



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?

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

**How did central banks
prepare the logistics of
monetary union**

- 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

Further developments after
1999

- Two general remarks:
 - Only the full breakdown scenario considered
 - The undoing of the platform is only roughly the symmetric exercise to its creation

**What would it imply to undo the
logistics of monetary union?**

- 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**

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

**Difficulties deriving from new
developments since January 1st
1999**

- 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