



EUROJÄRJESTELMÄ
EUROSYSTEMET

Comments on single currency from Nordic perspective*

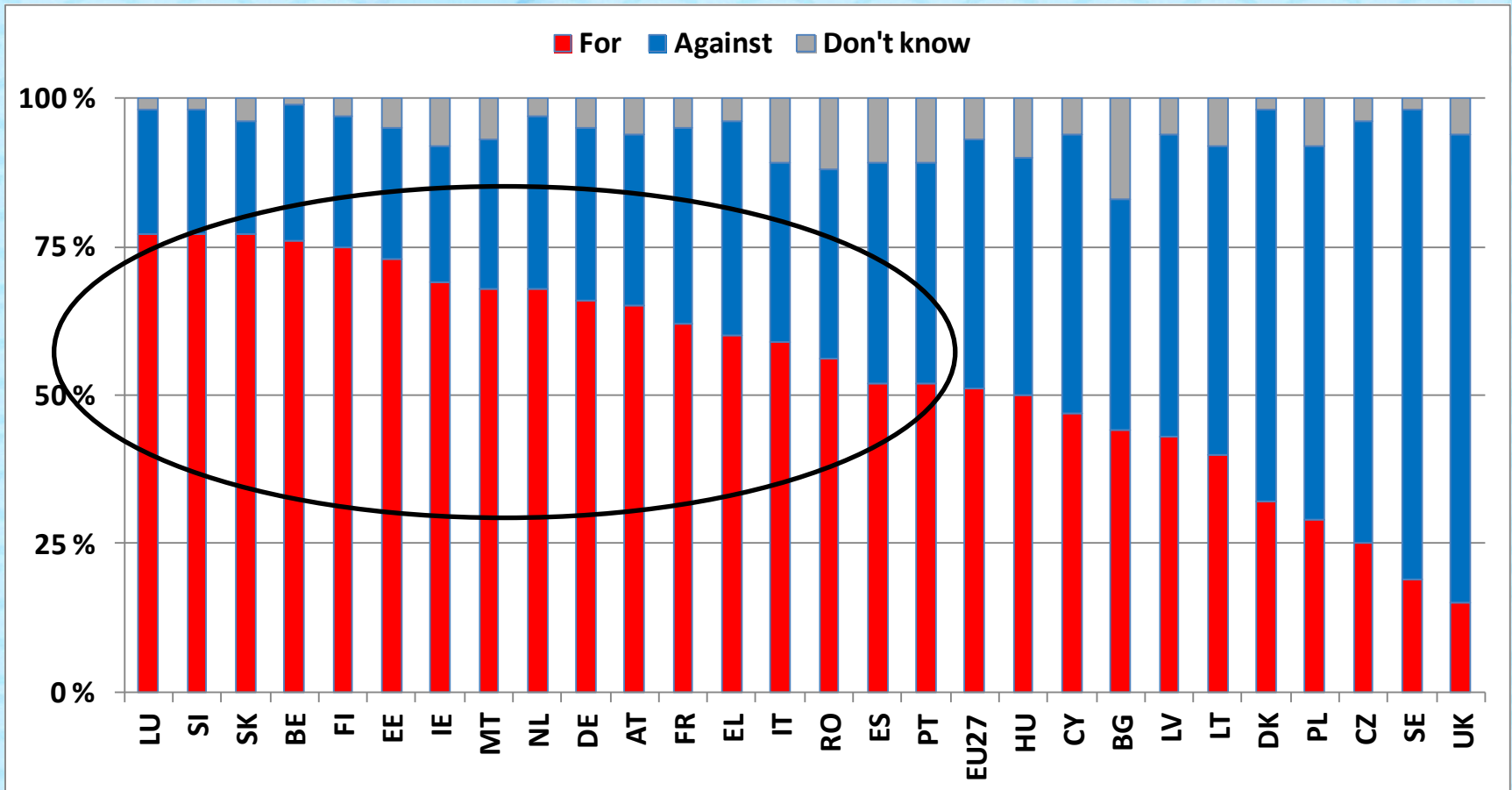
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*Views expressed are my own and do not necessarily represent those of the Bank of Finland.

Practical experience with single currency

- ◆ Single currency has improved cross-border comparability of prices and hence efficiency of product markets in Europe.
 - Effect is not necessarily visible very fast.
- ◆ Savings on transaction costs are here and although they are relatively small in short term, accumulated benefit in long term is notable.

Micro arguments might explain the bulk of satisfaction within countries using single currency

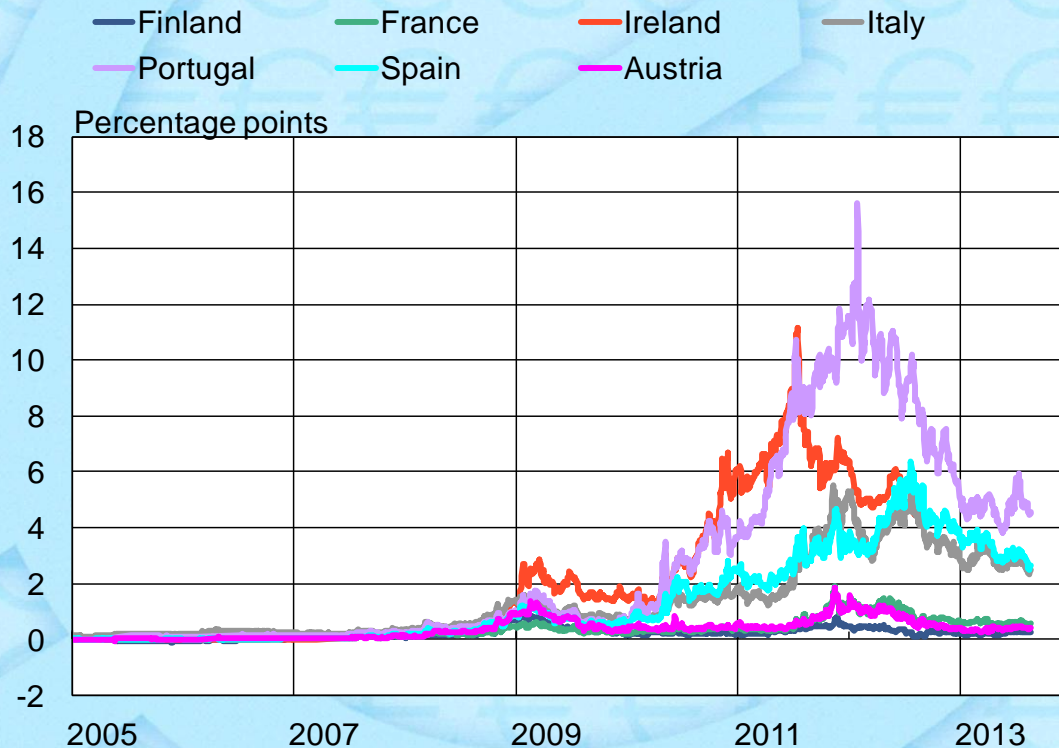


Source: Eurobarometer (Question asked: "What is your opinion on the following statement: European economic and monetary union with one single currency, the euro")

But what about macro?

- ◆ Macro stability has been less satisfactory:
 - Fiscal, financial and competitiveness concerns were not addressed early on.
 - Action only under extreme stress or under external pressure?
 - The problems were failures of both design and implementation.
 - Risk assessments of sovereign debt
 - No attention to current account deficits.
- ◆ With improved institutions the chances for better outcomes in the future could be enhanced.
 - Banking union.
 - Economic and fiscal governance in the EU ("European semester", "six-pack", "two-pack", "fiscal compact").

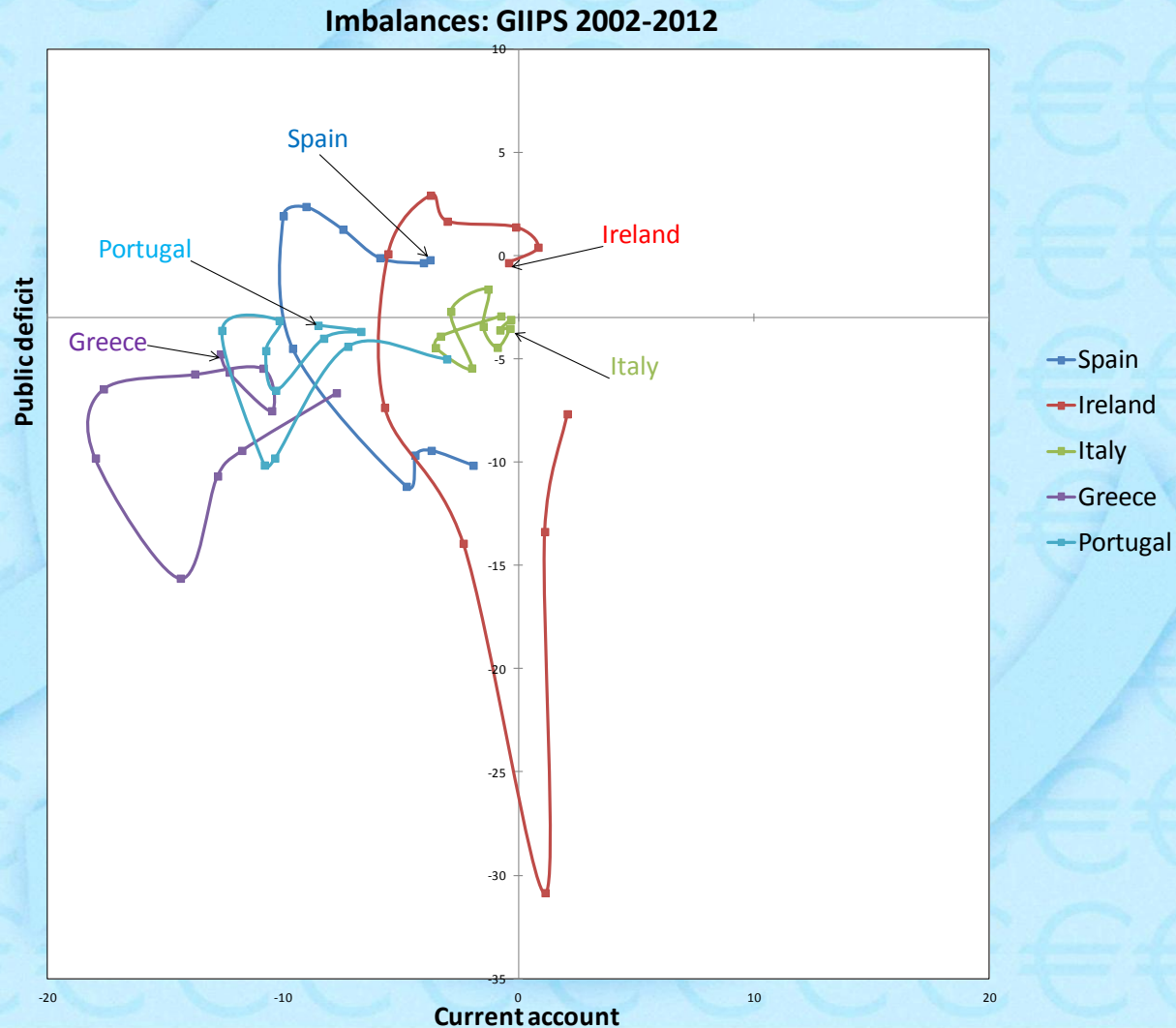
Risk assessment did not work



Selected spreads vis-a-vis Germany. Bond maturity approximately 10 years.
Source: Bloomberg.

22887@Spredit (3en)

Current account and public debt dynamics in GIIPS countries

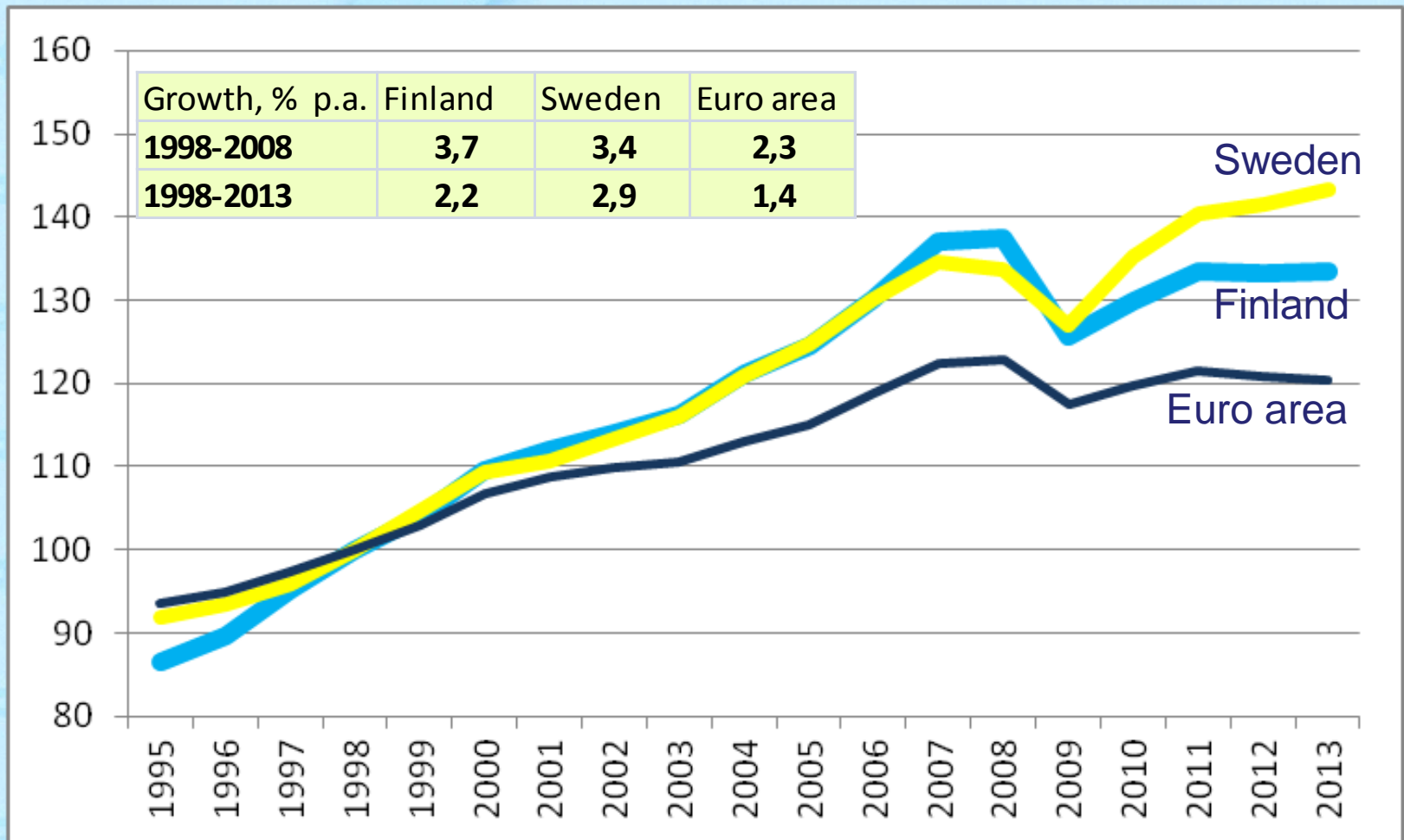




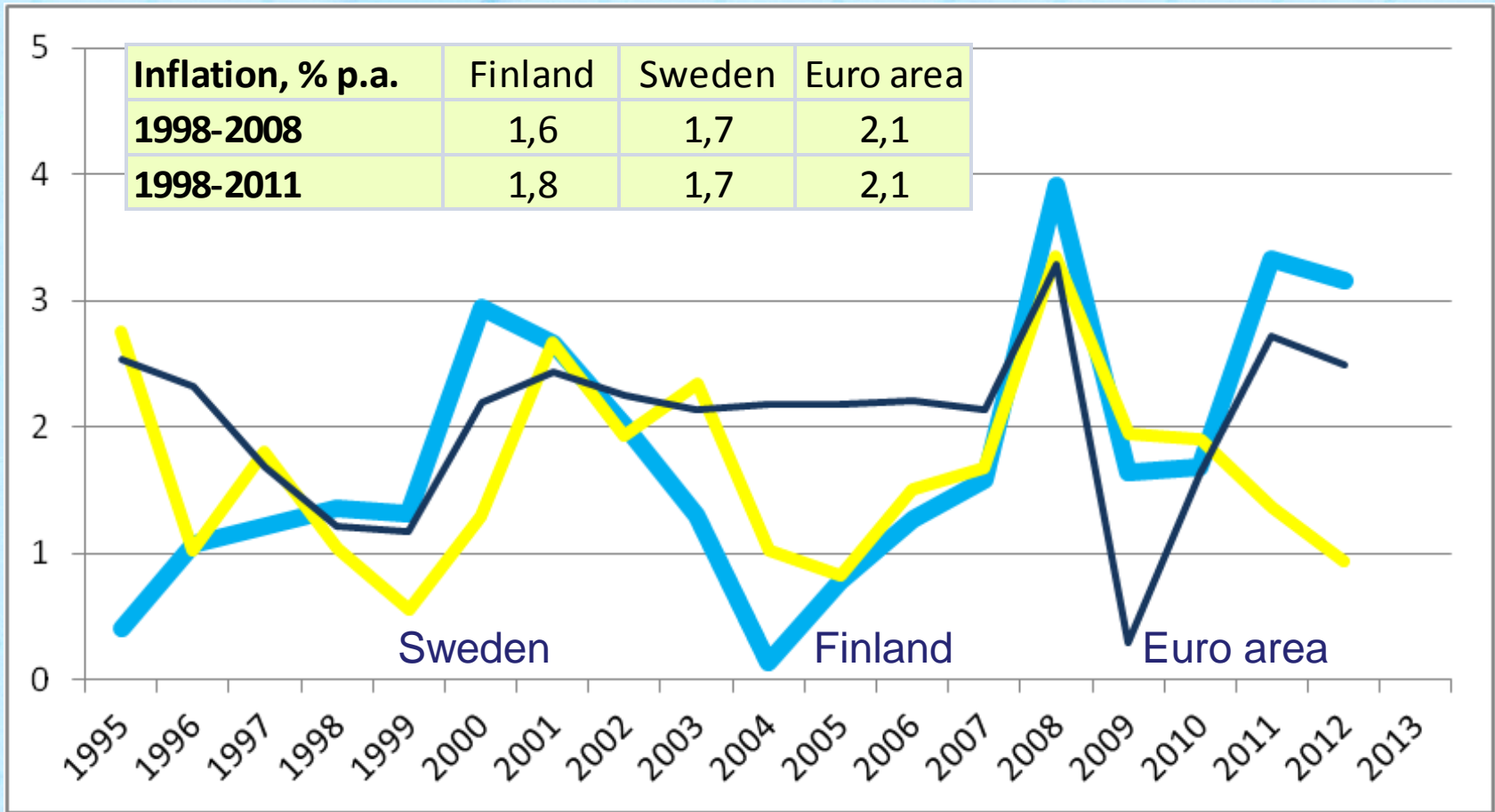
**(Almost) perfect case study:
Sweden and Finland**

GDP

1998=100

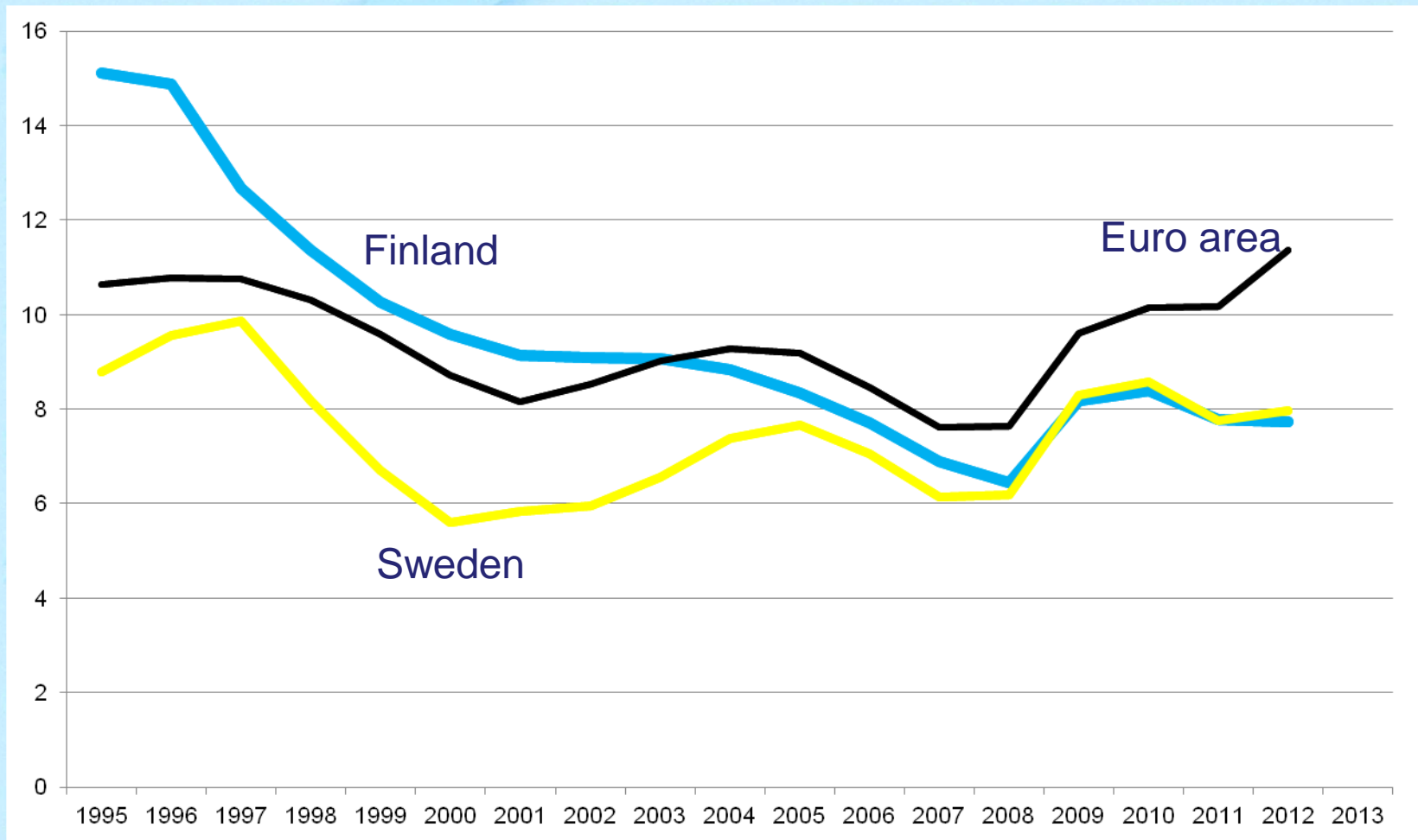


Inflation

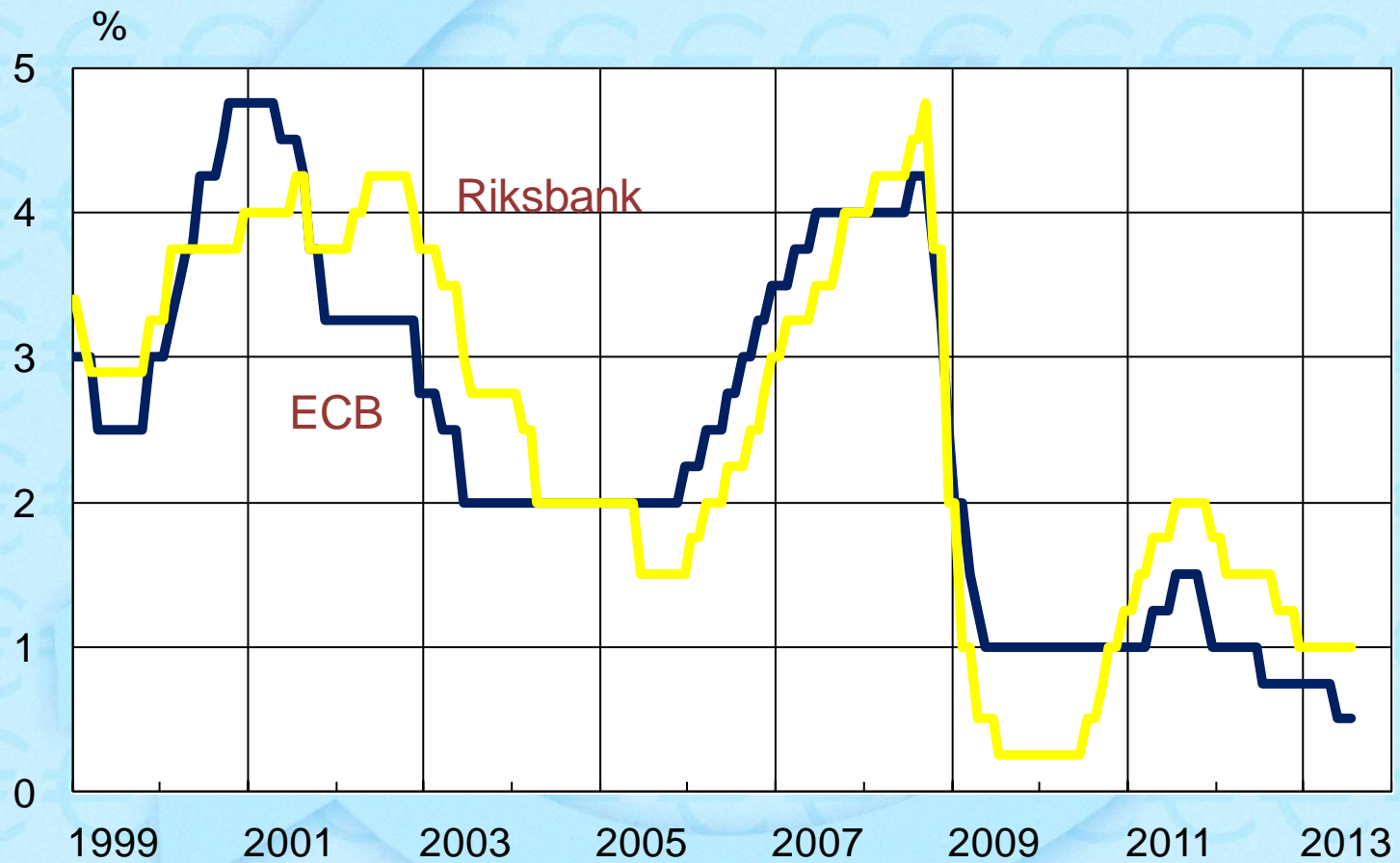


Unemployment

%



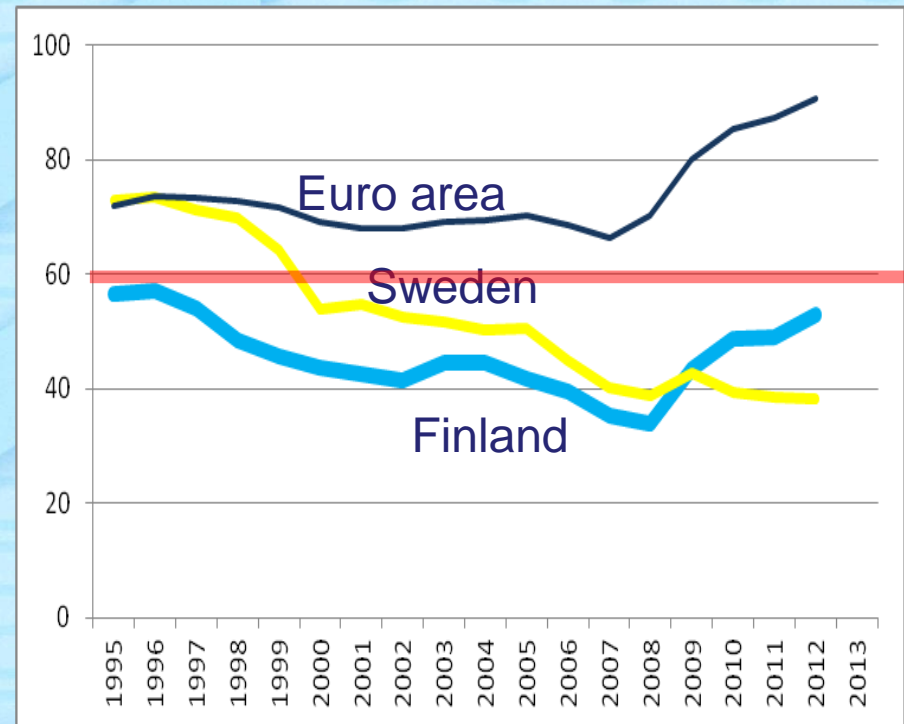
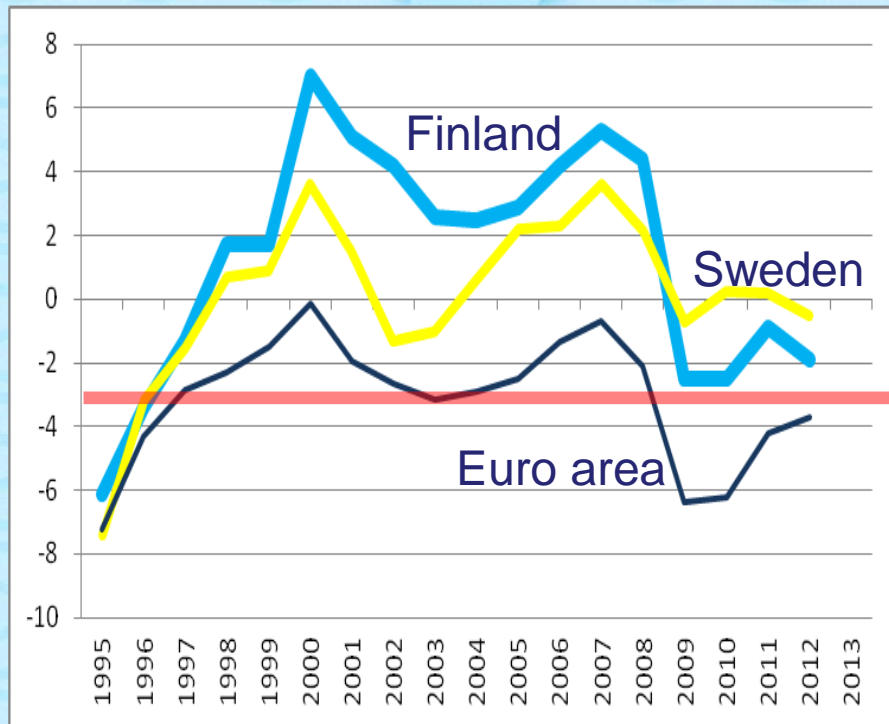
Central bank policy rates



Sources: ECB, Riksbank.

Public deficit and debt

% of GDP

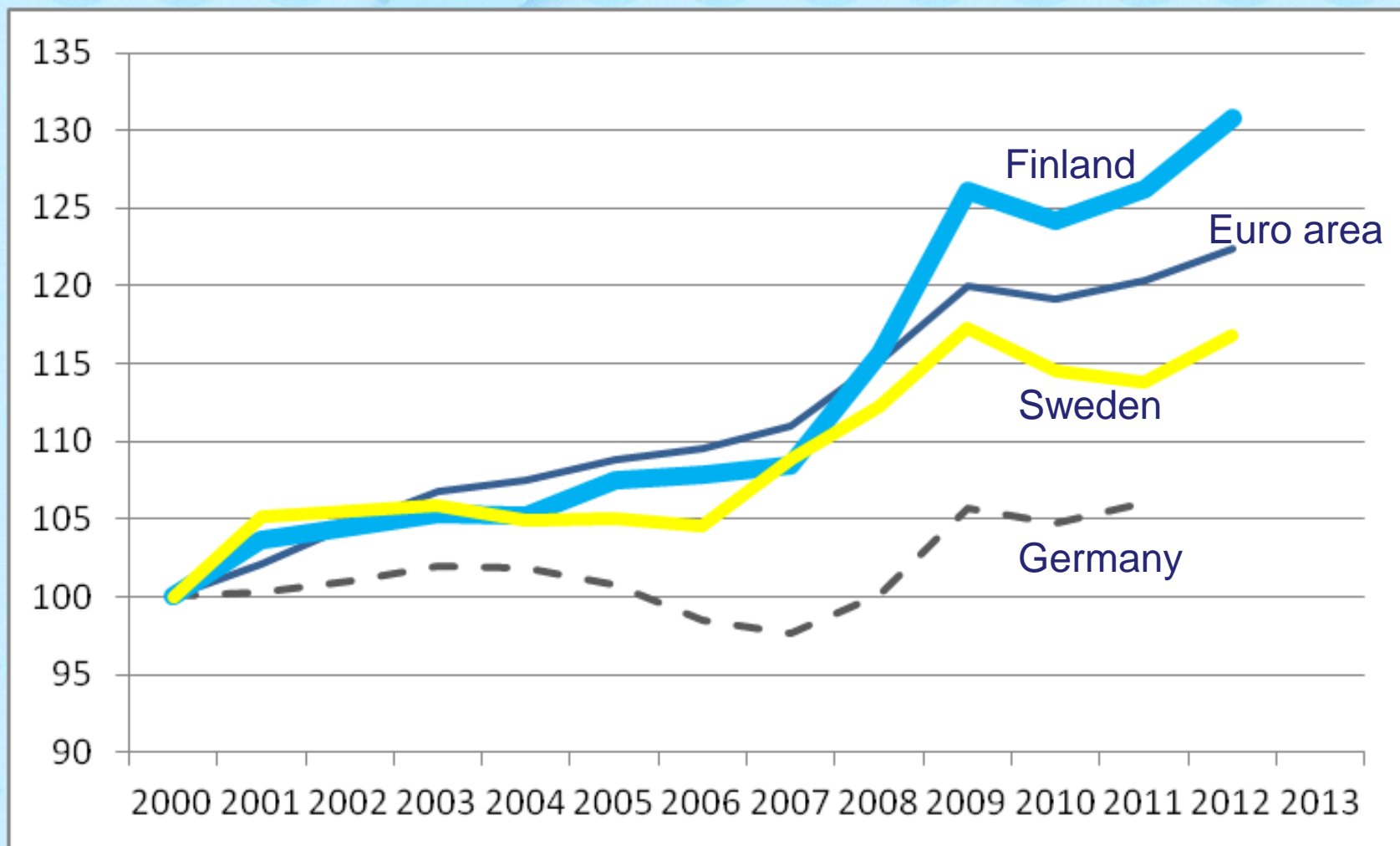


Finland vs Sweden (and the euro)

- ◆ Both countries had broadly similar performance in growth, inflation and labour market at least before 2008.
 - Successful outcome influenced strongly by early 90s crisis and subsequent structural reforms.
- ◆ Monetary and fiscal policy cycles quite similar.
- ◆ Labor costs in Finland deviated from trend after 2008 and readjustment is now needed.

Unit labour cost

2000=100





Euro adoption in other EU countries

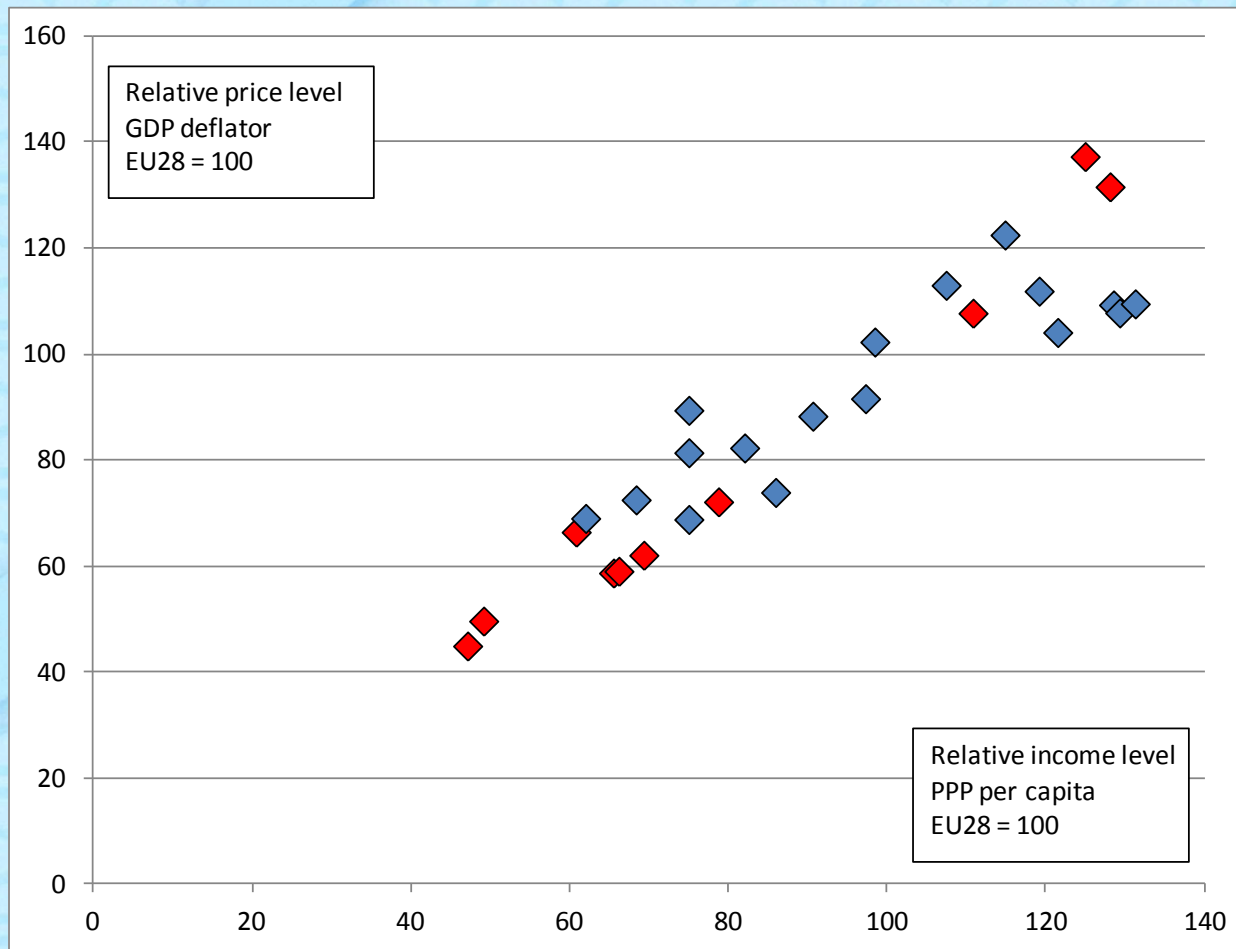
Experience with euro adoption (1)

- ◆ There is now extensive practical experience of using euro accession rules.
 - While sometimes criticized as too narrow, the framework as such has worked satisfactorily.
- ◆ Testing for inflation, fiscal position, interest rates, structural position of economy etc. has provided in principle a good set of indicators.
- ◆ Both satisfactory and problem cases include countries with variety of starting positions:
 - Important: "The history does not end" with the euro-adoption.

Experience with euro adoption (2)

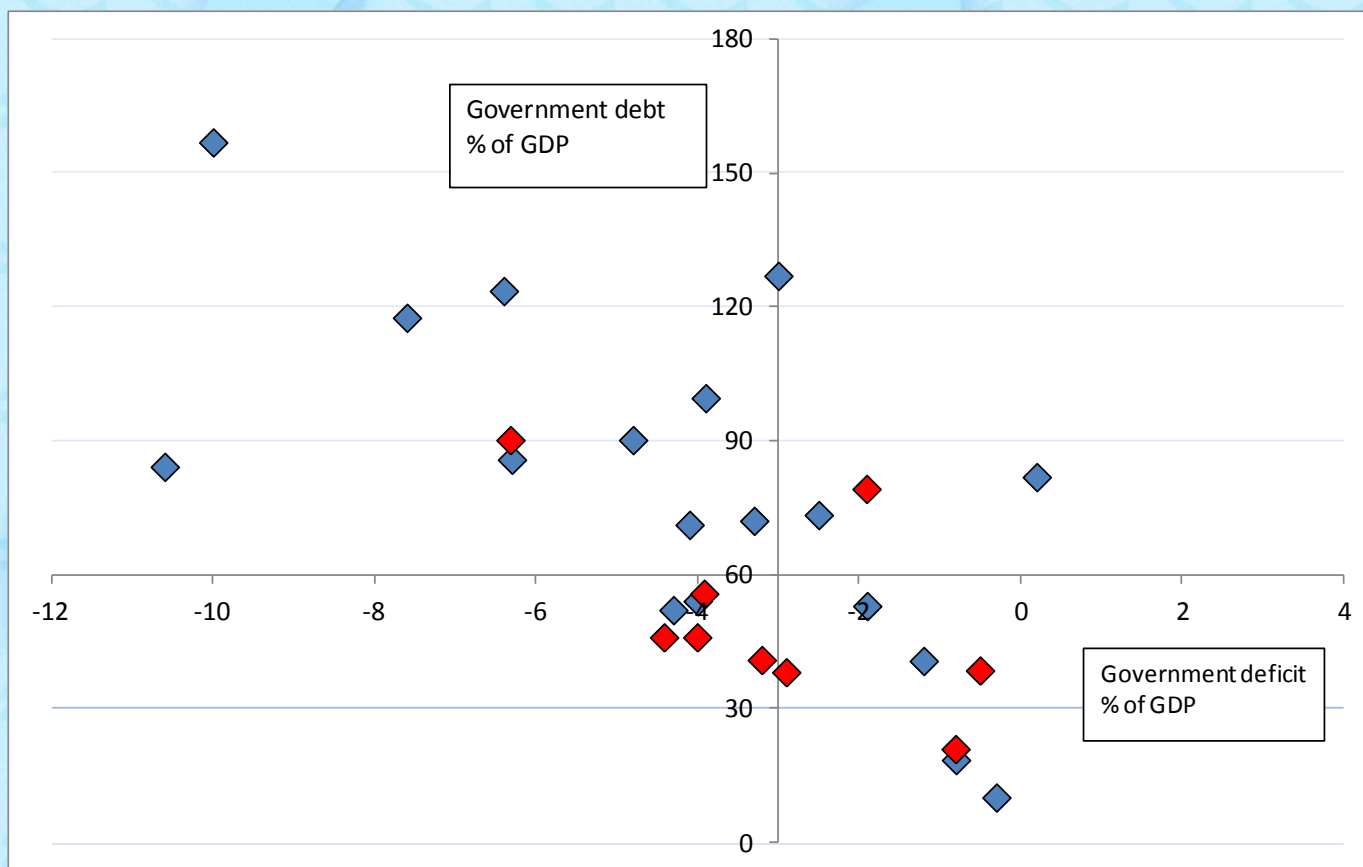
- ◆ Some mistakes have been made:
 - They are only partially linked to euro adoption in general (or are part of learning process).
 - General mispricing of risk in 2000s was a global phenomenon.
 - Euro has possibly complicated some adjustment cases, but it has benefited other cases.
- ◆ Playing by rules have helped in all cases.
 - Not specific for euro members.

Sufficient convergence is a prerequisite



Source: Eurostat, blue dots > euro area members (from 2013), red dots > non-members

Ability to adjust within the single currency is mostly country specific



Source: Eurostat, blue dots > euro area members (from 2013), red dots > non-members

Conclusion

- ◆ Euro membership requires strong national institutions and balances:
 - Both internal and external balances.
 - Willingness and ability to make internal adjustments if economic difficulties arise.