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Euroland 30 years after the Treaty of Maastricht

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Bucharest
December 2022

Euroland – 30 years after the Treaty of Maastricht¹

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Taking into account the importance of Germany and France for the dynamics of the European integration, we need to be reminded the historical words of Helmut Kohl (the Chancellor of Germany) and Francois Mitterrand (the President of France) at the beginning of the 1990s, before the signature of the Treaty of Maastricht, pointing out the importance of the monetary integration in Europe:

*“German unity and European unification are two sides of the same coin”
(H. Kohl)*

“France is our mother country, Europe is our future” (F. Mitterrand)

These statements emphasis the political will of France and Germany to contribute to the creation of the Euroland. Taking into account the macroeconomic and financial developments in the European Union countries over the past three decades several key ideas need to be emphasised:

1. The Euro was launched at 1st January 1999 after a strong nominal economic convergence following the signature of the Treaty of Maastricht;
2. The economic convergence process – the fundamental axis of the European Monetary Integration;
3. The nominal convergence did not generate a durable real convergence among the member states of the European Monetary Union;
4. Across the Euroland there was a transition from nominal convergence to real divergence in the context of the outbreak of shocks;
5. Euroland – was not an optimal currency area in 1999 and did not become afterwards;
6. The outbreak of several symmetric shocks (endogenous / exogenous) with asymmetric consequences for the member states tested the resilience of the European Monetary Union
7. The role of the Euro Zone economy in the world economy diminished, while the international competitiveness deteriorated.

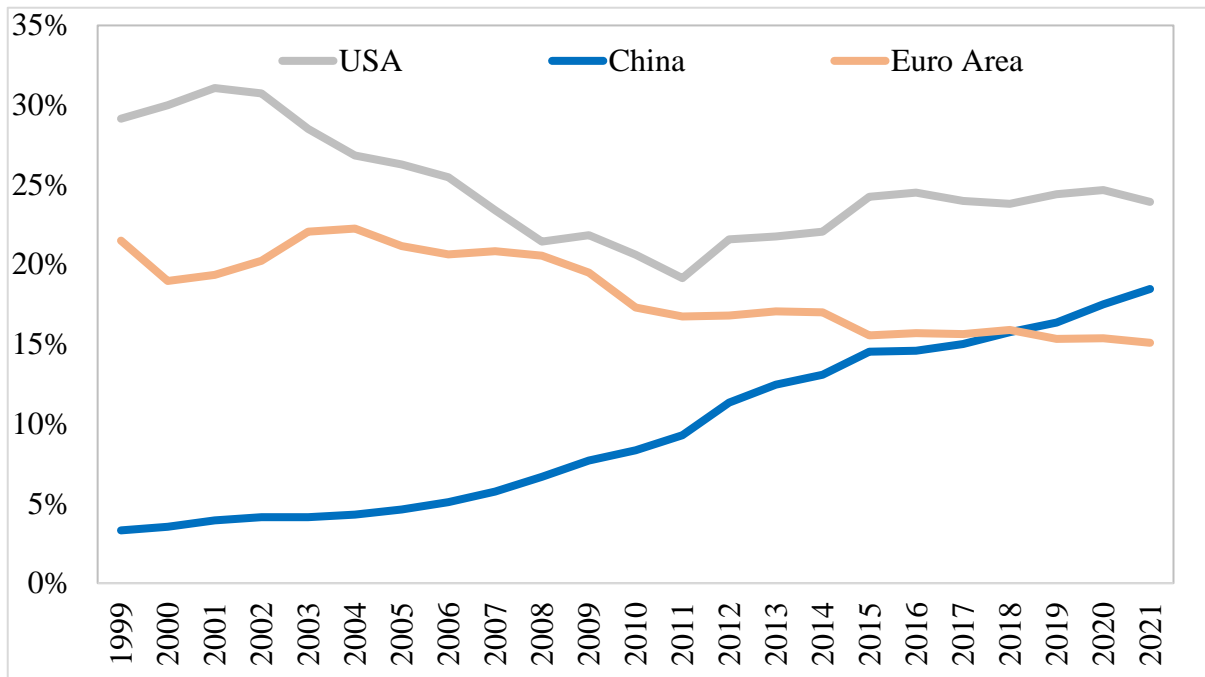
According to the data published by Bloomberg the weight of Euroland in the global GDP declined from 21.5% in 1999 to 15.1% in 2021, as reflected in the following chart.

¹ This Opinion paper is based upon the presentation done at the Conference The 30th anniversary of the Maastricht Treaty – the Past, Present and Future of the European Integration organised by the University of Maastricht and Studio Europa at the end of September 2022. Within this conference the author moderated the panel on *Requestioning convergence and homogeneity*, which included the following presentations: (1) The heterogeneous effects of freedom of movement agreements, presented by dr. John Lewis, from Bank of England; (2) Thirty years after the Treaty of Maastricht – unprecedented challenges for the Euroland (the author’s presentation); (3) The colourful patchwork of relations between post-socialist EU member states and the Euro, presented by dr. Anita Pelle from Szeged University and (4) Checkmate! Losing with borders, winning with centres: the case of European Integration, presented by Ketevani Kapanadze from Cerge – EI Prague.

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Figure 1. The weight in the global GDP

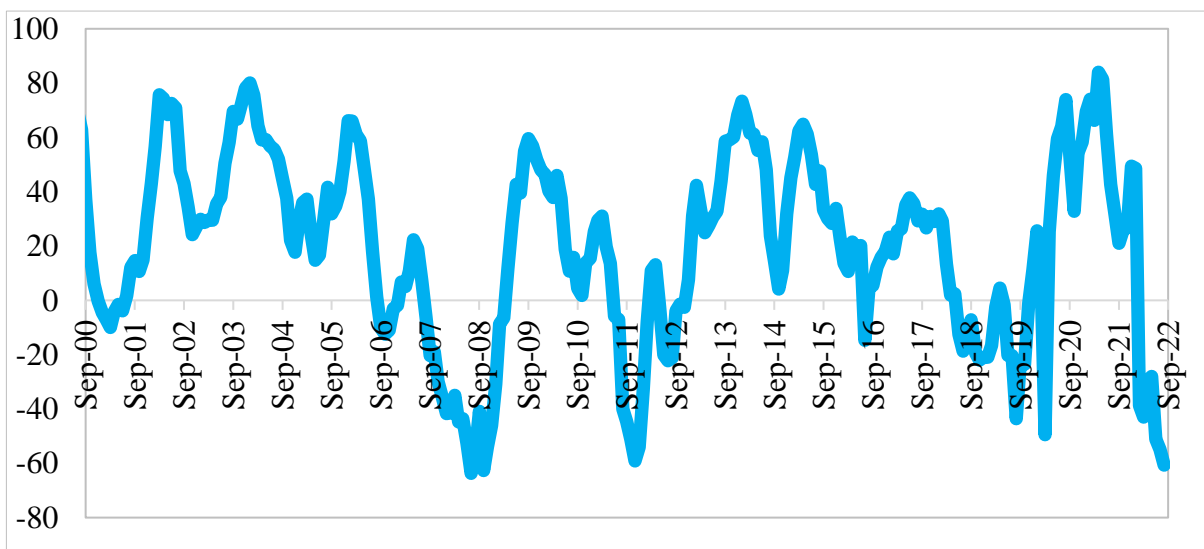


Source: Bloomberg (2022)³

At present, the economy of the Euroland is heading towards another recession, as the economic model implemented in Germany (the locomotive of the region with a nominal GDP of EUR 3.6tn in the pandemic year 2021) over the past three decades is challenged by the increase of the prices of oil and gas by the Zero Covid Strategy in China.

The high probability of recession in Euroland in the very short-run is confirmed by the severe deterioration of the investors' confidence, according to the indicator estimated on a monthly basis the ZEW Institute from Germany (as can be noticed in the following chart).

Figure 2. The investors' confidence in Euroland – ZEW indicator (points)



³ Bloomberg (2022). [Bloomberg Terminal](#) | [Bloomberg Professional Services](#)

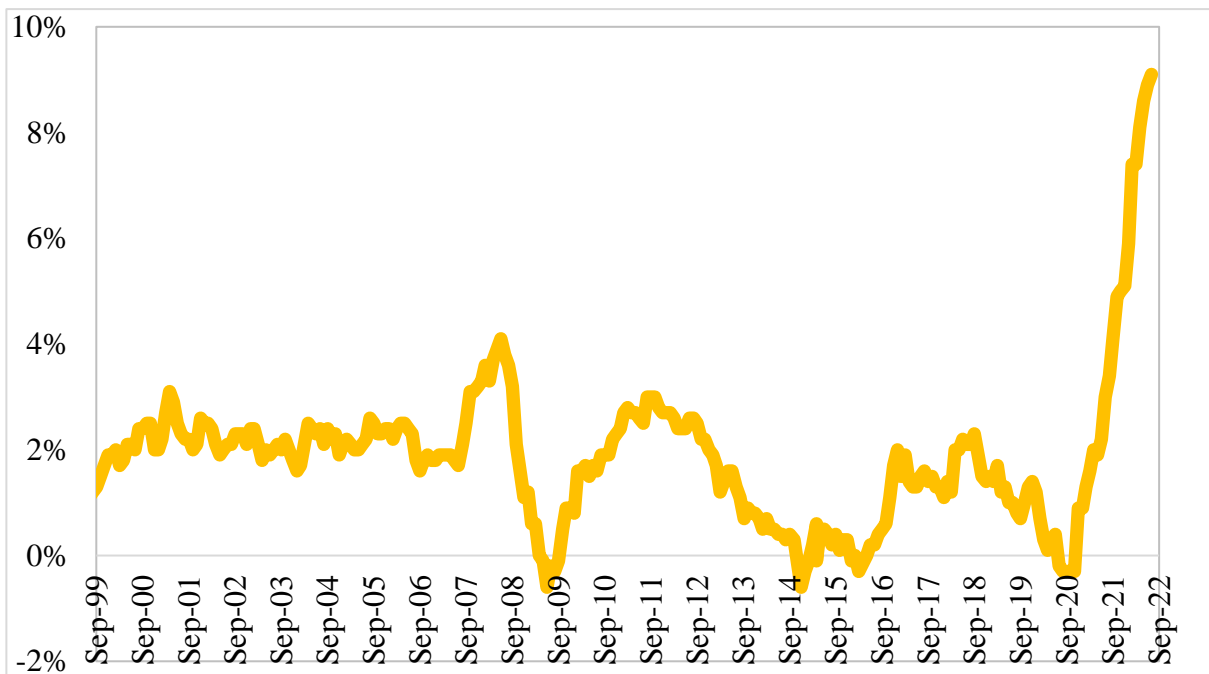
Source: ZEW Institute, Germany (2022)⁴

Compared to the previous crises nowadays the economy of Euroland is confronted with a mix of both demand and supply factors.

The overlapping supply shocks the geo-political tensions in Eastern Europe contributed to the acceleration of the inflationary pressures (to record levels) and to the deterioration of the risk perception.

Furthermore, the manoeuvre room in terms of economic policy is limited in Euroland, being more important than ever the acceleration of the implementation of structural reforms and of the projects of political integration.

Figure 3. Consumer prices in Euroland (YoY)



Source: Eurostat (2022)⁵

For this research the Cobb-Douglas production function was implemented and the main source of the raw data was the database of Eurostat in order to estimate the contribution of the production factors to the YoY pace of the potential output in Euroland and its member states for the period 1995 to 2021.

According to the results of the analysis, the total productivity factor continues to be the main challenge for the Eurozone, as reflected by the following figure.

The contribution of the total productivity factor to the YoY dynamics of the potential GDP presented a downward trend since 2015, as the member countries of the Euroland reduced

⁴ Zew Institute (2022). [Press Release: Renewed Rise in Economic Sentiment | ZEW](#)

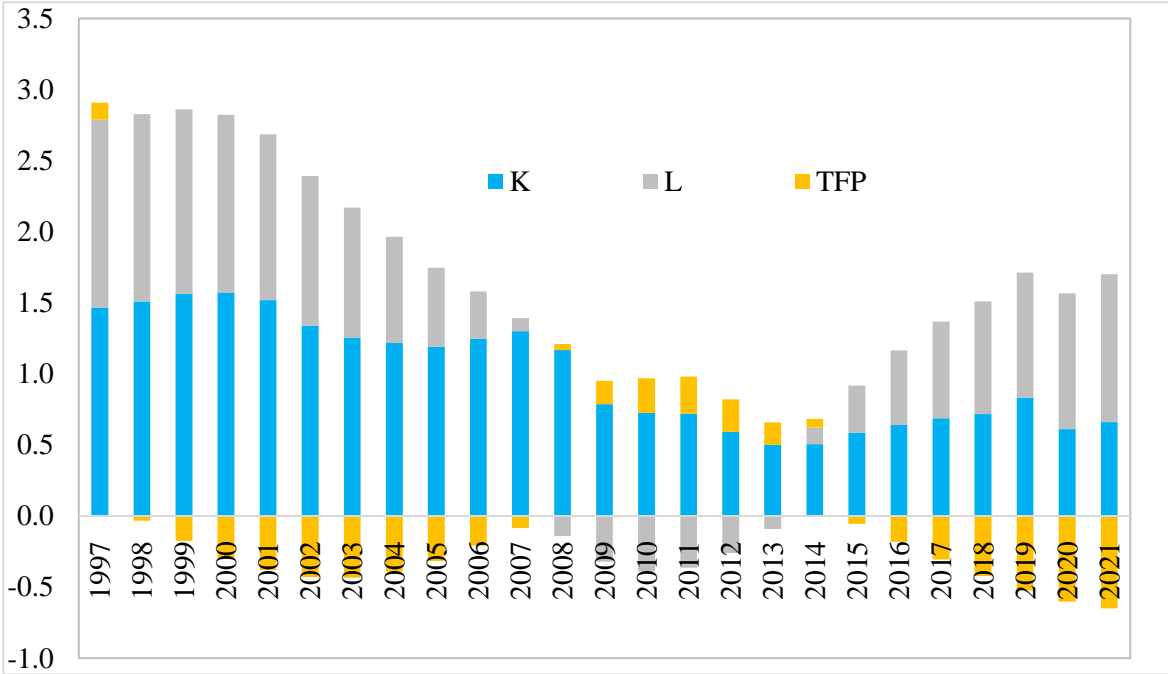
⁵ Eurostat (2022). [Home - Eurostat \(europa.eu\)](#)

the pace of implementation of the structural reforms, following the public debt crisis in Europe, in a context dominated by the ultra-expansionary monetary policy implemented by the European Central Bank.

At the same time, the contribution of the capital factor to the YoY pace of the potential GDP deteriorated in Euroland following the outbreak of the coronavirus pandemic, the worst health crisis at the global level in one century.

On the other hand, there can be noticed an improvement trend for the contribution of the labour factor to the YoY dynamics of the potential GDP in Eurozone during the post-crisis cycle, that consolidated also in the context of the pandemic, a result of the reforms implemented since the outbreak of the Great Recession.

Figure 4. Contribution of production factors to the YoY pace of the potential GDP in Euroland (pps)



Source: estimates by implementing the Cobb-Douglas production function and the Eurostat database⁶

In other words, across the Euroland the production factors presented mixed dynamics over the past decades, being noticed the downward trend for the capital component and the sinusoidal divergent dynamics of labour and multifactor productivity factors.

These evolutions were determined by the outbreak of unprecedented shocks (generating asymmetric consequences) and the discontinuity of the structural reforms.

In this context is important to emphasize the fact that the overlapping shocks at present in Euroland point out the importance of implementation of measures in the direction of further integration across the Euroland.

⁶ Eurostat (2022). ⁶ Eurostat (2022). [Home - Eurostat \(europa.eu\)](https://eurostat.ec.europa.eu/)

What came up as a conclusion is the fact that a New Economic Governance model is needed in Europe, focused on the following points:

1. improving the resilience to shocks
2. supporting the investments and the total productivity factor
3. full implementation of the Banking Union
4. acceleration of the Capital Markets Union
5. the reform of the Energy market
6. progress towards POLITICAL UNION
7. better economic relations with China and Africa
8. countering the climate change
9. implementation of a defence policy.

The shocks (exogenous and endogenous) over the past decades tested the resilience of the Eurozone, a currency union that was not optimal when the EUR was launched

Every time after the outbreak of the shocks the policy-makers reacted by implementing unprecedented measures in order to improve the structural resilience, but not determined steps in order to implement the Political Union in Europe

The crisis in Ukraine and its consequences represent an opportunity for the EU leaders to accelerate the Political Union projects, very important in order to improve the structural resilience of the region, the international competitiveness and to accelerate the convergence process to the development levels in United States (the largest economy of the world).

To end in a symmetric style, the words of Rueff and Monnet are emphasized:

“L'Europe se fera par la monnaie ou ne se fera pas”

Jacques Rueff

“L'Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises”, Jean Monnet