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Member of the Executive Board

# The resilience of the euro

Post-Pandemic Economic Governance: Multiplier  
Event of the Jean Monnet Network BRIDGE

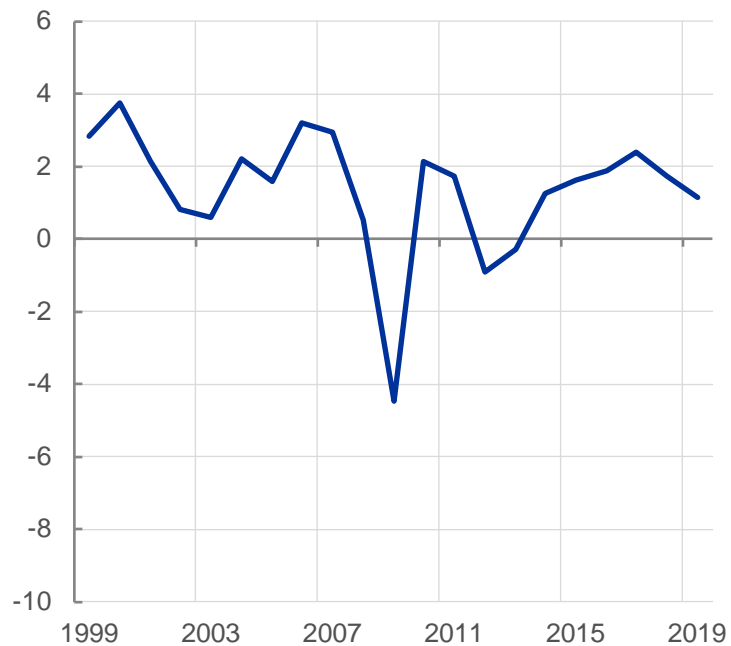
15 December 2020

# Introduction

- Update on the resilience of the euro: post-crisis review
  - Optimal currency area (OCA); US as a benchmark; single currency versus nineteen currencies
  - The euro and the EU: political underpinnings
- 
- Macroeconomic outcomes
  - The pandemic as a test case
  - The political economy of the euro

## Output growth

(annual percentage changes)



Source: Eurostat.  
Note: 19 euro area countries, excluding Ireland.  
Latest observation: 2019.

## HICP Inflation

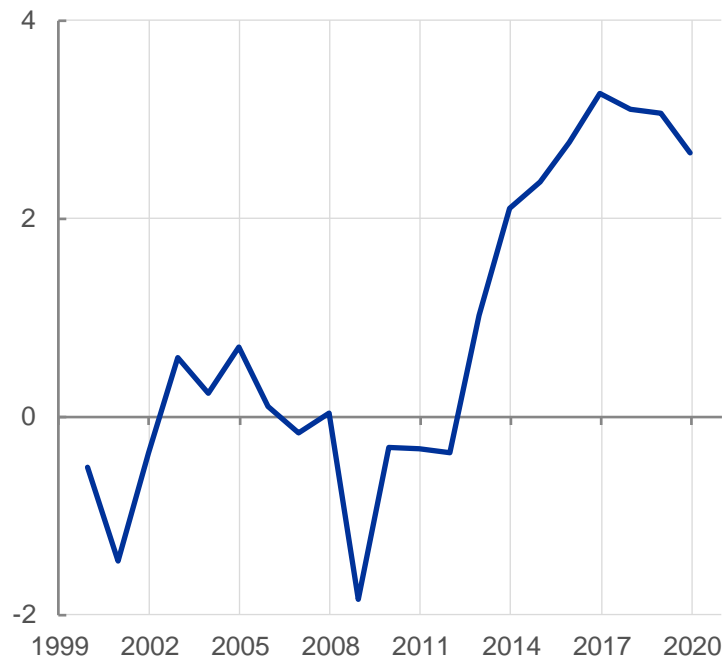
(annual percentage changes)



Source: Eurostat.  
Latest observation: December 2019.

## Current account balance

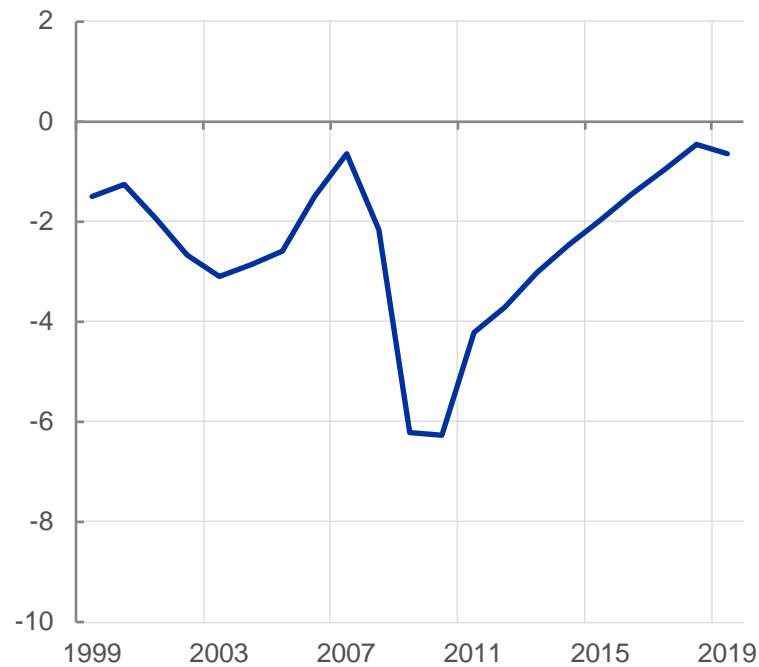
(percentage of nominal GDP)



Sources: ECB (BoP) and Eurostat.  
Note: Annual data.  
Latest observation: 2019.

## Fiscal balance

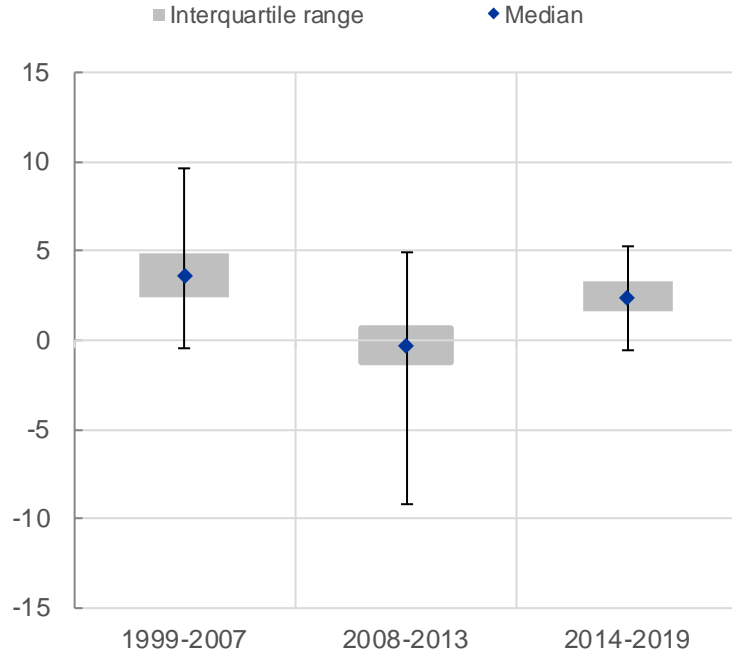
(percentage of nominal GDP)



Sources: European Commission, Spring 2020 Forecast.  
Note: Annual data.  
Latest observation: 2019.

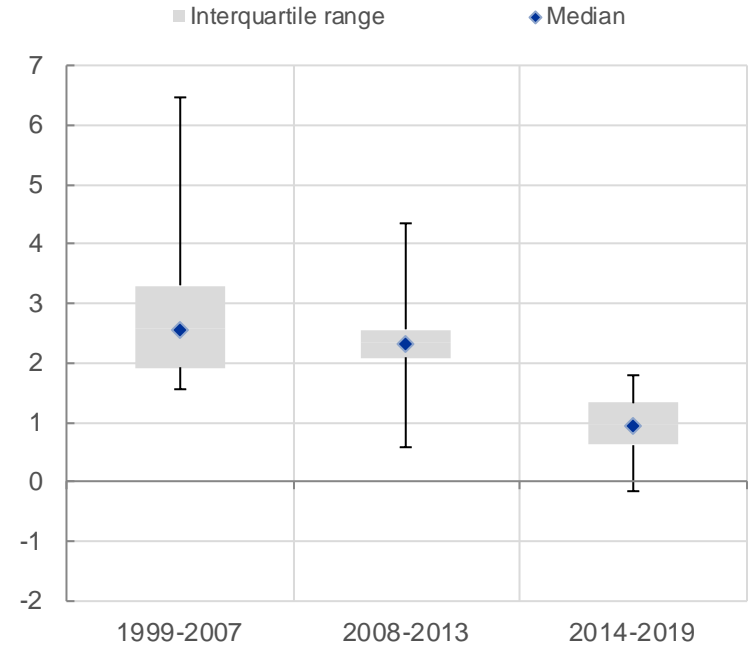
# Cross-country dispersion in macroeconomic indicators in the euro area

## Output growth dispersion (annual percentage changes)



Sources: Eurostat and ECB calculations.

## Inflation dispersion (annual percentage changes)

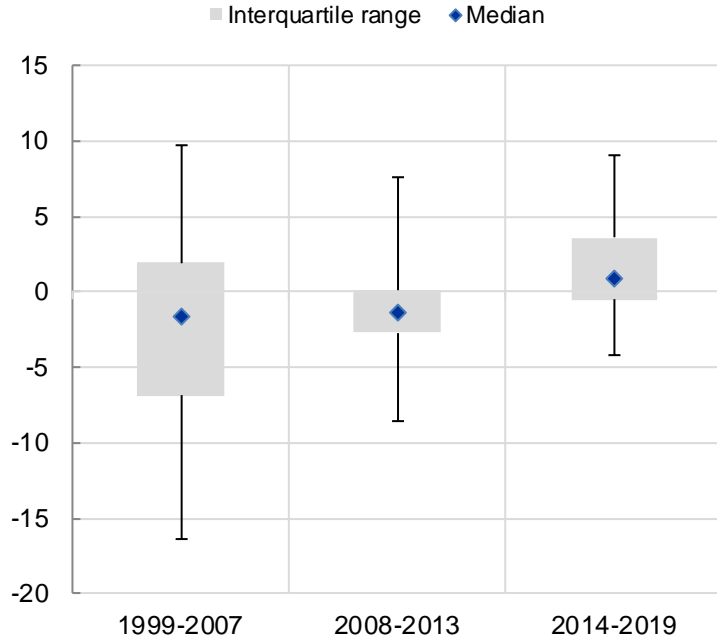


Sources: Eurostat and ECB calculations.

# Cross-country dispersion in macroeconomic indicators in the euro area

## Current account balance dispersion

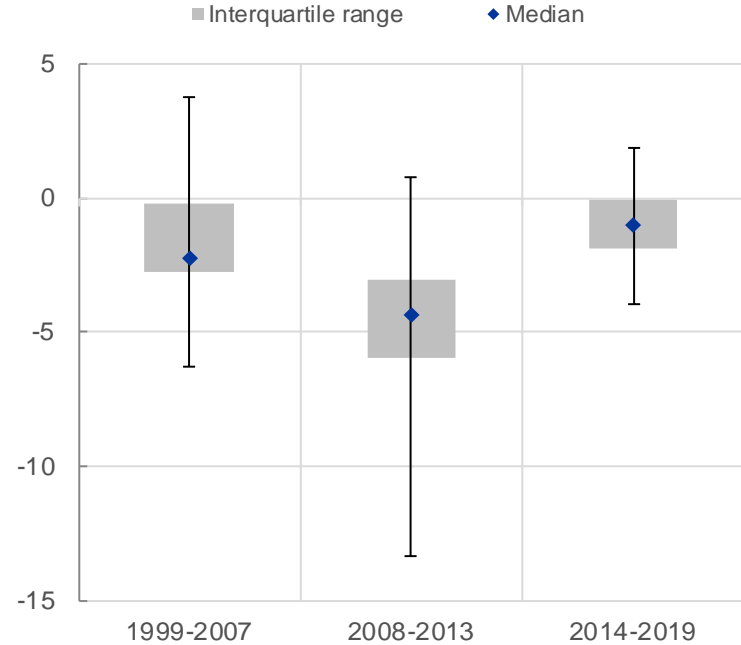
(percentage of nominal GDP)



Sources: Eurostat and ECB calculations.

## Budget balance dispersion

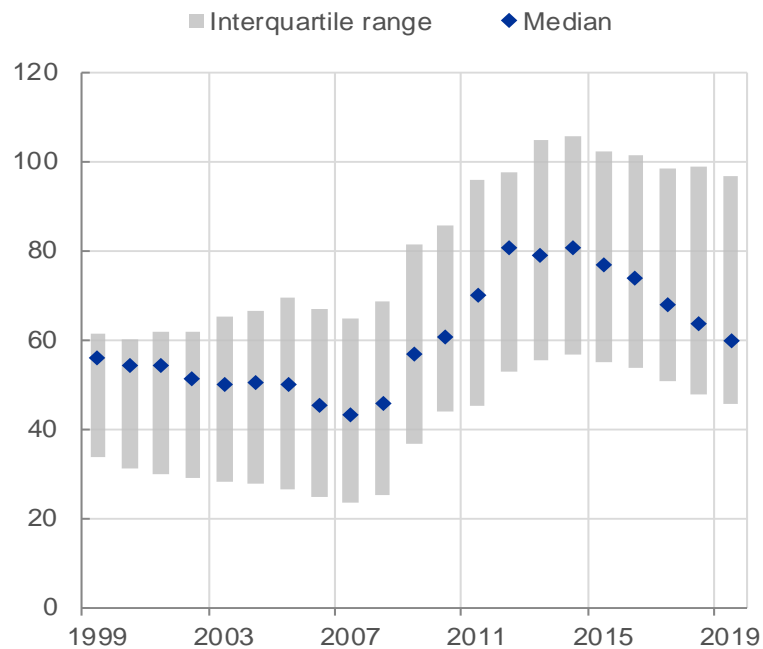
(percentage of nominal GDP)



Sources: European Commission and ECB calculations.

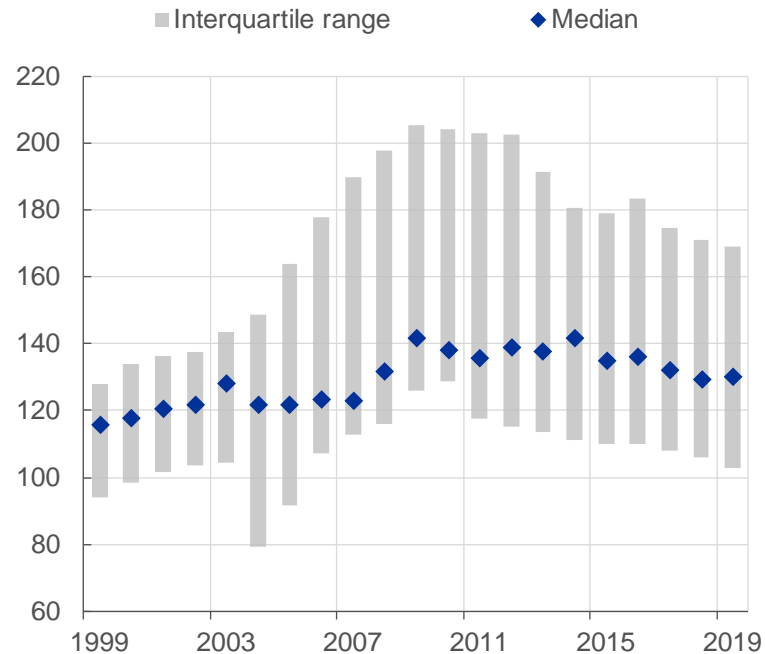
# Balance sheet indicators for the euro area

## Government debt (percentage of nominal GDP)



Sources: European Commission and ECB calculations.

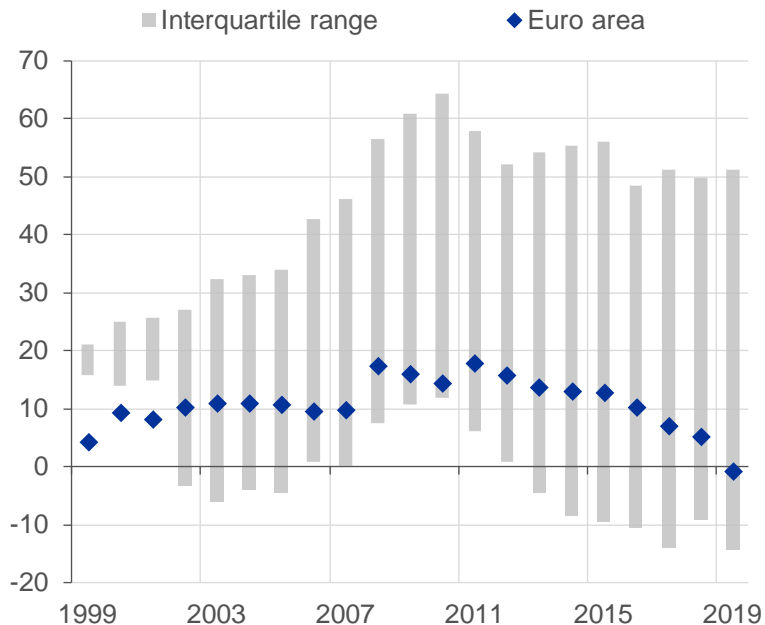
## Private sector debt (percentage of nominal GDP)



Sources: Eurostat and ECB calculations.

# Balance sheet indicators for the euro area

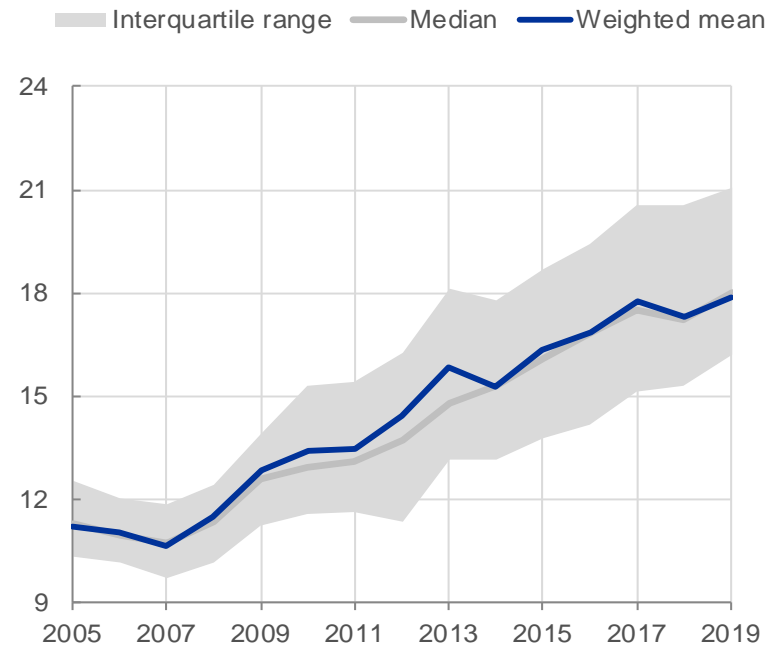
## Net external debt (percentage of nominal GDP)



Sources: ECB (BoP) and Eurostat.

Notes: The interquartile ranges are calculated based on incomplete country data. Data are only available as of 2000 for Latvia, 2002 for Ireland and Luxembourg, 2003 for Greece and the Netherlands, 2004 for Lithuania, Slovakia and Malta, 2005 for Belgium and, 2008 for Cyprus and France. For all other countries data are available as of 1999. Euro area net external debt prior to 2008 is proxied as the sum of net liabilities of direct investment debt instruments, portfolio investment debt instruments and other investment minus reserve assets excluding monetary gold.

## Capital adequacy ratio (percentages)



Sources: S&P Market Intelligence (SNL Financial) and ECB calculations.

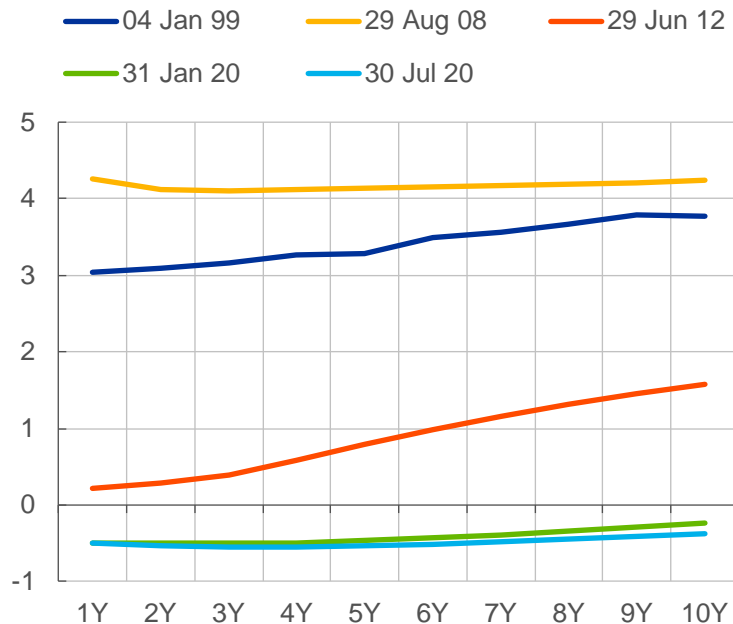
Notes: The capital adequacy ratio is computed as total capital over risk-weighted assets. It is based on an unbalanced sample of banks located in one of the 19 euro area countries, irrespective of the time of adoption of the euro. The sample encompasses 50 entities in 2005 and 113 in 2019.



# Yield curves in the euro area

## OIS rate curves

(percent)



## 10-year EA GDP-weighted yield minus OIS

(percent)



Sources: Refinitiv, Bloomberg and ECB calculations.

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Latest observation: 30 July 2020.

# Institutional architecture of the euro area

- European Stability Mechanism (ESM); Outright Monetary Transactions (OMT); fiscal compact
- Macroprudential policies; safer banking systems (Single Supervisory Mechanism (SSM); capital ratios)
- Fiscal policy: stabilisation role; sustainability; European Fiscal Board (EFB) and independent fiscal councils (IFCs); central fiscal capacity (CFC)
- 2020: resilient banks; escape clause
- 2020: Support to mitigate Unemployment Risks in an Emergency (SURE); ESM pandemic crisis support; European Investment Bank (EIB) guarantees
- 2020: Next Generation EU (NGEU)
- State-contingent CFC?

# The political economy of the euro

- The euro as the currency of the European Union; [Brexit]
- Bulgaria and Croatia: ERM II; close cooperation
- Shared sovereignty: international monetary trilemma; international financial stability trilemma; international political economy trilemma
- 2020 versus 1999: scaling up of institutional architecture
- 2020: common shock - power of a common central bank and common currency
- Completion of banking union; capital markets union; CFC?
- Digitalisation and scale economies