

History of EMU: major achievements and key challenges



Professor Catherine R. Schenk
University of Oxford

<https://glocobank.web.ox.ac.uk/home>



Outline

- Rationale for a cross-border currency
- Antecedents to the Euro – EPU, ECU, ERM: BIS
- Key debates of 1980s and 1990s
 - Sequence of integration (fiscal, monetary/inflation)
 - Enlargement
 - Payments systems innovation: TARGET
- Achievements and Challenges 2000-2020
 - International money: Reserves and Transactions
 - Great Moderation and Fiscal Divergence
 - Politics vs Economics of Money
- Prospects for future:
 - Lesson of Brexit?
 - FinTech: displacement of central bank money?

Rationale for a Cross-border Currency

- Transactions costs: amplified by European integration
- Network Externalities
- Trilemma
- Commitment Mechanism

Antecedents to the Euro

- European Payments Union – 1950-1958
- Disintegration of pegged exchange rate system 1960-73
 - Failed reforms, snake in and out of the tunnel
- Plans for EMU: Hague Summit 1969, Werner Report 1970
- European Monetary Cooperation Fund
- European Currency Unit: 1978
 - Ecu clearing: 1982 Mutual ECU Settlement Account (BIS from 1986)
 - Ecu bonds: Ecu10 billion by 1986
- Exchange Rate Mechanism
 - 1992 Crisis: end of British engagement

Important role for Bank for International Settlements

Currency as Politics



Key Debates of 1980s and 1990s

- Sequence of Integration: fiscal v monetary
- Historical lessons of USA, Austro-Hungarian Empire
- 1989
 - Delors Report on EMU
 - Fall of Berlin Wall (collapse of USSR)
- Capital markets, Banking systems not harmonised
- **Global Context: Cross-border Payments Innovation**
 - Electronic Payments
 - CHIPS, RTGS systems
 - Herstatt Risk – clearing and netting
 - Bank for International Settlements: CPSS, CPMI

Achievements and Challenges 2000-2020

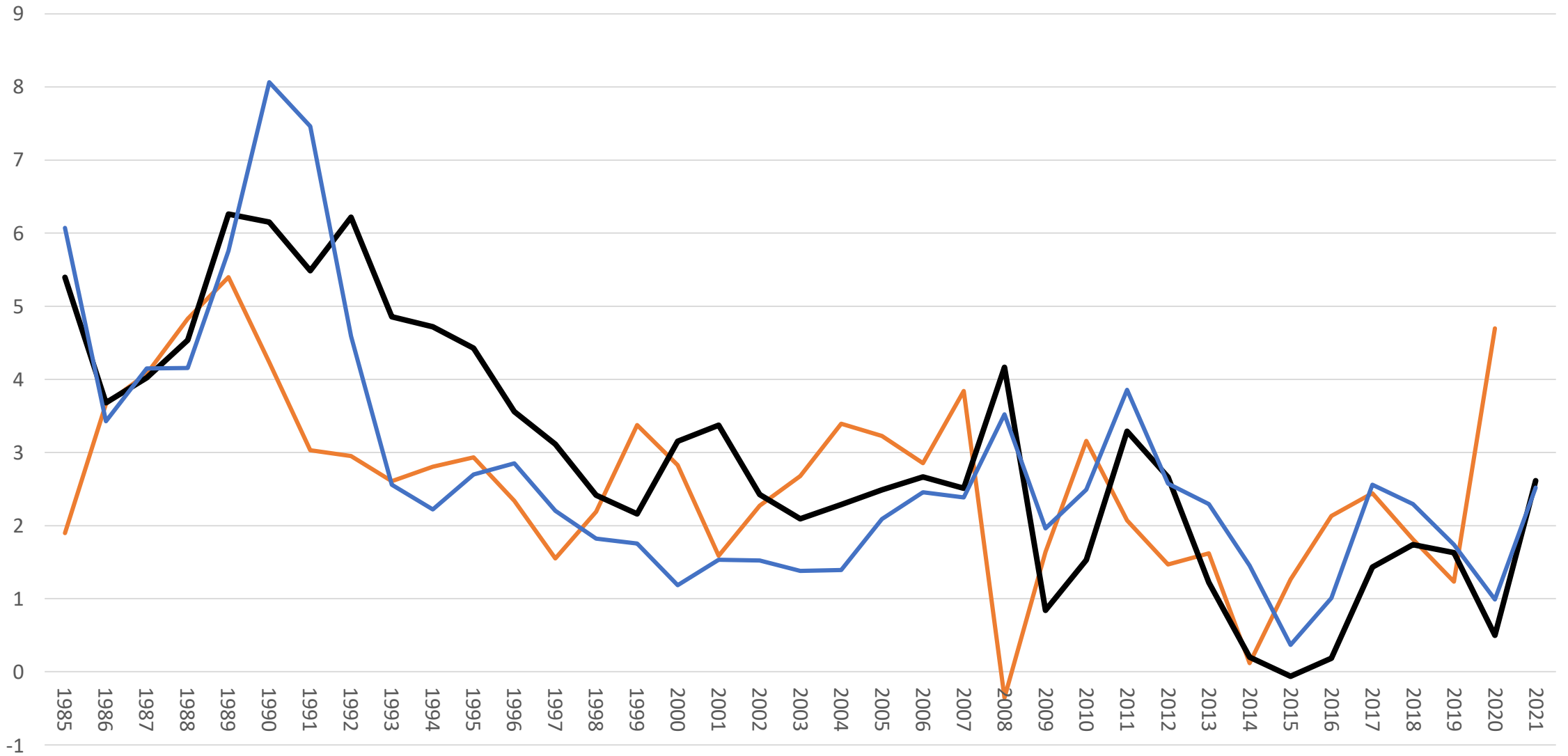
- **Global Context**

- Globalisation of trade and payments
- Great moderation: low inflation, convergence among industrialised economies

‘The smoothness of the ride depends on the size of the bumps in the road as well as the quality of the shock absorbers’ (R.N. Cooper 1982)

- Successful Transition 1999-2002
- Euro will overtake the USD? Share of global transactions
- EU Enlargement and Divergence
- Asymmetric impact of Great Financial Crisis: Euro-Area Debt Crisis
- Development of TARGET

Great Moderation: CPI Inflation - USA, EU, UK 1985-2021



— USA — European Union — United Kingdom

Prof. Catherine R. Schenk University of Oxford 20 Nov 2024
'CEEI 2024 Conference'

Achievements and Challenges 2000-2020

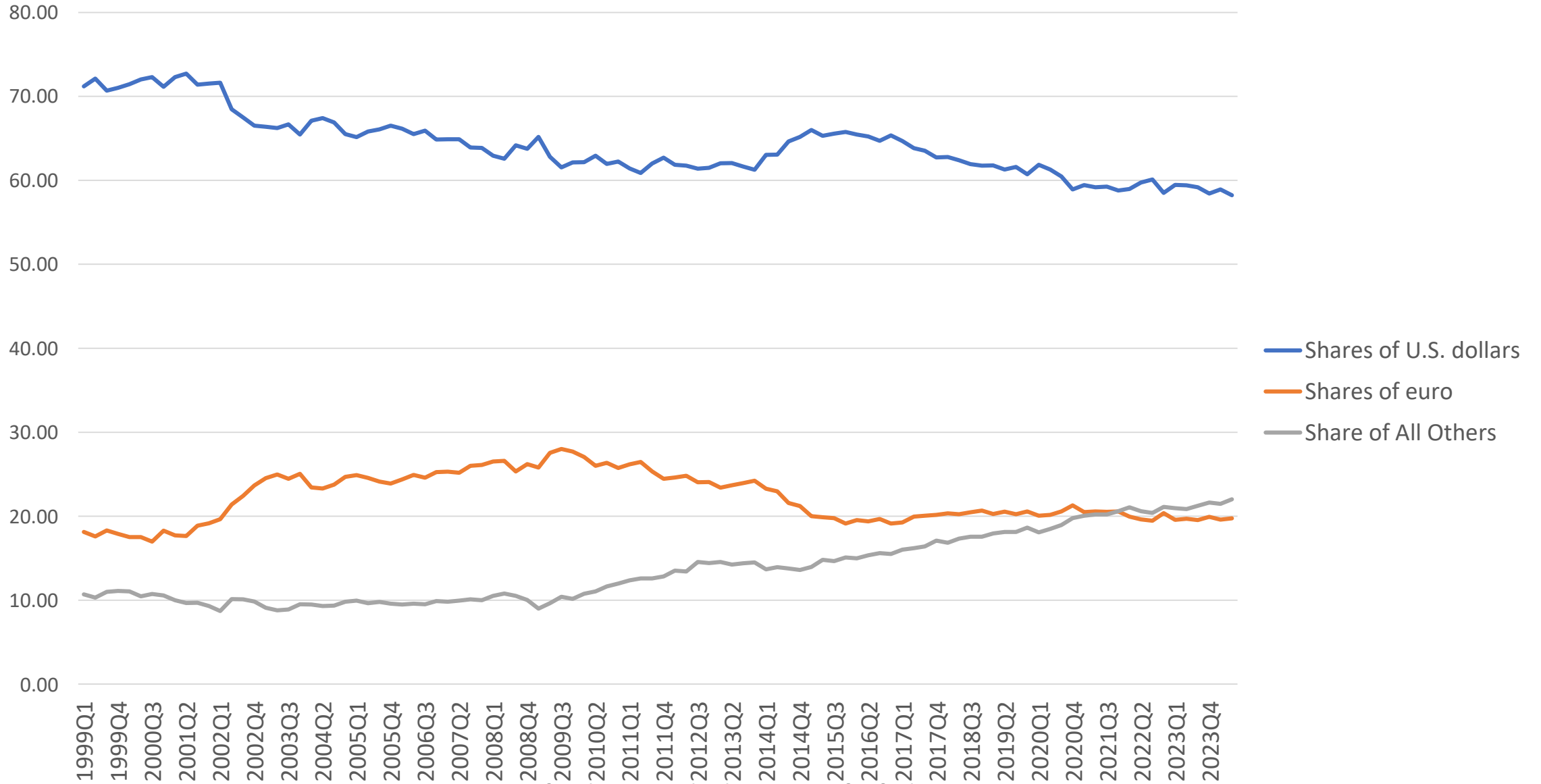
- **Global Context**

- Globalisation of trade and payments
- Great moderation: low inflation, convergence among industrialised economies

‘The smoothness of the ride depends on the size of the bumps in the road as well as the quality of the shock absorbers’

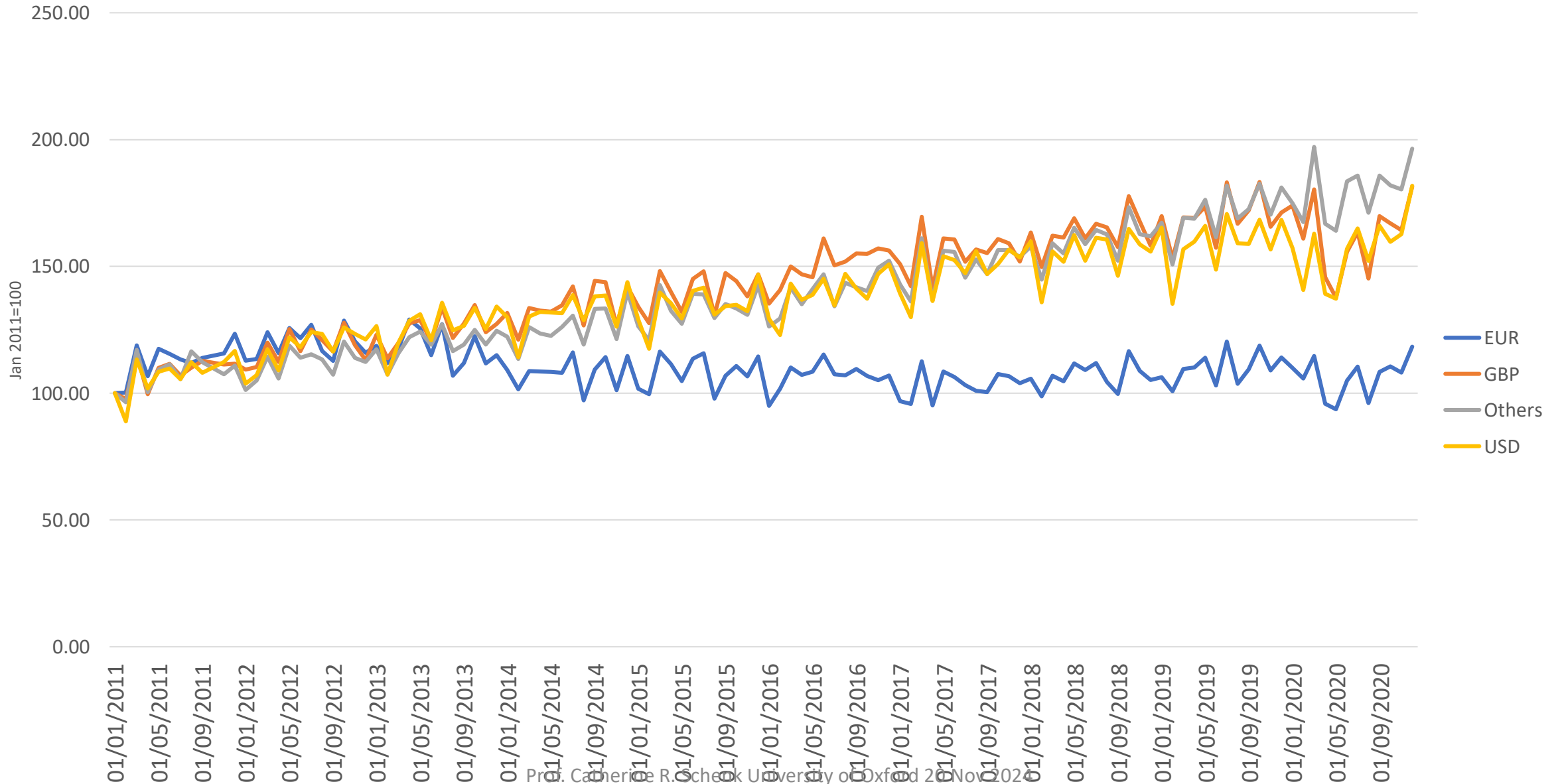
- Successful Transition 1999-2002
- Euro will overtake the USD? Share of global transactions
- EU Enlargement and Divergence
- Asymmetric impact of Great Financial Crisis: Euro-Area Debt Crisis
- Development of TARGET

Share of Foreign Exchange Reserves 1999-2024 (Percent)

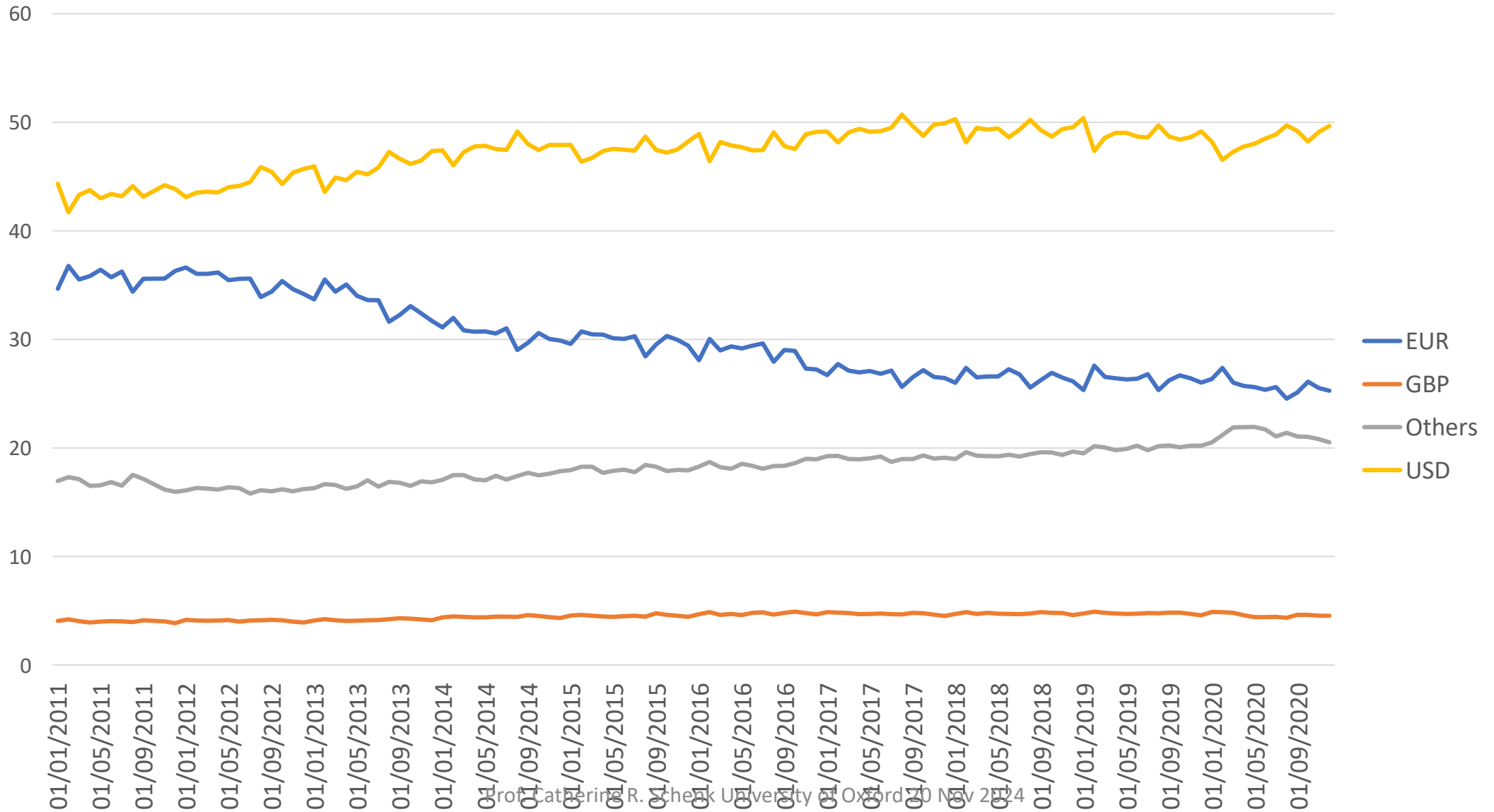


Prof. Catherine R. Schenk University of Oxford 20 Nov 2024
'CEEI 2024 Conference'

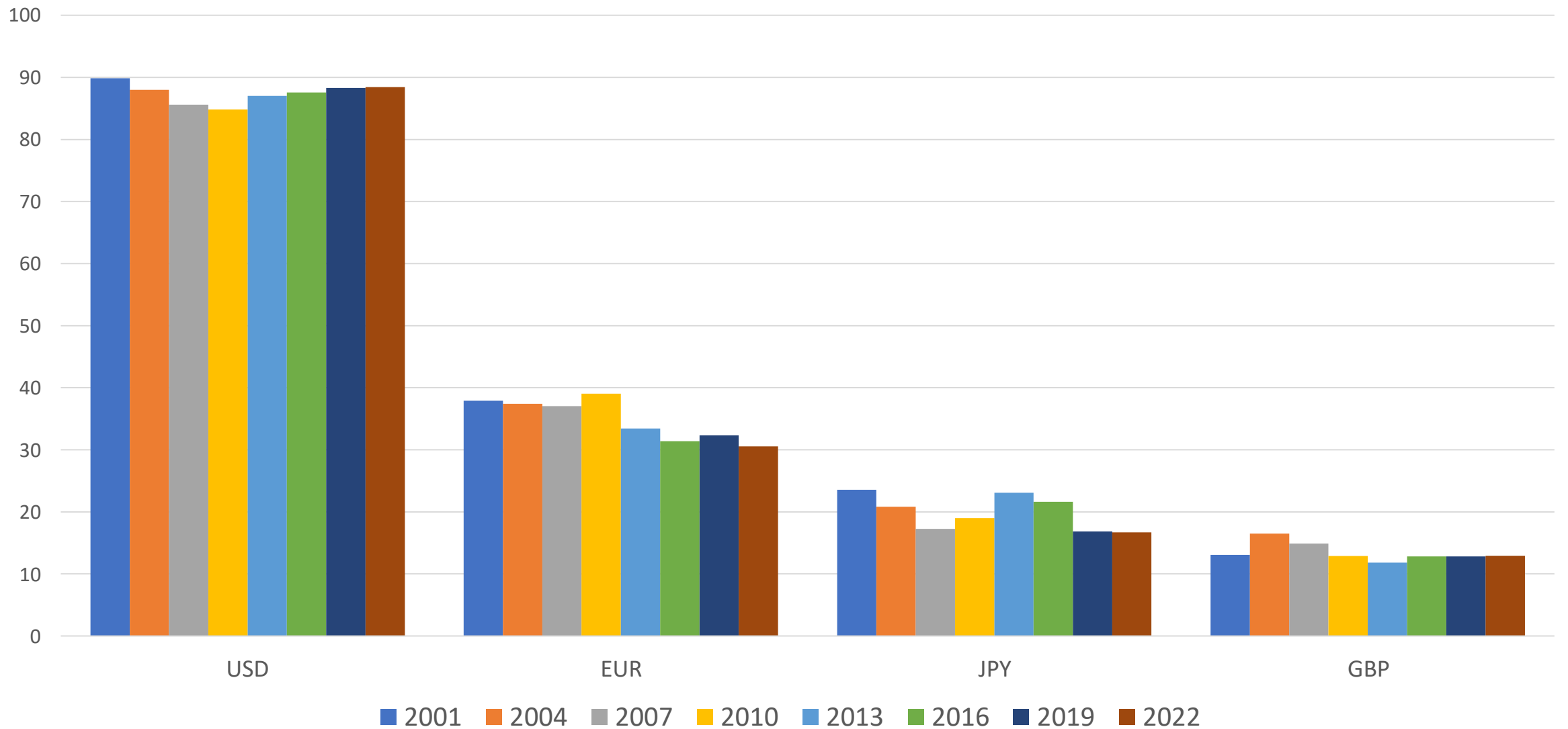
Number of SWIFT Transactions by Currency (Jan 2011=100)



Share of Number of SWIFT Transactions 2011-2020 (percent)



Turnover of OTC foreign exchange instruments, by currency (percent)



Prospects for the Future?

- Lessons from Brexit
 - Avoided commitment mechanism
- Strategic ties of EU more important since 2022
- FinTech Payments Innovation – challenge to central bank money in cross-border payments or an opportunity

- Stable Coins, DLT, Tokenisation
- European payments innovation
- Agora: Bank for International Settlements coordinator

