

## Lessons from the euro crisis and dealing with its debt overhang

Giancarlo Corsetti  
Professor of Macroeconomics  
University of Cambridge  
[gc422@cam.ac.uk](mailto:gc422@cam.ac.uk)

### Objectives

- To understand the roots of the polarisation of risk in countries in the euro area
- To design institutional frameworks that combine aggregate risk reduction with enhanced risk sharing

A monetary union among independent states cannot be built upon the illusion that there are no sovereign risk differences. But it cannot be stable and well-functioning without institutions and policies anchoring risk differentials to fundamentals, and preventing country risk from systematically magnifying the effects of shocks, and drive borrowing costs apart across borders.

Much of the work of the ADEMU (A Dynamic Economic and Monetary Union) project has focused on bringing economic theory to bear on our understanding of the key factors and economic mechanisms leading to country-risk polarisation in the euro area.

Crucially, ADEMU has focused on designing institutional frameworks that enhance policymakers' ability to address debt overhang issues inherited from the prolonged euro area crisis.

### Further reading

To read the full paper which accompanies this policy brief, see chapter one (pages 13-23) of the ADEMU e-book published by VoxEU.org:

[www.voxeu.org/The-emu-after-the-crisis](http://www.voxeu.org/The-emu-after-the-crisis)

You can see a short video summary of this topic by the author at:

[www.ademu-project.eu/lessons-from-the-euro-crisis-and-dealing-with-the-debt-overhang-with-giancarlo-consetti](http://www.ademu-project.eu/lessons-from-the-euro-crisis-and-dealing-with-the-debt-overhang-with-giancarlo-consetti)

This topic also relates to the policy brief 'A European Stability Fund for the EMU':

[www.ademu-project.eu/policy-brief-a-european-stability-fund-for-the-emu](http://www.ademu-project.eu/policy-brief-a-european-stability-fund-for-the-emu)

There are 47 working papers related to this topic. See the full list:

[www.ademu-project.eu/ademu-working-papers-related-to-work-package-1](http://www.ademu-project.eu/ademu-working-papers-related-to-work-package-1)

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#### Horizon 2020

ADEMU (A Dynamic Economic and Monetary Union) has received funding from the European Union's Horizon 2020 research and innovation programme (call H2020-EURO-SOCIETY-2014) under grant agreement No. 649396.

