



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Eugen Jurzyca
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 6 May 2022

L/CL/22/142

Re: Your letter (QZ-009)

Honourable Member of the European Parliament, dear Mr Jurzyca,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 15 March 2022.

Since its inception, the euro has brought tangible economic benefits to European citizens and businesses alike, thereby complementing the Single Market and reinforcing the substantial economic gains achieved through European integration.¹ It reduces transaction costs, removes uncertainty from nominal exchange rate movements, increases trade and commerce between euro area countries and provides increased risk-sharing opportunities. Furthermore, it has helped to deepen economic and financial integration across the euro area countries,² and in so doing boosted the role of Europe on the international stage. Finally, the European Central Bank's (ECB's) monetary policy, which is aimed at maintaining price stability in the medium term, has helped create favourable conditions for firms and households to make longer-term investments. These benefits have

¹ ECB analyses have found that the Single Market has increased real GDP per capita by 12-22%. See, for example, Lehtimäki, J. and Sondermann, D., "Baldwin vs. Cecchini revisited: the growth impact of the European Single Market", *Working Paper Series*, No 2392, ECB, Frankfurt am Main, April 2020, available at: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2392~83000b6b14.en.pdf>.

² ECB analyses estimating the impact of the euro on euro area trade, for instance, find that the euro has had a significant impact on trade within and between the two waves of euro adopters. While the exact impact varies – depending, among other things, on the method used – the euro is found to have increased export flows by up to 30% in the case of exports of both intermediate and final products from countries belonging to the first wave of euro adopters to those belonging to the second wave. In addition, ECB analyses have found that the euro has increased foreign direct investment flows among members by around 20%. See, for example, Gunnella, V., Lebastard, L., Lopez-Garcia, P., Serafini, R. and Zona Mattioli, A., "The impact of the euro on trade: two decades into monetary union", *Occasional Paper Series*, No 283, ECB, Frankfurt am Main, October 2021, available at <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op283~a2ff6f5481.en.pdf>, and Carril-Caccia, F. and Pavlova, E., "Foreign direct investment and its drivers: a global and EU perspective", *Economic Bulletin*, Issue 4, ECB, 2018, available at: https://www.ecb.europa.eu/pub/economic-bulletin/articles/2018/html/ecb.ebart201804_01.en.html.

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contributed significantly, and will continue to contribute, to enhancing the economic and social welfare of our citizens.³

In this regard, let me highlight the enormous improvements we have made to the institutional architecture of the euro area and the EU in response to the financial and sovereign debt crisis. We have established the European Stability Mechanism, set up the Single Supervisory Mechanism and the Single Resolution Mechanism as the first two legs of banking union, and implemented the fiscal compact and the European Semester with its macroeconomic imbalance procedure. In addition, the response to the coronavirus (COVID-19) pandemic at both the EU and the national level has been timely and decisive, and the effective implementation of the Next Generation EU investment and reform plans has the potential to speed up the modernisation of our economies and boost momentum for structural reform, and thereby to increase the growth potential and resilience of the EU and euro area.

At the same time, to reap the full benefits of the common currency constant efforts are needed to deepen and complete Economic and Monetary Union, particularly with a view to (i) increasing the capacity of euro area countries and the euro area as a whole to weather adverse developments in the future, (ii) enhancing their economic resilience, (iii) improving risk-sharing through further financial integration, and (iv) further developing the economic governance framework to ensure the build-up of macroeconomic imbalances is detected and dealt with at an early stage.

I strongly believe that our common currency has served, and will continue to serve, all European citizens well. It is a well-designed and integral part of our European integration and identity.

Yours sincerely,

[signed]

Christine Lagarde

³ For a more detailed overview of the benefits of the euro, see also Brans, P., Clemens, U., Kattami, C. and Meyermans, E., "Economic benefits of the euro", *Quarterly Report on the Euro Area*, Vol. 20 No 1, European Commission, 2021, available at: https://ec.europa.eu/info/sites/default/files/economy-finance/jp146_en_chapter_iv.pdf.

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