THE 20-YEAR-OLD EURO AREA: UNFULFILLED EXPECTATIONS AND PERSISTENT PROBLEMS

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Abstract

The euro has existed for 20 years. The catastrophic scenarios that predicted the end of the euro after the first major crisis have not been fulfilled. The 20 years of the euro have shown that the euro area Member States can address the serious acute consequences of the crises in the Economic and Monetary Union that threaten the existence of the euro. On the other hand, the institutional framework of the Economic and Monetary Union has not been completed in a form that would ensure the long-term smooth functioning of the euro area, effective crisis prevention and a significant reduction of differences in economic performances and competitiveness between the best and worst euro area Member States. However, the completion of the institutional framework of the Economic and Monetary Union is not feasible at least in the medium term, and concerns about the long-term sustainability of the euro area persist.

Keywords

Euro, Euro Area, Monetary Union, Economic Union, Fiscal Union, Debt Crisis

I. Introduction

The single European currency, the euro, has existed for 20 years. It is one of the most visible and widely used results of European integration. The single currency is also one of the most discussed elements of the European Union's structure. The debate on the conditions for the existence of the single European currency and for the functioning of the euro area continued to intensify in the context of the turmoil that hit the euro area as a result of the global financial and economic crisis of 2008–2009 and the subsequent debt crisis in five euro area countries. These crises hit the euro area countries with varying degrees of intensity and impact. Some euro area Member States have overcome these crises with relatively lower cost, with a smaller decline in real gross domestic product or with smaller government budget deficits, while other euro area countries have faced widespread falls in real GDP, with enormous government budget deficits and a rapid rise in public debts.

However, discussions on the appropriateness of monetary integration within the EU, on the conditions for the existence of the monetary union and its long-term sustainability are relevant not only in the last ten years. They also took place before establishing the euro area and also from the introduction of the euro to the outbreak of the global financial and economic crisis and the subsequent debt crisis. These discussions, both present and past, have their economic and political dimensions. They include analyses of economic conditions under which the EU Member States can use the single currency, analyses of rules and institutions allowing the smooth functioning of the monetary union, and analyses of economic and social consequences of the existence of the single currency. These were followed by analyses of turbulences and imbalances in the euro area and of consequences of crises in the monetary union, as well as by analyses of differences in economic developments between individual euro area countries and of the resilience of the euro area to potential future crises. Political views are also reflected in these economic discussions. There is a clear distinction in views of advocates

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and opponents of deeper European integration on benefits and risks of the single European currency, as well as on solving euro area problems.

The following text will seek answers to the following questions: Was the introduction of the euro primarily an economic or political decision? Is the euro area a full economic and monetary union? What are the main conditions for the long-term sustainability of the euro? Are the conditions and criteria for the introduction of the euro sufficient to assess countries' readiness to join the euro area? Does the single currency help or hurt the euro area Member States in times of crises? Are there differences between the Member States in this respect? Has the euro area been resilient to crises? Is the euro area able to strengthen its resilience to future crises? Will it be possible to maintain the euro area for the next 20 years? Methods of induction, deduction, analysis, synthesis and comparison will be used in research of the aforesaid problems.

II. Establishment of the euro area primarily as a political decision

The first plans to introduce a single European currency came into being at the turn of the 1960s and 1970s, but only the Maastricht Treaty, which came into force in 1993, has legally enshrined a real roadmap to a single currency. Monetary integration has become a primary objective of the EU countries. The euro was finally introduced on 1 January 1999 in eleven EU Member States. After 1999, the euro has been adopted by other states, so since 2015 the euro area has 19 member countries.

The Maastricht Treaty contains a number of problematic and contradictory provisions in its sections on the Economic and Monetary Union, which have become the basis for the future euro area problems. The first contradiction is the fact that the Maastricht Treaty defines four economic convergence criteria (price stability, long-term interest rate levels, exchange rate stability and the sustainability of public finances), which must be met by the euro-introducing countries, while setting 1 January 1999 as the deadline for the euro adoption (OJEC, 1992, p. 20). However, this implies a very strong assumption that some EU Member States will meet all convergence criteria by 1998 so that the euro can be introduced. This points to the fact that the introduction of the euro was a political rather than economic decision.

The second contradiction is that although the Maastricht Treaty refers to establishing an Economic and Monetary Union, it actually creates only a full monetary union, but the institutional arrangement of an economic union is only partial, incomplete. While the monetary union is based on a single currency and a single monetary policy, the economic union is based only on budgetary surveillance and coordination of Member States' economic policies, not on single fiscal and other economic policies (OJEC, 1992, pp. 11–16; OJEU, 2012, pp. 96–105). However, it is important for the long-term sustainability of the single currency to complement the monetary union with the tools to compensate for the possible different effects of the single monetary policy on the various Member States of the monetary union. Such tools are typically a common fiscal policy and a sufficiently large common budget. These instruments have not been introduced for the euro area. They were supposed to be introduced later, for example under the pressure of a crisis that would show their necessity. It also points to the fact that the introduction of the euro was primarily a political, not an economic, decision.

III. The main shortcoming of the euro area: a complete monetary union without a full economic union

Another problem is the definition of convergence criteria, which allows countries that may not be well prepared to operate in the monetary union to enter the euro area. This enabled the introduction of the euro in a relatively large number of EU Member States (in 11 of the then 15) on 1 January 1999, but often only due to a more benevolent interpretation of the convergence criteria (OJEC, 1992, pp. 13, 84; OJEU, 2012, pp. 100, 279).

The data in Table 1 shows that all 11 countries that joined the euro area on 1 January 1999 met certain convergence criteria without difficulty, namely the criterion on price stability (inflation rates) and long-term interest rates. However, many euro area countries have had difficulty in meeting the criterion on the sustainability of public finances, which is monitored by the development of two indicators – the general government budget deficit and the general government gross debt. The requirement for the budget deficit not exceeding 3% of GDP was only narrowly met by France (deficit of 3% of GDP) and by five other states (Germany, Italy, Spain, Austria and Portugal with deficits of 2.5–2.7% of GDP). The fulfillment of the requirement for the general government gross debt not exceeding 60% of GDP was even worse. Most countries only fulfilled it using the more benevolent interpretation allowed by the founding treaties of the EU, namely that the general government gross debt criterion is met even if the 60% of GDP reference value is exceeded if the government debt-to-GDP ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace (OJEC, 1992, pp. 13, 84; OJEU, 2012, pp. 100, 279). Eight of the eleven countries entering the euro area on 1 January 1999 had general government gross debts above 60% of GDP, two of them (Belgium and Italy) even exceeded the reference value by more than double (with general government gross debts over 120% of GDP). However, since these countries have slightly reduced their government debts over a period of several years prior to the introduction of the euro, their general government gross debts have been assessed as complying with the convergence criterion.

Table 1 Assessment of the fulfilment of the convergence criteria by the 11 founding euro area Member States

	Inflation rate (%)	Long-term interest rate (%)	Exchange rate	Government budgetary position					
			ERM participation	Excessive deficit	Deficit (-) / surplus (+) (% of GDP)	General government gross debt (% of GDP)			
	January 1998	January 1998	March 1998	1997	1997	1997	change from previous year		
							1997	1996	1995
Reference value	*2.7*	*7.8*	*yes*	*no*	*-3.0*	*60.0*			
Belgium	1.4	5.7	yes	no	-2.1	122.2	-4.7	-4.3	-2.2
Germany	1.4	5.6	yes	no	-2.7	61.3	0.8	2.4	7.8
Spain	1.8	6.3	yes	no	-2.6	68.8	-1.3	4.6	2.9
France	1.2	5.5	yes	no	-3.0	58.0	2.4	2.9	4.2
Ireland	1.2	6.2	yes	no	0.9	66.3	-6.4	-9.6	-6.8
Italy	1.8	6.7	yes	no	-2.7	121.6	-2.4	-0.2	-0.7
Luxembourg	1.4	5.6	yes	no	1.7	6.7	0.1	0.7	0.2
Netherlands	1.8	5.5	yes	no	-1.4	72.1	-5.0	-1.9	1.2
Austria	1.1	5.6	yes	no	-2.5	66.1	-3.4	0.3	3.8
Portugal	1.8	6.2	yes	no	-2.5	62.0	-3.0	-0.9	2.1
Finland	1.3	5.9	yes	no	-0.9	55.8	-1.8	-0.4	-1.5

Source: European Commission (1998)

Convergence criteria have already been defined in the early 1990s, based on the recommendations of the central bank governors of the then twelve EU Member States, and remain unchanged for countries applying for euro area membership up to now (OJEC, 1992, pp. 13, 20, 84–85; OJEU, 2012, pp. 100, 108–109, 279–282). This is reflected in the definition of the convergence criteria. Their required values are based on the economic results of the EU Member States in the early 1990s, namely on their inflation rates, long-term interest rates, general government balances, general government gross debts, and exchange rate developments at that time.

The fulfillment of the convergence criteria is monitored over a period of one year (criterion on price stability, long-term interest rates and government budget deficits), two years (criterion on exchange rate stability) or several years (general government gross debts) before the decision on a country's joining the euro area (OJEC, 1992, p. 85; OJEU, 2012, pp. 281–282). Consequently, the convergence criteria do not primarily reflect the long-term convergence of the macroeconomic indicators monitored by them in states seeking to adopt the euro. First and foremost, they indicate the short-term or medium-term development of these indicators by certain countries and the resulting readiness of these countries to join the euro area at some point in time. This also points to the fact that the introduction of the euro was a political rather than economic decision. The aim was to introduce the euro in as many EU Member States as possible.

In addition, whether the convergence criteria are interpreted more benevolently or strictly, it is not in their power to ensure that future developments in macroeconomic indicators across the euro area countries will not deviate more significantly from the situation in which the countries joined the monetary union. Indeed, the economies of the euro area Member States are continuously changing, with a variety of factors affecting them, and it cannot be guaranteed that the current values of macroeconomic indicators in individual euro area Member States will be sustainable in the distant future. This further underscores the problem of the absence of instruments to compensate for the possible different effects of the single monetary policy on the various euro area countries, in particular the absence of the common fiscal policy and of the common euro area budget.

These shortcomings in the euro area architecture did not manifest themselves immediately after the introduction of the euro. Until 2007, the euro area functioned without major problems. The negative effects of weaknesses in the euro area's structure were manifested only in crisis situations – during the global financial and economic crisis of 2008–2009, and in particular in the subsequent debt crisis in the euro area.

Since 2010, the debt crisis has gradually hit five euro area countries – Greece, Ireland, Portugal, Spain and Cyprus. It pointed to the existing shortcomings in the institutional framework of the Economic and Monetary Union and highlighted the extent and consequences of economic differences and imbalances between the individual euro area Member States. The crisis, which initially looked only as a problem of long-term over-indebted Greece, eventually proved to be a systemic crisis in the euro area that suffers from significant macroeconomic differences and imbalances between its Member States and lacks mechanisms to address and prevent crisis situations. Therefore, the euro area cannot force its Member States to comply with the limits on the government budget deficit and general government gross debt, which are the basis for the coordination of Member States' economic policies. The crisis has thus clearly highlighted the problem that only a complete monetary union was created without being complemented by a full economic union. This is the essence of the problems of the euro area.

IV. Obstacles to deepening European integration towards the full economic union

The essence of the problems of the euro area is the fact that the monetary union has been extensively and thoroughly elaborated and enshrined in EU law, while the economic union has been defined only modestly and rather declaratively. However, the monetary union did not arise among a small number of economically similar states, which would reduce the acute need for a full economic union. On the contrary, the euro area includes a large number of Member States (initially 11, currently 19), with significant economic differences and imbalances between them.

This economic heterogeneity of the euro area countries can be illustrated by the long-term differences in the development of various macroeconomic indicators between the states that have adopted the euro. These include, for example, the long-term considerable differences in real gross domestic product growth rates and in unemployment rates between the euro area countries (see Tables 2 and 3), the long-term significant differences in general government balances and in general government gross debts between the euro area Member States (see Tables 4 and 5), as well as persisting or even increasing differences in levels of gross domestic product per capita in PPS between the countries that have adopted the euro (see Table 6). This economic heterogeneity of the euro area Member States underscores the need to establish a full economic union alongside the monetary union.

Table 2 Real GDP growth rate (%, 2007–2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	3.4	0.8	-2.3	2.7	1.8	0.2	0.2	1.3	1.7	1.5	1.7	1.4
Germany	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	2.2	1.7	2.2	2.2	1.4
Estonia	7.7	-5.4	-14.7	2.3	7.6	4.3	1.9	2.9	1.9	3.5	4.9	3.9
Ireland	5.3	-4.4	-5.0	1.9	3.7	0.2	1.3	8.8	25.1	5.0	7.2	6.7
Greece	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.4	-0.2	1.5	1.9
Spain	3.8	1.1	-3.6	0.0	-1.0	-2.9	-1.7	1.4	3.6	3.2	3.0	2.6
France	2.4	0.3	-2.9	1.9	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.7
Italy	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.9	1.1	1.7	0.9
Cyprus	5.1	3.6	-2.0	1.3	0.4	-2.9	-5.8	-1.3	2.0	4.8	4.5	3.9
Latvia	10.0	-3.5	-14.4	-3.9	6.4	4.0	2.4	1.9	3.0	2.1	4.6	4.8
Lithuania	11.1	2.6	-14.8	1.6	6.0	3.8	3.5	3.5	2.0	2.4	4.1	3.5
Luxembourg	8.4	-1.3	-4.4	4.9	2.5	-0.4	3.7	4.3	3.9	2.4	1.5	2.6
Malta	4.0	3.3	-2.5	3.5	1.3	2.8	4.6	8.7	10.8	5.6	6.8	6.7
Netherlands	3.8	2.2	-3.7	1.3	1.6	-1.0	-0.1	1.4	2.0	2.2	2.9	2.6
Austria	3.7	1.5	-3.8	1.8	2.9	0.7	0.0	0.7	1.1	2.0	2.6	2.7
Portugal	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.8	1.9	2.8	2.1
Slovenia	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.3	3.1	4.9	4.5
Slovakia	10.8	5.6	-5.4	5.0	2.8	1.7	1.5	2.8	4.2	3.1	3.2	4.1
Finland	5.2	0.7	-8.3	3.0	2.6	-1.4	-0.8	-0.6	0.5	2.8	3.0	1.7

Source: Eurostat (2019d)

Table 3 Unemployment rate (%, 2007–2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	7.5	7.0	7.9	8.3	7.2	7.6	8.4	8.5	8.5	7.8	7.1	6.0
Germany	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0	4.6	4.1	3.8	3.4
Estonia	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4	6.2	6.8	5.8	5.4
Ireland	5.0	6.8	12.6	14.6	15.4	15.5	13.8	11.9	10.0	8.4	6.7	5.8
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9	23.6	21.5	19.3
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2	15.3
France	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4	10.1	9.4	9.1
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7	11.9	11.7	11.2	10.6
Cyprus	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15.0	13.0	11.1	8.4
Latvia	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9	9.6	8.7	7.4
Lithuania	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.1	6.2
Luxembourg	4.2	4.9	5.1	4.6	4.8	5.1	5.9	6.0	6.5	6.3	5.6	5.5
Malta	6.5	6.0	6.9	6.8	6.4	6.2	6.1	5.7	5.4	4.7	4.0	3.7
Netherlands	4.2	3.7	4.4	5.0	5.0	5.8	7.3	7.4	6.9	6.0	4.9	3.8
Austria	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	5.7	6.0	5.5	4.9
Portugal	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6	11.2	9.0	7.0
Slovenia	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7	9.0	8.0	6.6	5.1
Slovakia	11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2	11.5	9.7	8.1	6.5
Finland	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.6	7.4

Source: Eurostat (2019e)

Table 4 General government deficit/surplus (% of GDP, 2007–2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	0.1	-1.1	-5.4	-4.0	-4.2	-4.2	-3.1	-3.1	-2.4	-2.4	-0.8	-0.7
Germany	0.2	-0.2	-3.2	-4.2	-1.0	0.0	-0.1	0.6	0.8	0.9	1.0	1.7
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.4	-0.6
Ireland	0.3	-7.0	-13.8	-32.1	-12.8	-8.1	-6.2	-3.6	-1.9	-0.7	-0.3	0.0
Greece	-6.7	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.6	0.5	0.7	1.1
Spain	1.9	-4.4	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1	-2.5
France	-2.6	-3.3	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.5	-2.8	-2.5
Italy	-1.5	-2.6	-5.2	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5	-2.4	-2.1
Cyprus	3.2	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-9.0	-1.3	0.3	1.8	-4.8
Latvia	-0.5	-4.2	-9.5	-8.6	-4.3	-1.2	-1.2	-1.4	-1.4	0.1	-0.6	-1.0
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.3	0.2	0.5	0.7
Luxembourg	4.2	3.3	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.9	1.4	2.4
Malta	-2.1	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.7	-1.0	0.9	3.4	2.0
Netherlands	-0.1	0.2	-5.1	-5.2	-4.4	-3.9	-2.9	-2.2	-2.0	0.0	1.2	1.5
Austria	-1.4	-1.5	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.6	-0.8	0.1
Portugal	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0	-3.0	-0.5
Slovenia	-0.1	-1.4	-5.8	-5.6	-6.7	-4.0	-14.7	-5.5	-2.8	-1.9	0.0	0.7
Slovakia	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.6	-2.2	-0.8	-0.7
Finland	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8	-1.7	-0.8	-0.7

Source: Eurostat (2019b)

Table 5 General government gross debt (% of GDP, 2007–2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	87.0	92.5	99.5	99.7	102.6	104.3	105.5	107.5	106.4	106.1	103.4	102.0
Germany	63.7	65.2	72.6	81.8	79.4	80.7	78.2	75.3	71.6	68.5	64.5	60.9
Estonia	3.7	4.5	7.0	6.6	6.1	9.7	10.2	10.5	9.9	9.2	9.2	8.4
Ireland	23.9	42.4	61.5	86.0	110.9	119.9	119.7	104.1	76.8	73.5	68.5	64.8
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.2	181.1
Spain	35.6	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.3	99.0	98.1	97.1
France	64.5	68.8	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.4	98.4
Italy	99.8	102.4	112.5	115.4	116.5	123.4	129.0	131.8	131.6	131.4	131.4	132.2
Cyprus	54.0	45.6	54.3	56.8	66.2	80.1	103.1	108.0	108.0	105.5	95.8	102.5
Latvia	8.0	18.2	36.3	47.3	43.1	41.6	39.4	40.9	36.8	40.3	40.0	35.9
Lithuania	15.9	14.6	28.0	36.2	37.2	39.8	38.8	40.5	42.6	40.0	39.4	34.2
Luxembourg	7.7	14.9	15.7	19.8	18.7	22.0	23.7	22.7	22.2	20.7	23.0	21.4
Malta	62.3	62.6	67.6	67.5	70.2	67.7	68.4	63.4	57.9	55.5	50.2	46.0
Netherlands	43.0	54.7	56.8	59.3	61.7	66.2	67.7	67.9	64.6	61.9	57.0	52.4
Austria	65.0	68.7	79.9	82.7	82.4	81.9	81.3	84.0	84.7	83.0	78.2	73.8
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.6	128.8	129.2	124.8	121.5
Slovenia	22.8	21.8	34.6	38.4	46.6	53.8	70.4	80.4	82.6	78.7	74.1	70.1
Slovakia	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.2	51.8	50.9	48.9
Finland	34.0	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.4	63.0	61.3	58.9

Source: Eurostat (2019c)

Table 6 GDP per capita in PPS (index, EU-28 = 100, 2007–2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	117	115	118	120	119	121	120	119	118	118	116	115
Germany	117	117	117	120	123	124	124	126	124	124	124	123
Estonia	69	68	63	65	71	74	75	77	76	77	79	81
Ireland	148	134	129	130	130	131	132	136	178	177	181	187
Greece	93	93	94	85	75	72	72	71	69	68	67	68
Spain	103	101	100	96	92	91	89	90	91	91	92	91
France	108	106	108	108	108	107	108	107	106	104	104	104
Italy	107	106	106	104	104	101	98	96	95	97	96	95
Cyprus	104	105	105	100	96	91	84	81	82	84	85	87
Latvia	57	59	52	53	57	60	62	63	64	64	67	70
Lithuania	60	63	56	60	66	70	73	75	75	75	78	81
Luxembourg	265	262	255	257	265	260	261	269	266	260	253	254
Malta	79	79	81	83	82	84	85	89	93	95	98	98
Netherlands	139	140	138	135	134	134	135	131	130	128	128	129
Austria	125	125	127	126	128	132	131	130	129	128	127	127
Portugal	81	81	82	82	77	75	76	77	77	77	77	76
Slovenia	87	90	85	83	83	82	82	82	82	83	85	87
Slovakia	67	71	71	74	74	76	76	77	77	77	76	78
Finland	119	121	117	116	117	115	113	110	109	109	109	110

Source: Eurostat (2019a)

However, creating an economic union is a much more complicated process than formation of a monetary union. Indeed, the creation of a monetary union is rather a technical and organizational problem. In a group of states wishing to create a monetary union, a single currency is introduced at a certain date, conversion rates are set in which former national currencies are exchanged for the single currency, all prices, wages and other financial amounts are also transferred in the given conversion rates from the former national currencies to the single currency, and a common central bank is created to implement a single monetary policy for the Member States of the monetary union.

Thus, the formation of a monetary union is rather a sequence of technical and organizational steps to which a political consensus can be found between governments and parliaments of individual states. This is also facilitated by the fact that the benefits of the single currency, such as the elimination of exchange rate risk, the reduction of transaction costs, or the increase in monetary stability and the reduction of interest rates in the originally less stable states, become evident in the first phase of the functioning of the monetary union, however, the costs or risks of the single currency manifest themselves only later. The fact that some countries of the monetary union are not economically prepared for the single currency can only be revealed with considerable delay, when the monetary union has been operating for many years. This is also the case for the euro area.

As mentioned above, the creation of a full economic union, which should help to offset economic differences and imbalances between individual euro area Member States, is a much more difficult and longer-term process than the formation of a monetary union. The real economic union means above all the unification of Member States' fiscal policies, the unification of their tax systems and, to a large extent, of tax rates, and the existence of a sufficiently large common budget, from which common expenditures are paid. The current EU common budget does not meet this definition of a large common budget because it only accounts for 1% of the European Union's GDP, while the U.S. federal budget, for example, accounts for about 20% of the United States GDP. Besides, the structure of the revenues and expenditures of the EU common budget is very unusual and selective, not including the normal range of tax revenues and fiscal spending such as federal budgets in the U.S. or Germany.

In addition, the unification of Member States' fiscal policies and the existence of a sufficiently large common budget within the economic union would also require the existence of the euro area ministry of finance, which would counterbalance the already existing European Central Bank implementing the single monetary policy. Thus, the formation of an economic union requires progress in the political integration of the Member States.

Besides, the unification of the fiscal policy would put pressure on the considerable degree of unification of Member States' social systems and social policies, as social and health insurance is one of the major general government revenues, while social and health spending is one of the largest items within general government expenditures.

However, in the long term, there is no widely shared political will among the EU Member States to deepen integration towards the full economic union. The EU countries have therefore failed to resolve the key contradiction between the existence of the full monetary union and only the partial, incomplete economic union over the last 20 years. Therefore, the EU Member States were unable to ensure the conditions for the long-term smooth functioning of the euro area. France has repeatedly put forward proposals to create a sufficiently large common euro area budget, a common tax system and the euro area ministry of finance (Gostyńska-Jakubowska, 2017; The Guardian, 2017; Deutsche Welle, 2018). This would allow to carry out fiscal transfers from the economically stronger Member States to economically weaker euro area countries. However, a number of EU Member States, in particular Germany, Austria and the so-called Hanseatic League (the Netherlands, Ireland, Denmark, Sweden, Finland, Lithuania, Latvia and Estonia), refuse such an arrangement (Schuette, 2018; The Economist, 2018; Reuters, 2018; Spiegel Online, 2018). Therefore, the completion of the institutional framework of the Economic and Monetary Union is not feasible at least in the medium term, and concerns about the long-term sustainability of the euro area persist despite the experience of the debt crisis.

V. Insufficient changes to the euro area institutional framework in response to the debt crisis

Since there is no political consensus among the euro area Member States on the completion of the economic union in the long run, a number of sub-measures has been adopted by both the EU Member States and the European Central Bank to mitigate the debt crisis in the euro area (but not to address the real causes of the crisis). This prevented the realization of scenarios that, as a result of the debt crisis, predicted the withdrawal of some countries from the euro area, or even the complete breakdown of the monetary union.

The euro area Member States have failed to complete the institutional framework of the Economic and Monetary Union to ensure the long-term smooth functioning of the euro area, effective crisis prevention and a significant reduction of differences in economic performances and competitiveness between the best and worst euro area Member States. On the other hand, the euro area countries have demonstrated at least the ability to address the serious acute consequences of crises in the euro area and to avert the immediate risk of the crash of the euro. From the outset, the possibility of appearing troubled countries out of the monetary union was ruled out, because leaving the monetary union would represent the disintegration step that would be contrary to the wording of the founding treaties of the EU as well as to the policy of the EU institutions. Therefore, measures to resolve the debt crisis included changes in EU law that further deepened European integration. The Member States have been able to tighten up budgetary surveillance over the euro area countries and introduce macroeconomic surveillance, create a partial banking union, and continue to create a capital markets union, establish temporary stability mechanisms and, subsequently, a permanent stability mechanism to provide a financial assistance to the euro area Member States facing serious economic and financial problems. The European Central Bank has also “done anything” to save the euro area in times of the debt crisis – it has introduced an extremely easy monetary policy in the form of quantitative easing and zero or negative key interest rates.

In May 2013, an amendment to one of the founding treaties of the EU, namely to Article 136 of the Treaty on the Functioning of the European Union, which enshrined the European Stability Mechanism entered into force. The European Stability Mechanism provides financial assistance to the euro area countries experiencing or threatened by severe financing problems. This assistance takes the form of loans and is granted only if it is proven necessary to safeguard the financial stability of the euro area as a whole. Previously, two temporary mechanisms – the European Financial Stability Facility and the European Financial Stabilisation Mechanism – have been created for the same purpose. Overall, the financial assistance to the five euro area countries affected by the debt crisis amounted to EUR 498.2 billion (see Table 7).

Table 7 Bailout programmes for euro area Member States since 2010

	Bailout (billion EUR)	Start of bailout programme	End of bailout programme	Loan repayments
Greece, 1st bailout programme	73.0	May 2010	December 2011	from 2023 to 2056
Greece, 2nd bailout programme	142.9	March 2012	June 2015	from 2023 to 2056
Greece, 3rd bailout programme	86.0	August 2015	August 2018	from 2034 to 2060
Ireland	68.2	November 2010	December 2013	from 2029 to 2042
Portugal	76.8	May 2011	June 2014	from 2025 to 2040
Spain	41.3	December 2012	December 2013	from 2022 to 2027
Cyprus	10.0	March 2013	March 2016	from 2025 to 2031
Total	498.2			

Source: European Stability Mechanism (2019)

New EU legal acts – regulations and directives – have been adopted to strengthen budgetary and macroeconomic surveillance of the euro area countries and to deepen the coordination of their economic policies. In December 2011, the so-called six-pack, a set of five regulations and a directive amending the Stability and Growth Pact, entered into force. The six-pack tightened budgetary surveillance over the euro area countries and introduced macroeconomic surveillance over the EU Member States. In May 2013, a set of two regulations called the two-pack entered into force. The two-pack further tightened the rules for the euro area Member States in the excessive deficit procedures and receiving financial assistance from the European Stability Mechanism (European Law Monitor, 2013).

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, finally approved by 27 out of the 28 EU Member States (with the exception of the United Kingdom), has also entered into force in 2013 in order to further consolidate fiscal discipline in the euro area Member States by defining their obligation to maintain structural budget deficits, i.e. budget deficits adjusted for the business cycle and one-off and temporary measures, below 0.5% of GDP, while countries with low public debts and low risks to the long-term sustainability of public finances may have structural budget deficits less than 1% of GDP (Council of the EU, 2012). Since 2014, further measures have been introduced to deepen European integration – a banking union and capital markets union have been created.

The European Central Bank also took action to resolve the debt crisis in the euro area. This includes the implementation of an extremely expansionary monetary policy, namely the setting of key interest rates close to zero or below zero, and the quantitative easing in the form of purchases of securities, in particular government bonds of the euro area countries, by the European Central Bank in the secondary market. Since March 2015, the European Central Bank has been buying securities worth several tens of billions of euros per month. This securities purchase programme has been prolonged several times and ended in December 2018 (European Central Bank, 2018).

VI. Problems and risks arising from the failure to complete the Economic and Monetary Union

However, despite the implementation of the above-mentioned measures to deepen European integration in fiscal and other areas, despite the non-standard monetary policy measures adopted by the European Central Bank, the debt crisis in the above-mentioned five euro area countries cannot be regarded as being solved. This is evidenced, for example, by the development of the public debt in these countries. The development of the public debt is monitored through the development of the general government gross debt, expressed as % of GDP, in 2007–2018.

The data in Table 5 shows that in 2018 all of these countries had higher public debts than at the beginning of the debt crisis.

The only country of these five, which is probably on its way to overcome the debt crisis, is Ireland. Ireland's public debt has multiplied from a pre-crisis level of 23.9% of GDP to 119.9% of GDP in 2012, but has declined significantly since 2014. In 2018, Ireland's public debt declined to 64.8% of GDP, which is still almost three times higher than the pre-crisis level.

In Greece, Portugal, Spain and Cyprus, however, there is no significant reduction in their public debts. The public debts of these states remain at very high levels. In 2018, Greece's public debt reached 181.1% of GDP, Portugal's public debt 121.5% of GDP, Spain's public debt 97.1% of GDP, and Cyprus's public debt 102.5% of GDP. In Portugal and Cyprus, public debts remain almost double compared to the pre-crisis levels, Spain's public debt is almost three times higher than in the pre-crisis period. Greece still has the highest public debt among the euro area countries.

The data in Table 5 also shows that there are three more countries in the euro area that have high public debts but have not yet faced a debt crisis and have not needed to receive financial assistance. These are Italy, Belgium and France. Italy has the second largest public debt among the euro area Member States. Italy's public debt has been growing for a long time, reaching 132.2% of GDP in 2018. This, alongside the weakness of the Italian banking sector, creates a potentially dangerous situation in this euro area country. Belgium's public debt remains above 100% of GDP in the long term. France's public debt has been increasing for a long time, reaching 98.4% of GDP in 2018.

There is another reason why the debt crisis in the above-mentioned five euro area countries cannot be regarded as being solved. As Table 7 shows, these five states have received substantial financial assistance (EUR 498.2 billion). Repayments of the financial assistance will start after 2020 and will continue for a long time, in the case of Greece until 2060. The ability of these countries to repay financial assistance will depend on their long-term positive economic development, on their ability to achieve long-term economic growth. However, this is uncertain with regard to business cycles and lower competitiveness of most of these countries.

It is evident that the measures taken in response to the debt crisis have rather mitigated impacts of the crisis in the Economic and Monetary Union and tried to avoid the acute danger of the collapse of the euro area, but they failed to address the causes of the debt crisis. Despite strengthened budgetary and macroeconomic surveillance, government debts of some euro area countries remain high, thus raising doubts about the repayment of these debts. Only a partial banking union was established, without a common euro area deposit insurance scheme, because the euro area Member States with healthier banking sectors refused to guarantee deposits in the euro area countries with less stable banks. Problematic euro area Member States may receive financial assistance from the European Stability Mechanism, but this assistance takes the form of loans guaranteed by the other euro area countries. Ultimately, financial assistance will need to be repaid. Is that real? Although the European Central Bank has helped to save the euro by an extremely easy monetary policy, it is not succeeding in full normalization of its monetary policy – quantitative easing has ended, but zero or negative key interest rates persist (European Central Bank, 2019). How long will this monetary stimulus be needed? In addition, the differences in economic performances and competitiveness between the best and worst euro area Member States persist or even increase.

All the above-mentioned problems of the euro area are reflected in the importance and position of the euro in the world economy. With the creation of the euro area, the euro was expected to gradually reach an international position comparable to the U.S. dollar. However, this expectation has not materialized. If we measure the international positions of currencies by the shares of individual currencies in the global official foreign exchange reserves, the development of this indicator is not very positive for the euro (see Table 8). Since the introduction of the euro in 1999 until 2009, the share of the euro in the global official foreign exchange reserves has grown, from 17.9% to 27.7%. However, following the outbreak of the debt crisis in several euro area countries in 2010, the share of the euro in the global official foreign exchange reserves started to decline and was 20.7% in 2018. Thus, during the 20 years of the euro area's existence, the position of the euro in the world economy has not been significantly strengthened.

Table 8 World currency composition of official foreign exchange reserves (%, 1999–2018)

	1999	2001	2003	2005	2007	2009	2010	2012	2014	2016	2018
U.S. dollar	71.0	71.5	65.4	66.5	63.9	62.1	62.2	61.5	65.2	65.4	61.7
Euro	17.9	19.2	25.0	23.9	26.1	27.7	25.8	24.1	21.2	19.1	20.7
Japanese yen	6.4	5.0	4.4	4.0	3.2	2.9	3.7	4.1	3.5	4.0	5.2
Pound sterling	2.9	2.7	2.9	3.7	4.8	4.3	3.9	4.0	3.7	4.3	4.4

Source: International Monetary Fund (2019)

VII. Conclusion

The single European currency, the euro, has existed for 20 years. The catastrophic scenarios that predicted the end of the euro after the first major crisis have not been fulfilled. On the contrary, the euro has survived the global financial and economic crisis of 2008–2009 and the subsequent debt crisis in five euro area countries. On the other hand, over the 20 years of the euro's existence, the institutional framework of the Economic and Monetary Union has not been completed in a form that would ensure the long-term smooth functioning of the euro area, effective crisis prevention and a significant reduction of differences in economic performances and competitiveness between the best and worst euro area Member States.

The 20 years of the euro have shown that the euro area Member States can address the serious acute consequences of the crises in the Economic and Monetary Union that threaten the existence of the euro. The Member States have been able to tighten up budgetary surveillance over the euro area countries and introduce macroeconomic surveillance, create a partial banking union, and continue to create a capital markets union, establish temporary stability mechanisms and, subsequently, a permanent stability mechanism to provide a financial assistance to the euro area Member States facing serious economic and financial problems. The European Central Bank has also "done anything" to save the euro area in times of the debt crisis – it has introduced an extremely easy monetary policy in the form of quantitative easing and zero or negative key interest rates.

However, all these measures have rather mitigated impacts of the crises in the Economic and Monetary Union and tried to avoid the acute danger of the collapse of the euro area, but they failed to address the causes of the crises. Despite strengthened budgetary and macroeconomic surveillance, government debts of some euro area countries remain high, thus raising doubts about the repayment of these debts. Only a partial banking union was established, without a common euro area deposit insurance scheme, because the euro area Member States with healthier banking sectors refused to guarantee deposits in the euro area countries with less stable banks. Problematic euro area Member States may receive financial assistance from the European Stability Mechanism, but this assistance takes the form of loans guaranteed by the other euro area countries. Ultimately, financial assistance will need to be repaid. Is that real? Although the European Central Bank has helped to save the euro by an extremely easy monetary policy, it is not succeeding in full normalization of its monetary policy – quantitative easing has ended, but zero or negative key interest rates persist. How long will this monetary stimulus be needed? In addition, the differences in economic performances and competitiveness between the best and worst euro area Member States persist or even increase.

For 20 years, the European Union countries have failed to address the key issue of the asymmetric arrangement of the Economic and Monetary Union – while there is the complete monetary union, the economic union is only partial. However, for its long-term smooth functioning, the monetary union must be complemented by a complete economic union, in particular by a fiscal union. This would mean creating a sufficiently large common euro area budget, a common tax system and the euro area ministry of finance to allow fiscal transfers (not lending) from economically stronger Member States to economically weaker euro area countries. Proposals for such an arrangement are repeatedly submitted by France. However, a number of EU Member States, in particular Germany, Austria and the so-called Hanseatic League (the Netherlands, Ireland, Denmark, Sweden, Finland, Lithuania, Latvia and Estonia), refuse such an arrangement. Therefore, the completion of the institutional framework of the Economic and Monetary Union is not feasible at least in the medium term, and concerns about the long-term sustainability of the euro area persist.

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