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How has the Eurozone Changed Since its Inception?

Summary: The common European currency, the euro has existed since 1999; however, its introduction followed after decades of monetary integration and legal, economic and financial preparation. The first ten years of the monetary union were successful. The second decade was dominated by managing the crisis that was first global in character but then became limited to the crisis of the currency zone. In the initial phase, *ad hoc* type crisis management measures were taken; later, more systematic protection measures and institutional developments followed. Nevertheless, it is the resistance of the currency zone to future crises that has been established rather than its sustainability—the latter is yet to be ensured.[1]

Key words: Economic and Monetary Union, monetary integration, euro, crisis, convergence
JEL codes: F55, 047, 052, P52

The community-level commitment to the introduction of the single currency emerged at the Maastricht summit in December 1991, which is also where the rules of the launch of the single currency were established by the participants of the European Council (Farkas, Várnay, 2011). However, the markets started to really believe that the monetary union would be realised only after the 1995 Madrid EU summit. By then, the establishment of the Eurosystem had been started – through the European Monetary Institute (Lámfalussy et al, 2014) –, the EMR crisis was successfully overcome as well, and the convergence phase was in progress. Thus, the interests of the government securities of the EU Member States started to move downwards, and a dynamic convergence started to the German interests, which was usually the lowest in the EU (*see Figure 1*).

The 1999 launch of the euro was successful, which – of course – was supported by the period of favourable economic boom as well. The first ten years continued the same, which gave rise to justifiable contentment and confidence. The interest rates stayed low, and a massive investment boom was realised on the periphery. The situation changed quickly: as a result of the global financial crisis, a liquidity crisis emerged in Europe suddenly, and then – as a consequence of managing the crisis –, the public funds crisis in a fairly short amount of time. The interest rates which had been low for years increased sharply on the periphery of the eurozone, and the interest differences suddenly climbed to historical heights (*Figure 1*, starting from 2009). During the crisis of the eurozone, all the imperfections of the Economic and Monetary Union (EMU) came to light. During the initial period, seeking solutions consisted of measures financed by public funds; however, these had mostly an emergency response character,

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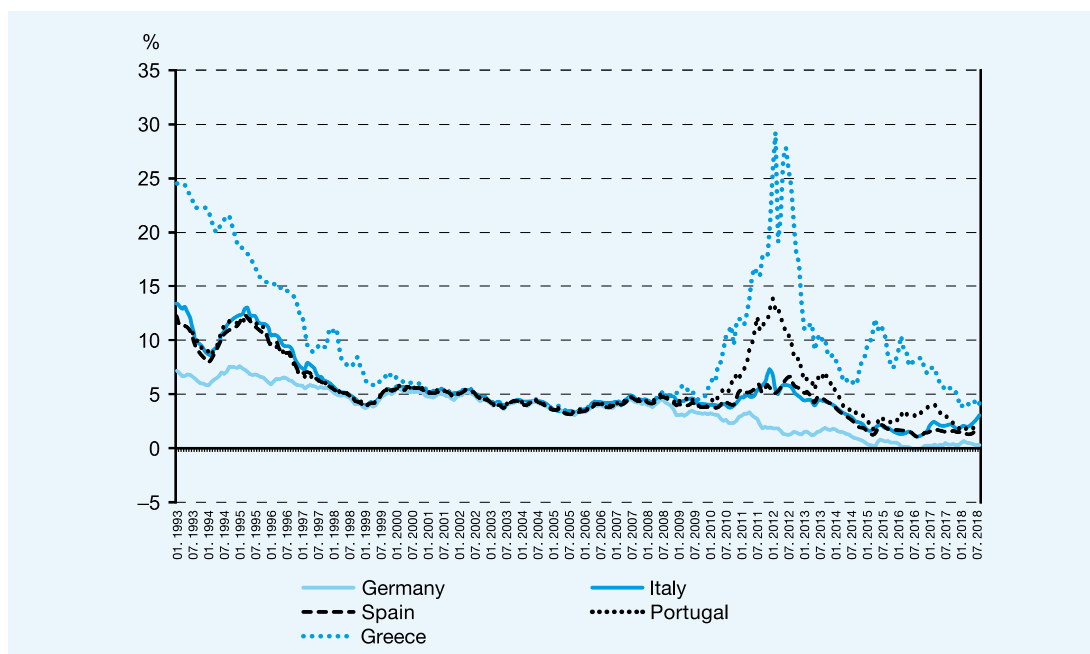
Figure 1

LONG-TERM INTEREST RATES IN EACH EURO-AREA COUNTRY, JANUARY 1993 – AUGUST 2018



Source: Edited by the authors based on ECB data

and planning was not typical. The opportunity for more thought-out reforms arose from around 2013/2014 – at the same time, the economic situation loosened the previous pressure of change (the only exceptions may be the Baltic States, which complied with the Maastricht convergence criteria and acceded to the monetary zone during the years of the crisis).

The crisis induced deep social and political changes as well, primarily in the directions of Euroscepticism and opposition to the existing regime (Serricchio et al., 2013, Nicoli 2017, Pirro, Taggart, 2018) – which affects the feasibility of the further development and reforms of the EMU. In addition to the challenges, key eurozone countries (in particular, Germany and France) represent very different opinions in some crucial matters, as well as the economic and public funds situation of the third largest economy of the eurozone – Italy – is not reassuring at all.

METHOD

In our study we review how the eurozone has changed since the beginnings, and relying on the present condition thereof, to what extent is the completion of the GMU structure feasible to the appropriate level, and thus, essentially the sustainability of the entire currency union. In the course of our analysis, we rely on theoretical considerations and debates – in respect of the design, establishment, crisis management and the formation of the future of the EMU –, as well as on the descriptive and at the same time, critical presentation of the developments, supported by the relevant literature. Furthermore, we aim at presenting

each significant event and the effects thereof objectively – as intended – and at the same time, in a nuanced manner. With respect to the present and the future, we refer to the specialised press (The Economist, Bloomberg) and the institutional press conferences (ECB), as well as to plans published on various forums, which are not scientific, but rather can be interpreted as political programmes (Macron-Gabriel manifesto, Macron plan, Meseberg declaration), in addition to the documents of the European Committee (presidential reports, White Paper on the future of Europe).

THE ORIGINAL CONCEPTS AND THE INITIAL PERIOD

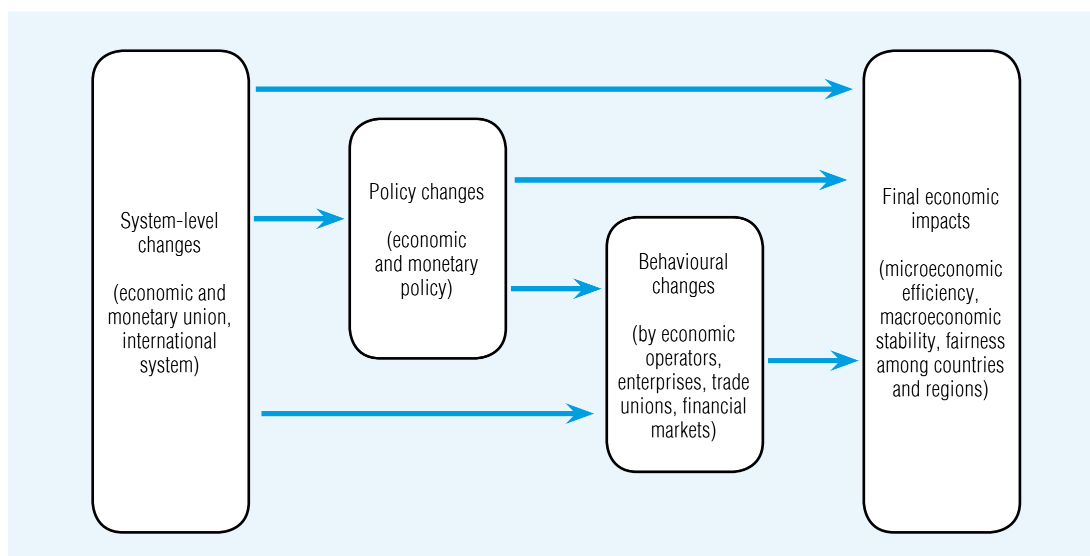
The idea of the European monetary integration first emerged at the 1969 Hague Summit (J. Nagy 2007), and it was related to the fact that the unsustainability of the Bretton Woods system had been very apparent by then. The EEC Member States – among whom the economic-trade relations had been expanding dynamically for the more than the previous decade and owing to the common market – thought the time had come to establish a monetary system among them and they should no longer manage their transactions with each other within a dollar-centred global financial system (Zimmermann, 2001). The Werner – which was plan published in 1970 – outlined the steps of this European monetary integration, with the monetary union as the final destination (EC 1970). In the framework of the implementation of the plan, the European Monetary Cooperation Fund was founded in 1973 (Regulation (EEC) No 907/73), while the European Monetary System (EMS) was launched in 1979, with ECU being the central unit of account (Regulation (EEC) No 3181/78). The next milestone was the report of the technical commission lead by *Jacques Delors*, which essentially meant the renewal and updating of the Werner plan (CSEMU 1989); however, this report also provided a deep and detailed economic analysis of the economic-monetary integration and the expected impacts thereof. The Delors Commission was aware that simultaneously with the monetary union, a very strong economic policy coordination shall be established as well, while the tensions related to internal competitiveness shall definitely be addressed [see in particular: CSEMU (1989) Sections 27–30].

In contracts, the 1990 report of the Commission titled 'One market, one money' (EC 1990) elegantly overlooked the thorough economic considerations of the Delors plan and the risks and necessary measures to be taken outlined therein, and basically saw a straight line between the establishment of the EMU and the community-level efficiency, stability and fairness (convergence) (*see Figure 2*). The monetary union was accompanied by this type of 'one-way street' thinking, and it was only the crisis that was able to direct the attention to the problems related to the monetary union, ruthlessly – however, by then, the co-dependency reached such an extent that keeping the currency zone intact actually proves (proved) to be a one-way street.

Through the Maastricht Treaty, essentially the main elements of the 1989 Delors plan were incorporated into the primary law. Accordingly, the treaty established the frameworks of the economic policy coordination – although in respect of the poorly performing Member States, the text does not go further than the option to make recommendations –, and in the end, the Stability and Growth Pact (SGP) was not incorporated in the primary law, it became an intergovernmental agreement only. However, the political institutions of the common monetary policy (ECB, ESCB), the main objective (inflation

Figure 2

THE EFFECTS OF THE EMU



Source: EC (1990), edited by the authors based on page

targeting) and instruments thereof were established in the treaty. The convergence criteria are detailed in one of the protocols attached to the treaty; however, legally the protocol is also a part of the contract (and thereby of the primary law). It is important to note that the objectives do not include the aspects related to balance of payments. At that time they simply did not presume that the balance sheets of the Member States could show surplus or deficit permanently, thereby creating financing differences, which the competitiveness would follow in an inflexible manner or not at all.

Thus, right from the start the plan of the EMU specified in the treaty did not include the establishment of the monetary union simultaneously with the fiscal union and/or federalism, not even on the objective-level, it only emphasised the importance of economic policy coordination, although it was already known then that this entails serious risk regarding the success and sustainability of the project (Sala-i-Martin, Sachs 1991, Rácz, 2001). It is a lesser known fact that the signing (7th February 1992) and entry into effect (1st November 1993) of the Maastricht Treaty were so long apart because the United Kingdom and Denmark – although in the framework of different political processes – did not accept the logic of the treaty, according to which if one country complies with the criteria, then it would introduce the single currency in the next year. Therefore, they ratified the treaty only once it was amended by protocols on the opt-out right of these two countries.[2]

During the same period, the EMS went through its first crisis, which affected the economic thinking of the monetary union as well. Previously, the dispute went on between 'monetarists' and 'economists': while according to the former theory (which was represented primarily by France), the monetary integration facilitates, moreover, brings about the convergence, while according to the philosophy of the latter (which was characteristic for the Germans) the single currency could be merely the coronation of convergence[3] (Bini-Smaghi et al., 1993). A Summer of 1993 sum-

mit managed to solve the exchange rate crisis – which started in June 1992 – when at their (extended ECOFIN-) meeting, the ministers of finance and the presidents of the central banks of the EEC decided to expand the +/– 2.25 percent fluctuation band specified in the convergence criteria to +/–15 percent, with effect from 2nd August 1993 (Horváth, Szalai, 2012). This meant not only the *de facto* abolition of the exchange rate criterion but also the impracticability of the 'coronation theory' as well, and it drew the attention to the importance of real convergence (the Maastricht convergence criteria are nominal criteria, without exception). Anyway, after the entry into effect of the Maastricht Treaty in November 1993 – and thus, the formation of the EU –, the second phase according to the Delors plan eventually commenced in 1994.

As a matter of fact, all these developments point to that although the establishment of a currency area is based on theoretical economic considerations – namely, the theory of optimal currency area (Mundell 1961) –, in the case of the euro, almost all of the elements of the process were of political character. This is understandable from the viewpoint that the theory of optimal currency areas offered few practical advice in respect of the steps and circumstances of the establishment – therefore, the establishment of the European economic and monetary union eventually became a learning-on-the-go process, so to speak, a real-time experiment, and thus, it served the further development of the theory based on the practice (Mongelli, 2008).[4] Later, during the years of the crisis, this was even more prominent.

Nevertheless, during the first ten years, the situation and the prospects had been favourable; in particular, on the periphery of the currency area, and therein primarily in Portugal, Spain and Ireland. It was not apparent then how a possible crisis would affect these countries (Marimon 2011), although in respect of Ireland, it could be presumed that the overzealousness would not end well, and then an inevitable recession would occur – for which, however, Ireland did not get prepared (Whelan, 2011). However, in respect of Greece, many doubts were expressed as early as around its accession in 2001 (Rácz, 2000; Baksay, 2005).[5]

The single currency brought about the further deepening of the integration of the European financial and capital markets as well (ECB 2007, Marján 2003). Certain countries which became EU members in the Eastern accession rounds (Slovenia, Malta, Cyprus, Slovakia) swiftly joined the eurozone as well, while others had reservations, for economic considerations (Bruha, Podpiera, 2007). Thus, the crisis that started in 2008 eventually reached a 15-member, and then as of 2009, a 16-member eurozone.

HOW DID THE CRISIS AFFECT THE EUROZONE?

The outbreak and the multiple-year course of the global financial and capital market crisis starting in 2008 can be considered as a milestone in the life of the eurozone. The crisis process that dragged on for multiple years is considered significant not only in terms of that it interrupted the favourable growth trend of the zone as an unprecedented economic downturn but also because the recovery putting an end to the crisis was preceded by a more than half a decade of stagnation, and the crisis phenomenon triggered the new wave of renewal of the common institutional system. The crisis made it clear that the economic policy framework existing in the years preceding the crisis had been optimised for a growth environment fundamentally, expecting the Member States to keep the public debt at bay

and the budget deficit low, while the common monetary institutions had been encouraged to fight inflation. The economic policy coordination of the integration is ensured in the global growth environment only.

The economic stability of the eurozone proved to be vulnerable against the external asymmetric economic shocks. The years of the crisis highlighted the failure of the SPG with regard to enforcing fiscal discipline, since the excessive deficit procedures became usual among the Member States, affecting as many as 25 of the 27 Member States in 2010.[6] In addition, during the years following the crisis, the decade-long objective of the European Union – namely, the real convergence among the Member States – was also at risk: the process of reducing the economic differences turned around, and new fault lines appeared within the economic integration as well, as a result of the Southern Member States on the periphery falling behind (Pelle,Végh, 2014). As a result of the crisis processes, both the European economic governance and the common monetary policy started a continuous institutional development, which are characterised by the emergence of common banking ad member stated salvaging institutions, as well as the development of the mechanisms of the banking union.

However, the differences among the Member States experienced during the years of the crisis cannot be attributed completely to the international economic shock in respect of the economic downturn, the recovery and the crisis management. The differences among the Member States – and thereby the internal imbalances within the integration – emerged earlier, during the first decade of the euro already, since certain markets developed completely differently in the Member States. Certain Member States – such as Spain or France – experienced the permanent increase of the real estate prices, while in other Member States, the financial sectors became too exposed (see Ireland or the Netherlands), and in other places (Germany, Finland, Austria) the current balance of payments showed permanent surplus for years. The new development paths created by the single currency may also be interpreted as a new division of labour in the eurozone; however, the permanent decrease in demand affecting the global markets not only broke the different development directions down but also subjected the Member States to significantly different exposure, and made the crisis management of each Member States substantially more difficult. As *Smets* (2012) pointed it out, in order to manage the crisis successfully, the economic decision-makers should have noticed the different development paths and the risks arising therefrom in due time, and should have built the risk management mechanisms in the institutional system of the economic policy coordination. However, the steps to this end can be considered at least lop-sided, and mostly belated.

The American capital market panic became the spark of the global crisis during the Autumn of 2008; however, the United States and the European financial market downturn had been intensifying already since the previous year, from 2007 (Pisani,Ferry, 2014). Moreover, *Bastasin* (2012) also highlights that at that time the European banking system was functioning not only with higher leverage compared to the United States banking system, but the large American banks were also managing the equity of the European financial institutions, thereby realising the losses jointly. The shadow banking system – which is difficult to keep in check with the classic institutional supervisory instruments and risk supervision – emerged as an additional risk factor: the process of securitisation and other financial innovations gaining headway acted as catalyser not only in the financial market of the United States during the crisis processes but on the markets of the

EU as well, connecting seemingly independent investments and financial institutions as well, thereby enabling the spread of financial infections (ESRB 2017).

The decision-makers of the EU reacted to the first waves of the crisis with the adoption of a package which relied on fiscal expansion, aimed at the restoration and recovery of demand in terms of Keynesian economics (EB 2008), and which concentrated mainly on loosening the prohibition of state subsidies, the expansion of employment, the expansion of state participation (surety, guarantee, venture capital transactions) and the development of green economy. However, this had critics even then [e.g. Schmieding, (2009)], who pointed out that the crisis arising from the capital market would be stopped only by the purification of the capital market (Hetzel, 2014). In other words, without the introduction of appropriate bank reconstruction, bank salvaging and bankruptcy proceeding mechanisms, the efforts to restore the demand will have limited effect, while at the same time, the expansion can encumber the fiscal positions of the Member States significantly.

Due to its modest budget (compared to its GDP), and its limited influence on the fiscal policy of the Member States, the EU was unable to act as a strong crisis managing actor or institution; therefore, the crisis management strategies were developed on a Member State level – and taking into consideration the interconnection and the mutual co-dependency system Member States which were stronger than ever before, this proved to be a serious mistake. As it was pointed out by *Rácz* (2009): it is problematic that the crisis management started on the member state level and not on EU or eurozone level, since numerous crisis management strategies and attitudes were able to become permanent which are beneficial for certain strategy-making Member States, and which, however, adversely affect the entirety of the economic integration, in terms of competitiveness, growth and general integration aspects as well. The crisis also highlighted that an untenable situation was created in the EMU as a result of the trilemma which became known as the 'triple denial'; namely, that there is (1) no exit, (2) no bail-out, and (3) no default regarding the single currency area (Benczes 2011). In other words, the failure to build the lessons learned from the optimal single currency area theories in the mechanisms of the economic policy coordination resulted in the wrong path and by 2012, a stalemate, as well as the demand for international institutional bail-out and the risk of permanent social disaster.

Financial crises usually have heterogeneous consequences, and this remained to be true in the case of the EMU as well: the members of the economic integration showed different effectiveness in absorbing the asymmetric shocks. The necessary crisis management was largely influenced by the fiscal position of the Member State concerned, as well as its financial opportunities to execute expansive operations. The Member States were able to intervene in the functioning of the real economy or the capital markets accordingly, through *ad hoc* bank bail-outs or capital adequacy regulations. However, the scope of influencing factors did not end here: for example, the Central and Eastern European Member States realised capital flights, since the Western parent banks ordered back their outstanding capital (these processes were made significantly more untraceable by the cross-border shadow banking system characteristics). In addition, the liquidity weakness of those Member States which had permanent balance of payment or capital deficit caused difficulties at the treasury bond auctions, highlighting that a dependency system among the Member States had also emerged over the previous decades, which was also disregarded by the institutional system of the EMU.

By 2011, Greece, and then by 2012, Portugal, Spain and Italy were faced with high yield expectations which entailed serious refinancing risks. The solvency difficulties of the Member States spread like an infection among the Member States, which directed the interest of investors towards the treasury bonds of the core countries which promised steady yields; therefore, such countries were able to finance their own treasury bonds with even more favourable conditions. Overall, it can be established that the countries of the eurozone were forced to go down on very different crisis management paths along the lines of their previous economic structure characteristics, fiscal positions and economic traditions, while facing a kind of path dependency (Kiss, Szilágyi, 2014).

Certain eurozone Member States suffered from the lack of independent monetary policy during the crisis: the South European eurozone members lost a lot of their competitiveness – mostly compared to German – due to the fact that they did not have the instrument of currency devaluation (Tarafás, 2013). In addition, it can also be established that only one EU Member State – Poland – did not suffer GDP decrease during the crisis, owing – among others – to its active currency devaluation policy. Meanwhile, the Member States which belonged to the eurozone had a debt denominated in a currency which they were essentially unable to influence directly, the same as if they had been indebted in a foreign currency (Krugman, 2012). However, the advantages before the crisis – favourable interest environment and low inflation – turned opposite at this point, putting the peripheral, highly indebted Member States in an especially difficult situation. In respect of the crisis states, the international creditors (ECB, European Commission and the IMF) enforced a strongly technocratic approach which focused on financial crisis management, to the detriment of the democratic self-determination of the countries, and desperately trying to restore the solvency and balance of the budget of the Member States (Győrffy, 2013). Thus, as parts of the single currency area the sovereign countries became vulnerable and required international assistance. This assistance was intended to be financed by the other members of the eurozone, through the institution of the European Stability Mechanism (ESM) set up in 2012. Although the acceptance and formation of the institution were realised slowly – although it meant progress compared to its predecessor, the EFSF[7] –, it still fails to acknowledge the conflict of the vulnerability and the democratic self-determination of the Member States to the sufficient extent and in the adequate manner (De Grauwe, 2011).

Naturally, the system of phenomena described above posed a multifaceted challenged to the monetary cooperation institutional environment as well. The ministers of foreign affairs of the 11 EU Member States published a report in 2012, calling themselves the Future of Europe Group. In this report, they emphasised that the restoration of the eurozone shall enjoy primary priority in the EU, and all the other areas of the integration shall only follow this restoration. With regard to the restoration, they thought that the solution lay in that the legal obligations and consequences related to the rules of the economic policy coordination shall be strengthened (FoE, 2012). In 2014, it seemed like the Greek crisis management was successful and no further financing would be necessary (IMF, 2014), and an optimistic professional analysis was prepared even in July 2015 (IMF, 2015a), only for the opinion on the debt to deteriorate to the point of complete unsustainability after the referendum of 5th July 2015 (IMF, 2015b). The economic growth of Greece recovered only by 2016; however, it still lost more than 25 percent of its pre-crisis GDP, and it is the matter

of decades until it will be able to achieve the pre-crisis issue amount again. The prospects of the other countries which were given international assistance (Cyprus, Portugal, Ireland and Spain) are more favourable; however, they represent an alarming precedent regarding the future development directions of the EMU.

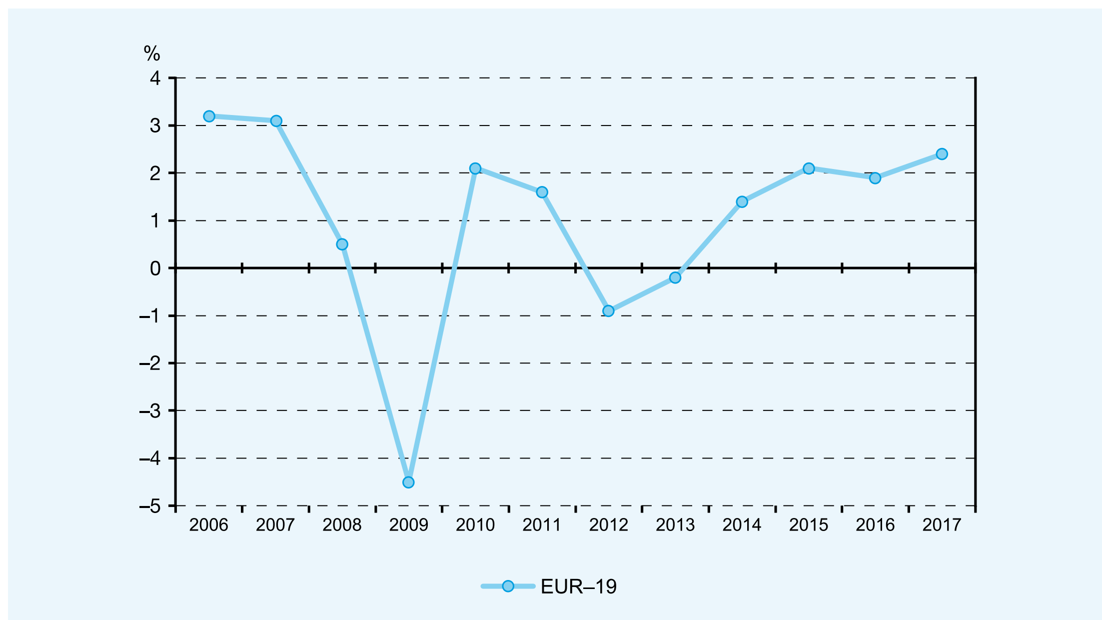
The new step of the monetary cooperation is the institution of the banking union, which is intended to stop the viscous cycle of bank bail-outs and the bail-outs of the states. Parts of the concept are the SSM (Single Supervisory Mechanism), the SRM (Single Resolution Mechanism) and the EDIS (European deposit insurance scheme), and – as the foundation of all three institutions – the single banking rulebook. The purpose of these institution is to eliminate the fragmentation of the banking system of the area – this may be the right direction in terms of that it targets the real reasons of the capital market crisis which started in 2008, and the functional anomalies of the banking system. Namely, instead of emergency action-like bail-outs, the banking union concentrates on establishing a more systematic institutional system operation which focuses on preventing crises in the future. The single, fragmentation free eurozone capital market would allow the mechanisms of the market to regulate the unique paths of development of the economies themselves, with sanctioning riskier economic operation with higher yield expectations, thereby contributing to the faster elimination of the economic anomalies (EB, 2014).

THE CURRENT SITUATION AND PLANS

After the last year of the crisis, 2013, growth reoccurred in the eurozone (*see Figure 3*), and although the pre-crisis growth rate of more

Figure 3

REAL GDP GROWTH IN THE EUROZONE (EUR-19), IN THE PERCENTAGE OF THE PREVIOUS YEAR, 2006–2017



Source: Eurostat [tec00115]

than 3 percent is not typical to this day, the growth had been around 2 percent for the third year by 2017.

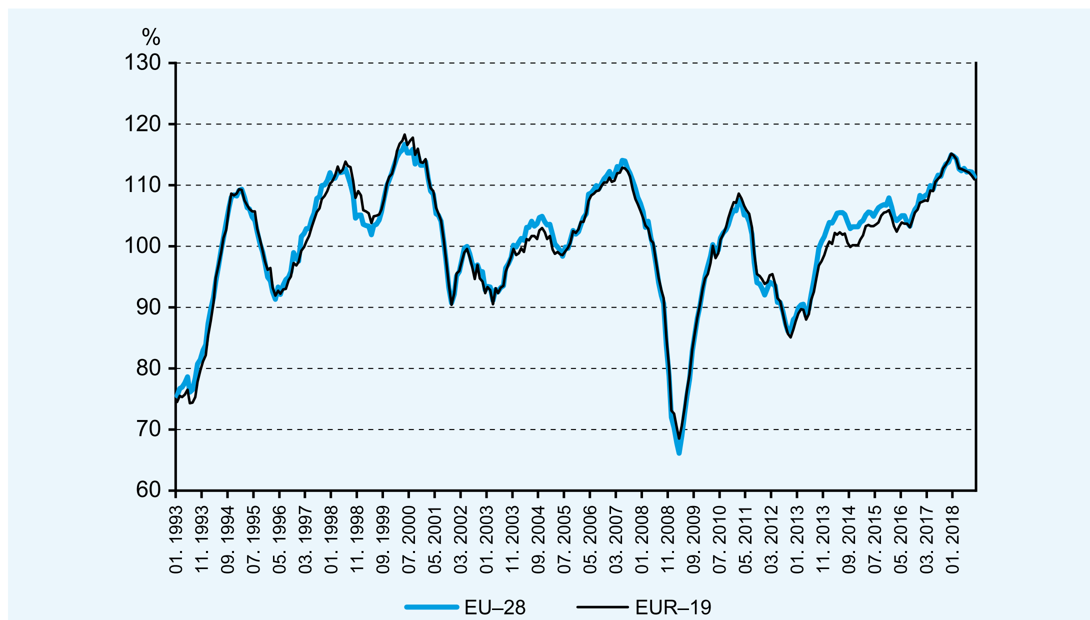
The business confidence indexes were also restored, although the index for the eurozone reached the similar complete indicator of the EU a few years later, by mid-2016, and since December 2017, the trend has been slightly decreasing again (*see Figure 4*).

The crisis affected the EU objective related to increase of employment (which was expressed first in 2000 in Lisbon, and then confirmed in 2005 in the renewed Lisbon Strategy) as well: the previous growth trend turned to drastically decreasing from 2008 to 2009, and during the crisis – considering the entirety of the eurozone –, in no year could it be turned in a positive direction again or even stop the decrease significantly (*see Figure 5*). The employment objective reappeared among the priorities of the Europe 2020 strategy adopted in March 2010 (EC 2010), i.e. employment rate should reach 75 percent in the 20–64 age group by 2020. By now, the trend has been positive since 2013, and in respect of the entirety of the EU, the employment rate was 72.2 percent – and 71 percent in the eurozone – in 2017, and it already reached or exceeded the EU-level objective in some Member States.[8] The largest growths compared to 2006 were achieved in Malta (+15 percentage points), in Poland (+10.8 percentage points), in Hungary (+10.7 percentage points) and in Germany (+8 percentage points).[9]

The European Commission last published an economic forecast during the Summer of 2018 (EC 2018). In this forecast it was pointed out that after five years of expansion, the pace of the economic growth started to slow down – primarily due to the world trade tensions, the increasing oil prices and the political instability of certain Member States – ;

Figure 4

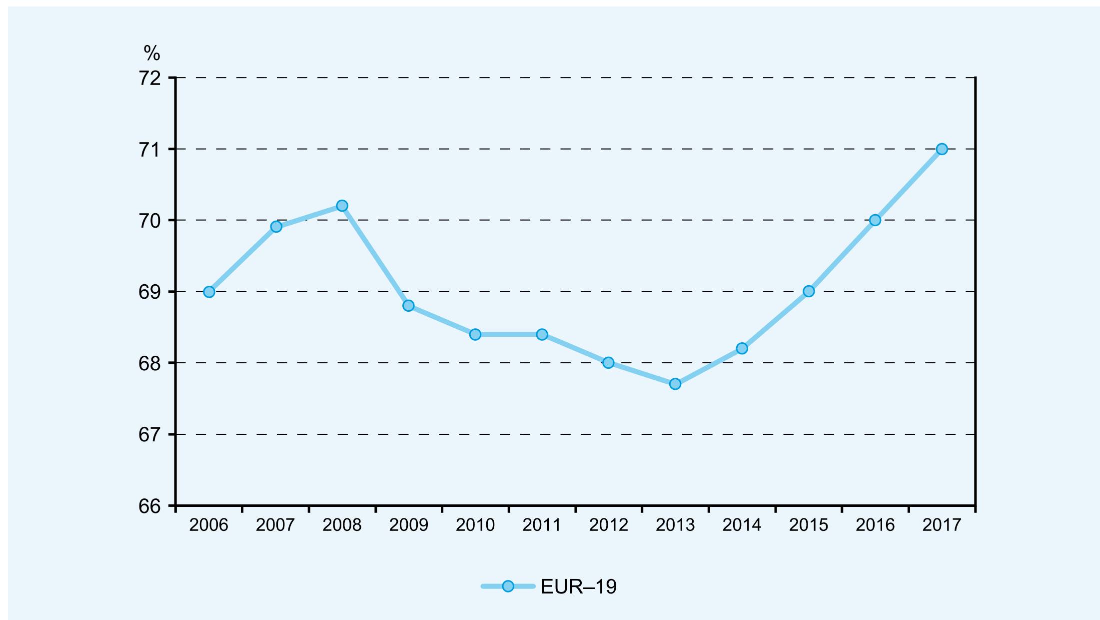
BUSINESS CONFIDENCE INDEX IN THE EU AND THE EUROZONE, (LONG-TERM AVERAGE=100%), JANUARY 1993 – SEPTEMBER 2018



Source: Own edited based on the EU Economic Sentiment Indicator (ESI) database

Figure 5

EMPLOYMENT RATE IN THE EUROZONE (EUR-19), IN THE PERCENTAGE OF THE 20–64 AGE GROUP, 2006–2017



Source: Eurostat [tesem010]

however, this could regain momentum again to some extent, considering that the labour market conditions are improving, the indebtedness of households is decreasing, and the monetary policy is supporting the growth.

Preserving and regenerating the internal cohesion of the EU and the eurozone seems like a bigger challenge. The pre-crisis convergence came to a halt upon the crisis, at least (Pelle, 2017). After the crisis, it is still not clear whether the internal differences can be reduced again. With regard the future of the single currency zone overcoming the crisis and the plans related thereto, it was the Four Presidents' report (Van Rompuy et al., 2012) that first laid down the tasks of the establishment of the original, genuine EMU, primarily by detailing, sectioning the progress to the 'one-way street' which has been in the field of view of the Commission since 1990. Similarly, a few years later, the by then Five Presidents' report (Juncker et al., 2015) covered the same topic, further expanding the attributes of the EMU, i.e. it shall be deep and fair as well. At the EU Summit in the Summer of 2016, the plan for establishing the banking union was drawn up as well (CoEU 2016), without setting a specific deadline (the Four then Five Presidents' report contained itineraries built on a timeline; however, by then, it was apparent that the timing does not depend on the intentions of the European Union institutions).

The White Paper of March 2017 (EC, 2017a) shall be mentioned as the next step, in which the Commission outlined five scenarios regarding the post-Brexit EU. Each scenario has an element related specifically to the EMU (*See Table 1*). The second and the fourth scenarios received the most criticism – the former because it is actually the reversal of the integration and therefore would mean

Table 1

THE EMU-RELATED EFFECTS OF THE MARCH 2017 WHITE PAPER

Scenario	'Carrying On'	'Nothing but the Single Market'	'Those Who Want More Do More'	'Doing Less More Efficiently'	'Doing Much More Together'
Effect on the EMU	Gradual establishment in the operation of the eurozone	The cooperation within the eurozone is limited	Gradual improvement, further deepening among those strengthening the cooperation	Consolidation of the eurozone, less economic policy coordination on the EU-27 level	Economic, financial and fiscal union

Source: Edited by the authors based on EC 2017 data

disintegration on the long run; while the latter was criticised because it is hard to imagine how it should be understood on the level of policy-making, decision-making and everyday functioning.

The White Paper was followed by different additional documents (so-called reflection papers), in which the experts of the Commission explained certain topics more thoroughly. One of these, the document on the EMU (EC, 2017b) finally pays attention to the internal differences of the EU and the eurozone; in particular, to unemployment, the interest rate and debt levels (examining both the community and the private debts in respect of the latter). The report establishes that a future shock would be expected to affect the Member States to very different extents, and the reduction of debt – in respect of those Member States where it is task – is a time-consuming process. Pursuant to the challenges established, the Commission recommends that the efficiency and the transparency of the EMU governance be increased, and that its institutional system be clarified. The analysis points out the inadequacies of the institutional system; namely, that the representation of the interest of the eurozone is inadequate in public debates and decision-making. In our opinion, this inadequacy arises from the deviation from the original state that after nearly twenty years, the single currency zone is still only an actual subset of the EU. We think that the following recommendations of the report are worth mentioning:

- the EMU shall be kept open for all EU Member States in the future as well,
- the appropriate sequencing of the steps of the development is important (sequencing),
- the risks shall be decreased and distributed simultaneously (in the framework of this the European Semester should pay attention to the condition of the financial sector as well),
- the establishment of the banking union shall be completed, and similarly the capital market union as well,
- re-convergence shall be realised in the more integrated economic and fiscal union (re-convergence).

However, the report failed to actually come up with substantial ideas in the interest of the success of the convergence process

to be renewed. The Commission could be described as repeating (also in this umpteenth document) in a mantra-like manner that the framework of the European integration and the existing system of regulations are suitable for ensuring convergence – accordingly, the Commission recommends the strengthening of these frameworks and rules only, and it disregards why complying with the rules has not been working for a number of years already –; namely, there are differences rooted deeply in the quality of governance all over the EU (Benczes, Rezesssy, 2013). On the other hand, it is also a fact that no one has ever been 'kicked out' of the club for failing to comply with the rules – and actually everybody knows this (Kübler, 2012). However, we should see (more) specific plans in the interest of strengthening the stabilising capacity/function brought up already in the Five Presidents' report: one of them includes the establishment of a European Investment Protection Scheme, while the other the European Unemployment Reinsurance Scheme.

In addition to the Commission, other also came up with plans regarding the future of the eurozone. The plan of French president *Emmanuel Macron* (The Economist 2017) may be considered as the most important, due to the specifics and the (presumed) political support behind it. The key elements of the Macron plan: the complete establishment of the banking union, progress in the establishment of the capital market union, establishment of the new European Monetary Fund, as well as the formation of the eurozone minister of budget and finance position.[10] Especially the latter (two) had garnered large response, since it (those) would essentially mean the establishment of a eurozone institutional system parallel with the EU institutions, or at least the initial steps of such establishment. With regard to Macron's plan *Grant* (2018) pointed out that the real challenge lies in the differences of the French and German ways of thinking about the single currency area, which will be difficult to overcome, no matter the political talent. *Brunnermeier* et al. (2016) formulate this problem, saying that while Germany sees the Maastricht Treaty as a system of regulations to be complied with, France sees the same as the flexible framework of the political cooperation of the Member State governments. Thus, we can establish that although along the lines of different criteria – such as in the convergence debate back then –, the single currency area is currently being strained by a French – German difference of opinion after all.

Simultaneously with the political negotiations, fourteen German and French economists (Bénassy-Quéré et al. 2018)[11] also outlined their common ideas on how the differences of the German and the French way of economic thinking could be handled well in respect of the development of the EMU. The starting point of the analysis of the authors is that the eurozone is still vulnerable, divided and it is not functioning well enough, which in the end is in no one's interest. In order to eliminate the inadequacies, the incentive system influencing the Member States shall be modified, and the financial sector (bank bail-outs, regulation, deepening the investment protection and the cross-border financial integration), the fiscal architecture of the single currency area (decreasing the procyclicality, increasing national commitment and economic policy interest), as well as the institutional system of the EMU (independent supervisory authority, conditional lending in case of crisis) shall be reformed. According to the authors, in order to achieve the latter, the 'fiscal capacity' of the eurozone shall be increased; however, the documents avoids the expression 'eurozone budget', and refers to a euro area fund instead.

In order to harmonise the French and German reform plans, French president Ma-

cron met German chancellor *Merkel* in June 2018, in the Meseberg Palace near Berlin. After their meeting, the two heads of state issued the so-called Meseberg declaration (BR 2018) jointly, in which – among a lot of others – they made comments and recommendations concerning the EMU as well (after all, the declaration details this point the most). With regard to the ESM, the two heads of state recommend the amendment of the intergovernmental fundamental treaty thereof, with the incorporation of a joint support, the improvement of the efficiency of the preventive measures, and increasing the role of the mechanism in the course of the evaluation and monitoring of the future programmes (BR 2018). According to them, in the course of the reform of the ESM, the framework of liquidity support and shall also be improved in case of bank bail-out, as well as the order of lending in case of assistance. On the longer term, the two heads of state recommend that the ESM Treaty is made into a part of the EU law, and the fund be renamed possibly;[12] however, they emphasise the principle of conditionality related to assistance, which shall not be foregone.[13]

The most important concept of the declaration related to the banking union is that the ESM would serve as the support for the single bank bail-out (Single Resolution), and this support (backstop) would be close to the extent of the Single Resolution Fund, and thereby it could replace the direct recapitalisation instrument. Otherwise, the joint declaration confirms the 2016 ECOFIN itinerary for the establishment of the banking union. Calling the eurozone budget by its name is a large step forward by the two heads of state, and which they recommend to be launched in 2021, in order to ensure competitiveness, convergence and stability in the eurozone. In their opinion, the common budget of the zone shall be developed taking into consideration the multiple-year financial framework between 2021 and 2027. The budget of the zone would be set up by the Member States thereof, while the amount of the budget would be determined in multiple-year cycles. The competitiveness and the convergence would be ensured through investments to be made in innovation and human capital – in these fields the budget of the eurozone could finance investments and could also serve as substitute for the national budgetary expenditures in these respects. The execution of the decisions on expenditures would belong to the power and responsibility of the European Commission (BR 2018) – the eurozone minister of finance (and any kind of parallel institutional system) is therefore no longer included in the joint concept of the two heads of state.

The ministers of finance of[14] the Northern EU Member States rushed to lessen the French-German reform spirit in a joint declaration (VM 2018). They start their critique by that the negotiations on the future of the EMU shall be conducted in the framework of an inclusive process – and those among the post-Brexit EU-27. Secondly, however, they emphasise (consistently with the Commission) that the EMU is a rule-based system, and its strength and stability lies in that the rules are observed by everybody. Third, they declare that the conversation shall be about initiatives which enjoy widespread social support in the Member States, and which actually contribute to the strength of the EMU. At the same time, they express their unwavering commitment to finishing the establishment of the banking union, and they think it is possible that the ESM develops into a European Monetary Fund (EMF) in the future.

In respect of the near future, the permissive American fiscal policy, the conclusion of the quantitative easing (Anstey, 2018, ECB, 2018), and the withdrawal of money are expected to have an inflationary effect, which is

presumed to burden the EU Member States to different extents again. The inflation of the countries using the euro will presumably remain lower, and the own currencies are expected to get weaker. The process will continue for the next two to three years. After the multiple-year booming period, the monetary tightening will presumably be accompanied by economic downturns as well, against which those will be able to act who has any reserve in the budgetary position. When 'bad times' come, the ESM-like assistance will come in handy for the countries – however, all these remain to be seen.

RESULTS, CONCLUSIONS

The need to establish the European monetary union emerged as early as the end of the 1960s; however, it was realised only in the 1990s. The competition of the original concepts related to the establishment was already decided by the EMS crisis at the beginning of the '90s: the coronation theory (*Krönungstheorie*) – which was of German origin – failed, and thereby the 'monetarist' approach of the French – according to which the monetary integration will eventually bring about the convergence – remained in force; however, as a matter of fact, this theory was weakened by the crisis as well, at least in respect of the half-finished EMU, since the downturn resulted in the periphery lagging behind drastically. All in all, the EMU is still strained by a kind of French-German difference in the way of economic thinking, although the subject thereof has by now shifted into the dimension of the relationship with the framework regulations.

Usually, financial crises affect countries differently, i.e. the risk of asymmetric shocks always lies in them. However, the differences between the Member States of the EMU – which later provided each Member State with significantly different conditions and prospects related to the crisis management of the eurozone (primarily the core and peripheric countries) – have in fact already been formed during the first decade of the euro; however, at that time – although they had been noticed –, nobody really minded these imbalances, since the economic upturn and the advantages arising from the monetary union and enjoyed by everybody concealed the risks.

The 'one-way street' approach has been characteristic throughout the decades of the monetary integration; however, in reality, simultaneously with the deepening of the integration, the EMU actually proves (proved) to be a one-way street, and exiting it serves the interest of neither the possible exiting states, nor the single currency area, but conversely: keeping the area intact at all cost seems to be to only feasible, politically and economically tenable option. This type of determination has only become even more obvious through the crisis, while at the same time, it caused dependency on this option as well, both for the entirety of the single currency area and the Member States thereof – in respect of the latter, the position proves to be crucial, i.e. whether the country concerned belongs to the core or the periphery of the EU and the eurozone.

The largest 'stress test' of the EMU so far was definitively the eurozone crisis following the global crisis, in the course of which the crisis management measures first concentrated on the solution of individual, country-specific problems. They tried to introduce general mechanisms only when they were no longer really necessary (see ESM). On the other hand, as a result of the European Union-level measures and the institutional developments, the eurozone became more resistant to crises. However, overall the crisis management instruments used do not facilitate the realisation of the purpose of the EMU, but the crisis-re-

sistance of thereof, and the achievement of the former is still to come.

In summation, the now more than 25-year history of the EMU – which started in Maastricht – points out that although the effective establishment and management of the monetary integration which was built on – partially competing – theoretical considerations, and then leading the monetary integration out of the crisis always happened in the framework of a political process, it is actually understandable, since an integration of this depth might not be feasible and operable without political commitment. We could also see that the technocratic approach of the international creditors during the crisis met with a strong social opposition in the countries concerned, and it provided ammunition to political changes which adversely affected the European integration (Euroscepticism, objection to the existing regime). Accordingly, it is advisable to evaluate the ideas about the future of the EMU in light of all of the above, i.e. from the constellations which are basically functional within the economic theoretical framework, the versions which are politically executable on the GMU and the entire EU level shall be selected and committed to, and then the execution thereof shall commence, in order to ensure in a reassuring manner that the single currency area is sustainable.

Notes

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[2] Protocol on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland; Protocol on certain provisions relating to Denmark.

[3] Therefore, this approach was named *Krönungstheorie*.

[4] Magnusson and Stråth (2001), as well as James (2002) explain the events in detail in this spirit.

[5] In her December 2000 article, Margit Rácz said (p. 9): 'With regard to the emergence of trust in the euro, it is uncertain whether the Greek accession can be considered particularly positive. Greece is not one of the EU Member States which have the so-called culture of stability.' Meanwhile, Gergely Baksay called Greece the 'back sheep of the EMU' in 2005 (p. 166).

[6] The erosion of the SGP was actually started by Germany and France in 2003, when they mutually voted against the excessive deficit procedures to be initiated against them in the EU Council (Peet, La Guardia 2014). With their decisions they created a precedent for discretionality, and also caused the smaller Member States (e.g. Portugal) to think that 'the big ones can do anything', while 'the small ones' are coerced into compliance with the community rules. It is uncertain whether the conflict of the European Commission and Italy – which started during the Autumn of 2018 – will have such an aspect, since Italy is the third largest economy of the eurozone and the post-Brexit EU-27, right behind the already mentioned Germany and France.

[7] EFSF: European Financial Stability Facility, the early crisis management fund of the eurozone.

[8] Sweden: 81.8 percent, Germany: 79.2 percent, Estonia: 78.7 percent, Czech Republic: 78.5 percent, United Kingdom: 78.2 percent, Netherlands: 78 percent, Denmark: 76.9 percent, Lithuania: 76 percent, Austria: 75.4 percent. Source of data: Eurostat [tesem010]

[9] The 2017 rate in Hungary: 73.3 percent. Source of data: Eurostat [tesem010].

[10] It did not receive much attention in Hungary that Macron – then as the minister of economy of the Holland administration –, together with his German colleague, Sigmar Gabriel, published a so-called manifesto during the Summer of 2015, in which they held that the further deepening of the integration of the eurozone was the key to the survival of the EU, and they thought that Germany and France should take on a leading role in the reforms. Even back then, they talked about the necessity of a eurozone budget (Macron, Gabriel 2015).

[11] The fourteen economists include Markus K. Brunnermeier, who is originally German and currently works at Princeton, and who is one of the authors of the book referred to earlier.

[12] This presumably refers to Macron's idea of the European Monetary Fund.

[13] While this means the retention of the idea which was originally German.

[14] Specifically: Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, as well as the Netherlands and Sweden.

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