

## THE EUROPEAN UNION AND THE EURO



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## How to Deal with a Currency Built on Dreams

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*The views expressed by the authors are their own and do not necessarily correspond to those of the institutions to which they are affiliated.*

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Hans Geeroms, Stefaan Ide and Frank Naert

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## FOREWORD

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The euro is the most visible and internationally best known symbol of the European Union. It is our *res publica* – an economic but also a political project, making our Union more irreversible, at least for those who adopted it. Its benefits were self-evident; in November 2009, when the European Council elected me as its President, there was little doubt about that. But with the sovereign debt crisis that erupted in the beginning of 2010, the eurozone underwent – and survived – an existential crisis.

Europe proved its resilience: over the last four years, the European Union and the eurozone have made tremendous progress in deciding on instruments and institutions to complete the unfinished architecture of our Economic and Monetary Union. By the time I leave office in November 2014, the main “building blocks” from my report to the European Council on the way towards a genuine Economic and Monetary Union will already be in place.

It is now time to analyse and summarise this avalanche of events and to describe and explain the new EMU architecture: a Banking Union with common supervision and resolution for all eurozone banks, stronger coordination and surveillance of economic and fiscal policies, and strengthened democratic legitimacy and accountability.

The authors know economic and monetary theory as well as the conduct of economic and fiscal policy in the European Union and of monetary policy by the European Central Bank. They also are well aware of the reality of European decision-making. As professors they are used to explaining complex subjects in a clear but comprehensive way. Step by step, all is explained as clearly as can be. Hans Geeroms, Stefaan Ide and Frank Naert do not impose beliefs, nor do they try to convince; they offer arguments and scenarios – the reader can make up his own mind about the future of the eurozone and the Union.

The title of the book refers to the incomplete foundations of the euro and to the fact that it was as much a political vision as an economic project. But the title also suggests, and the book concludes in that sense, that we have to complete the Economic and Monetary Union for all of us to benefit fully from European integration. *Wer nicht vorwärts geht, der kommt zurücke* (Goethe). The choice for the euro implies further economic, fiscal and

financial integration. Not a “big bang”, but a gradual yet fundamental transformation, indispensable for our countries and our Union.

This book is an insightful guide to understanding the challenges for the eurozone in these turbulent times.

Herman Van Rompuy  
President of the European Council

A handwritten signature in black ink, consisting of a large, stylized initial 'H' followed by a long horizontal stroke that curves downwards at the end.

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## LIST OF ABBREVIATIONS

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AIFMD	Alternative Investment Fund Managers Directive
AMR	Alert Mechanism Report
BIC	Bank Identifier Code
BRRD	Bank Recovery and Resolution Directive
C	Consumption
CA	Current Account Balance
CAP	Common Agricultural Policy
CBPP	Covered Bond Purchase Programme
CDS	Credit Default Swap
CEN	Comité Européen de Normalisation
CENELEC	Comité Européen de Normalisation en Electronique et en Electrotechnique
CFSP	Common Foreign and Security Policy
CPI	Consumer price index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSR	Country Specific Recommendation
DG	Directorate-General
DGS	Deposit Guarantee Scheme
DWR	Downward wage rigidity
EA	Euro Area
EAEC	European Atomic Energy Community
EAGGF	European Agricultural Guidance and Guarantee Fund
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECS	Enhanced Credit Support
ECSC	European Community for Steel and Coal
ECU	European Currency Unit
EDF	European Development Fund
EDP	Excessive Debt Procedure
EESC	European Economic and Social Committee

EFRD	European Fund for Regional Development
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EFTA	European Free Trade Association
EIB	European Investment Bank
EONIA	Euro Overnight Index Average
EIOPA	European Insurance & Occupational Pensions Authority
ELA	Emergency Liquidity Assistance
EMIR	European Market Infrastructure Regulation
EMS	European Monetary System
EMU	Economic and monetary union
EPU	European Political Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESF	European Social Fund
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESMA	European Securities & Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange Traded Funds
ETSI	European Telecommunications Standards Institute
EU	European Union
Euribor	Euro Interbank Offered Rate
EUROSTAT	Statistical Office of the European Communities
EWG	Euro Working Group
FDI	Foreign Direct Investment
FRFA	Fixed Rate Full Allotment
FTD	Fixed-term Deposits
FTO	Fine-tuning Operations
G	Government spending
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HICP	Harmonised index of consumer prices
HOSG	Heads of State and Government
I	Investment
IBAN	International Bank Account Number
IDR	In Depth Review
IMF	International Monetary Fund



LTRO	Longer-term refinancing operations
M	Imports
M&A	Mergers and Acquisitions
MFF	Multi-annual Financial Framework
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MIP	Macro Economic Imbalances Procedure
MRO	Main Refinancing Operations
MTO	Medium Term Objective
NAFTA	North American Free Trade Agreement
NCB	National Central Bank
NIIP	Net International Investment Position
OCA	Optimal Currency Area
OECD	Organisation for Economic Cooperation and Development
OEEC	Organisation for European Economic Cooperation
OIS	Overnight Index Swaps
OLP	Ordinary Legislative Procedure
OMC	Open Method of Coordination
OMO	Open Market Operations
OMT	Outright Monetary Transactions
OPEC	Organization of Petroleum Exporting Countries
OTC	Over the Counter
PPS	Purchasing Power Standard
PSI	Private Sector Involvement
PSO	Public Sector Obligation
R&D	Research and Development
QMV	Qualified Majority Voting
RQMV	Reversed Qualified Majority Voting
RSMV	Reversed Simple Majority Voting
S	Savings
SAAM	State Aid Action Plan
SAD	Single Administrative Document
SAM	State Aid Modernisation
SB	Supervisory Board
SDR	Special Drawing Rights
SE	Societas Europaea
SEA	Single European Act
SEPA	Single Euro Payments Area
SGEI	Services of General Economic Interest

SGP	Stability and Growth Pact
SME	Small and medium-sized enterprise
SMP	Securities Markets Programme
SMV	Simple Majority Voting
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
T	Government revenue
TARGET 2	Trans-European Automated Real-time Gross settlement Express Transfer system
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union
UCITS	Undertakings for Collective Investment in Transferable Securities
ULC	Unit Labour Costs
VAT	Value added tax
US	United States
X	Exports
WDN	Wage Dynamics Network
WEU	Western European Union
WTO	World Trade Organisation

## Eurozone member states

AT	Austria
BE	Belgium
CY	Cyprus
EE	Estonia
EL	Greece
FI	Finland
FR	France
GE	Germany
IE	Ireland
IT	Italy
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PT	Portugal

SK	Slovakia
SI	Slovenia
ES	Spain

#### Other EU member states

BG	Bulgaria
CZ	Czech Republic
HR	Croatia
DK	Denmark
HU	Hungary
LT	Lithuania
PO	Poland
RO	Romania
SE	Sweden
UK	United Kingdom

