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News of the euro's death is premature

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Since the beginning of the year the euro has risen sharply against the US dollar, but also against other key currencies in Europe and Asia. This has been driven by a return to stronger growth in the eurozone, which at around two percent in 2017 should pretty much match growth in the US. Particularly encouraging is the fact that all members of the single currency are now contributing to growth.

This should give notorious euro critics food for thought. Their concern that competitively weak countries will struggle to return to sustained growth via "internal devaluation", i.e. lower cost and price increases, seems to be unfounded. Wage restraint along with labor market and welfare system reforms have helped the former crisis countries to become more competitive again and get back on the growth path. Many countries have also reined in their chronic budget deficits – the average deficit ratio among eurozone countries now stands at 1.5% of gross domestic product. At the same time businesses and households have reduced their debt and tidied up their balance sheets. Such adjustments, tied partly to bail-out terms, weighed on growth for years but they did not tip the countries into ever deeper recession. Despite growth and, in some cases, substantial current account surpluses, former "problem countries" still require further reforms. But to a larger or lesser extent there is need for reform everywhere, it is not confined to the eurozone.

The lesson from the crisis must be that adverse developments are tackled more effectively in future. The painful adjustment processes that many countries and hence the monetary union had to endure had their roots in earlier aberrations: excessive private sector debt, wage increases well above productivity gains, chronic public sector deficits and yawning current account deficits, to name just the most important. The eurozone countries have recognized the danger of such developments and have tightened their rules accordingly to ensure not only financial but also macroeconomic stability. Now and in future the aim must be to give these rules substance. With this objective in mind, the eurozone should adopt two measures. Monitoring of macroeconomic stability in the member states should be made less political and not left to consensus building in the EU Commission and the Eurogroup. With regard to financial stability it would be important in the longer term to establish a sovereign insolvency code. Heavily-indebted countries and their debtors on the capital markets could then no longer be sure that, in the event of a debt crisis, the other eurozone countries would ride to the rescue. Risk spreads on government bonds would then be a truer reflection of problems.