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Speech

given by Federal Minister of Finance

Hans Eichel

“The Euro – the Anchor Currency for Europe”

in Tokyo
on 15 January 2001

Ladies and gentlemen,

I am still very much under the impression of the beauty of Kyoto. The Golden pavilion, the magnificent temples and shrines are the expressions of a rich culture. Here in Tokyo the townscape has been shaped by recent history. Successful businesses and modern architecture form part of the charm of Tokyo.

Structural change

Tokyo reflects the rapid economic development of Japan after the Second World War. Parallels to Germany are often drawn and these doubtless exist. What is frequently overlooked, however, is that Germany's development was only the tip of an enormous increase in prosperity in all of western Europe.

France, for example, is similar to Germany in having gone through enormous structural change. Fifty years ago our two countries were much more agricultural than today. The rise in industry in the past decades has in recent years been supplemented by a rapid development towards a service economy.

European Union

This swift development would not have been possible within the old national framework such as we had before the Second World War. Though Europe will maintain its cultural diversity, fragmentation of its policy and economic powers would be harmful.

The founders of the European Union foresaw this development. Franco-German friendship laid the basis for it. The wish expressed in the Treaties of Rome for a peaceful and stable Europe may today be

supplemented within the existing framework by the aspiration for greater prosperity for all citizens in Europe.

Euro

The progressive integration of the single European market has made it necessary and possible to envisage a common currency as well. It was clear to all the governments involved that monetary co-operation could not be viewed in isolation from fiscal policy co-ordination. Co-ordinated financial policies are the prerequisite for a common currency. The countries participating in the Euro have not only committed themselves to discipline in monetary policy, they have also agreed to a common course of economic and financial policy.

And the success of this strategy proves us right. The strong economic growth we have experienced in Europe in recent years would not have been achievable without the budgetary discipline displayed by all the countries involved and the course of strict consolidation which they have all followed.

Europe's pact for Stability and Growth guarantees that in the future as well no country will revert to lax budgetary policies. Financial policy stability will become Europe's trademark.

Open markets

The introduction of the Euro on 1 January 1999 was the logical consequence of the single European market. Without the single European market, the national markets would not be as open to foreign competition as they now are. Competition would be weaker, the results worse.

We are very satisfied with what we have achieved. More progress will be made in the near future. It will become impossible to return to the age of protectionism. The most effective means to prevent this is the common currency. It makes no sense to erect trade barriers in a single currency

area. Thus the Euro also will act as a shield against protectionism in Europe.

At the same time, due to the Euro, competition in the Euro zone will become more intense. It will be easier to compare prices, and markets will become more transparent. In this way better products and production processes will win out. There will be downward pressure on prices.

Cost savings

Of course the Euro is a political project. However, this project would not have been possible if it had not brought with it quite substantial economic advantages.

Due to the common currency, businesses no longer have to bear exchange costs. Neither is trade within the Euro zone any longer burdened by the cost of hedging against unexpected exchange rate fluctuations. These two factors have helped make it possible for small and medium-sized businesses to look beyond domestic markets and become involved in all of Europe.

Exchange rate security

The Euro is a blessing for investment in other countries of the Euro zone. Fixed exchange rates provide security for long-term investments. No investor need any longer fear exchange rate fluctuations, which are often politically motivated. The trade relations can also be put on a long-term basis as a result.

Capital market

A common European capital market has grown up out of the many different national capital markets. The substantially higher volume makes possible transactions which formerly failed due to the narrowness of national

markets.

Competition has also picked up in the capital markets. Many new products have become established on a European level. New possibilities have opened up for investors and borrowers alike.

The German government has already made use of the expanded capital market. The last issue of Telekom shares was offered throughout Europe. We are very satisfied with the results. I am sure that soon others will also be making use of the advantages offered by an expanded capital market.

The European capital market has also gained considerably in stability vis-à-vis national markets. The concentration of currency reserves with the European Central Bank was an important step in this direction. The 10 ASEAN countries as well as Japan, China and South Korea have also recently decided to combine their currency reserves. It is hoped that this will make it easier to work together to deal with financial and monetary crises. All around the world we seem to agree that size contributes to stability.

Relation to the dollar

In the past it has been above all the US dollar which has profited from the factor of size. An economic area with 270 million consumers and which accounts for 20.8 per cent of gross world product cannot help but play a major role in the world financial system.

The Euro has become a real competitor to the dollar. About 300 million people live in the Euro zone, and its gross product represents 15.5 per cent of total gross world product. In comparison, Japan's share is 7.4 per cent.

Of course, the Euro is still new and does not have the long history of success behind it which for example the Deutschmark has. However, this problem will solve itself in time.

Europe's economic prospects are excellent – they are even better than those of the United States of America. The growth gap between the United States and Europe, which is often cited to explain the weak Euro exchange rate, could close this year. The positive trend of the Euro's external value in the past few weeks shows that markets are already reacting to the changed outlook.

Reforms

Perhaps market participants are just now beginning to realize the extent to which the Euro has influenced the positive development of economic fundamentals in Europe. The introduction of the Euro has acted as a catalyst for reforms in all the participating states. The strict course of consolidation in Germany as well as its far-reaching tax reform were simply necessary in the Euro zone.

The situation is similar in other countries. The positive development of fundamentals is thus not due to the cyclical influences. Europe has made real progress with structural reforms. The Euro has permanently improved the economic environment. It has demonstrated this in the past two years. From quarter to quarter further proof of this will emerge.

Eastward enlargement

In the coming years the European Union stands on the threshold of an historic development: enlargement towards the east. The Iron Curtain which divided Europe for so long will then be a thing of the past once and for all.

All of Europe will profit from the enlargement. The young, rapidly developing markets in central and Eastern Europe will spur on the economy in the countries of the Union. The acceding countries will, however, also profit from the intensive trade themselves. The mature economies of the Union can supply the goods which growing economies

need, such as production machinery. These positive developments in intra-European trade will strengthen the Euro zone as well.

The new members of the European Union will not be able to introduce the Euro immediately. Those who wish to do so will be subject to the same strict admission criteria which the present participants have had to meet. There will be no politically motivated concessions. This is our guarantee that any enlargement will strengthen the Euro zone.

European Central Bank

A long time ago every dollar bill bore the legend: "Exchangeable for gold". Today dollar bills bear the legend: "In God we trust". Nothing could make more clear the paradigm shift in monetary policy. In issues of monetary policy, however, it is not so much God as Alan Greenspan in whom the Americans trust. Greenspan's strength lies in his political independence.

This political independence was also a trademark of Germany's Bundesbank. The Deutschmark's success in the past 40 years was so impressive that all the participants in the Euro agreed to have an independent European Central Bank. This was a big step for many of them. They were having to surrender a portion of their national sovereignty. But I am certain that none of them has regretted it. The European Central Bank is doing a very good job. Inflation has remained under control in spite of the extreme rise in crude oil prices last year. Inflation is no longer a problem for Europe.

The exchange rate of the Deutschmark often fluctuated strongly against the dollar. The Deutschmarks strength lay in its internal stability. The Euro also has this stability. I am therefore convinced that the Euro will go on to gain considerably in value against the dollar.

Ladies and gentlemen,

Fifty years ago nobody in Europe would have dreamed that a good number

of European countries would exchange their national currencies for a common currency. Today this has become a reality. From the first of January 2002, it will be possible to pay with the same coins and notes in the entire Euro zone. We in Europe shall then be entering into a new era.

Let me make a bold prophecy here: in the next fifty years Asia as well will go beyond the concentration of currency reserves for the purpose of stabilizing capital markets. Co-operation in monetary policy will intensify. Perhaps in fifty years we shall see the same currency being used in some Asian countries. The advantages which Europe gains from the Euro will serve as an example and will hasten his development.

The Euro is a project which has been carefully prepared, and it is this preparation which guarantees its success. The Euro's political and economic base is more stable than that of many a national currency. The longer we have the Euro, the clearer its advantages will become. Time is on our side. And time is the most powerful ally one could imagine.