

ECB Exchange Rate Policy: Development and Challenges

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Abstract

In 1999 the European Union (EU) entered into the third stage of Economic and Monetary Union (EMU), and the euro was introduced as the single currency of the EU and Eurozone Member States. This signified a deeper degree of European economic integration and had significant implications for the EU's economy and the international monetary system. The financial crisis of 2008 and the sovereign debt crises of 2012 highlighted structural problems in the Eurozone's single exchange rate policy and the design of the EMU. This paper examines the agenda and institutions of ECB exchange rate policy, as well as the authorities, decisions, operation, key characteristics, challenges and implications. This paper also discusses major challenges faced by the euro, in particular, Brexit and COVID-19, and how a single exchange rate for euro-denominated economies fits with differing requirements of the 19 Member States of the Eurozone. Also, how can the EU resolve the potential risks and problems posed by a single exchange rate policy? This paper offers some critical proposals for reforming EU law in order to enhance the effectiveness of the ECB Exchange Rate Policy and adapt to the challenges of future crises.

Key Words: Euro, exchange rate policy, ECB, ERM II, Eurozone