

# The first 25 years of the euro

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*Tommaso Padoa-Schioppa Chair – EUI*



**M. Buti and G. Corsetti, «The first 25 years of the euro»  
CEPR Policy Insight, 126, January**

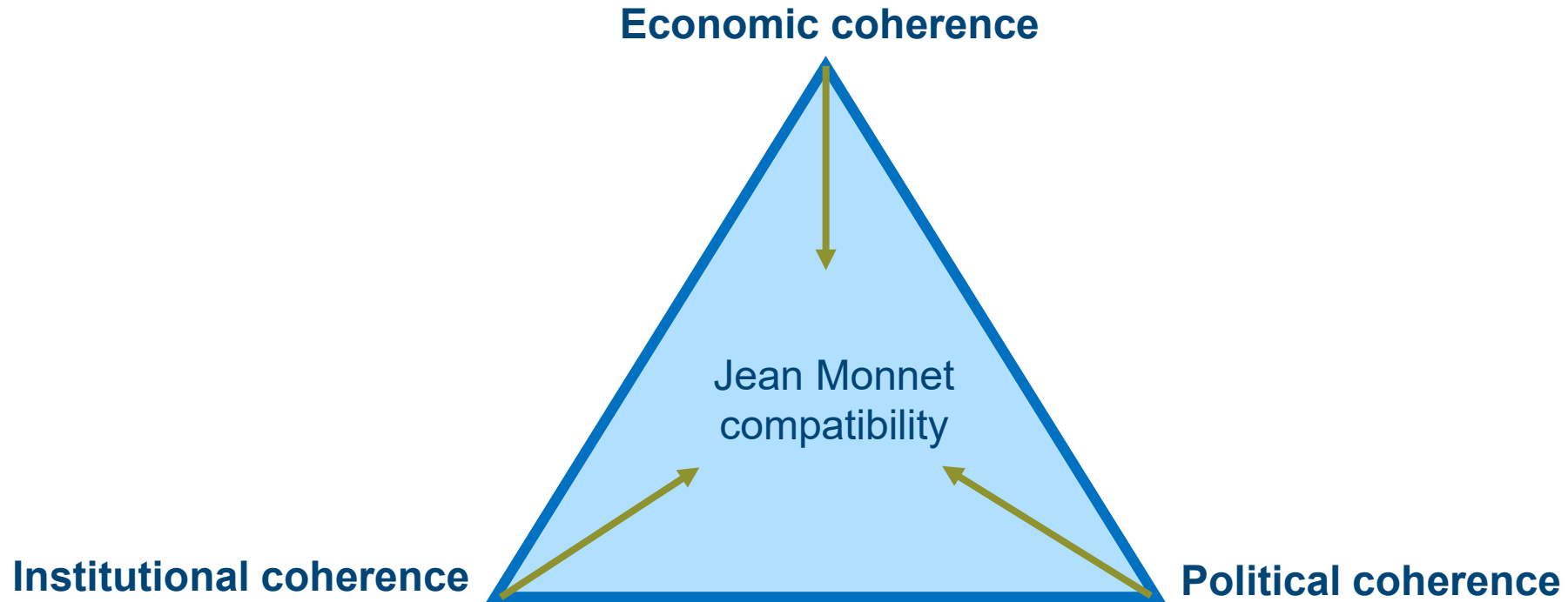
**Outline**

- 1. The beginning**
- 2. A bird-eye view of the EA history: four phases**
- 3. Through the prism of the Jean Monnet Compatibility Test**
- 4. Where do we go from here?**

## Politics *cum* or *versus* economics?

- The decision to introduce the euro ended a large crisis of European monetary cooperation: 1992, 1993
- Economists were mostly sceptical, but economics was not disregarded
- The EA was not an Optimal Currency Area (OCA). Could it become one?
- The incomplete EA sailed – on purpose - on a “three-legged” economic constitution (ECB, SGP, No Bailout)
- How to make it work? Top-down (French) or bottom-up (German) views

# Assessing EMU: Jean Monnet Compatibility Test



Economic coherence



Effective policies in good and bad times

Institutional coherence



Compliance with subsidiarity

Political coherence



Citizens' support, democratic legitimacy

## Four phases

- **1999-2008**: the peaceful «2% decade», over-optimism, resource misallocation and lack of reform
- **2009-2019**: the decade of crises, lack of trust, moral hazard overriding concern, fragmentation and reform under duress
- **2020-21**: crossing «deep red lines» and a congruent policy mix on the back of the «benign coincidence»
- **2022-?**: Taming inflation, the return of policy trade-offs, high political discount rate and the lost appetite for reform

# Main macroeconomic indicators

	GDP	Inflation	Current Account	Gov. balance
1999 – 2008	2.2% (0.5/3.8)	2.2% (1.2/3.3)	0.1% (-0.7/1)	-2.1% (-3.1/-0.7)
2009 – 2019	0.8% (-4.6/2.6)	1.3% (0.2/2.7)	2.4% (0.5/3.6)	-2.9% (-6.3/-0.4)
2020 – 2021	-0.1% (-6.3/6)	1.4% (0.3/2.6)	3.0% (2.3/3.6)	-6.2% (-7.1/-5.2)
2022 – 2023	2.0% (0.7/3.4)	7% (5.6/8.4)	1.8% (1/2.5)	-3.4% (-3.6/-3.2)

Source: European Commission. Columns refer to the year-on-year growth of real Gross Domestic Product, yearly HICP, current account balance (as % of Euro Area GDP) and government balance (as % of Euro Area GDP). Numbers in parenthesis refer to the minimum and maximum registered value for the period.

# EU and EA Institutional Reforms

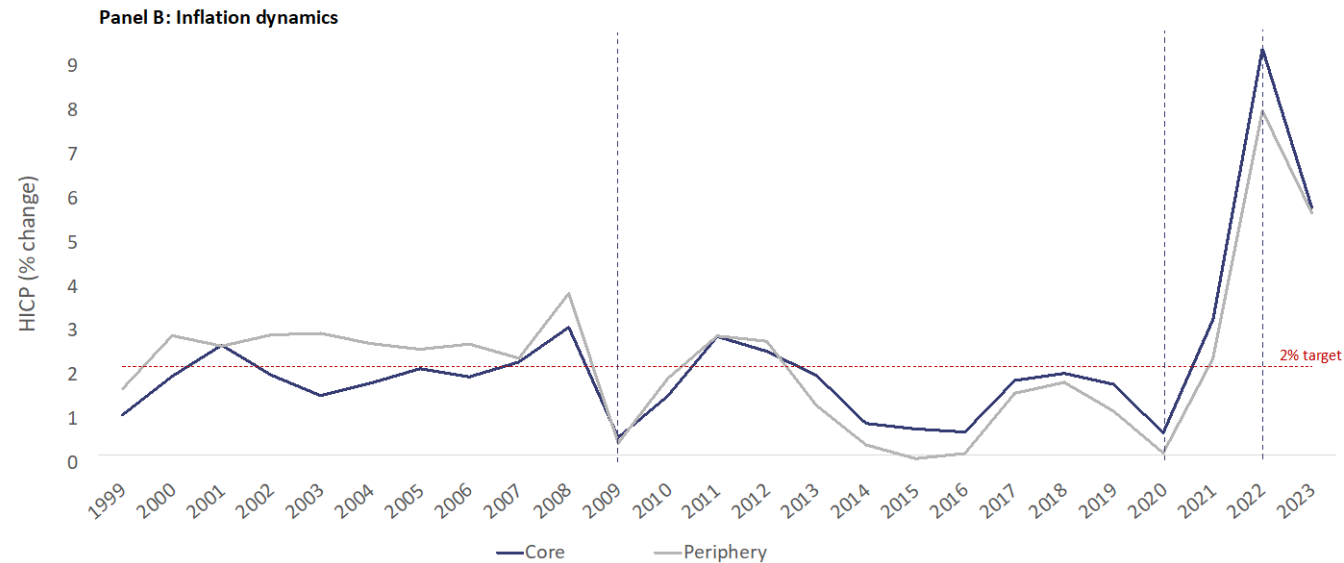
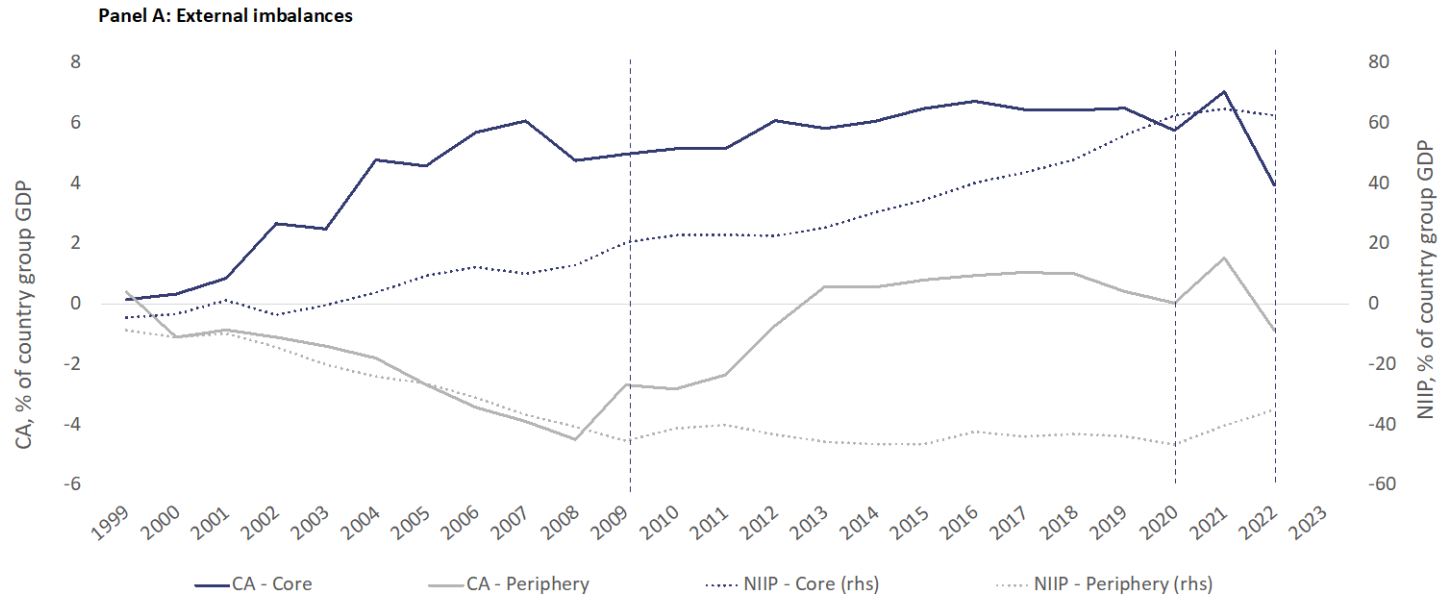
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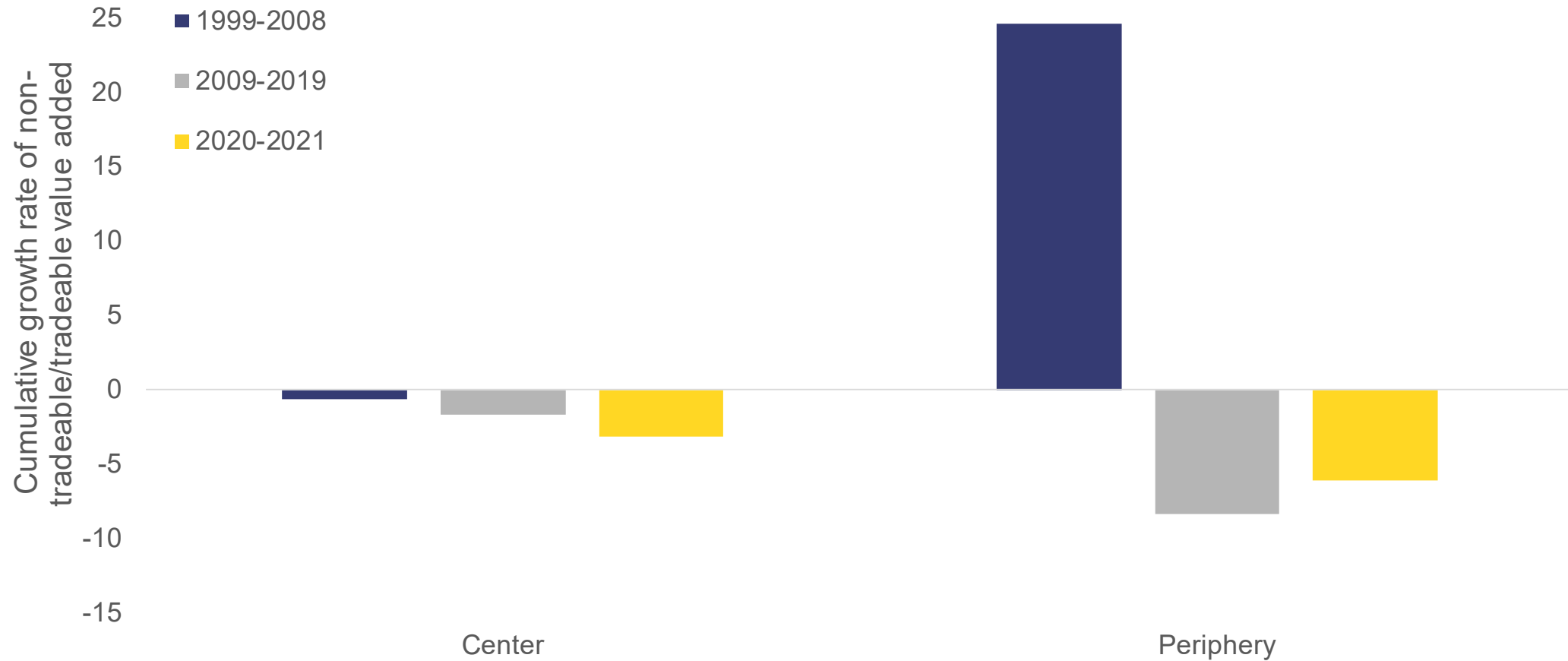


# 1999-2009: Intra-EA imbalances pile up



# 1999-2009: Macro imbalances lead to structural divergences

## Cumulative growth of non-tradable/non-tradable VA



Source: Author's own elaboration based on European Commission data

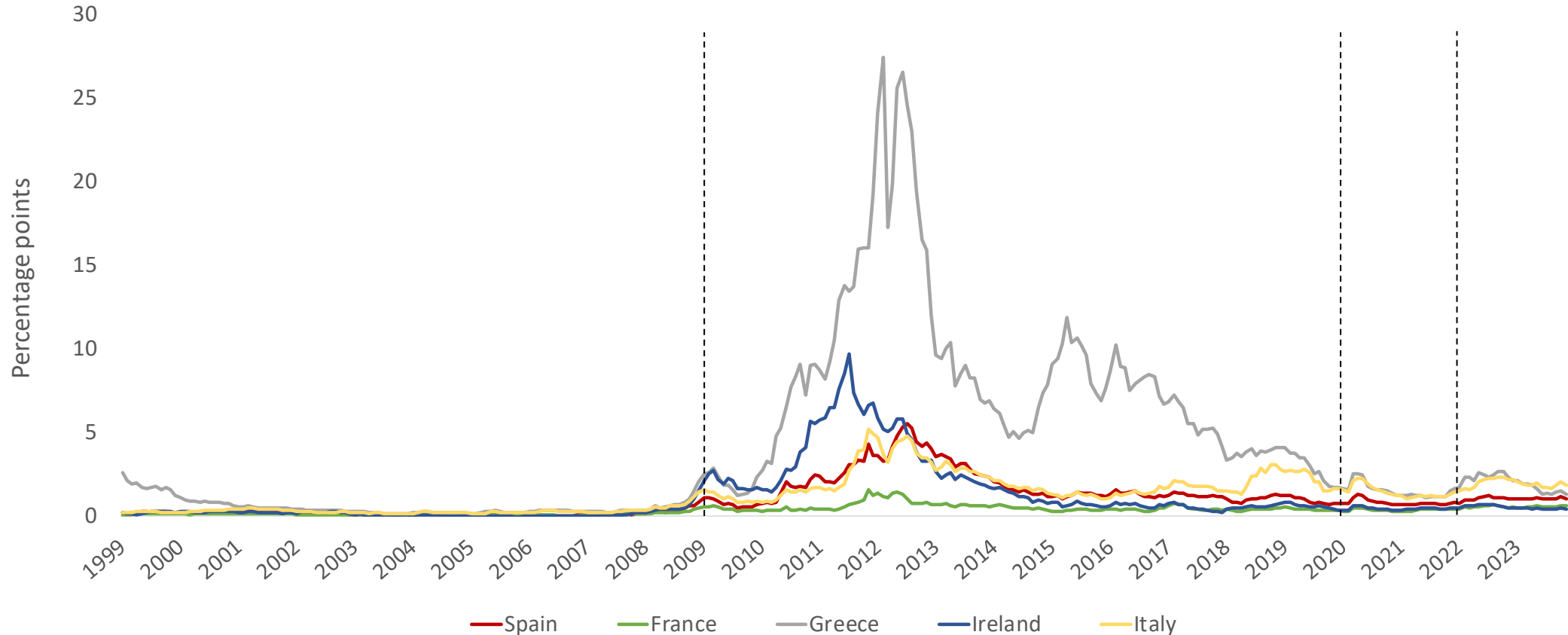
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# 1999-2009: where have all risks gone?

Spreads relative to the Bund



Source: European Central Bank

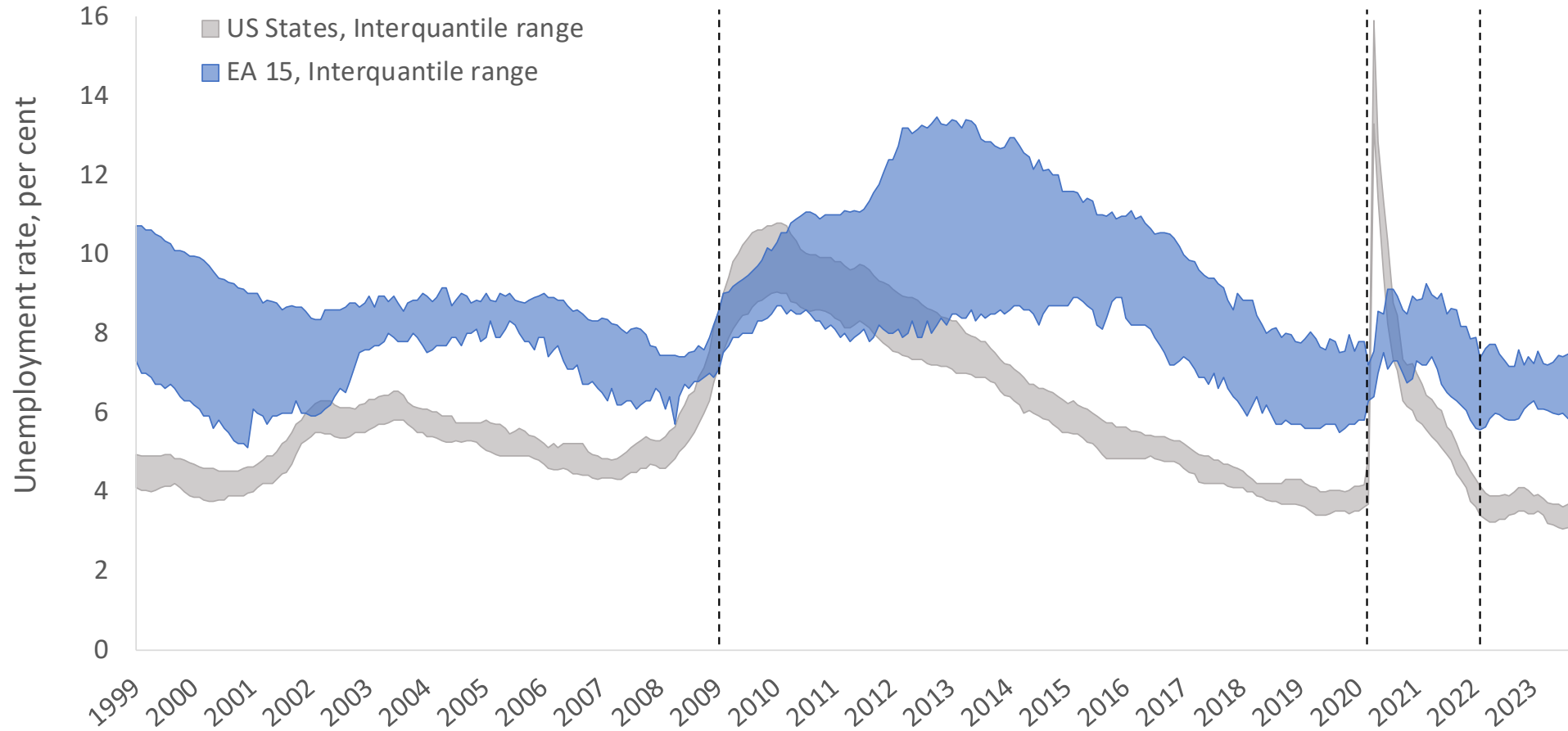


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# 2009-2019: Cross-country fragmentation sets in

## Unemployment rates by states, US versus EU



Source: U.S. Bureau of Labor Statistics and Eurostat



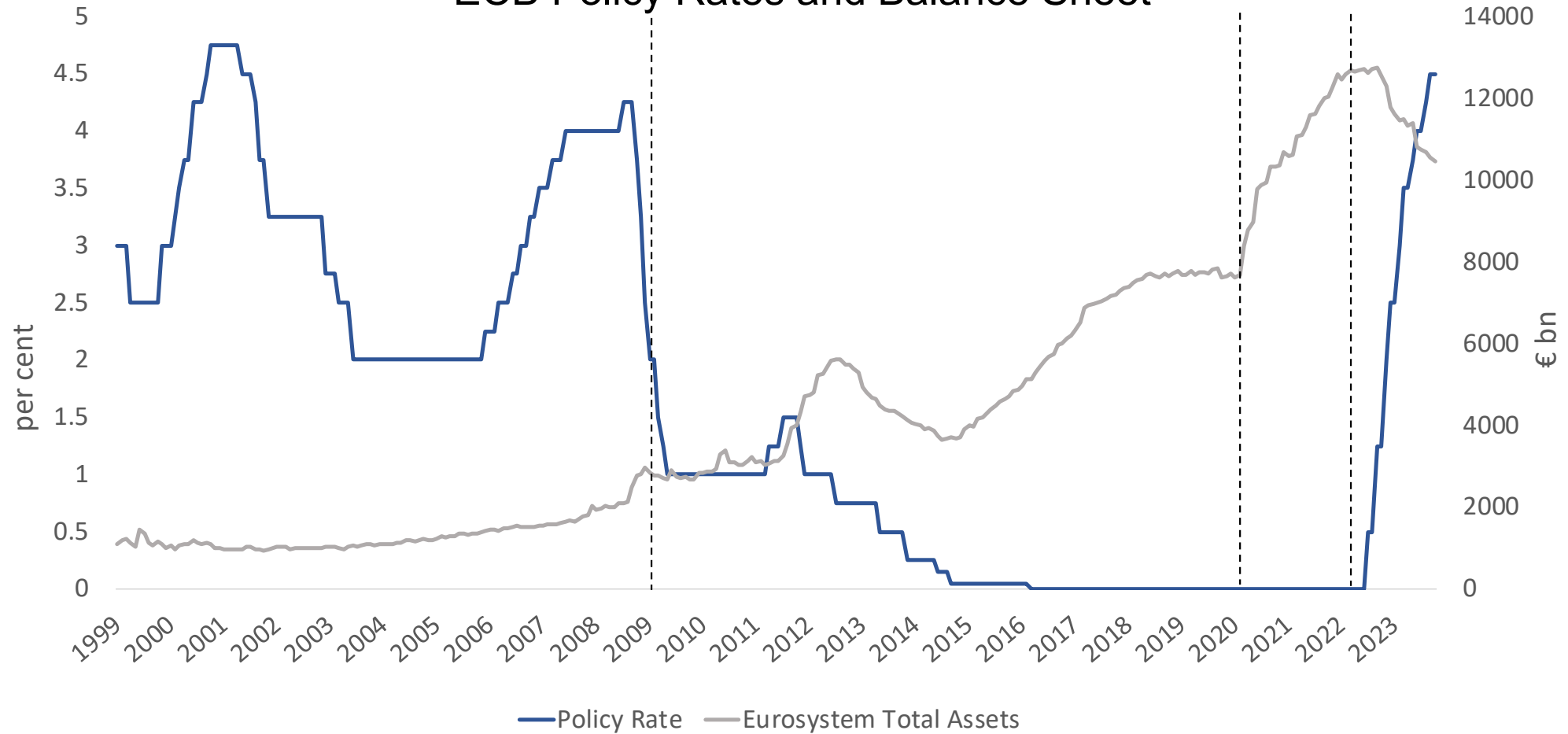
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# 2009-2019: The only game in town

## ECB Policy Rates and Balance Sheet



Source: European Central Bank





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# 2020-21: Congruent policy mix, at last

Policy interventions during the pandemic (Billion euro)

		Fiscal	Liquidity
<b>National</b>	2020-1 measures	1350	4190
<b>EU</b>	SURE,ESM,EIB		540
	NGEU	390+	360
<b>ECB</b>	PEPP		1850

Source: IMF, European Commission, ECB

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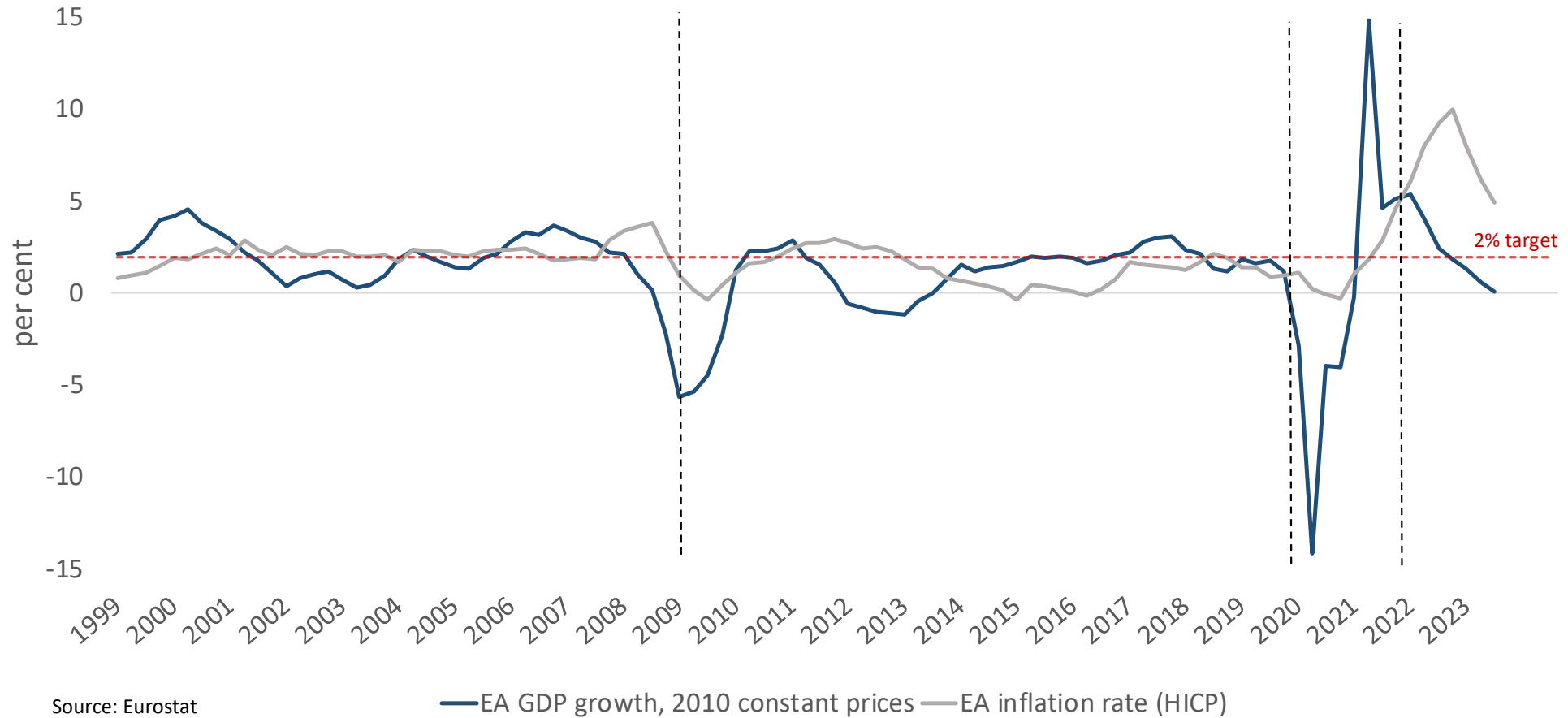
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# 2022-2023: taming inflation – at high costs

## Inflation and GDP growth



## Back to the Jean Monnet Compatibility Test

- **1999-2008** Underlying imbalances grew: JMCT only met on the surface
- **2009-2019** Biased reform under duress: JMCT largely failed
- **2020-21** Congruent policy mix: JMCT met, helped by the «benign coincidence»
- **2022-?** Return of policy trade-offs: jury still out on JMCT, but «NGEU spirit» at risk

# Strong resilience, but...

- Macroeconomic governance matters for real integration
- “Putting your house in order” is not enough
- Horizontal and vertical policy coordination matters
- An adequate amount of risk sharing is needed
- Europe can learn...
- ... but preference reversal is a present and real danger



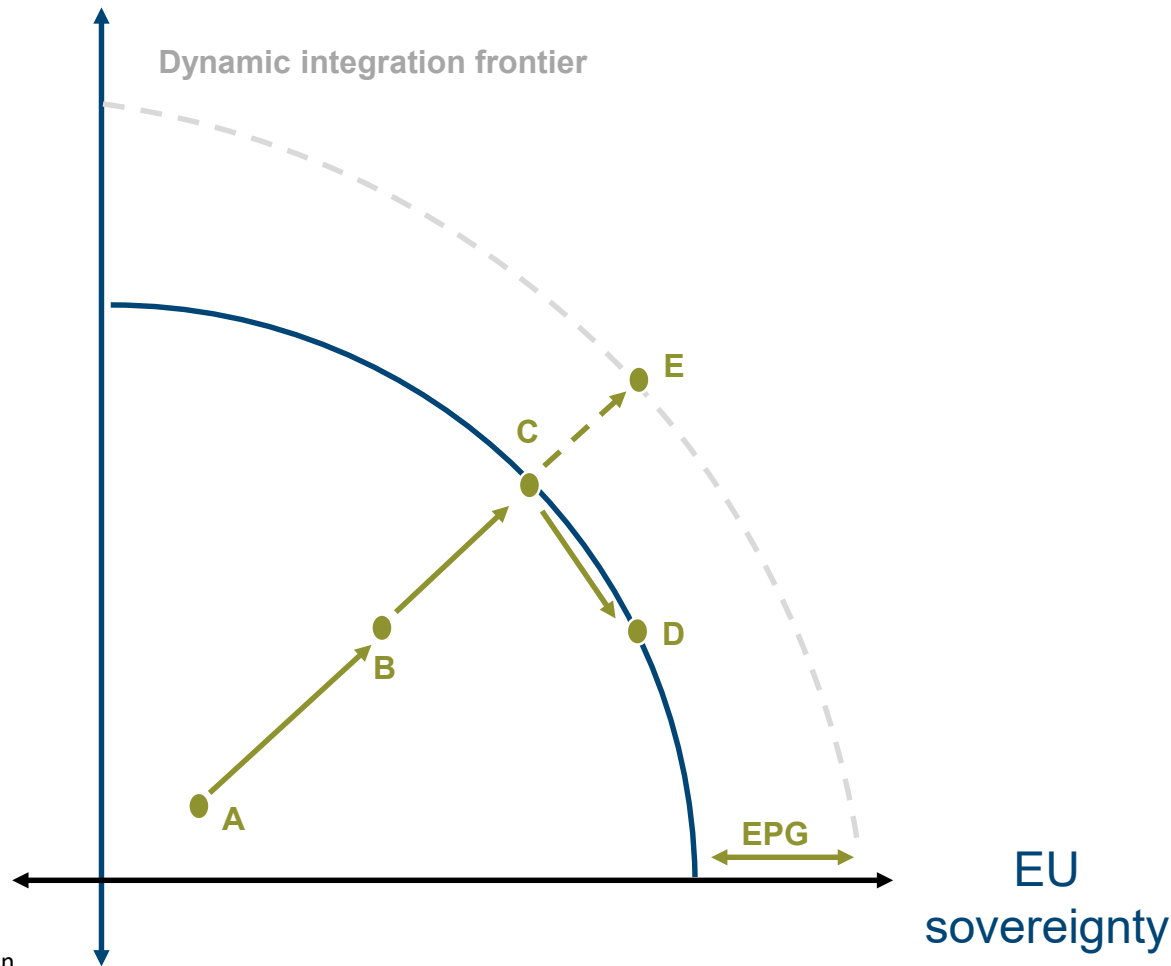
# Policy avenues

Strengthening and complementing the three-leg constitution:

1. Monetary: ECB independence cannot become loneliness  
➡ overcome «risk sharing by stealth»
2. Fiscal: the EA-wide fiscal stance needs vertical coordination  
➡ moral hazard risks to be addressed via eligibility criteria
3. Financial: anchor narrative onto double transition and geo-politics  
➡ overcome the risk sharing – risk reduction divide
4. Industrial: EPGs at the core of an EU industrial policy  
➡ projects easier to define in practice than in theory

# BACKGROUND SLIDES

# Sharing sovereignty



AB: Single Market gains

BC: Euro gains

CD: Static view of national interest

CE: Dynamic view of national interest

Source: Authors' elaboration