



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Monetary Policy in Europe: The Role of Monetary Union

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Floating exchange rates at fifty  
PIIE, Washington, D.C.

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# Monetary and Exchange Rate Regimes in Europe since 1973

1973: Break-up of Bretton Woods system

1973-1978: attempts to regulate intra-European exchange rate movements

1979 onwards: European Monetary System (adjustable exchange rates within a framework)

1992-1993: currency crises

1993-1998: more exchange rate flexibility

1999-onwards: Monetary Union

2008-2009: Global Financial Crisis

2010-2012: European Sovereign Debt Crisis; 2013-2015: Cyprus, Greece

2015 onwards: Unconventional monetary policies to fight below-target inflation

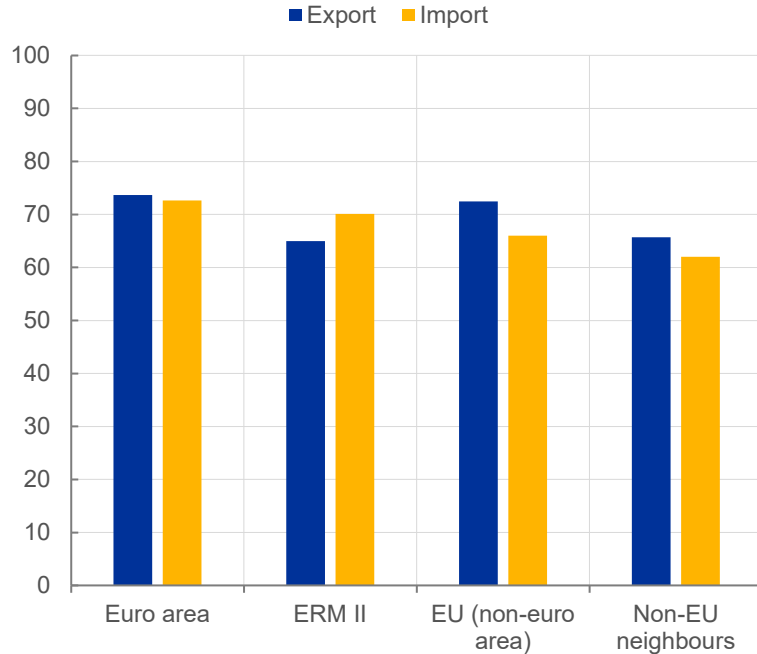
2020-2022: Pandemic Shock - PEPP

Summer 2021 - : Above-Target Inflation; End of QE; Hiking Cycle

- International monetary policy trilemma; international financial trilemma; international political economy trilemma
- Monetary Union: Single Monetary Policy - common shocks; country-specific shocks
- [Country-Specific Shocks: asymmetric shocks; national policy errors]
- Common Shocks and Common Trends: trend in  $r^*$  (demographics, global factors, global growth); global business cycle; pandemic; Russia's unjustified war against Ukraine; energy shock; [climate change]; [geo-political shocks and trends]
- Single Monetary Policy: internalises intra-area spillovers; limits impact of external financial volatility
- Euro as an anchor for wider European monetary system
- Euro pricing in trade
- Global spillovers: trade channel; financial channel; exchange rate channel

# Euro invoicing in international trade

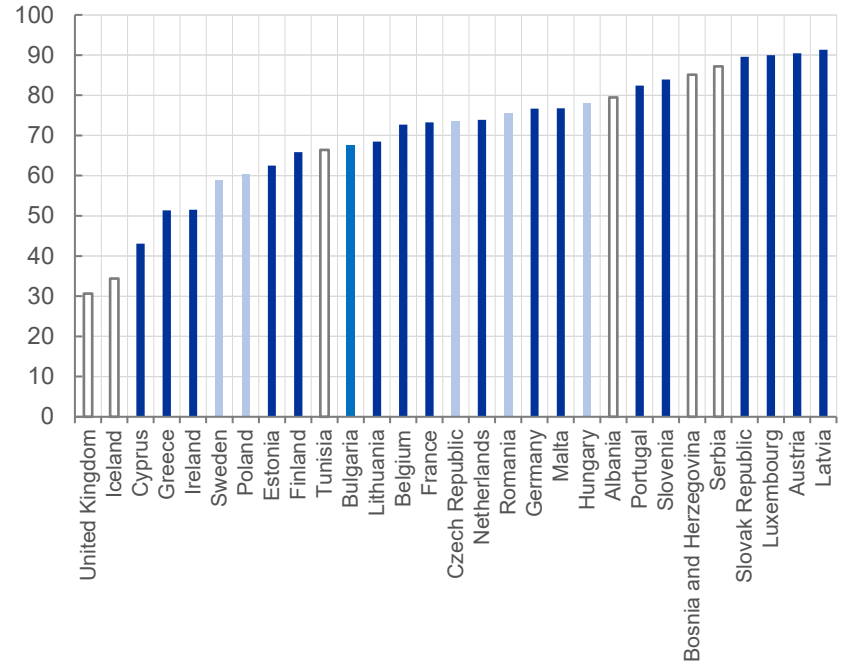
## Share of exports and imports invoiced in euro (percent)



Sources: IMF and ECB staff calculations.

Notes: ERM II includes Bulgaria; EU (non-euro area) is the average of the Czech Republic, Hungary, Poland, Romania and Sweden; Non-EU neighbours is the average of Albania, Bosnia and Herzegovina, Iceland, Serbia, Tunisia and the United Kingdom. The shares for Italy, Spain, Denmark and Croatia are missing. The latest observations are for 2019.

## Total trade invoiced in euro (percent)

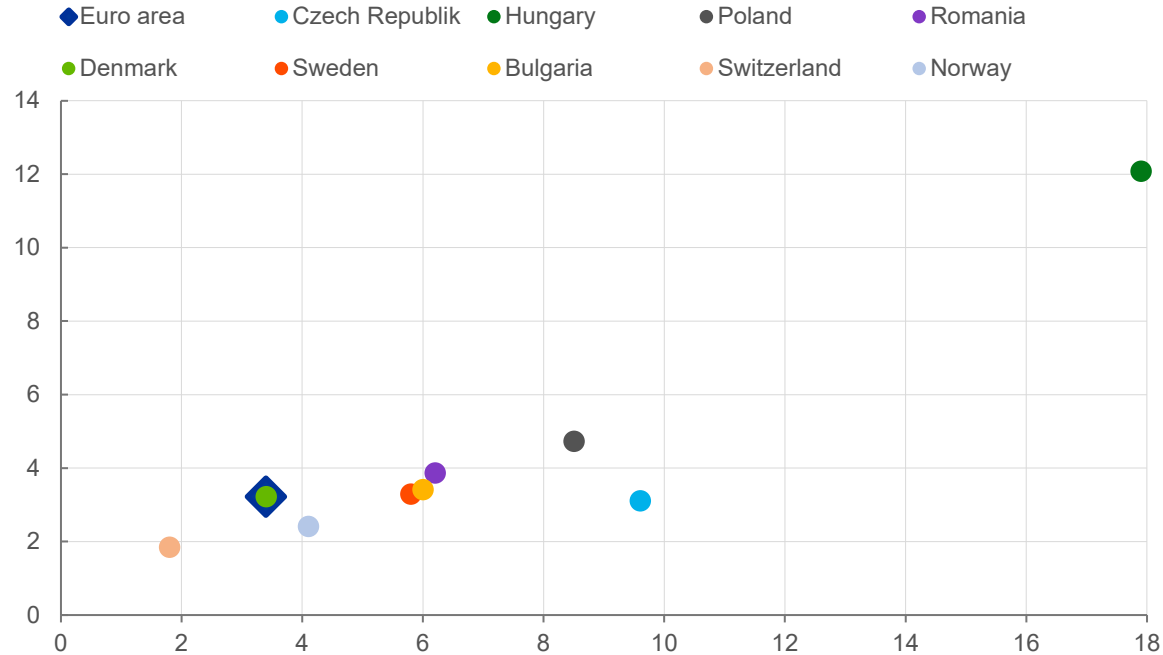


Sources: IMF and ECB staff calculations.

Notes: The bars show the average of the shares of exports and imports invoiced in euro in 2019. Dark blue shows euro area countries, blue shows ERM II countries, light blue shows EU (non-euro area) countries and white shows non-EU neighbour countries. The shares for Italy, Spain, Denmark and Croatia are missing. The latest observation is for 2019.

## Changes in inflation and three-month money market rates

(in percentage points)



Source: ECB.

Notes: Horizontal axis: changes in year-on-year inflation between January 2022 and February 2023. Vertical axis: changes in three-month money market rates between 3 January 2022 and 16 March 2023.

- Effective sovereignty: capacity to manage common challenges; effective policymaking
- Euro as anchor of monetary and financial stability for EU
- Ancillary policies: micro-prudential regulation and common supervision; macroprudential regulation; EU fiscal framework
- More ambition: banking union; capital markets union; central fiscal capacity
- Adaptation: digital finance – digital euro