How Costly Would a Euro Exit Be?

TARGET2 AND ISSUES RELATED TO CENTRAL BANK OPERATIONS

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1 Comments from Anil Kashyap are gratefully acknowledged
• More an illustration of the costs than a blueprint to do the undoing

Undoing the Platform?
How did central banks prepare the logistics of monetary union

- Monetary policy strategy and implementation
- Foreign operations
- Accounting
- Statistics
- Payment systems
- Legal Framework
- Information Technology
- Communication
- Banknotes
Further developments after 1999

- From two tiers to the single list of collateral
- Target 2
- Integrated IT systems
- Framework for investment activities of central banks
- Simplified international relations
- Financial integration, including Single European Payment Area
What would it imply to undo the logistics of monetary union?

- Two general remarks:
  - Only the full breakdown scenario considered
  - The undoing of the platform is only roughly the symmetric exercise to its creation
• New monetary policy strategy
• Thorough adaptation of the implementation framework
• Redistribution of international reserves and own funds
• Renationalization of international representation
• Review of accounting
• Moving back to national statistics
• Break down Target 2
• Review legal set up
• Rebuild national IT systems
• Substitute 16 billion of euro banknotes with national ones

Undoing the activities carried out until January 1st 1999
Difficulties deriving from new developments since January 1st 1999

- Assets and liabilities from Target balances (reparation problem redux?)
- Reintroduce capital controls
Conclusions

• I. Countries exiting the euro area would have to re-found a monetary strategy in the worst possible conditions.
• II. Large parts of the monetary policy implementation technology would have to be rebuilt.
• III. The distribution of assets and liabilities of the Eurosystem and of Target balances may lead to a new “reparation” problem.
• IV. Global central bank collaboration would loose the substantial benefits resulting from Monetary Union.
• V. Integrated Payment and Settlement systems and integrated IT applications would have to be rebuilt on a national basis.
• VI. 16 billion euro banknotes would have to be substituted with national ones.

Conclusions