Barnabas Virág:

Maastricht 'upgrade': successful euro area entry under new criteria

In 2019, Europe celebrated the 20th anniversary of the euro's introduction. Without going into much detail, it is worth summarising the results achieved so far in light of the original objectives. There were two main strategic aims behind the euro and the Maastricht Treaty establishing it. One was to further deepen and bring European integration to a new level in the historical moments following the fall of the Berlin Wall; the second being to create a new currency building on the strength of the European economy, which could later enjoy equal or similar standing with the US dollar on a global scale.

Now, 20 years later it is safe to say that those objectives have not been met or have been met only partially. The number of Member States using the euro has grown from the initial 12 to 19; however, the euro area has been constantly losing its global share. Although social acceptance of the euro as a currency continues to be high, Europe is faced with a growing division (both between North and South and West and East) over economic issues instead of promoting further integration. The costs and benefits of the euro's introduction have not been distributed evenly. While only a few of the countries with a lower level of economic development (Slovakia and Estonia) managed to continue to catch up, several others saw their convergence process slowed down and halted or even reversed (e.g. Greece). Obviously, the individual growth paths were determined by the quality of economic policies pursued; however, there is growing evidence supporting the view that the abandonment of independent monetary policy may have had a serious impact on economic growth.

Meanwhile, the US dollar retained its position as the world's leading currency. At the height of the euro area crisis, in 2011-2012, the euro seemed to be close to collapsing. Finally, the worst-case scenario was avoided, but the share of the euro in financial transactions or central banks' currency reserves around the world barely changed relative to the situation 20 years ago.

The general consensus is that the euro is a half-completed project. Serious reforms will be needed. It also became obvious that the original, so-called nominal, convergence criteria have not been able by themselves to ensure the stable functioning of the euro area. To make Europe more successful in the future than it was in the first two decades, decision makers of today may face two options or their combination.

The first option is a thorough institutional reform of the euro area, with the end-product of the process being to achieve fiscal union or to build at least equivalent fiscal capacities which could be used for financial and real economic stabilisation purposes in a crisis situation. Steps have been taken in this direction in the past few years. Although there has been progress in several areas, e.g. in monitoring macroeconomic imbalances, establishing a crisis management fund, preparing banking and capital market union, the process has been extremely slow. Not incidentally. In all cases risk- and cost sharing involved, and hence the question of surrendering fiscal sovereignty, is the crucial point. This issue is unlikely to be resolved in the near future. (The American Empire vs the European Dream, a book by György Matolcsy published recently, provides a detailed description of the problems with the creation of fiscal union).

Given the lack of fiscal capacity, a second option could be to rethink the existing accession criteria. A new set of criteria should be developed which are capable of assessing the economic maturity and adaptive ability of new entrants assuming sustainable nominal convergence of interest rates and inflation, the harmonisation of financial cycles and the economic policy leeway. An adequate level of these criteria may ensure that countries using the single currency move as close as possible to meeting the criteria for optimal currency areas.

The ultimate goal for the nowadays rapidly growing countries of Central and Eastern Europe is maintaining their economies on a sustainable convergence path. The adoption of the euro is just an important milestone but not the final destination on this road. Conditions for accession should be sought which would be mutually beneficial (win-win) for current Member States and countries about to enter the euro area. Candidates should join only under a new set of criteria ensuring that the new entrants will be able to keep their economies on the current growth path and that the new members will not be a source of future crises. Approaching the 30th anniversary of the Maastricht Treaty, it is time to rethink the accession criteria in accordance with the requirements of the 21st century.