

## **Eurozone: Resilient, Attractive and Beneficial for All?**

The lack of economic convergence in the European Union (EU), the low level of trust in the EU, the risk of facing the next financial crisis without the necessary tools, and growing EU's East-West divisions were among the top concerns mentioned during the discussion on the eurozone's future at GLOBSEC Tatra Summit 2018.

First and foremost, participants acknowledged that economic imbalances in the EU persist and it's hard to correct them. While some Central and Eastern European (CEE) countries (Poland, Slovakia, and Romania, to name a few) have recently converged towards the average EU growth rate by expanding their economies at higher speeds than most Member States, Southern EU countries (such as Greece, Italy and Spain) have slowed the process significantly, or even diverged from the average. The last economic and financial crisis combined with technological change has led to a growing social and economic divide among people and their levels of productivity. [The OECD report](#) says that in 2017, income inequality in Europe remains at an all-time high (the average disposable income of the richest 10% is now around 9 ½ times higher than that of the poorest 10%). Furthermore, new technologies — by changing the nature of production, work and careers — exacerbate existing inequalities. Artificial intelligence, for example, offers more opportunities for high-skill workers in France or Germany than for low-skill workers in CEE who are at risk of falling behind.

Secondly, the EU is currently fragmented and Member States have different perspectives on the euro. While opinion polls suggest that [61% of Europeans support the euro](#), which is the same as the pre-crisis level in 2008, the euro is now often wrongly blamed when explaining the political, economic and social challenges that Member States face. What is more, GLOBSEC Policy Institute [research](#) has recently shown the myth that “the euro is the cause of all evils” is one of the most popular misconceptions currently circulating in public discourse. The numbers speak for themselves: the [Eurobarometer survey](#) shows that the majority of people in 21 Member States are in favour of the euro. As of autumn 2017, the highest levels of support for the euro were in Estonia (88%), Ireland and Slovenia (both 84%), as well as Germany and Latvia (both 83%). Interestingly, the majority of respondents against “a European economic and monetary union with the single currency” are located outside the euro area. Those are the Czech Republic and Sweden (both 71%), Denmark (65%), the United Kingdom (61%), Poland (58%), Bulgaria (50%) and Croatia (48% “against” vs. 46% “for”).

Thirdly, there is no clear answer whether the euro currency is keeping the EU together or is laying the foundation for further crises. The continuous rise of Euroscepticism across the EU spreads fears of rising exit risks, undermines deeper integration, and damages the prospects for more convergence. That being said, the completion of banking union is crucial regardless of the high levels of mistrust in the idea that now exist among Member States (e.g. [Germany or the Netherlands](#)). The incomplete banking union leaves the eurozone exposed [to idiosyncratic financial shocks capable of threatening its existence](#).

Fourthly, leaving the eurozone carries a high risk of creating instability for both the exiting country and the EU as a whole. All eurozone countries are aware of the potential costs (Italy for example has already decreased its anti-EU rhetoric in public discourse), which means they will likely try to avoid exiting. When it comes to the future enlargement of the eurozone, it does not seem likely to happen in the short- or medium-term. Croatia (which is establishing a National Council for the adoption of the euro) and Bulgaria (which approved a plan of preparations for the Exchange Rate Mechanism and banking union membership) are already knocking on the eurozone door, although both might have to wait longer before entering because the eurozone is not ready to accept new members. As for the other countries in Central and Eastern Europe, such as the Czech Republic, Hungary or Poland, there is neither national willingness nor strong EU incentives to adopt the single currency.

Finally, a eurozone budget is unlikely to emerge from the upcoming Multiannual Financial Framework. While such a budget is a potential source of economic stabilisation for the eurozone, it might also have significant political costs since it would deepen EU divisions, as the non-eurozone Member States would feel even further excluded from decision-making.



## Key recommendations

### The eurozone

- Making the eurozone more resilient should be part of a comprehensive strategy for Europe to be created after the elections to the European Parliament in May 2019.
- Discussions about the origins of the last financial crisis as well as Franco-German differences on the euro should be set aside to focus instead on how to target imbalances in the eurozone and the wider EU, how to prepare for a future banking union, and how to ensure that Member States have all the necessary tools for facing the next financial crisis.
- EU institutions and Member States should work together to improve the public image of the euro among citizens.
- The EU should not be trying to convince reluctant countries such as Poland, Czech Republic, Hungary or Sweden to join the eurozone. Conversely, it should think about new incentives it could use to make the eurozone attractive again.
- Completion of the banking union is crucial regardless of the high levels of mistrust that exist among Member States in the idea.
- Central and Eastern Europe should not reinforce existing East-West divides and should instead work on destroying stereotypes. One way of doing this would be to show that the non-eurozone countries have the same commitment to the eurozone as its members.

### Harmonization of fiscal systems

- Governments should reform their fiscal systems and work on a common regulatory framework. Policies that are made at that national level should also align at the European level. At the same time, policies or agreements that have been decided on the European level have to be implemented on the national level as well.

### Economic Convergence

- To foster economic convergence, the EU should support the education (skills) and capabilities of firms (innovation and technology). All this serves to enable a healthy business environment that would provide a level playing field for people and firms through flexible labour markets and social protections for workers.

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