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Opening remarks

Ladies and gentlemen,
It is my pleasure to welcome you to the 46th Economics Conference of the Oesterreichische Nationalbank, organized in cooperation with SUERF, the European Money and Finance Forum. Two decades after its introduction, the euro is arguably the most tangible result of the European unification process – a token for the European project that we use day in, day out; something that we share with our fellow citizens – as many as 340 million people living in 19 countries of the continent.

Since the start of Economic and Monetary Union (EMU), the number of euro area countries has gradually increased from 11 to 19. As the common European currency, the euro swiftly established itself as the second most important currency of the world and has come to serve as a stable monetary anchor for most of our neighbouring countries in Central, Eastern and Southeastern Europe.

In a recent survey, 74% of Europeans said they were in favour of EMU, with one single currency, the euro. This is the highest level of support for the euro ever recorded. It is also testimony to the success of the Eurosystem in fulfilling its mandate of maintaining stable prices and in providing an environment for economic growth and high employment over the past 20 years. It is not by accident that approval rates for the euro declined when unemployment rose during the recession and crisis of 2008–2013 and thereafter rebounded significantly when the euro area returned to a path of stable growth.

So the euro has been a success – hasn't it? We are well aware that the past 20 years have seen one of the worst financial and economic crises at the global level since the 1930s; as well as a second, specifically European crisis, which posed a severe – and one might even say "existential threat" – to the single currency, as ECB Vice-President Luis de Guindos recently put it in front of the European Parliament.[1] It was only thanks to the joint efforts of European governments and institutions that the crisis has been overcome, as well as thanks to the support that the European citizens have been lending to fiscal consolidation and the sometimes severe adjustment programmes and structural reforms that were necessary. The ECB for its part has contributed by backstopping the financial system and providing monetary stimulus.

Some of the shocks that led to this crisis were exogeneous. Many were not specific to the euro area. But quite a few observers have attributed certain aspects – as well as the depth of the crisis – to a faulty design of the monetary union: its "lopsided" nature, with monetary integration lacking a fiscal counterpart and institutions that allowed unsustainable imbalances between member countries to emerge.

But while the single currency was certainly not perfect when it was introduced 20 years ago, it would be wrong to blame the crisis on its existence alone. The challenges the euro area has faced and that we continue to face are very similar to the challenges – if not the very same ones – that led to the creation of the single currency in the first place.

The single currency was not invented as the political symbol, the most tangible result, of European unification it is today. To be sure, the single currency was from the beginning also part of the political desire to express a European

[1] *Euro at 20 years: the road ahead. Address by Luis de Guindos, Vice-President of the ECB, at the European Parliamentary Week, Brussels, February 19, 2019. https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190219~6f4c9be85b.en.html.*

identity on the international scene. But first and foremost, monetary cooperation in Europe was the response to the challenges of creating an integrated economic area in the face of international monetary instability. At the time the project of European integration was born in the 1950s, exchange rates were still governed by a stable Bretton Woods system. The risk that exchange rate fluctuations would distort trade and undermine common policies was largely inexistent, or at least under tight control. Once the Bretton Woods system entered into crisis, however, European unification risked being derailed as well. The first proposals for monetary cooperation in Europe were thus not the expression of a genuine desire for a European currency but a response to an unstable U.S. dollar: This is true of the Barre memoranda in the 1960s; the Werner plan of 1970 as well as the attempts to have the European currencies fluctuate together against the U.S. dollar in the so-called snake. When Nixon cut the U.S. dollar's link to gold in the summer of 1971, it became clear that the future world monetary order would be based on fluctuating fiat currencies. Tying one's currencies to the U.S. dollar was no longer an option. If Europe wanted to be sovereign in monetary affairs, it needed to manage its money itself. As a result, the single European currency acquired the double role as the backbone of European economic integration as well as the face of European identity it still has today.

As the following decades would show, close monetary cooperation was difficult to implement and even more difficult to maintain. On the one hand, economic integration made the maintenance of fixed exchange rates increasingly tenuous. With the liberalization of capital flows, negotiated exchange rate realignments – the safety valve foreseen in the Bretton Woods framework – became a source of instability, as the mere possibility of future realignments would trigger speculative capital flows. The point was proven by the crisis of the European Monetary System (EMS) in 1992. Now the message was: float or peg once and for all. Paradoxically, the EMS crisis thus strengthened the cause for monetary union, which European governments had just agreed upon a couple of months earlier, at Maastricht.

Destabilizing capital flows were not the only factor behind the failure of the different experiments in fixed exchange rate regimes that were tried in Europe. Instability also resulted from incompatible national policies. In the 1960s and 1970s, the consensus that monetary policy should target stable prices had not yet evolved. Cooperation between fiscal and monetary policies was limited, and mechanisms that would help enforce the agreed scope of adjustment were lacking. A recurrent theme was the perceived asymmetry in adjustments, forcing the deficit countries to implement austerity policies without surplus countries providing their fair share. Surplus countries, in turn, argued that they were pursuing sound anti-inflationary policies that they did not want to put at risk. With Germany typically being the key surplus country, the

decisions on European monetary policy came to be taken de facto in Frankfurt and Bonn, and not jointly by all members of the Snake or the EMS, thus creating political discord and discontent among the European partners.

The consequence that policy makers drew from these recurrent challenges was the introduction of the joint currency, the euro. In some respects, the euro is a technical solution for the repeated exchange rate crises in Europe: the euro simply did away with the existence of several currencies, thereby eliminating the possibility for de- and revaluations in the first place. But more importantly, the euro is also a political solution in that it provides a framework with the help of which possibly diverging political interests can be brought together, discussed and resolved. While before, countries had to prove that they were willing to follow the leadership of the German Bundesbank, responsibility for monetary policy is now shared within the European System of Central Banks. Within the European System of Central Banks we pursue together the overarching objective of stable prices, as agreed upon by the European governments, laid down in the EU treaties and broadly approved upon by the European citizens, as I have shown in the beginning.

While the euro provides a framework for resolving political and economic disagreements, we cannot realistically expect it to make them disappear. Certainly, a common monetary policy helps. So does real convergence, as do structural reforms that increase the flexibility of economies to weather asymmetric economic shocks. Further help is provided by an integrated capital market that redistributes and buffers income shocks affecting specific countries or regions. Together all these factors make the euro area more of an optimal currency area. But countries will continue to be hit by asymmetric shocks, and the question how to deal with trade- offs in economic policy will continue to be at the core of political debates. Imbalances within the euro area will continue to arise from time to time, and so will pressures to adjust. Debates on how such adjustment is best engineered are here to stay, as was already the case in the 1960s, 1970s, 1980 and 1990s.

The key difference to earlier decades and the crucial advantage we have nowadays is that today we have institutions and procedures in place that help Europe to resolve these conflicts while eliminating the economic and political costs of earlier exchange rate crises. Since 1999 the common monetary policy for the euro area has been defined jointly by the ESCB. In the wake of the crisis, EU economic governance has been reformed and strengthened in several important respects. First, national fiscal policies are now subject to stricter European rules that place more weight on the stage of the business cycle and the level of public debt. Moreover, the European Commission's role in monitoring Member States' budget preparation (European Semester) and in imposing sanctions has been strengthened considerably. Second, a broader set of macroeconomic indicators, going beyond fiscal indicators, is now regularly evaluated at the European level to identify, and counteract, macroeconomic imbalances at an earlier stage. Third, banking union brought about the introduction of a single supervisory mechanism for euro area banks and a framework for resolving insolvent banks. Fourth, macroprudential supervision targets the stability of the financial sector as a whole.

To make the euro area even more resilient to shocks and increase its ability to act, deepening EMU will remain a key task in the years ahead. In mid-2015, Jean-Claude Juncker, President of the European Commission, presented the "Completing Europe's Economic and Monetary Union" report. Four pillars are meant to ensure the smooth functioning of EMU: a fully-fledged economic union that fosters prosperity and convergence; a financial union that provides for cross-border banking and capital market regulation; a fiscal union that ensures sustainable public finances; and a political union that secures democratic accountability and legitimacy for a complete EMU.

So the euro has been a success? I would argue that it is indeed a reflection of the strength of the euro that the debate for which we have come together today will focus on the next 20 years of our common currency. After taking stock of the achievements of the past 20 years, this conference will therefore focus on the important areas just mentioned. Today, we will talk about the structural adjustments that shall make EMU more robust in the future, the role of fiscal policy as well as about banking union and financial stability. In the afternoon, we will then come back to the euro's role as a bulwark in a challenging international environment, which reminds us of the concerns and hopes of the masterminds of a common currency in the 1960s and 1970s. As President Draghi has said in a recent speech: "True sovereignty is reflected not in the power of making laws – as a legal definition would have it – but in the ability to control outcomes and respond to the fundamental needs of the people."[2] To ensure that the euro area is able to effectively shield Europe from future crises in times of growing geopolitical tensions, the European Commission recently proposed to strengthen the international role of the euro and for the EU to stand together to promote its interests in shaping global affairs. We will discuss progress here in the afternoon today. Tomorrow we will then turn towards the consequences of digitalisation for monetary policy before closing the conference again on the topic of "Completing monetary union".

Let me conclude. The European Union is often likened to a house, providing home and shelter for Europe's people. I believe the best way to celebrate the first 20 years of the euro is to debate together how our European house can be adapted, enlarged and refurbished to keep it ready for the next 20 years. I wish us all insightful, stimulating and productive one-and-a-half days here in Vienna.

[2] *Mario Draghi: Sovereignty in a globalised world. Università degli Studi di Bologna, Bologna, 22 February 2019. https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190222~fc5501c1b1.en.html.*