

# THE EURO@25 - PAST CHALLENGES, FUTURE OPPORTUNITIES

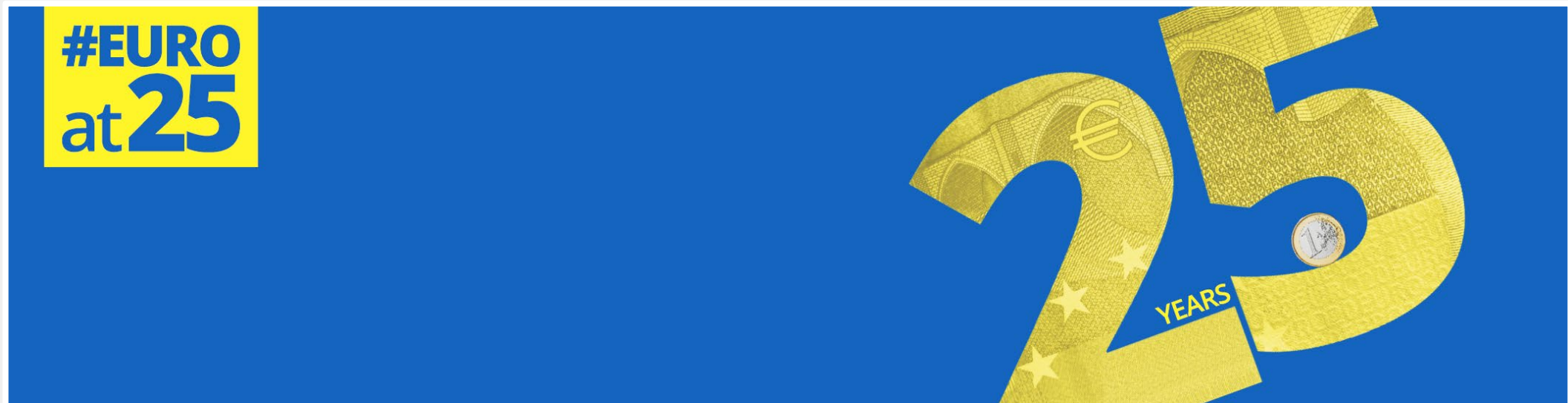
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Presentation at Barcelona School of Economics

Rolf Strauch, ESM Chief Economist and Management Board Member

Marialena Athanasopoulou, Deputy Head of Economic Risk Analysis

3 October 2024



# BENEFITS OF THE EURO

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**Stable prices** and no currency exchange costs in the single market



**Economic stability and convergence:** more trade, investment and growth



**Integrated financial markets:** more financial stability and better financing conditions



**Political unity:** common currency and economic policy coordination



**Global influence:** stronger presence for the EU in the global economy



# WHAT HAS BEEN THE MOST IMPORTANT IMPACT OF THE EURO IN YOUR VIEW?

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Price stability



Economic stability and convergence



Integrated financial markets



Political unity



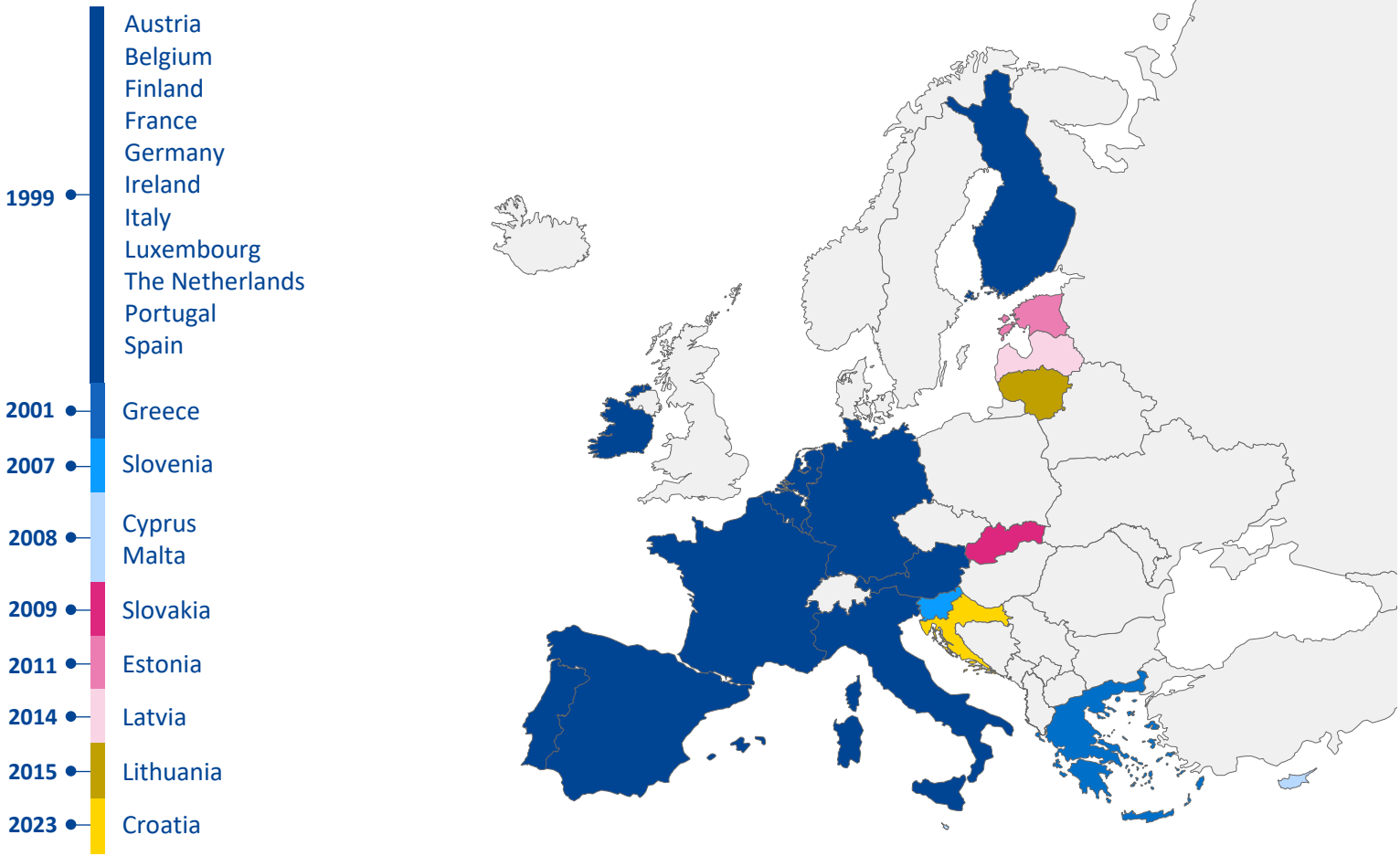
Global influence



Little or no benefits



# THE EURO TODAY—MEMBERSHIP EXPANDING



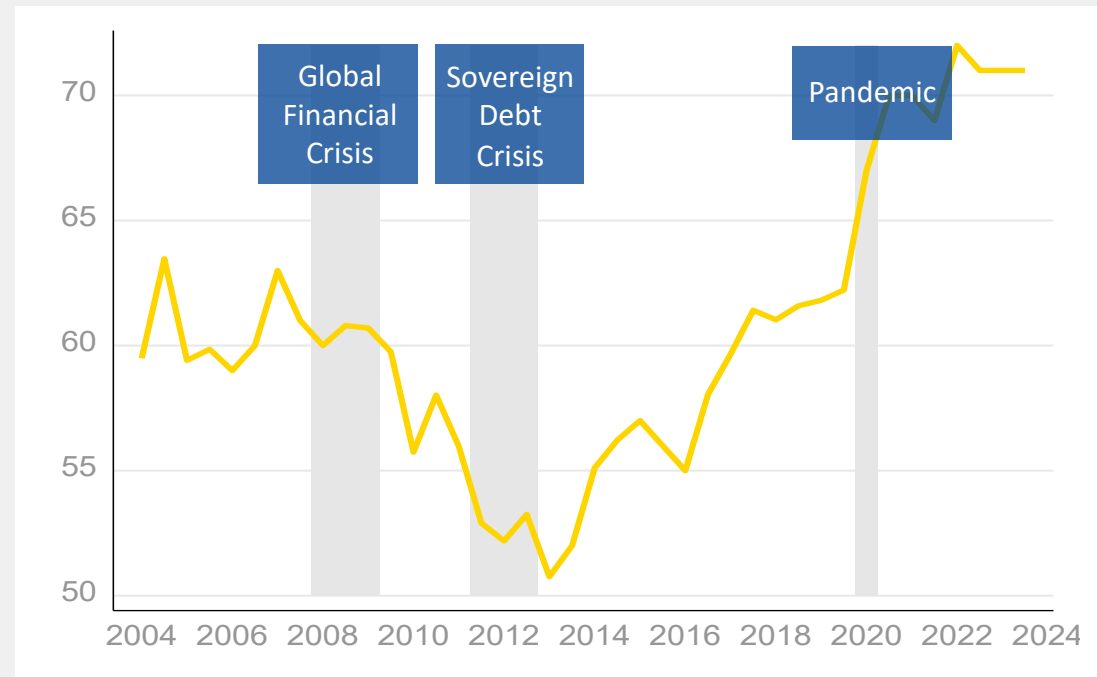
# THE EURO TODAY—SUPPORT AT AN ALL-TIME HIGH

A large majority of citizens in the euro area support the euro

Eight out of 10 citizens (80%) think that the euro benefits the EU

About 70% think that it benefits their country

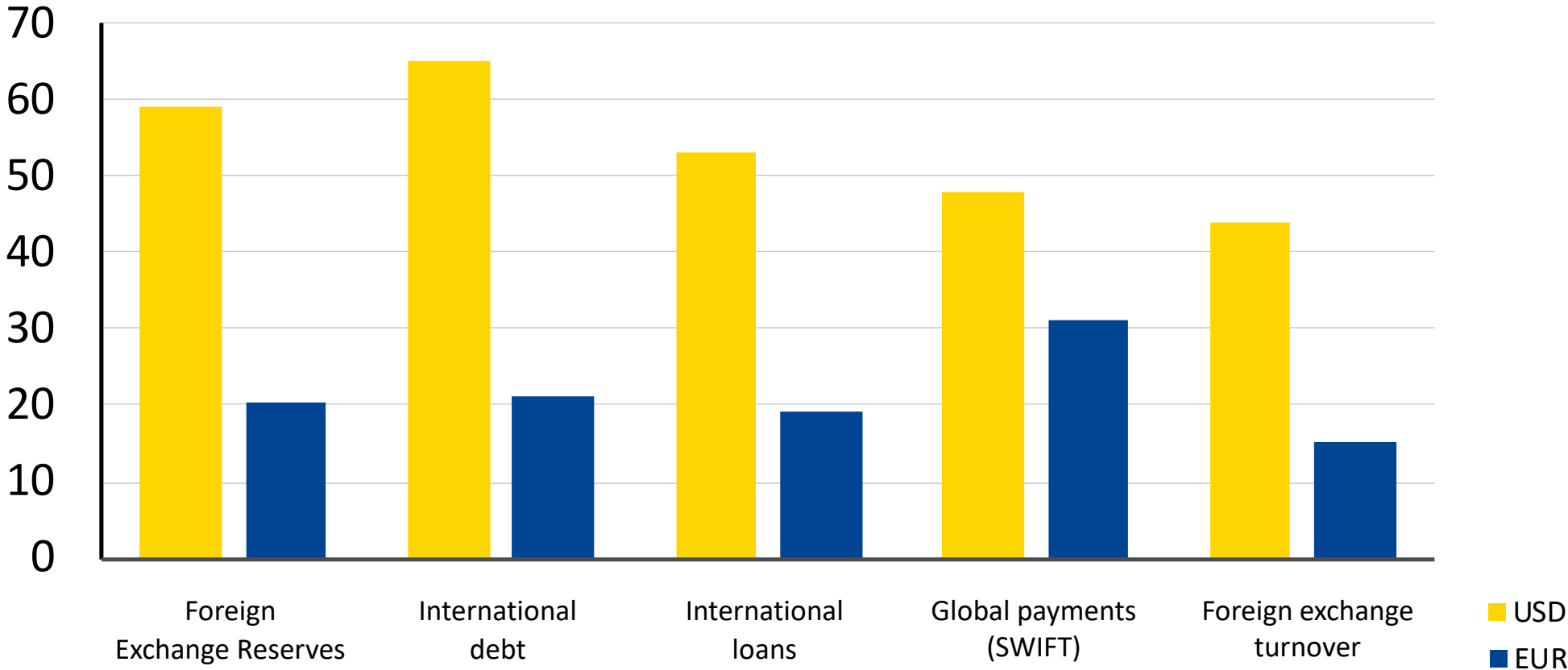
Support for the EMU with one single currency  
(% in favour)



Source: Eurobarometer. Note: Grey shaded areas mark recessions in the EA.

# THE EURO TODAY – 2<sup>ND</sup> MOST USED CURRENCY WORLDWIDE

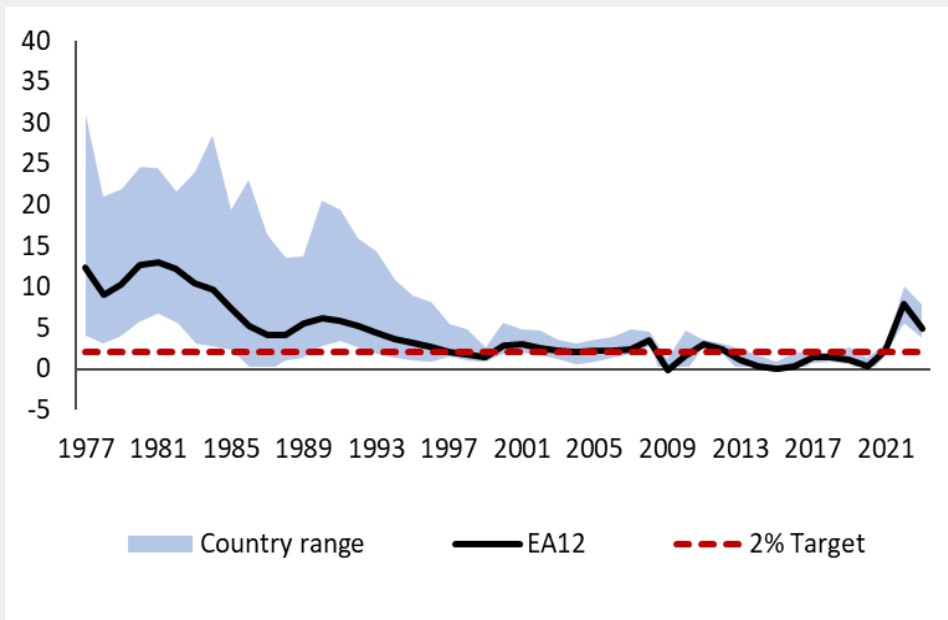
Snapshot of the international monetary system (%)



**Notes:** “Foreign reserves” refers to the assets held by central banks as reserves. “Global payments” is based on SWIFT data and shows with what currency a payment transfer is made. “Foreign exchange” refers to foreign exchange markets when currency conversion is made. (The number shows how often the euro is one side of a currency conversion.) The data are as of 2022. Sources: ECB, IMF WEO, DoT and COFER; BIS; SWIFT; and Boz et al. (2020).

# THE EURO TODAY - A STABLE CURRENCY SUPPORTS PRICE STABILITY AND RISING PROSPERITY

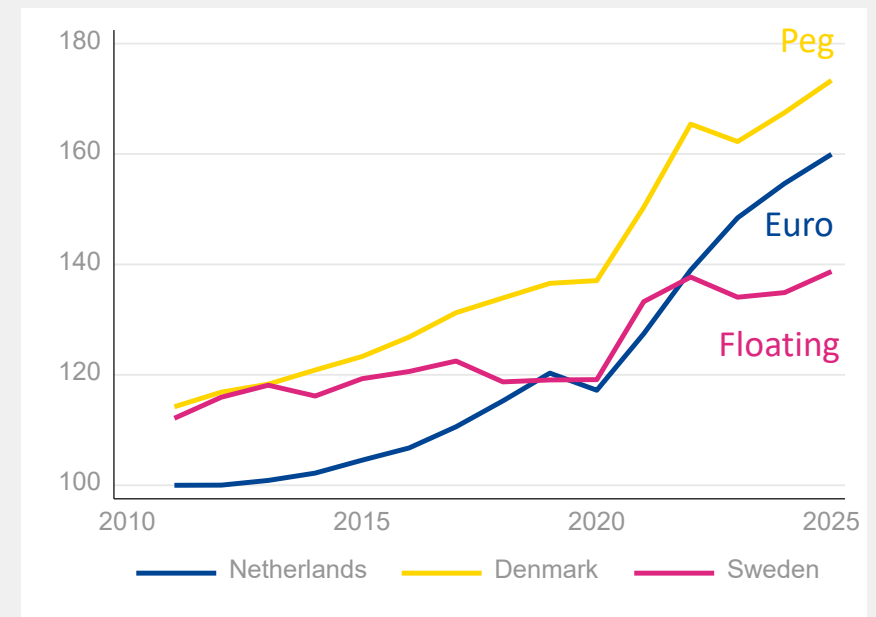
## Inflation distribution (%)



Source: OECD

Note: Sample consists of 12 founding euro area countries. EA12 is the median and the range is computed by calculating the maximum and minimum of the indicated variable over the sample each year shown.

## GDP per Capita Index (NL 2011 = 100)



Source: AMECO and ESM staff.

# FROM CONVERGENCE TO FRAGMENTATION, AND BACK

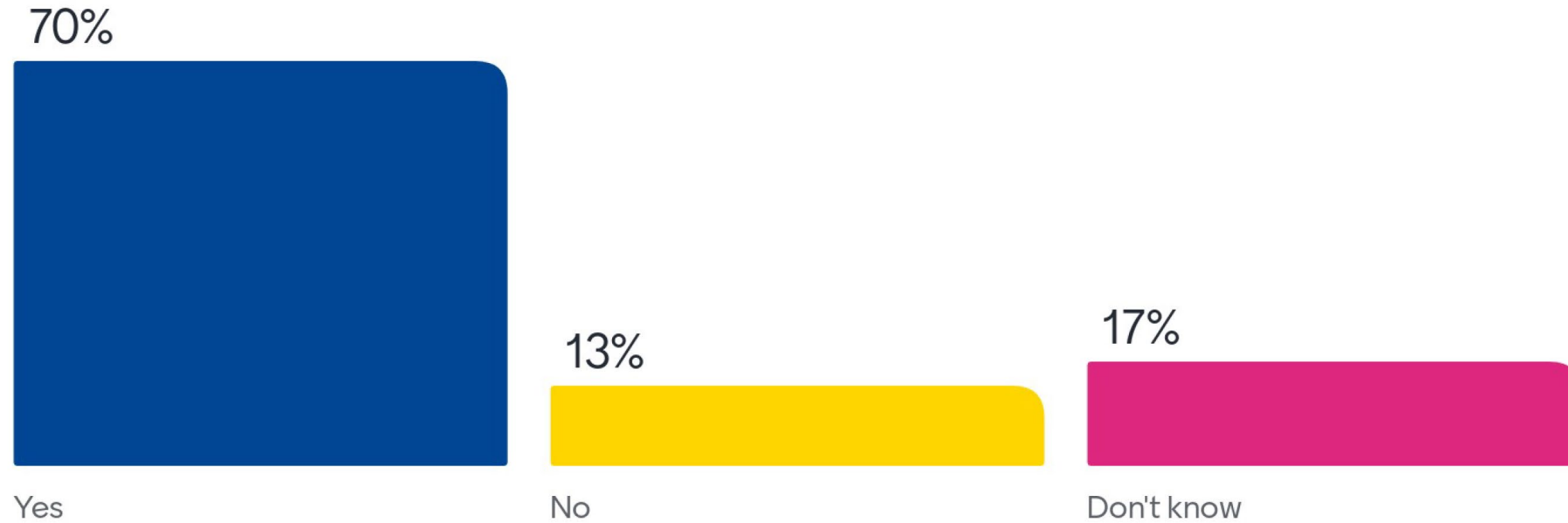
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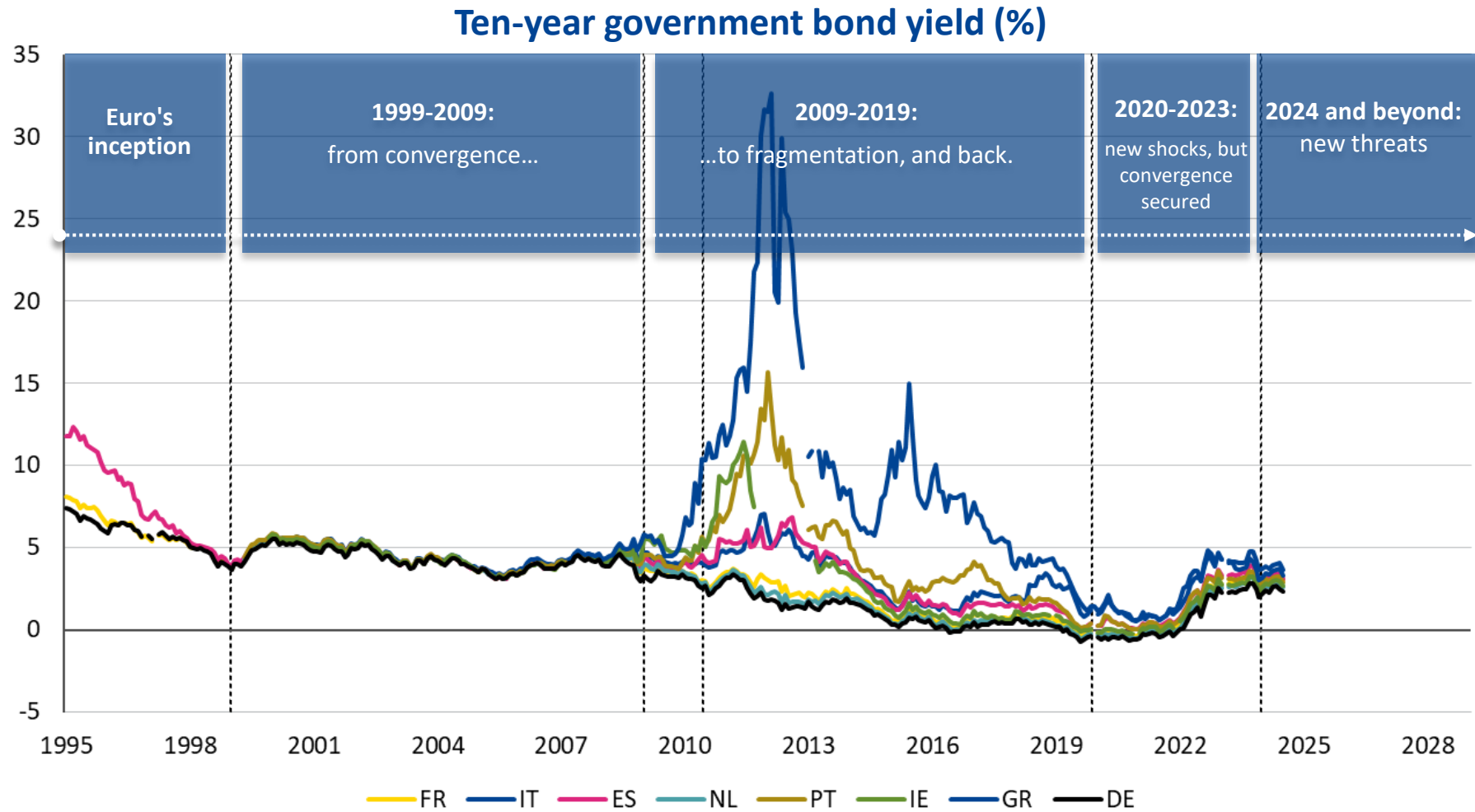


# DO YOU THINK THAT SPAIN HAS CONVERGED TO EURO AREA ECONOMIC DEVELOPMENTS OVER THE PAST 2.5 DECADES?

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# MONETARY TRANSMISSION - CONVERGENCE AND FRAGMENTATION

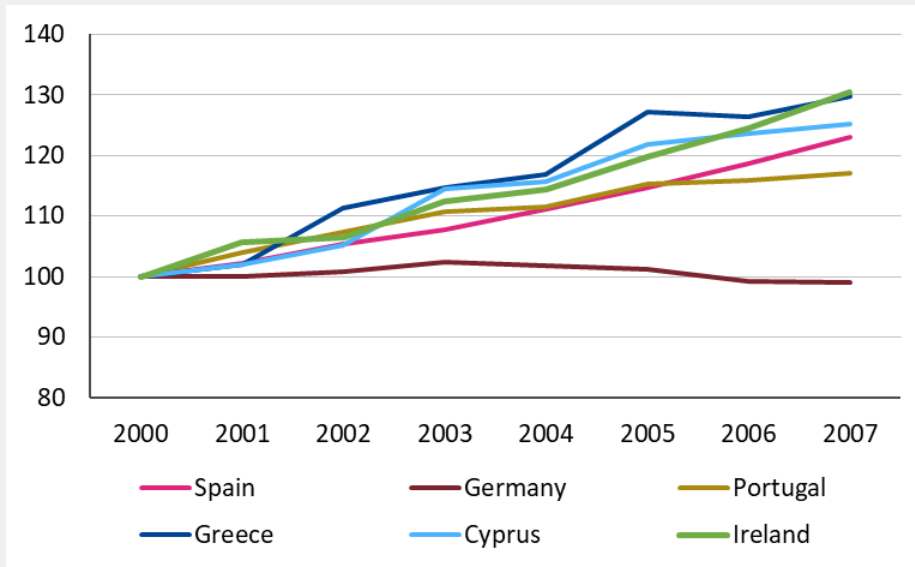


Source: Bloomberg

# FRAGMENTATION CAUSED BY SIGNIFICANT IMBALANCES

## Loss of competitiveness in several EA countries

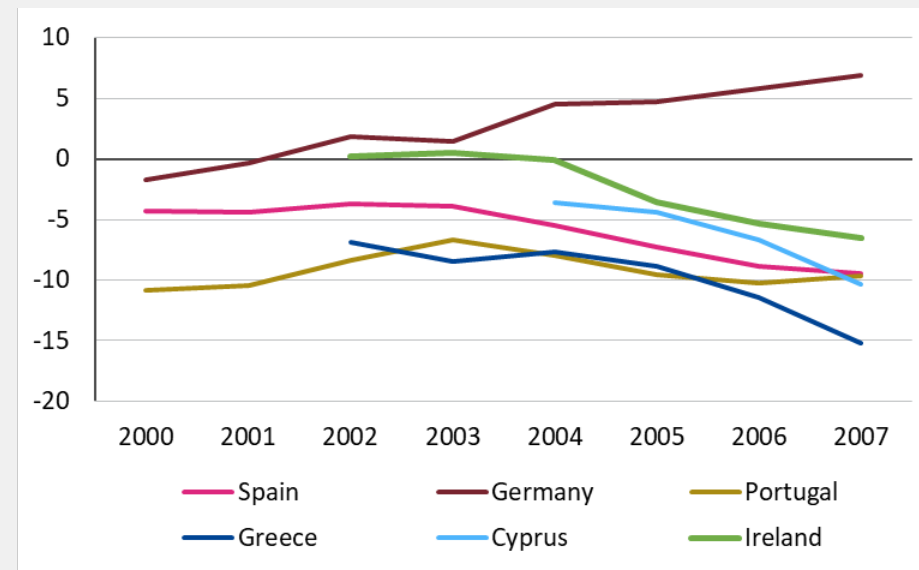
Nominal unit labour costs (2000=100)



Source: Eurostat and European Commission

## Current account deficits grew

Current account (% of GDP)

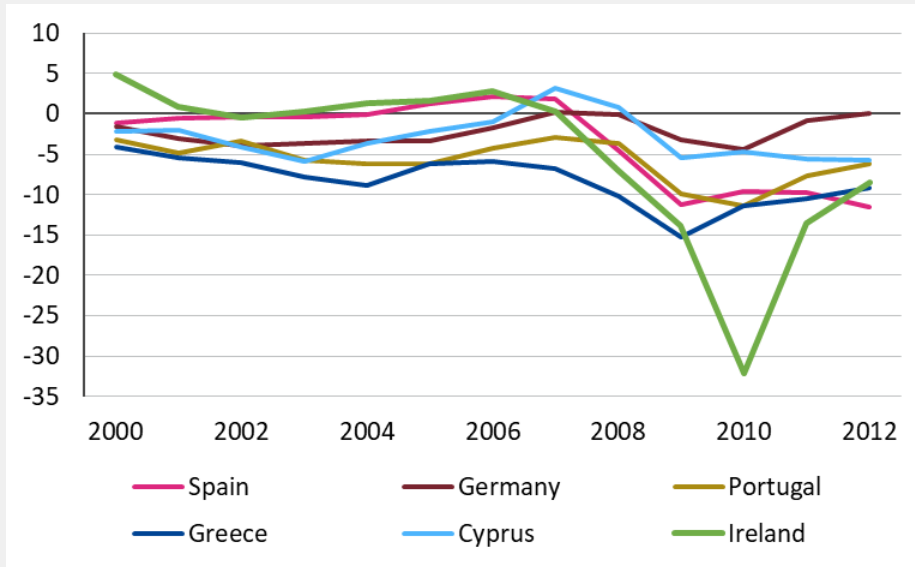


Source: Eurostat and European Commission

# RISK AND EFFECT OF THE FINANCIAL “DOOM-LOOP”

## Some states had run fiscal deficits for long

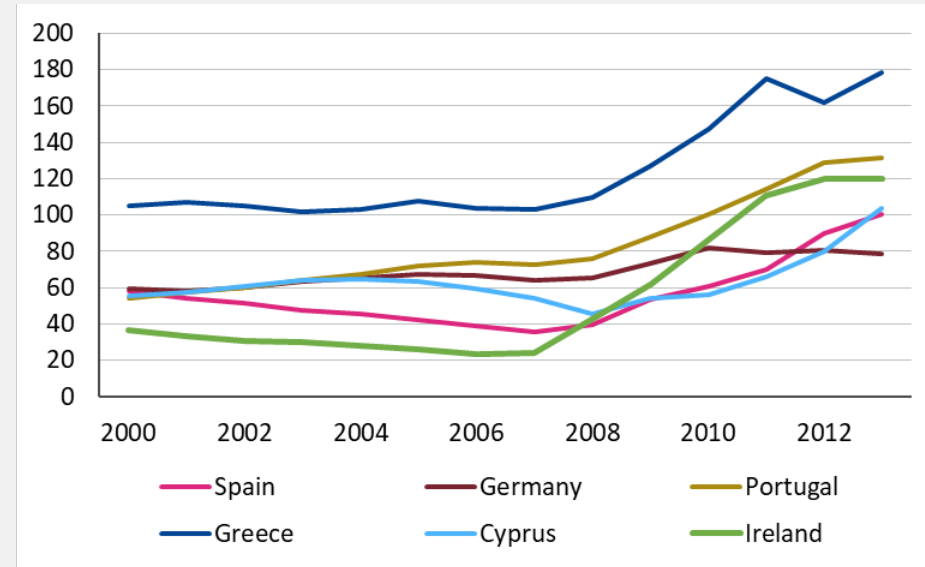
Net lending (% of GDP)



Source: Eurostat and European Commission

## ... and became highly indebted

Public Debt (% of GDP)



Source: Eurostat and European Commission

# COUNTRIES TAKE TURN WITH STRONG REFORM PACKAGES

Various reforms, along with the establishment of ESM/EFSF, paved the way for success.



EFSF and ESM financial assistance provided crucial support, enabling programme countries to implement **vital reforms**.

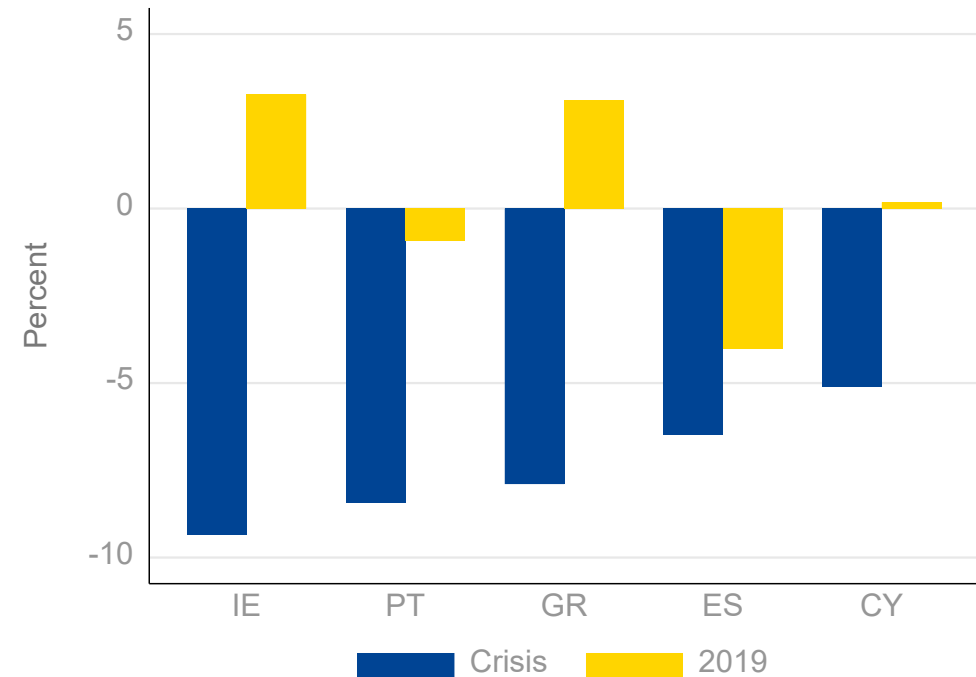


As a result, all programme countries successfully regained market access.



All five countries **returned to economic growth**, well above the euro area average, until the pandemic crisis.

Structural fiscal balances of select EA countries  
(in % of GDP)



Source: AMECO and ESM staff.

# ESM SUPPORT – SPAIN SUCCESSFULLY RESTRUCTURED A TROUBLED BANKING SECTOR & RESTORED GROWTH AND CONFIDENCE

## Reforms and efforts during the ESM assistance programme, restored:



**Banking sector viability:** recapitalized and consolidated banks with strong capital base and access to funding.



**Economic Recovery:** growth returned in 2014, with improved competitiveness, employment, and current account balance.



**Market confidence:** resulting in lower borrowing costs and better access to capital markets.

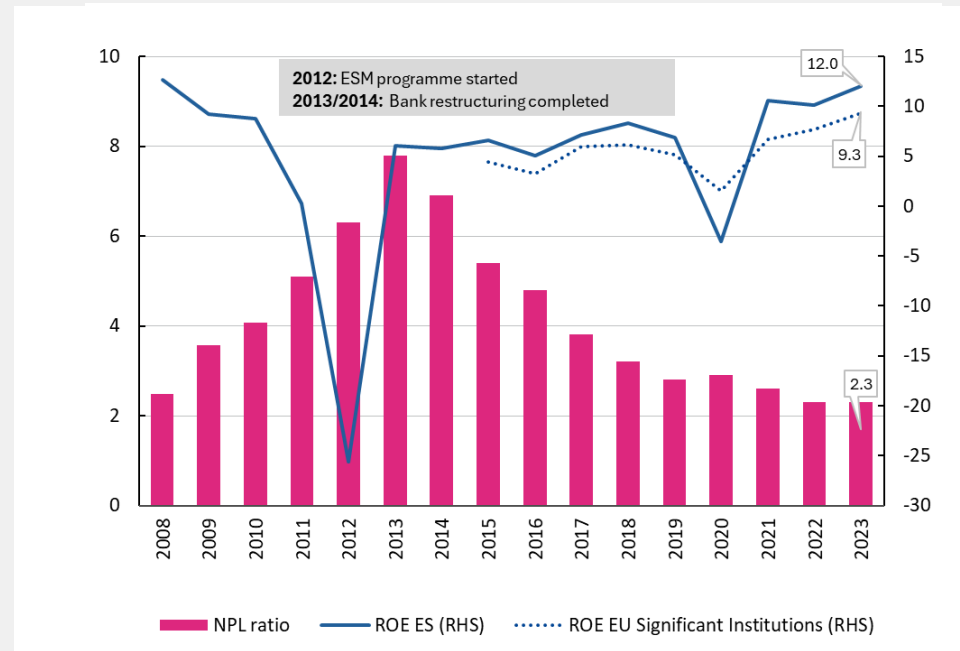
### ESM programme:

- 41.3bn
- 12.5 weighted average maturity
- 1.34% average interest rate



Scan the code for more information

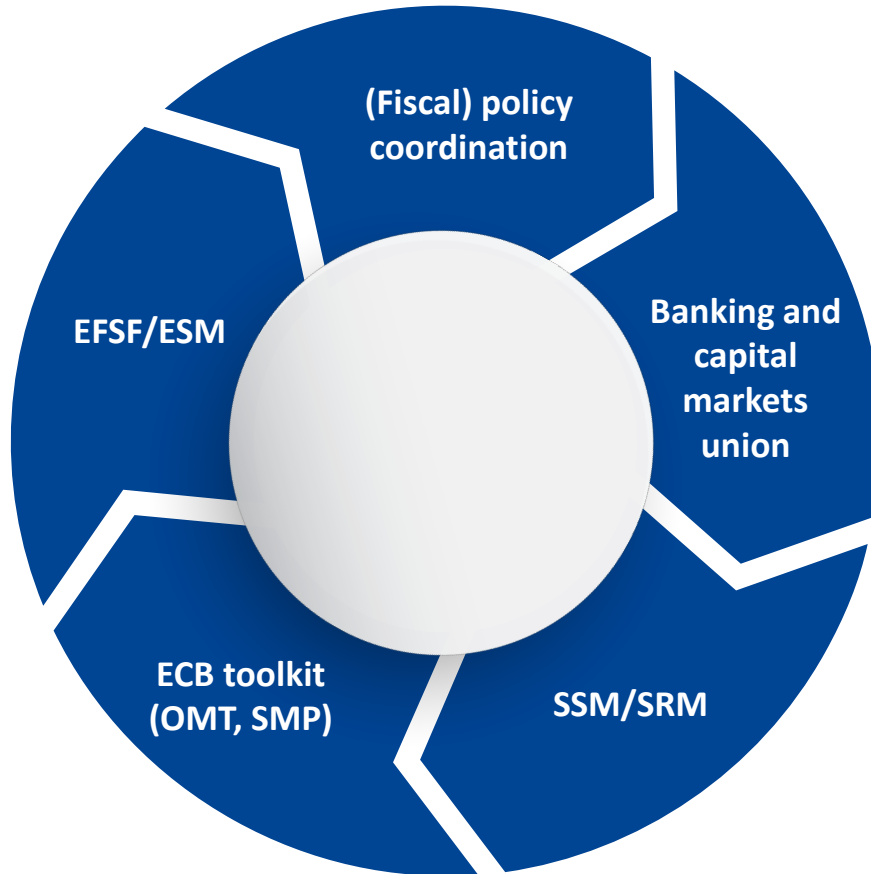
## Spain: NPL and ROE ratios (%)







Source: ECB, Banco de España

# COMPREHENSIVE POLICY RESPONSE REKINDLES CONVERGENCE

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## Comprehensive reforms in many policy areas

-  Fiscal policy and surveillance
-  Banking regulation and supervision
-  Crisis management
-  Monetary policy

# ANOTHER TYPE OF CRISIS; DIFFERENT TYPE OF RESPONSE

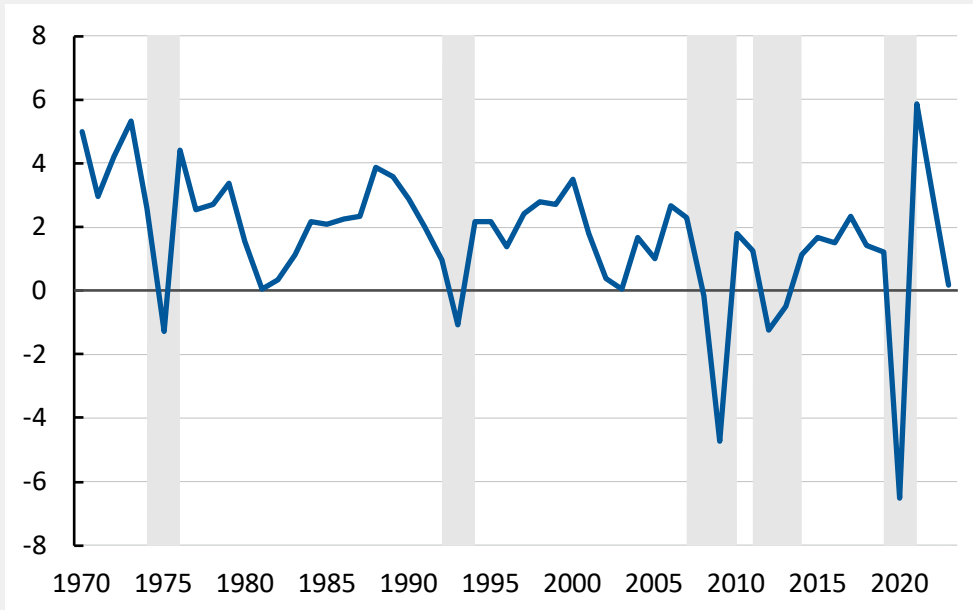
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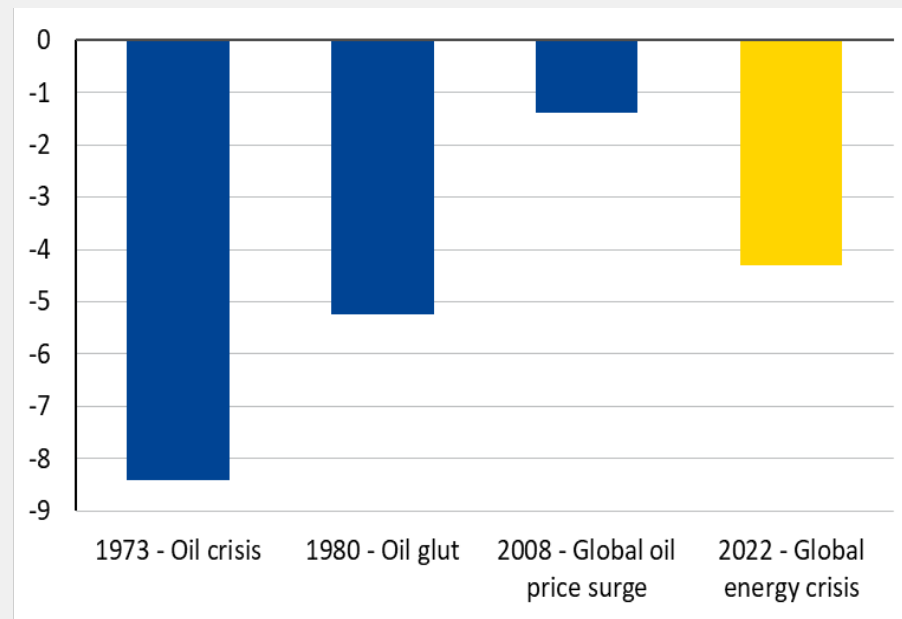
# PANDEMIC AND COST-OF-LIVING CRISIS SPARK RENEWED FRAGMENTATION RISK...

### EA-12 real GDP per capita growth (% annual growth rate)



**Source:** AMECO. Note: EA12 assumes West Germany before 1991. Note: share of economies in recession is defined as an annual contraction in per capita GDP

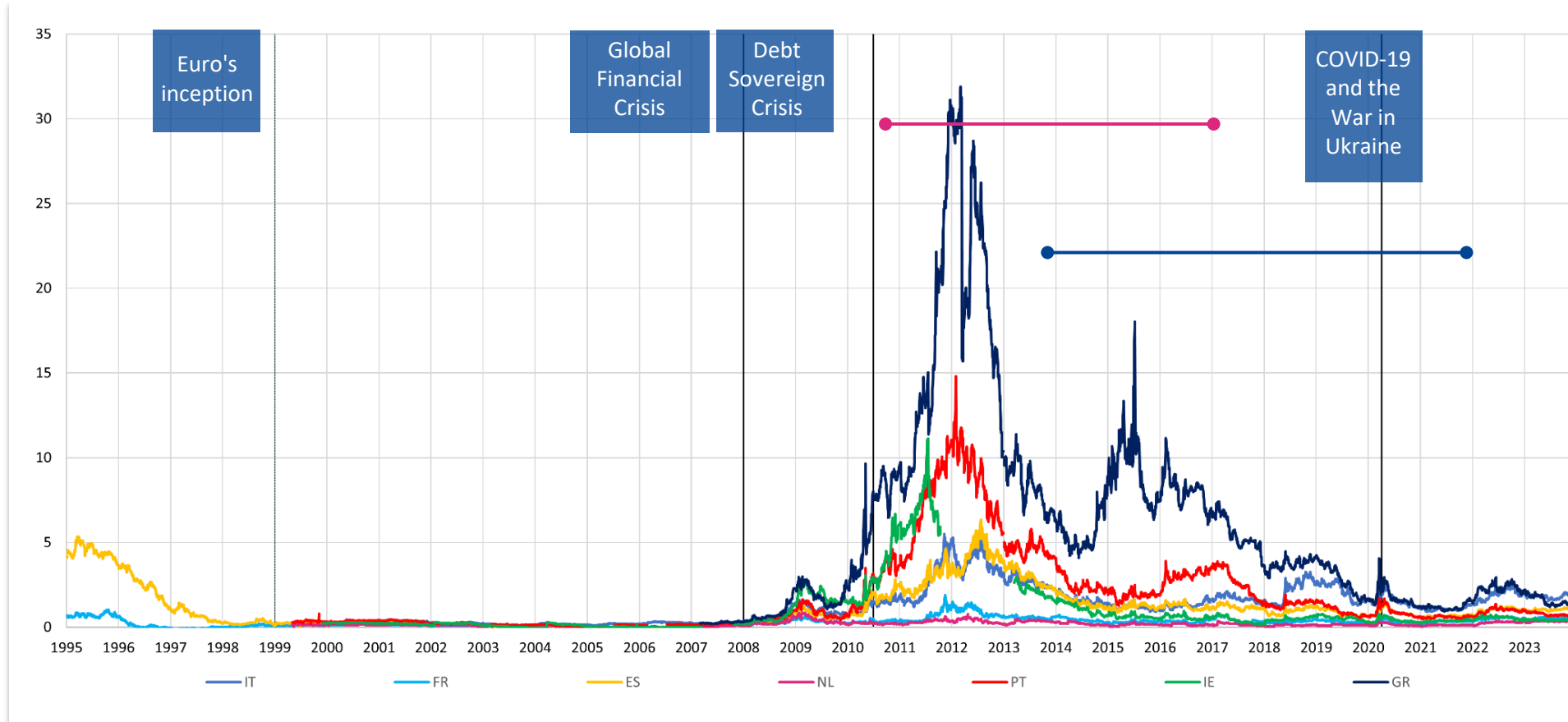
### EA-12 Terms of Trade losses (%)



**Source:** AMECO. The terms of trade are calculated as the ratio of the export deflator over the import deflator. The charts reflect the year with the highest losses in terms of trade during the respective energy price crisis.

# ...BUT POLICY PACKAGES STABILISED MARKETS

(Ten-year government bond yield spreads against Germany, in percentage points)

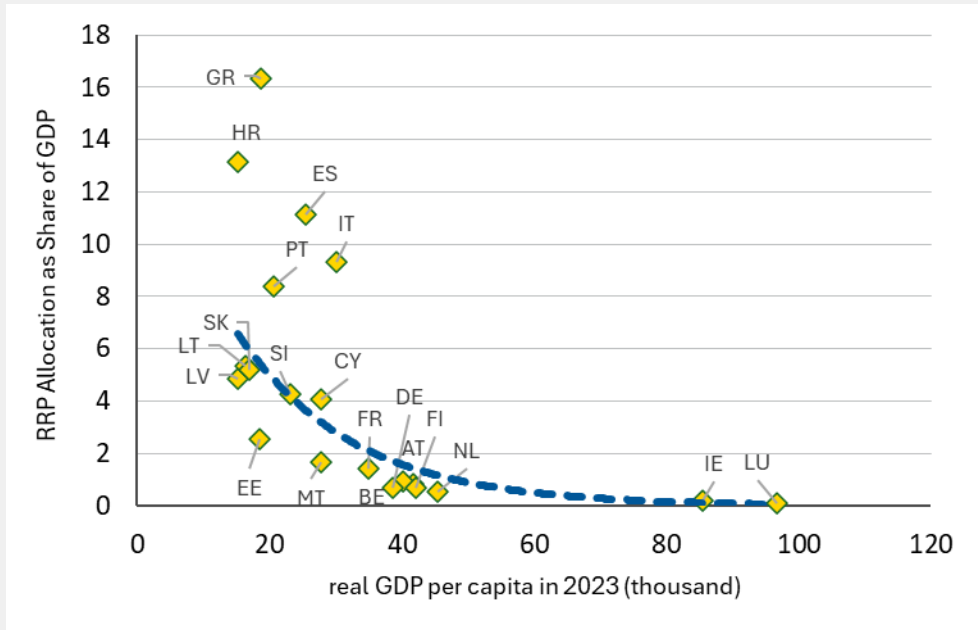


Fiscal: ESM/EFSSF €700bn of which €300 bn used 2011-2018.  
€60bn EU Monetary: ECB Draghi “whatever it takes” – 2012 and OMT+ESM

Monetary: ECB asset purchases (PSPP) 2015 - 22

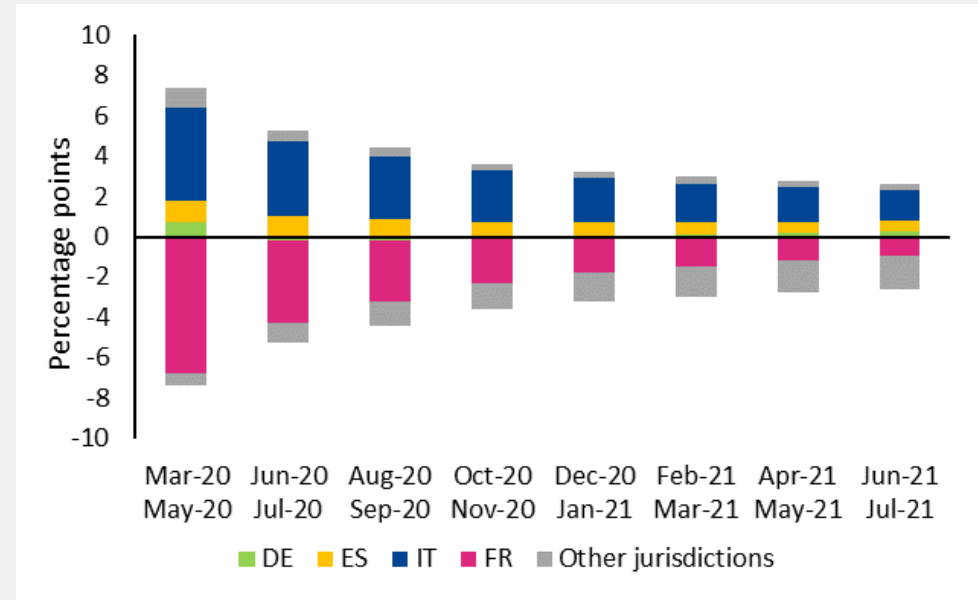
# EUROPEAN RESPONSE SUPPORTING COUNTRIES MOST IN NEED

## Recovery and Resilience Facility allocation by country



Source: European Commission.

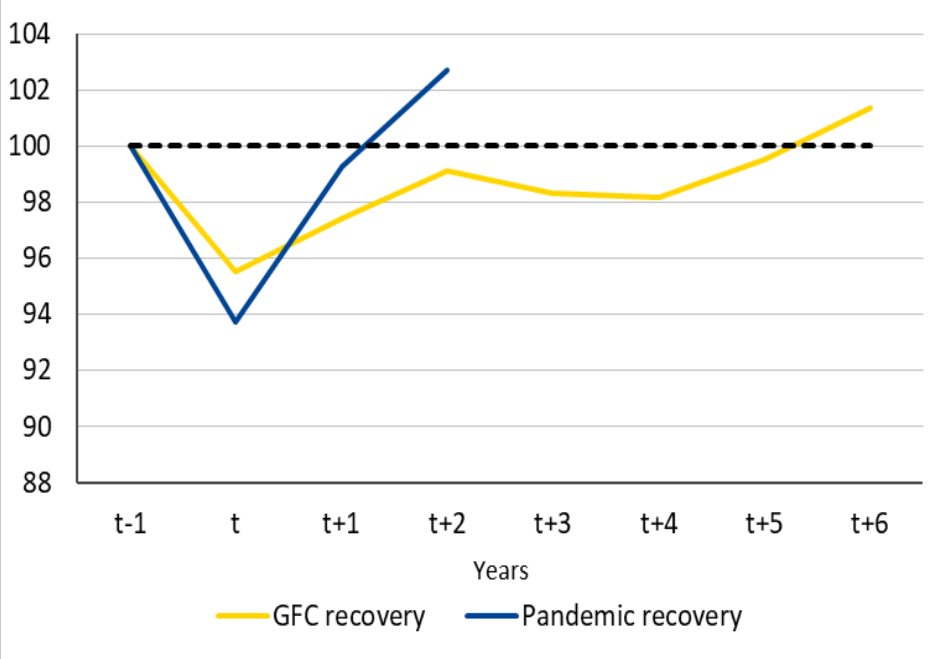
## Cumulated deviations from ECB capital key under the Pandemic Emergency Purchase Programme (in percentage points)



Source: European Central Bank. Capital key deviations for public sector purchases calculated in bi-monthly stock terms.

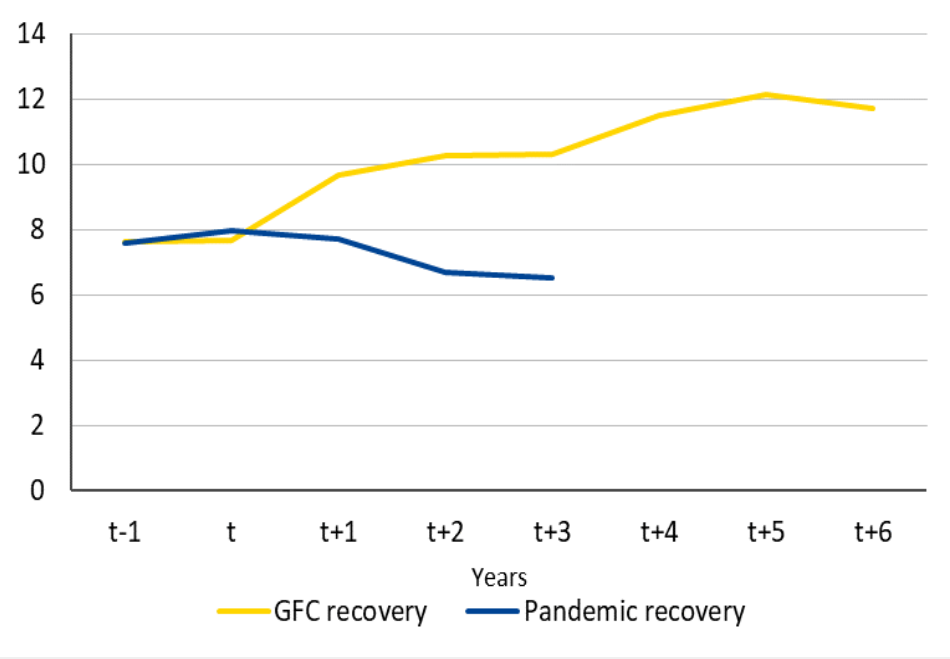
# THE FAST RECOVERY TESTIFIES TO RESILIENCE

**Fast real GDP recovery compared to previous crisis**  
(pre-crisis=100)



Source: European Commission

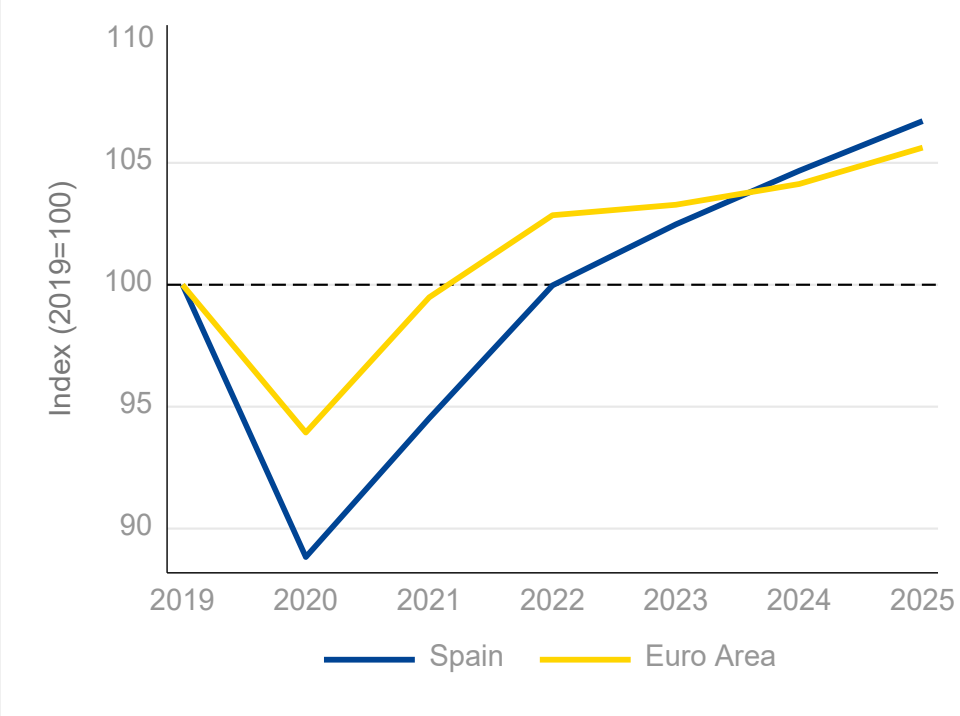
**Resilience in the labour market compared to previous crisis**  
Unemployment rate (%)



Source: European Commission

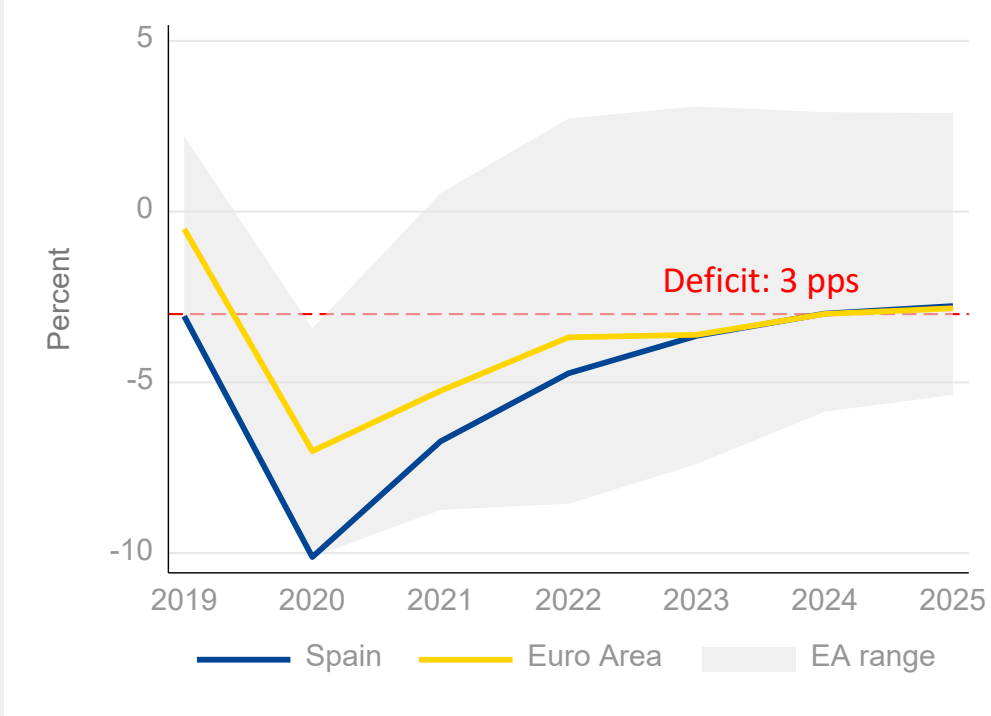
# SPAIN – RECOVERING FAST FROM SEVERE PANDEMIC DAMAGE BUT REMAINING FISCALLY VULNERABLE

**Real GDP growth of EA countries**  
(index, 2019 = 100)



Source: Ameco.

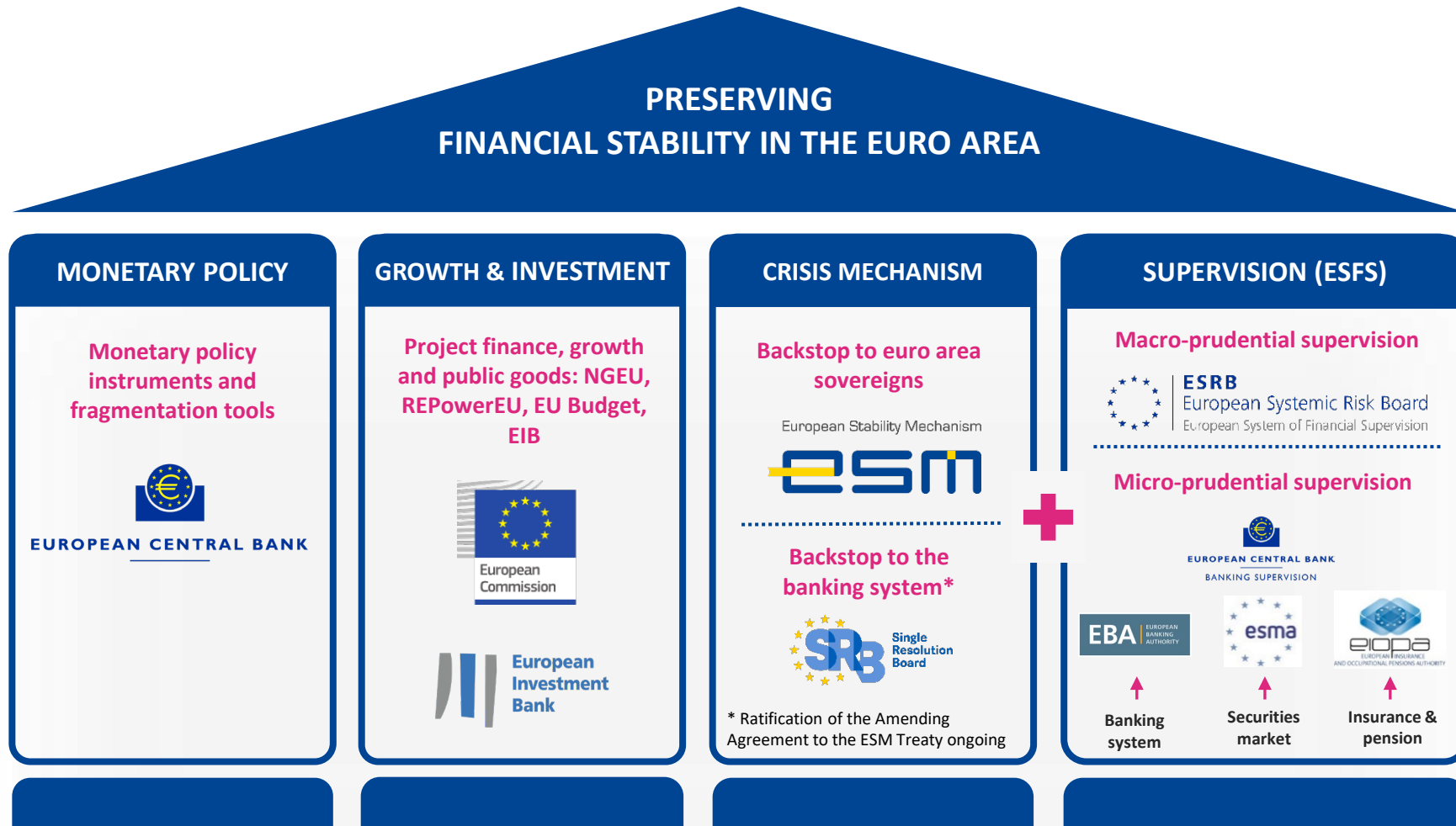
**Fiscal balances of EA countries**  
(in % of GDP)



Source: Ameco.

Note: The sample for the range contains all euro area countries except Ireland.

# STRONG EURO AREA INFRASTRUCTURE AFTER FOUR CRISES



# LOOKING AHEAD – THE CHALLENGES

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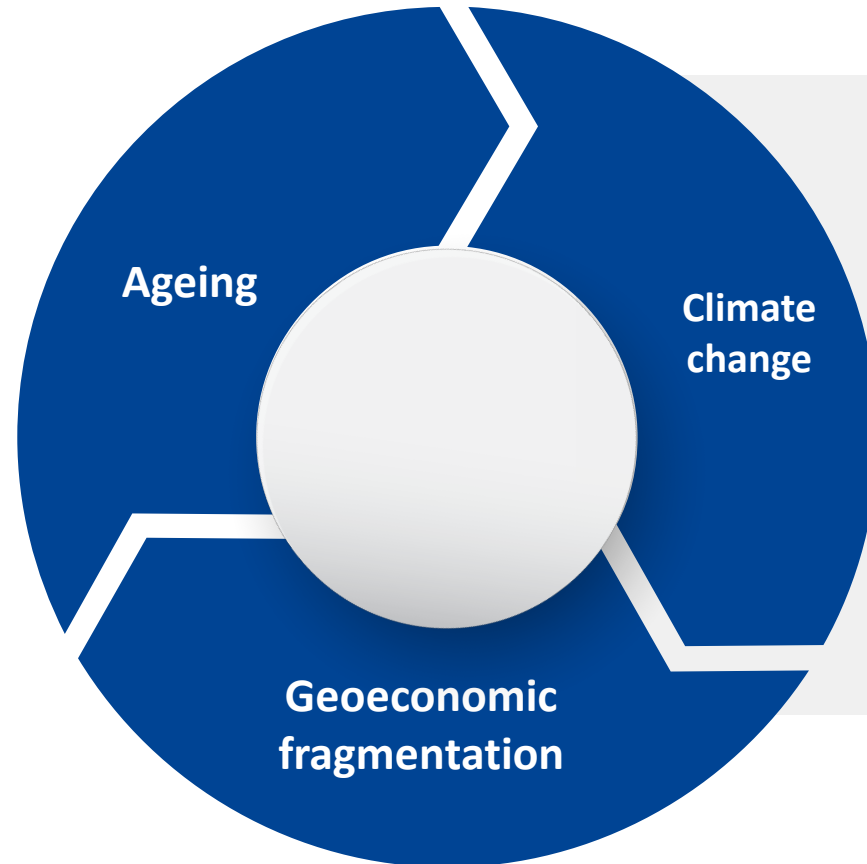









# EU MEDIUM-TERM AGENDA: RESILIENCE AND COMPETITIVENESS TO TACKLE GLOBAL CHALLENGES

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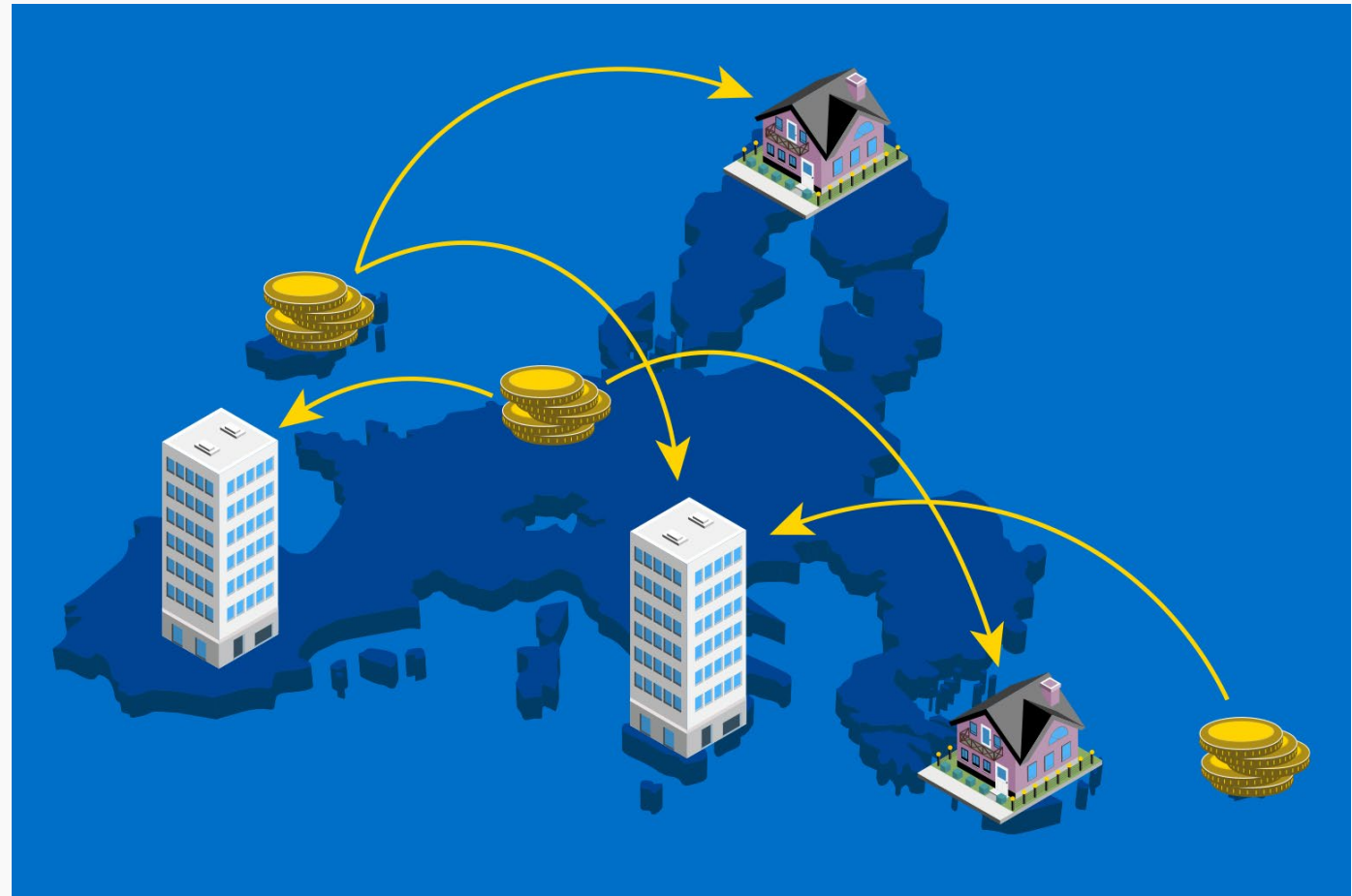
-  Enforce new economic governance framework
-  Strategic use of European financial resources
-  Deepen single market (priorities are finance and energy) and diversify global trade

# MARKET INTEGRATION STILL NEEDS TO PROGRESS

Many markets (energy, transport, defence, capital) **remain fragmented** along national borders...

...which requires us to identify and remove **barriers to efficient cross-border trade and finance.**

Greater market integration will deliver substantial benefits.



## FROM THE FOUNDING FATHER

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“The euro is a symbol of **European unity**. We must **protect and strengthen it.**”

*- Jacques Delors, President of the European Commission (1985-1995)*

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EUR@25

#EURO  
at 25

The **euro** is  
your future



## CONTACT

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Rolf Strauch

(+352) 260 962 0

r.strauch@esm.europa.eu

LinkedIn profile:



European Stability Mechanism  
6a Circuit de la Foire Internationale  
L-1347  
Luxembourg

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