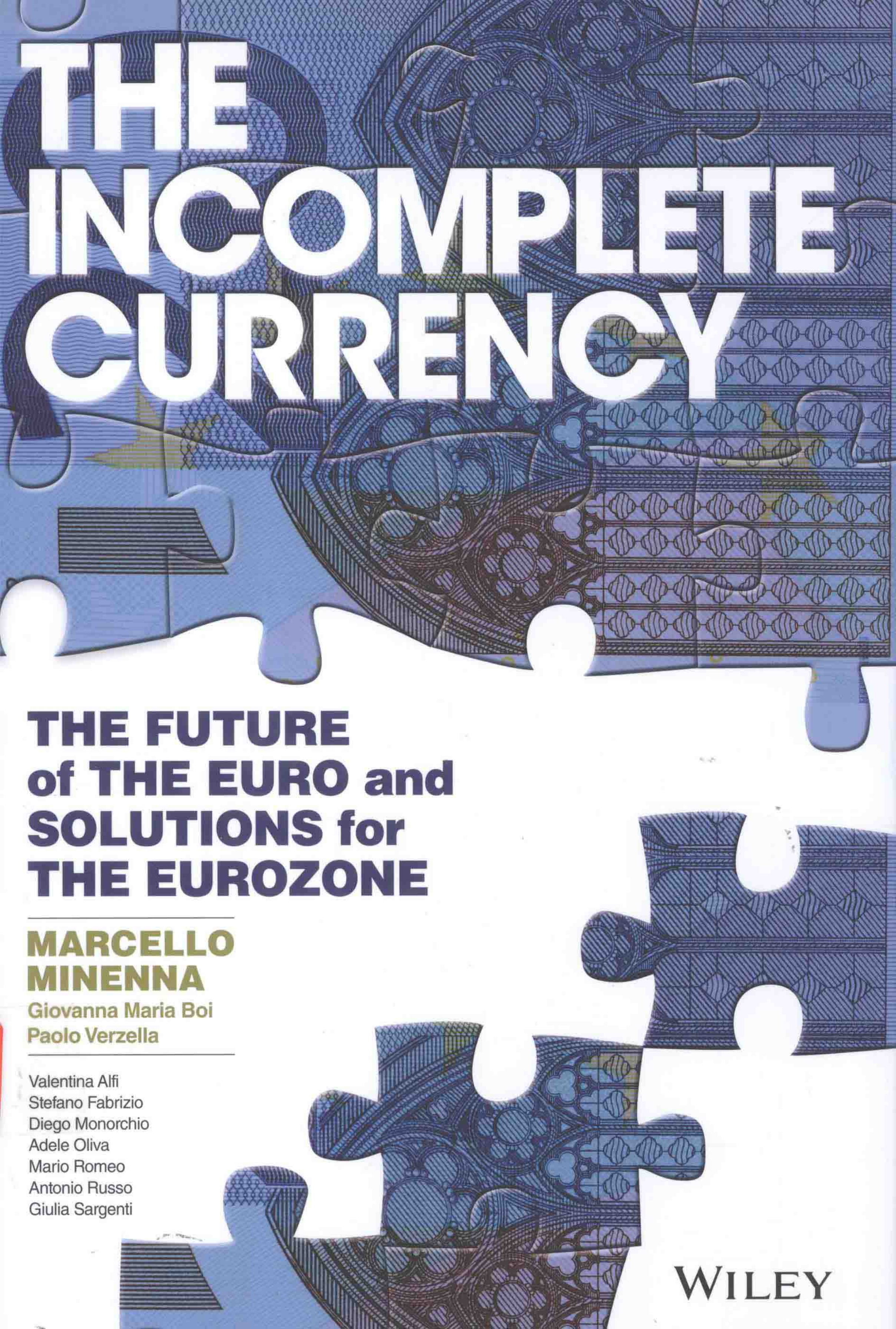

THE INCOMPLETE CURRENCY

THE FUTURE of THE EURO and SOLUTIONS for THE EUROZONE

MARCELLO MINENNA

Giovanna Maria Boi
Paolo Verzella

Valentina Alfi
Stefano Fabrizio
Diego Monorchio
Adele Oliva
Mario Romeo
Antonio Russo
Giulia Sargenti

WILEY

The Incomplete Currency

The Future of the Euro and Solutions for the Eurozone

MARCELLO MINENNA

WILEY

This edition first published 2016

This English language edition is based on the original Italian version of the book entitled "*La Moneta Incompiuta*" ISBN 9788823017641, published in 2013 by Ediesse.

Registered office
John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

Library of Congress Cataloging-in-Publication Data

Names: Minenna, Marcello, author.
Title: The incomplete currency: the future of the euro and solutions for the Eurozone / Marcello Minenna.
Description: Chichester, West Sussex, United Kingdom: John Wiley & Sons, 2016. | Includes index.
Identifiers: LCCN 2015051048 (print) | LCCN 2016007184 (ebook) | ISBN 9781119019091 (hardback) | ISBN 9781119019114 (pdf) | ISBN 9781119019121 (epub)
Subjects: LCSH: Euro. | Eurozone. | Monetary policy—European Union countries. | Finance—European Union countries. | European Union countries—Economic policy. | BISAC: BUSINESS & ECONOMICS / Finance.
Classification: LCC HG925 .M534 2016 (print) | LCC HG925 (ebook) | DDC 332.4/94—dc23
LC record available at http://lccn.loc.gov/2015051048

Cover Design: Wiley
Cover photo concept by Yorkman/Shutterstock;
Cover Image ©omersukrugoksu/iStock

Set in 9/11pt and Sabon LT Std by SPi-Global, Chennai, India
Printed in Great Britain by TJ International Ltd, Padstow, Cornwall, UK

List of Figures

List of Tables

Foreword

This refined analysis on the European Monetary Union certainly cannot put an end to the controversies that inflame endless discussion on this big political and economic innovation. Nevertheless, this book has the merit to frame the problems not only in a perspective that is scientifically rigorous, but with an eye that is able to analyse all the consequences on the European and global financial systems. The "Incomplete Currency" is born and grows in an historical period during which the financial institutions and their activities are not only a support for the real economy but have become themselves an end.

Making money is the mantra that drives the behaviour of financial operations and maximises the market's efficiency. At the same time – in a completely impersonal mode – it encourages speculation and profit seeking from both good and bad news. This emerging phenomenon radically changes the equilibrium of power relations across the entire planet; moreover, as it emerges from the most recent analyses, it presents itself as a determining factor that governs the increasing disparities in wealth distribution.

As introductory topics, the book provides the reader with the tools of the trade. Key concepts – such as those of interest rate risk, credit risk, sovereign yield curve, public debt, inflation, interbank market, collateral, credit derivatives and arbitrage – are carefully explained, laying down the premises to the forthcoming analyses.

The salient features of the monetary policy in the era of the single currency are also presented: the European Central Bank pursues a 2% target in terms of average inflation and is subject to the explicit prohibition of monetising the public debt of any member country. Hence, the ECB cannot use the inflation lever to put under control the public debt of the member countries if necessary; it has only blunt weapons to deal with any potential debt crisis in the Euro area, like those that occurred after 2008. The reason for these incomplete powers is simple: some member states (especially Germany) have imposed the prohibition of debt monetisation as a binding condition for their membership in order to exclude possible forms of risk-sharing between the various economies of the Eurozone. Every country must be *virtuous* and rely only on itself. This is the *leitmotif* of the European Monetary Union, and one of the main causes of its structural weakness and of many other *incompletenesses*, such as the lack of adequate fiscal transfers schemes with a stabilising function of the imbalances due to the single currency.

In conjunction with other objectives of the European strategy, we face a union "half completed", with the weaknesses and the dangers this entails.

This incomplete construction of the Eurozone is illustrated by the fundamental relationships that tie together the main players (banks, governments and the ECB) of the European financial system.

Before the outbreak of the crisis, these connections had worked quite well. The strong endorsement to the success of the single currency, not only in terms of compliance with the Maastricht criteria but also on the political side, had pushed banks to bet on the Euro. Convergence trades enacted by the banks had favoured the alignment of the sovereign yield curves of the different Eurozone countries. At the same time a sort of *Europeanisation* of the public debts of the same countries had occurred within banks' balance sheets. The belief linking these phenomena was that all the member countries were sharing the same risks and that their economies were moving together.