Don’t throw the euro out with the bathwater

Anti-euro sentiment is on the rise

Europeans seem to be getting less excited about the euro and the future of the EU. The eurobarometer survey shows that the share of people being positive has dropped considerably since 2007. This is certainly a direct consequence of the crisis in the Economic and Monetary Union and the lack of an effective political response to it.

Quote Shahin Kamalodin, senior-economist

"To be clear, we are not supporting the eurozone just for the sake of it. The costs of going back are immense. This is in fact why some joke that the EMU, like the Australian bird with the same name, cannot walk backward. We do acknowledge, at the same time, that the transition towards deeper political and economic integration is going to be very challenging. But the effort will pay off in the long term, in our view."

Eurozone crisis needs a comprehensive solution

Crisis resolution requires that all three crisis types in the eurozone – fiscal, banking and economic – be addressed at the same time. The negative sovereign-bank-growth feedback loop will not get better with ECB intervention alone. And tackling the fiscal crisis without the banking and economic crisis will further worsen the situation.

The ECB has bought us some time, for now

The eurozone is going through some choppy waters at the moment. As such, there is a lot of resentment towards the monetary union nowadays. This is understandable given that the architects of the euro did not fully appreciate the negative consequences of a sub-optimal currency area. The absence of an effective fire department made the situation worse and resulted in millions of jobs being destroyed. At the hour of need, the ECB stepped in to stave off a complete collapse of the union. This has helped buy some time, but it is not enough to put the eurozone on a stable path.

External rebalancing at an advanced stage

The upside potential for the Eurozone periphery countries should not be underestimated given the numerous amount of reforms they have been implementing since the start of the crisis. In time, these countries will not only become a major export destination for the core countries, but also become highly interesting locations for investment. We must not forget that the periphery countries have improved their competitiveness in the past years, which has led to a sharp correction in external imbalances.