

The United Kingdom, the European Union and the euro area

On 23 June British citizens will vote on whether their country should remain in the European Union (EU). This is an incredibly important political event for the future of the Union. A vote in favour of Brexit would seriously weaken the European project at a time when it is facing huge challenges that require strong leadership and a high degree of cohesion among member states.

The most immediate challenge is undoubtedly how to tackle the waves of immigrants both from conflict zones and also from neighbouring countries with much lower standards of living than the Union's. This migratory pressure on its borders has jeopardised some of the EU's fundamental principles such as the free and unrestricted movement of people and the Schengen Area and, together with other issues of an economic nature, explains the rise in populist parties in many European countries, almost always strongly Eurosceptic.

This migratory challenge is naturally closely related to the Union's geopolitical and defence issues as the possible political responses have repercussions on various countries with which the EU has highly complex relations (Russia, Turkey and the countries in the Middle East and North Africa) and on which different factions within the EU often do not agree.

The other great challenge is to push forward with building a sufficiently complete and stable economic and monetary union (EMU). The crisis in the euro area uncovered serious deficits in the current design of the single currency and, although a great deal of measures have been implemented (advances in banking union and in coordinating budget and competitiveness policies), the accomplishments to date are still far from what is required.

The aspects in which the EU needs to make progress require a high degree of political integration as they entail significant losses of sovereignty in terms of policy, such as budgets and employment, which have always been national concerns.

If the EMU is not perfected enough over the next few years, the risk for its member states (and essentially for the EU as a whole) is unacceptable as, sooner or later, strong economic and financial tensions will reappear in the euro area which could be lethal for the single currency. The EMU is not adequately supported by political institutions (for instance, a single ministry for the economy and taxation) and neither does it have enough of its own economic policy tools to combat the imbalances that may arise within.

Europe's current political situation is not helping initiatives towards greater political integration to advance at the required rate. Its slow exit from the recession, with growth that is still weak and high levels of unemployment, as well as the aforementioned migratory tensions make it difficult for leaders to emerge in those member states that resolutely support such integration.

Given this situation, the centrifugal force caused by Brexit, especially if the UK votes not to remain the EU, represents both a huge risk and an opportunity for the euro area. Citizens of the region and their governments must realise that, for the EMU, the only possible response is even more integration. This response is vital for the very continuity and stability of the monetary union but, most particularly, it is crucial to combat adverse, uncertain scenarios, precisely like the one caused by the United Kingdom potentially leaving the EU.

Paradoxically, the euro area's reaction to the centrifugal force caused by the United Kingdom's political gambit should be one of centripetal force; advancing towards greater integration.

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31 May 2016