

**The International Monetary System:
Is the Euro a Bulwark against 'Foreign' Monetary Crises?**

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1. Introduction

The desire to achieve greater stability of exchange rates within Europe was an important driving force behind the establishment of the European Monetary Union. At the beginning of 1999, eleven member countries of the European Union adopted the euro as their new common currency. The transition to a common currency implies that exchange rates within the euro area are now fixed irrevocably.

The European Union's decision to opt for fixed exchange rates and monetary unification was based on both economic and political considerations. As far as the first aspect of monetary unification is concerned, many Europeans believe that they cannot reap the full economic benefits of integrating their continent unless they fix exchange rates within the European Union irrevocably by adopting a common currency. They see a number of advantages in a common currency. The euro facilitates international trade and investment because exporters and importers face greater certainty about the prices at which they can do business. Moreover, with a common currency, the need to buy and sell foreign exchange is much reduced. This allows exporters and importers to cut costs. The common currency also enhances the transparency of prices within the euro area. In these ways, it helps to strengthen competition among European firms, inducing them to produce and distribute their goods and services more efficiently. Should the euro — as its proponents argue — generate substantial efficiency gains, Europeans will benefit from the common currency by higher growth in their economies and by an increase in their standard of living.

Besides the effects on economic growth, many proponents of European monetary integration stress the stabilizing role the euro is likely to play. Europeans praising the virtues of a common currency frequently contend that systems of floating exchange rates are inherently unstable. In their opinion, exchange rates often are not driven by economic fundamentals, but by irrational investors prone to jump blindly on bandwagons and thus to magnify the movements in currency prices. Far from contributing to economic stability, floating-exchange-rate systems, they maintain, tend to inflict serious damage on the economy. An excessive depreciation of the domestic currency may fuel inflation by boosting prices of imported goods and services, while

an excessive appreciation may throw the economy into a recession by undermining the competitive position of domestic industry on the world market.

The view that floating exchange rates are inherently unstable provided a strong impetus to European monetary unification. Former French president Giscard d'Estaing and former German chancellor Helmut Schmidt, the founding fathers of the European Monetary System, strongly believed in the stabilizing role of fixed exchange rates within the European Union. Interestingly, they saw monetary unification not only as a protective shield against destabilizing shocks originating within the European Union. They also believed that a common currency would serve as a bulwark against destabilizing shocks coming from abroad, notably from the United States. When the EMS was established in 1979, the United States suffered from high inflation and a weak dollar on the foreign exchange markets. In relation to most European currencies, the value of the U.S. dollar was exceedingly low at that time. Giscard d'Estaing and Helmut Schmidt maintained that the weak dollar was distorting bilateral exchange rates within the European Union and thus playing havoc with trade relations among European countries. In their view, monetary unification would help to insulate the European Union from the disruptive influence of exchange rate and other foreign economic shocks.

Some proponents of European monetary unification, notably in France, also stress another channel through which a common currency is supposed to contribute to economic stability. This channel springs from the political aims of European monetary unification. Many Europeans expect the common currency to foster the political cohesion of Europe and to pave the way to a political union of the European countries. A unified Europe will be able to act as a political heavyweight in the world arena. It could use its influence to press for international monetary reforms providing for stable exchange rates between the European Union and the world's other major economic powers. The "political" approach to manipulating exchange rates raises the question of whether currency prices are magnitudes that politicians, even if they are powerful, can steer at their discretion. Before addressing this question, I would like to deal with a more fundamental problem arising from the discussion on the merits of fixed exchange rates and common currencies. Is it really true that fixed exchange rates and common

currencies are likely to foster economic stability and to promote economic growth as the proponents of European monetary union like to believe?

The answer to this question is not obvious. Time and again, the world has seen fixed-exchange-rate systems collapse because they turned out to be a source of economic disruption, rather than a panacea for fostering economic stability. The East Asian, Russian and Brazilian crises are good cases in point. They were triggered by vain efforts on the part of monetary authorities to defend fixed exchange rates that had long ceased to reflect economic fundamentals. The reason why fixed exchange rates may exacerbate, rather than attenuate, economic instability is simple: It is wrong to argue that exchange rate movements, in large measure, are irrational. Admittedly, economists have a hard time explaining and forecasting exchange rate movements. In particular, it is virtually impossible to develop models that account satisfactorily for exchange rate movements over short time horizons of up to two years. However, in the longer run, exchange rate fluctuations are not irrational, but reflect such economic fundamentals as differences in national inflation rates, business cycles, and monetary and fiscal policies. Although the largely inexplicable short-run movements in exchange rates frequently harm the economy, monetary authorities may do even more damage if they undertake to suppress undesirable currency movements. I could cite numerous historical examples of monetary authorities that sooner or later were confronted with the negative consequences of fixed exchange rates. They frequently could not but accept the unpleasant fact that the instabilities they had wrought from the foreign exchange market eventually popped up in other sectors of the economy. They reappeared in the form of serious disequilibria in the balance of payments, inflationary excesses, unemployment, and distortions in the structure of the economy.

Consequently, it is uncertain whether fixed exchange rates and monetary unions are likely to act as stabilizing forces and as bulwarks against harmful disturbances originating in other countries. In the following, I would like to address this issue. Will the new common currency help the countries in the euro area to achieve greater economic stability and to act as a stabilizing force in a troubled world? For the sake of presentation, I divide my discussion into two parts. Considering the history of international monetary arrangements, I strongly believe that the best protective shield against undesirable foreign disturbances consists in sound macroeconomic policies

aimed at low inflation and stable growth in the domestic economy. Countries keeping their own house in order are less vulnerable to foreign shocks and less prone to inflict injury on the outside world than those pursuing unsound macroeconomic policies. For these reasons, in Section 2, I address the question of whether the authorities - under the new common currency - are likely to follow sounder macroeconomic policies than in the pre-euro era. However, sound macroeconomic policies may not suffice to ward off entirely contagion by undesirable foreign shocks. Recently, various proposals have been advanced to reform the international monetary system with a view to reducing the vulnerability of individual countries or regions to such shocks. In Section 3, I examine some of these proposals and explore their relevance for Europe.

2. Will the Euro Area Likely Pursue Sound Macroeconomic Policies?

The European Central Bank (ECB) is the euro area's principal institution charged with providing for a stable macroeconomic environment. Upon the switch to the new common currency at the beginning of 1999, the ECB took over from the national central banks the responsibility for conducting monetary policy in the euro area. In a monetary union such as the euro area, the central banks of the member countries lose entirely their ability to pursue domestic policy objectives. The reason is simple: The introduction of the new common currency served to unify the financial markets of the euro area. Short-term interest rates became equal everywhere. Moreover, national differences between long-term interest rates also largely disappeared. Since short-term interest rates are now identical throughout the euro area, it is no longer possible to tailor monetary policy to the needs of individual countries. All of them must accept exactly the same degree of monetary ease or restriction. Thus, a monetary union can function only if responsibility for conducting monetary policy is transferred from the national central banks to a new common institution such as the ECB. The new institution in turn must conduct "one-size-fits-all" monetary policies and direct its actions at objectives for the euro area as a whole.

The adoption of the new common currency will enhance economic stability in the euro area if the ECB manages to pursue sounder monetary policies than the national

central banks typically conducted in the pre-euro era. There is a good chance that the ECB will be able to achieve a more stable environment. Unlike most national central banks before the introduction of the euro, the ECB has a clear mandate to pursue price stability as the principal monetary policy objective. Moreover, the ECB enjoys a high degree of independence from the political authorities. When the institutional framework governing the euro area's monetary policy was designed, great care was taken in emulating the model of the German Bundesbank. The promoters of European monetary integration were keen to ensure that the ECB would follow in the footsteps of the European Union's most successful national central bank.

Of course, it is still too early to pass judgement on the performance of the ECB. What we do know is that the ECB is led by highly competent policy makers, who are supported by an excellent staff. Moreover, it has already forcefully displayed its independence from politicians eager to make their imprint on European monetary policy. Although there is little doubt that the ECB will endeavor to fulfil its stability mandate, it nevertheless faces at least two pitfalls that might cause its performance to be less satisfactory than expected. The first one derives from the difficulties of conducting monetary policy in the presence of the new unified financial markets within the euro area. The second pitfall lies in the fact that the success of European monetary policy also depends on the performance of other macroeconomic policies, which are not controlled by the ECB. In particular, the ECB's task of fulfilling its stability mandate may be complicated by unsound fiscal policies and deep-rooted structural rigidities in European labor markets.

2.1 Monetary Policy in Unified Financial Markets

One should not forget that the ECB is facing considerable technical difficulties in setting monetary policy. It is operating in a radically different policy environment, characterized by unified financial markets within the euro area. This is likely to distort the indicators central banks require to spot impending threats to price stability. Central banks cannot wait until inflation or deflation actually appears because monetary policy tends to affect the price level with a long lag. Therefore, central banks, if at all

possible, must detect such problems well in advance if they are to maintain price stability. Without reliable indicators of future inflation or deflation, the conduct of monetary policy is akin to steering a ship in uncharted waters. Considering these uncertainties, the ECB has taken two steps: It has clarified its main policy objective by defining what it means by price stability. It has indicated that it will strive to keep the rate of increase in consumer prices below 2 percent per year. To meet its inflation objective, the ECB is paying a great deal of attention to the development of a new monetary aggregate, that is, the money stock M3 for the euro area as a whole. However, unlike the Bundesbank before the introduction of the euro, it has not fixed an intermediate growth target for M3. In other words, it does not commit itself to keeping the new aggregate on a preannounced expansion path. Instead, the ECB is employing M3 as an important policy indicator, which it monitors along with a wide range of other variables that are likely to provide information on future price movements. The ECB is clearly aware that the emergence of unified financial markets may influence the stability of money demand in the euro area. Therefore, it must allow for the possibility that its key monetary indicator will one day start to emit misleading policy signals. This precludes setting an intermediate target for M3.

In the face of these uncertainties, the ECB has adopted a sensible policy approach. A number of analysts, especially in the Anglo-Saxon parts of the world, have criticized the ECB's approach. Some of them believe that the ECB places too much emphasis on the money stock M3. For the reason mentioned above, the aggregate M3 may indeed turn out to be a questionable indicator. However, this problem is not confined to the aggregate M3. All the policy indicators available to the ECB risk being impaired by the financial upheaval following the introduction of the euro. Unfortunately, no ready-made palliatives exist against distortions in policy indicators, caused by structural changes in financial markets.

Analysts have also found fault with an alleged lack of transparency on the part of the ECB. In particular, they argue that the ECB should publish minutes of its policy board meetings and disclose the forecasts of economic activity and inflation, which it uses as input in its internal policy debates. Again, the critics of the ECB overstate their case.

The ECB is making every effort to explain its policies to the public. In my view, it is an open question whether adequate transparency in monetary policy can be achieved only by central banks publishing minutes of their board meetings. Nevertheless, I agree with the ECB's critics in one respect: I doubt that the ECB will be able to proceed for long without publishing its forecasts of economic activity and inflation. Once the ECB has gained sufficient experience as a forecaster, it should share with the public its conjectures about future economic developments in the euro area.

Some critics of the ECB cite the current weakness of the euro on the foreign exchange market as evidence in support of their arguments. In their view, the ECB lacks credibility among financial market participants because of an inadequate and non-transparent policy approach. I do not agree with this interpretation of the euro's current weakness. Figure 1 displays the movements in the nominal exchange rate of the euro against the U.S. dollar, expressed as an index. For the period before 1999, the corresponding exchange rate index for the Deutsche mark is inserted. Figure 1 indicates that the current weakness of the euro is not unusually large as compared with similar past slumps in the Deutsche mark. Moreover, as I show in Section 3, there is a more convincing explanation of the euro's current weakness than the reference to a credibility problem. Needless to say, the ECB is a new institution confronted with the difficult task of building up the reputation as a first-rate central bank. The ECB cannot perform miracles. It will need time to refine its policy approach and to establish a solid track record.

2.2 Implications of General Policy Environment

To achieve a high degree of economic stability, the euro area not only needs sound monetary policies. The national governments must also strive to pursue responsible fiscal policies. In the pre-euro era, several European countries suffered from excessive public-sector deficits. Central banks were frequently compelled to help governments finance these deficits by keeping domestic interest rates low. They ended up pursuing overly expansionary monetary policies, fuelling inflation and disrupting the economy. For this and other reasons, it was decided that the members

of the European Union should not qualify for the euro unless they were able to meet the so-called convergence criteria, which included ceilings on budget deficits and government debt. Due to the disciplinary role of the convergence criteria, the member countries were forced to curtail their public-sector deficits. Thanks to these efforts, public finances in the European Union are now in much better shape than only a few years ago. Nevertheless, there is some risk that the budgetary situation will deteriorate again. The countries with relatively high interest rates before 1999 benefited from a sharp reduction in borrowing costs to the low levels in Germany and France as the starting date of the common currency neared. The attendant fall in interest payments on the public debt greatly assisted these governments in their endeavors to restore budgetary balance. Moreover, to ensure qualifying for participation in the euro, some countries resorted to measures designed to reduce temporarily their budget deficits, such as "creative accounting" and sales of government assets. Thus, public finances are bound to deteriorate again, especially if European governments should relent in their efforts to restore balanced budgets.

Besides excessive budget deficits, structural rigidities in the European economies, above all in European labor markets, may also complicate the ECB's task of maintaining price stability in the euro area. As I already indicated, the ECB must conduct uniform monetary policies aimed at the needs of the euro area as whole, but cannot take into account economic conditions in individual countries. This problem would not matter much if economic developments in the euro-area countries were highly synchronized. The ECB's uniform monetary policies would suit all the member countries in this case. While the economies of Germany, France and their smaller neighbors have tended to move together, economic developments in the outlying parts of the euro area have often been out of step with those in the core. Figure 2 displays data on the growth in real domestic product of selected member countries. Even though the various national growth rates tend to move together, economic conditions in individual countries at times may diverge considerably from the average for the euro area. At present, Germany, more than most other countries in the euro area, suffers from a slowdown in real growth, triggered by the Asian crisis, while in Spain and Ireland continued strong economic expansion threatens to push up inflation.

In these circumstances, the ECB's uniform monetary policies - even if appropriate for the euro area as a whole - may create problems in individual countries or regions in the form of high unemployment or inflationary overheating of the economy. Needless to say, exchange rate adjustments within the euro area are now out of the question if regional imbalances should arise. The euro area countries must resort to other means in order to relieve regional imbalances.

One possibility would be to reform European labor markets with the aim of increasing their flexibility. As I already pointed out in a lecture at the European Union Studies Center two years ago, in the United States, flexible labor markets play an important role in leveling regional disparities. In regions with high unemployment, wages tend to rise less than elsewhere, inducing new firms to enter and to create jobs. Furthermore, people are prepared to move to regions with better job prospects. In many European countries, by contrast, labor markets are inflexible. Wage structures are too egalitarian and fail to take sufficient account of labor supply and demand conditions in individual occupations, industries and regions. In addition, people are reluctant to move, not only across national borders, but also within their own countries. European Union politicians and officials recognize the need for greater labor-market flexibility if the new common currency is to enhance economic stability. However, aside from a heap of rhetoric about the necessity of reform, little has been achieved in practice, at least not in the major countries of the euro area. On the contrary, efforts to tackle the rigidities head on tend to run up against fierce political resistance in most member countries of the European Union. One may even ask whether some of the reform measures actually implemented will not cause new problems in the longer run. For example, in France and Spain, greater flexibility has been achieved mainly by the spread of temporary labor contracts. Most new employees are now hired on a temporary basis. As a result, young employees must accept uncertain job prospects, while their older colleagues continue to be protected by tight restrictions on dismissals. In this way, the young - and potentially most productive - members of the labor force must bear the brunt of the adjustment costs arising from the shift to more flexible labor markets.

If European governments fail to reform labor markets, it is hard to see how else they could relieve effectively regional imbalances. Considering the fragile state of public

finances, European governments probably cannot rely in any major way on fiscal measures designed to assist countries or regions in distress. It should also be remembered that the European Union is not a federal state able to redistribute vast sums of tax revenue among its constituents. Nevertheless, many analysts play down the problems emanating from regional disparities. In their opinion, the economies of the European countries will become more similar as integration proceeds. In time, economic shocks will hit all the countries of the euro area in the same manner. Thus, the need to pursue macroeconomic policies tailored to conditions in individual countries will disappear. Only the future will tell whether this rosy scenario will withstand the test of time. It is equally conceivable that deepening integration will lead to greater specialization of production among the euro-area countries. Taking everything into consideration, I would not rule out the possibility that growing regional imbalances, combined with an unwillingness for reform, will put the ECB under increasing pressure to depart from its stability-oriented course.

3. Avoidance of Contagion

3.1 Importance of Sound Macroeconomic Policies

In the wake of the East Asian, Russian and Brazilian crises, a debate has started on the merits of various proposals for mitigating the dangers of countries being infected by crises in other parts of the world. Some of these proposals are currently discussed within the context of the International Monetary Fund. These proposals are certainly welcome if they aim to strengthen the commitment of governments and central banks to sound macroeconomic policies. In particular, it is highly desirable to implement various codes of conduct that would encourage all the members of the International Monetary Fund to follow sensible and transparent practices in setting monetary and fiscal policies.

The current turmoil in the world economy lends clear support to the view that sound macroeconomic policies serve as an effective means of preventing or mitigating contagion. Countries pursuing sound macroeconomic policies were much less affected by the crises than those saddled with credibility problems. Just to mention a few

examples, the differences between Singapore, Taiwan, Australia and Poland, on the one hand, and Korea and Brazil on the other are striking. The first group of countries had managed their economies sensibly and weathered the crises rather well. Korea and Brazil, by contrast, lacked credible macroeconomic policies and were drawn into the abyss after the outbreak of the Asian crisis.

While the crises have affected the European countries to some extent, the transition to the euro was surprisingly smooth, despite the turbulent international environment. In similar situations in the past, it is unlikely that the national authorities could have prevented repercussions on exchange rates within the European Union and the attendant disruptions in their economies. Of course, even in the pre-euro era, countries that had pursued sound policies suffered less than those with little credibility. But it is the performance of the ECB that matters now, rather than the credibility of national authorities. The smooth transition to the euro testifies to the confidence market participants are willing to place in the ECB. The efforts to assign to the ECB a strong stability mandate appear to explain the benevolent attitude of market participants.

Sound macroeconomic policies help central banks to deal with external shocks in another way too. Credible central banks possess considerable room for maneuver to soften the effects of undesirable shocks on the domestic economy. The monetary policy conducted by the ECB provides a good illustration of this point. The Asian, Russian and Brazilian crises are affecting the European economies mainly through a marked slowdown in export growth, while internal demand continues to expand at a brisk pace. Germany and Italy are feeling the impact of the crises more strongly than most other European countries because their exports to Asia and Latin America are relatively important. To make sure that the slump in exports will not trigger a recession with possible deflationary consequences, the ECB a few weeks ago relaxed monetary policy by lowering short-term interest rates. I should recall that European monetary policy had already been relaxed shortly before the introduction of the euro. The relaxation of monetary policy contributed to weakening the euro against the dollar on the foreign exchange market as short-term interest rates in the euro area fell relative to their U.S. counterparts (Figure 3). The drop in the euro exchange rate as such was not surprising even though some analysts and EU officials felt that the new currency

had weakened too much. It is normal for the domestic currency to depreciate if the home country's central bank loosens monetary policy. Both the lower exchange rate and lower interest rates will help to boost economic activity and thus to offset the detrimental effects of the external shocks on the euro-area economies.

Had the euro area still suffered from high inflation, it is unlikely that the ECB would have had much scope for reacting to the external shocks by relaxing monetary policy. In these circumstances, market participants might have feared that inflation would rise further. They would have demanded higher returns on their assets in order to offset the capital loss arising from the expected increase in inflation. As a result, interest rates, at least at the long end of the maturity spectrum, would have gone up, rather than down. Thus, the attempt to stimulate economic activity by lowering interest rates would have failed miserably.

Consequently, countries wishing to protect themselves against external shocks cannot but stick to sound macroeconomic policies. Nevertheless, some analysts and officials believe that good macroeconomic management, by itself, often does not suffice to avoid or alleviate contagion. Additional measures are required. I would like to discuss two sets of measures that have received some attention recently.

3.2 Other Measures

As I already indicated, it is often argued that floating exchange rates - notably in turbulent periods - are prone to exacerbate economic instability. Exchange rates may overreact to economic shocks. If monetary authorities do not intervene in the foreign exchange market, excessive exchange rate movements are liable to enhance the vulnerability of the domestic economy to undesirable external shocks.

To discipline the foreign exchange markets, some critics of floating exchange rates favor fixing target zones between the world's major currencies, in particular between the U.S. dollar, the euro and the Japanese yen. This is an old proposal that pops up from time to time in the public debate on international monetary reform. It has recently been relaunched by a short-lived German finance minister, who feels that the

European Union should use its weight to restore order to what he regards as undisciplined foreign exchange markets.

Considering the current economic environment, I doubt that fixing exchange-rate target zones between the major currencies would work. Monetary authorities would have two options: They could set either wide or narrow target zones. Wide target zones would still allow for substantial fluctuations in exchange rates. Therefore, they would probably not change the current situation much. Narrow target zones, by contrast, would involve strong elements of fixed exchange rates between the major currencies. Of course, the proponents of target zone do not demand that the exchange rates between the major currencies be kept constant. In their view, the authorities should only quell harmful "irrational" movements in exchange rates, and adjust the target zones if economic fundamentals call for such a course of action. This implies that monetary authorities are able to identify fundamental movements in exchange rates and to impose on the foreign exchange markets their preferences about currency adjustments. Could the authorities place such fetters on the foreign exchange markets?

To answer this question, consider the current exchange rate of the euro against the U.S. dollar. Suppose the authorities have agreed on a target zone that allows for a limited reduction in the euro exchange rate in order to accommodate the ECB's shift to a looser monetary policy. Moreover, assume that the euro exchange rate has slumped too much and has broken through the lower edge of the target zone. What could the authorities do to bring the exchange rate back into the target zone? One possibility would be to intervene on the foreign exchange market by buying euro against U.S. dollars. However, as monetary authorities have discovered time and again, intervention is unlikely to have a significant effect on the exchange rate unless it is accompanied by a shift in U.S. and/or European monetary policies. The ECB should tighten its stance by raising short-term interest rates, while the Fed should follow the opposite course of action. Considering the economic situation in the United States and the euro area, the two central banks would be asked to do exactly the wrong thing. Thus, we are back at the dilemma mentioned at the outset of my lecture: Monetary authorities cannot do much about excessive currency movements unless they are willing to tolerate a loss in their ability to pursue domestic policy objectives. I doubt

that the monetary authorities of the United States and the euro area would be prepared to accept such constraints on their freedom of action.

Another proposal was adopted by the International Monetary Fund just a few days ago. It entails setting up a new lending facility, called the Contingent Credit Line. Up to now, credit was available only to countries that face serious balance of payments problems and are willing to adhere to economic adjustment programs approved by the International Monetary Fund. The new credit facility is designed to help countries that do not actually face balance of payments problems, but risk being infected by external shocks. These countries may negotiate with the Fund a line of credit, on which they can draw if the external shocks should affect adversely their economies. Apparently, countries wishing to take advantage of the new facility must comply with a number of requirements. Eligibility will be restricted to countries that are pursuing sound economic policies and are meeting a number of other criteria. However, if only well-managed countries will be eligible for the new credit line, the question arises to what extent the facility will actually be used. Is contagion of "innocent" countries a serious problem? As I tried to show in my lecture, the answer to this question is not obvious. In Switzerland we are concerned that the International Monetary Fund will be tempted to offer the Contingent Credit Line to countries that do not really deserve assistance because of inadequate macroeconomic management. If the Fund were to supply the new facility on generous terms, it might create a moral hazard problem in the sense that countries would be encouraged, rather than discouraged, to pursue unsound macroeconomic policies. This would be highly unfortunate. I can only repeat my earlier statement: Sound economic policies are absolutely essential if the danger of contagion is to be minimized.

4. Concluding Remark

The message I tried to convey in my lecture is not exciting at all: There are no simple remedies for preventing contagion by crises occurring in other parts of the world. If the authorities are to keep the risk of contagion within bounds, they must above all conduct sound macroeconomic policies. Good macroeconomic management provides

two benefits: It immunizes countries to a large extent against adverse external shocks. Good macroeconomic management also widens the authorities' room for maneuver in offsetting the detrimental effects on the domestic economy of external shocks. The advent of the euro has opened up the opportunity of strengthening the European Union's commitment to sound economic policies. Considering its mandate for maintaining price stability, the European Central Bank will provide a strong impetus to the conduct of sound economic policies in Europe. However, the ECB will face a difficult task: It must chart its policy course in new and unknown waters. Moreover, it will face various obstacles complicating its task, in particular, fragile public finances and inflexible labor markets in many countries of the euro area. If the ECB succeeds in fulfilling its stability mandate, the euro will not only become a bulwark against external shocks, but also a source of stability for the rest of the world.

Figure 1

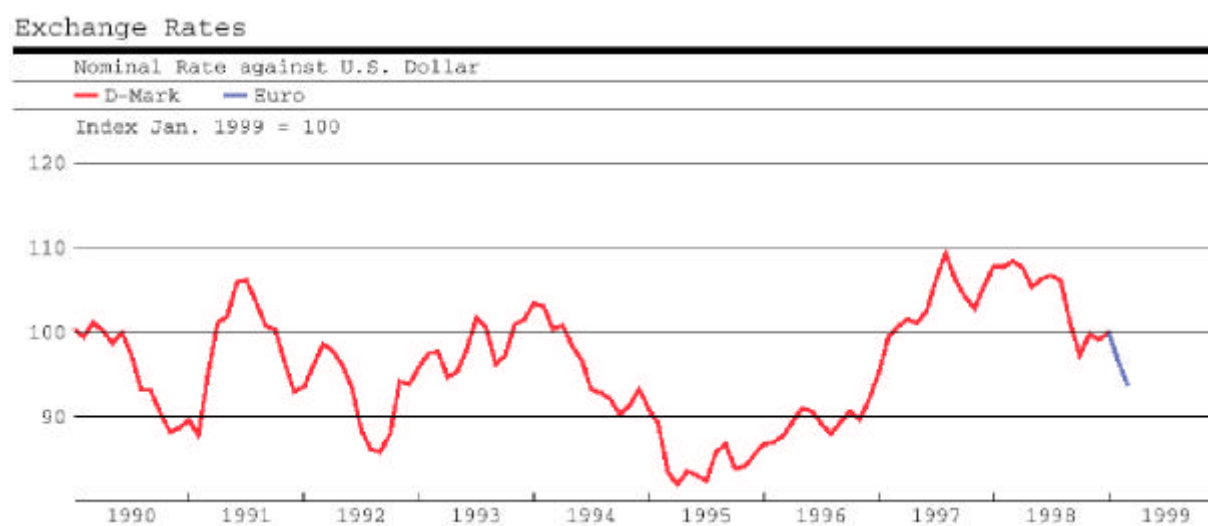


Figure 2

Growth in Real Gross Domestic Product in the Euro Area

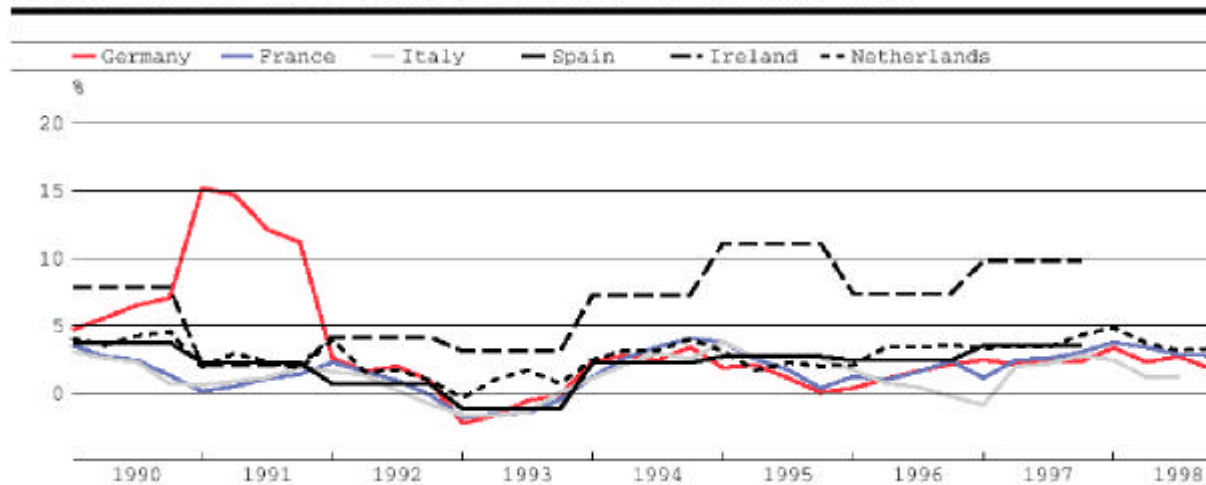


Figure 3

Interest Rates

