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Yesterday we had an important and very interesting session on the future of the Euro, which is why I am delighted to give the floor to Nicolas Véron, a senior fellow based both in Brussels and Washington, DC. Nicolas, what can you tell us about the state, and particularly the international, role of the Euro?

Nicolas VÉRON

I was not there yesterday, so I hope my remarks will bring a complementary perspective. The euro has a bad press, and panels about it are generally about all the problems. There is a reason why there is bad press – the crisis has been very long and protracted, and depending on where you put the starting point, we have been through about a decade of crisis in the eurozone and very bad policy reactions at several critical points, so there was a litany of errors, especially in the first few years of the crisis.

It also has a bad press for other reasons. One is a form of confirmation bias. A lot of observers of the euro in academia spent the 1990s saying the project would not take off, and when it did take off there was a sense of frustration, so there is a temptation for some observers to say, 'I told you so.' And let us face it: there are also political interests at stake. European strength is welcomed by some geopolitical actors and not by others, and therefore the success or failure of the euro becomes part of this broader international political game.

I would like to emphasise very briefly that the story of the eurozone crisis is a story of policy mistakes and learning, frankly, but it is also a story of survival. Let us remember mid-2012, which was the most critical moment in the whole sequence of crises, even though the Greek crisis of 2015 was more colourful. However, in mid-2012, even the most level-headed observers could not take it for granted that the Euro would not break up, and we came pretty close to that moment of breakup. The crucial moment of decision was the European summit of late June 2012, when the eurozone countries decided to hang together rather than hang separately, and I view that as the turning point of the entire sequence of crisis.

The fact that the eurozone has survived creates legitimacy just out of the sheer fact of survival. People have greater trust in a construct that has demonstrated its ability to withstand crisis even with mistakes. Basically, survival creates legitimacy as of itself. But it is not only that; the eurozone construct is now much stronger than it was at the beginning of the crisis. There are two main differences. One is the creation of the European Stability Mechanism, which is a big pot of money, about EUR 500 billion– which is far from negligible – in lending capacity, so that is pretty easy to understand. The other thing, which is slightly more complicated and more of a halfway house, is the banking union, but that also makes a big difference. Those who remember the negotiations of the Maastricht Treaty remember that banking supervision was very actively discussed at the time, and in the end it was ruled out because it was considered politically impossible.

Therefore, from this perspective, the establishment of the banking union, the single supervisory mechanism at the ECB, means that the whole financial system in the eurozone eventually comes under a single point of oversight. The banking system, the vast majority of the system, is really a big gap being plugged, compared with the initial discussions around the creation of the euro.

The counterargument is Italy – it is said to be a disaster within the eurozone, the crisis is not resolved, and nothing has changed. I would like to take the opposite point of view and say that current political developments in Italy demonstrate precisely how much stronger the eurozone is now compared to previous points of the crisis. The first indicator of that is that there is no contagion, so spreads on Spanish debt have not risen because of the rise in spreads on Italian debt. There has been a slight rise in Spanish spreads in recent weeks, but for Spanish reasons, and more generally, you do not see the patterns of correlation and contagion that were the rule in previous stages of the crisis.



Indeed, comparing the Italian Government now with the Greek Government three and a half years ago, which is a natural benchmark, the Greek Government was constantly toying with the threat and possibility of exit, but, for all the idiosyncrasies of the current Italian Government, that is not the case. The Italian leaders in their rhetoric, and I would also argue in their actions, are effectively committed to doing a lot of things that I would not necessarily advise, but they are staying in the eurozone, and that is a huge difference. Basically, what I would say about Italy is that, to paraphrase the poet, Italy has 99 problems but euro exit is not one of them.

The strength of the eurozone is also observable in the restart of the accession cycle. Bulgaria has entered the formal process of accession, and this is likely to be the case for Croatia and Romania pretty soon. Even outside Euro accession, there is a new process of joining the banking union without joining the eurozone, which will probably be decided by Denmark in the next two years and possibly later on by Sweden. Basically, you have the coming-together of the EU 27 – assuming of course, which I do, that there is no second referendum and the UK exits the EU as planned and probably on time – there will be a greater coincidence between the eurozone, the banking union and the EU than has been the case until now.

I do not expect all EU countries to adopt the euro – for example, Poland and Hungary will probably not do so under their current leadership – but there will be an even greater dominance of the eurozone and banking union in the EU construct, which is also quite important.

What about the international role? Thierry de Montbrial mentioned in his speech the fact that the international role of the dollar will probably eventually come to an end. Will the euro be a substitute? That is an old debate, people like Jean Pisani-Ferry, who is in the room, have contributed to that for a very long time. and it is pretty clear that the EU is not ready to take the kind of leadership that comes with the exorbitant privilege, as Valery Giscard d'Estaing famously put it, of being the world's dominant currency.

Iran will be a testing ground of the ability to conduct transactions outside the dollar zone and outside the control of the US. It is not just a currency issue and certainly not a SWIFT issue, and it is too early to tell what attitude the US administration will take next month. I will just say that the single most critical element for the future international leadership of the Euro is its ability to finish the job of building a single powerful financial system out of the 19, or 27 depending on how you count, individual financial systems we had before the crisis. Therefore, completing the banking union and building it into a capital markets union is what will make or break the international role of the Euro going forward.

Ali ASLAN

Thank you for giving us an overview of the international role of the euro, which you argue, contrary to what some might believe, is actually quite strong, because it has already survived the worst crisis that we had in 2012 and is now prepared for the future – a currency, if I understand you, that is here to stay.