critical assessment and the road ahead - Eddie GERBA (London School of Economics)

20 years have passed since 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.

Euro has delivered a stable currency, both in terms of exchange rate and price stability target. The effective exchange rate against a basket of major currencies (including USD, GBP, JPY, CHR, CAD) has, since the introduction of the Euro in 1999 been more stable than at any point since 1970. Moreover, exchange rates with respect to other major currencies has fallen since the introduction of the Euro. Moreover, gap in nominal versus real effective exchange rate has reduced, pointing towards an increase in purchasing power in the EMU. With respect to inflation, the ECB has been successful in maintaining it close to its 2% target, although over recent times it has consistently undershot it. Price levels, on the other hand, have indeed been more stable and grown more moderately since 1999.

Empirical evidence shows that Euro has partially succeeded in achieving the goal of international currency status. A new ECB index of the euro's international role was at the end of the sample period in 2018 lower than at the start of the Euro project. While its role increased at the early stages of the Euro, it reverted starting from the sovereign debt crisis. Yet, a snapshot of the international monetary system in 2017:Q4 shows that Euro remains the second most used currency, both for monetary and financial settlements. It's strongest position is in the global payment systems, and weakest in the foreign exchange market. Despite the second position of the Euro, the distance to the USD remains large, and represents on average a third of its volume.

In terms of economic performance, the EA economy enjoyed the longest period of growth around the time it was formally established. If you compare to earlier episodes of upturns, the 15-year period between 1996 and 2011 was the longest without any interruption or negative business cycle shocks. However, this smoothness came at the cost of slower growth compared to previous historical episodes. Since the establishment of the Euro and until the subsequent recession in 2011, GDP grew by 30%. In contrast, during the previous expansion, GDP had grown by 40%. Expressed differently, the 30% growth rate had been achieved in only 9 years during the previous upturn (1984-1993).

At the same time, the degree of disparity and uneven distribution in economic performance has indeed increased over time inside the EMU. The North, represented by Germany, France, Netherland,

Belgium, Finland, and Austria remain at the core throughout, sharing a number of similarities. They experienced low inflation all the way through and more recently, they share similar low long-term interest rates. On the other hand, countries such as Spain and Ireland have increasingly distanced themselves from the core. They were closer to the core at the launch of the single currency, suggesting an idea at the time that they might converge towards it, but by 2013 the distance had increased considerably. Italy made a U-turn during this period, evolving from a country closer to cluster 1 to a country in cluster 3. Even within the cohort of the newly joined smaller member states, there is significant heterogeneity. Countries that are geographically closer to the Northern core managed to perform better and climb the cluster ladder compared to those further away. Post crisis challenges of managing divergence were exacerbated by the lack of structural economic convergence in the preceding years.

While it is hard to speculate on the precise road ahead for the Euro, the paper looks at a number of opportunities and challenges ahead. A joint fiscal action (even if only implicit) is necessary going ahead. Structural economic policy is a long-term objective and therefore has to be dynamically consistent. Quick fixes are not a good substitute and persistent commitments needs to be assured. Room for fiscal-, monetary-, and welfare policy relief needs to be given in order to support the agents through those structural changes. Potential benefits of those changes are two-fold. Income disparities inside the EMU will reduce while boosting the international status of the currency as the size of the union economy grows. Financial integration is key to further monetary stability and to boost the currency's international status, both as an asset and reserves. Banking-and capital markets union go in the right direction, but stop short. Their largest drawback is that it is of regulatory nature. It focuses more on the regulatory and supervisory aspects than the operational, risk, logistics, global market developments, and market challenges, in particular under the Low for Long scenario. European politicians and policy-makers must understand that regulatory and supervisory infrastructure is a necessary but not sufficient condition in order to ensure financial market integration. Moreover, in the case of EMU, integration needs to go hand in hand with deepening in financial services, which requires innovation, R&D, and market-based alternatives. Those can't be regulated, but incentivised, supported, and, in best of cases, directed. Also high-level expertise amongst policy-makers is required on this front in order to safeguard a workable solution and optimal policy plan.

In relation to Euro's status as international money, the situation is more challenging. The distance to the USD is huge, and the distance between the Euro and emerging market currencies is quickly narrowing, in particular in the reserve and debt markets. The above policy suggestions can partially improve Euro's status, but more affirmative and reassuring actions will be required on the global arena. So far, the discussion on Euro as a global currency have mostly been theoretical and archetype, with little action to back it. Most of the track record of the Euro rests on the reputation and historic performance of the Deutsche Mark. If Euro is to challenge the USD dominance, then the involvement of ECB, Eurosystem, EC, and Treasuries of the EMU in the international monetary system must be more aggressive and reassuring. Examples include advantages given to third-party countries and their central banks for holding Euros. At the same time, assurance must be given that debt and assets issued (or even denominated) in that currency will not be neglected or allowed to default. Only then can the confidence in the currency grow, and with time, challenge the position of the USD.

Finally, in relation to the union's economic performance and the rising disparities amongst EMU member states, two things need to be recognised. First, there was a trade-off in EMU's economic growth performance. Stability and lower volatility was prioritised over heavy and quick growth. Second, disparity in income and other macroeconomic indices has increased within the union over

time, in particular over the past decade. The longer the Euro remains in low growth environment, the higher the risk that disparities will increase. Thus, most efforts should be put into steering the economy back into sizeable growth. At the same time, a type of Euro-wide social contract may be required in order to bring all the parties on board (labour, capital and technology owners, financiers, politicians, and charities) to ensure growth commitment and smooth path ahead. Most probably, it will need to be constructed and enacted across-border. Ultimately, it should be seen as a type of social contract 2.0, updating, innovating, and going further on the original post-war social contract that was established throughout Western Europe during the Golden Age.

The Euro at 20: Successes, Problems, Progress and Threats - 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 EMU, 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 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.

The second decade of the euro highlighted many problems that had been highlighted before EMU and a number that had not been mentioned so often.

The absence of national fiscal capacity and the problems caused by pro-cyclical fiscal policy were flagged by many critics prior to 1999 but other problems relating to sovereign default and financial stability have caused just as much difficulty.

A significant number of improvements to the policy structures underlying EMU have been implemented over the past decade.

However, a number of important weaknesses have not been addressed fully. The absence of progress in these areas is likely to see the euro area continue to come under serious pressure during the next economic downturn. This paper highlights five areas for improvement. (i) Fiscal rules (ii) Joint fiscal capacity (iii) Sovereign debt restructuring (iv) Banking: Sovereign bonds and deposit insurance (v) The lender of last resort.

The euro has proved to be remarkably resilient due to its popularity with citizens. Support for the single currency reflects satisfaction with price stability but also fears of the major short-term crisis that could affect a member state that chooses to leave.

Even if the economic case favours remaining in the euro, the events surrounding Brexit provide an example of how populist sloganeering can convince the public to favour proposals that do substantial economic damage.

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 wide-ranging institutional improvements for the euro area, most notably the recent Franco-German plan authored by fourteen eminent economists.

It is up to Europe's politicians, in all of its branches – Council, Commission, Parliament – to continue to work hard to turn these and other suggestions into concrete actions in the coming decade.

Only by continuing to work on its weaknesses can policy makers reduce the chances of a large-scale future existential crisis for the economic and monetary union.

The Economic and Monetary Union: Its Past, Present and Future - Marek Dabrowski (CASE – 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 European Union. The European Central Bank 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 road to the European currency took more than 20 years. From the first memorandum of the European Commission on this topic in 1969 and the Werner Report in 1970, to signing the Maastricht Treaty in 1992, it took nearly 30 years until the euro was launched on 1 January 1999. This road was not easy. The collapse of the Bretton Woods system in 1971, two oil price shocks in the 1970s and the resulting stagflation delayed political approval of the project by more than a decade. Then the crisis of the European Monetary System in 1992-1993 complicated Stage 1 of the preparatory phase.

The first two decades of euro functioning confirmed its stability, its role as the second most important global currency, and the ability of the European Central Bank (ECB) to keep inflation low. The euro enjoys the support of the majority of the euro area population and is seen as a good thing for the European Union (EU).

In most of its first decade (1999-2008), the European economy enjoyed high growth and macroeconomic and financial stability. This changed, however, in the second decade (2009-2018) when the global and European financial crises hit the European economy. The monetary response of the ECB was largely adequate – the euro area managed to resist deflationary pressure coming from a far-reaching financial disintermediation. However, countries which suffered from a sovereign debt or banking crisis (or both) had to resist market pressures on their exit from the euro area. Greece, which experienced the longest and most painful crisis, found itself on the verge of leaving the euro area in July 2015, which was eventually avoided by the third rescue package provided by the European Stability Mechanism (ESM).

All crisis-affected countries that lost market access received a conditional bailout provided by other euro area countries and the International Monetary Fund, with the support of the ECB. This meant, however, circumventing a no-bailout clause in the Treaty on the Functioning of the European Union. The content of rescue packages and how they were delivered remains a subject of political, economic and legal controversy until now.

The crisis experience triggered a series of institutional reforms in the EU and euro area. They included, among others, strengthening the Stability and Growth Pact (SGP) and adopting the Fiscal Compact, introducing national fiscal rules, launching the Macroeconomic Imbalance Procedure and European Semester, setting up the ESM and Banking Union (without the European Deposit Insurance System (EDIS), which is still a subject of political discussion).

The reform of the euro area needs to continue. The reform agenda was elaborated in the Five Presidents Report in 2015. However, there is a lack of consensus with respect to several proposals, for example, the degree of further fiscal and political integration, debt mutualization, the euro area budget, financial instruments which could cushion asymmetric shocks, etc.

Given the high level of public debt in several euro area countries and the fiscal roots of most crisis episodes, strengthening fiscal discipline is the most important task. This can be done by restoring the no-bailout clause (market discipline) on the one hand and simplifying the SGP on the other.

The EU member states that remain outside the euro area should consider euro adoption in the not-so-distant future. This would make the EU more homogenous economically and politically and help avoid institutional problems related to multi-speed integration.

The Euro@20: A critical assessment - 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, at least 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. The paper finds 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.

Much work has been done since the Great Financial Crisis in 2008-12 to introduce new prudential and surveillance techniques to protect financial markets, financial institutions and the euro-area banking system from the consequences of excessive risk taking, external financial shocks, globalised financial links or internal destabilising behaviour.

The new prudential system includes a variety of different prudential or regulatory metrics which the ECB or other policymakers can use to ensure sufficient liquidity cover their lending and to underpin the stability and safety of the banks; to influence the growth of credit up or down; to limit excessive lending; to steer interest rates; and to stabilise financial markets (including insurance, pensions) and to damp down asset price bubbles

This paper picks out three of the less usually discussed themes, at least in this context. It focuses on the policy lessons to be learned and where design improvements are needed in the post-crisis era. 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 risks of course. If the markets are allowed to use low real wages to substitute cheap labour for

more expensive capital, these gains will be lost. Policy changes are suggested to reduce that risk.

ii) The Euro area needs to reassess its use of monetary policy, and the need to introduce an explicit financial stability mandate. 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 needed to handle the expanded balance sheets of the post-crisis macro-prudential framework.

iii) Fiscal governance remains a crucial issue because it so nearly brought the Euro to its knees after the financial crisis and could do so again. The North remains divided from the South on what to do; one side wanting more policy coordination and the other separation. However, despite the Eurosystem being based on the separation of monetary and fiscal powers, the economic consequences of using those powers simply cannot be separated out in practice. So, there is no avoiding the issue. More active debt management policies (rather than fixed deficit rules, or deficit management) offer a better, more robust long-term strategy for dealing with this difficulty.