7th Symposium of Institute for International Monetary Affairs

"The Euro: Its Promise and Challenge to the World Economy"

Introductory Remarks

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Ladies and Gentlemen,

The launch of the euro at the beginning of this year will, I am sure, leave its mark on history. It is not only a major development in the process of European integration, it will also shape the monetary and financial environment in the world as a whole.

This is the first time -at least in modern times- that a group of countries has adopted a new common currency, in exchange for their different national currencies. That this change has gone so smoothly is in itself a major technical achievement. Given that the participating countries together constitute the world's second largest integrated economy, that achievement is all the more striking.

The advent of the euro means that we do at last have a genuine single market in Europe. The Economic and Monetary Union completes the European Single Market by irrevocably fixing the exchange rates between the euro area countries. It thereby lowers transaction costs and makes prices more transparent in an economic union where goods, services and labour move freely. Gradually, this will spur greater competition and innovation in the euro area.

Additional strengths of the euro area are a favourable external position in terms of assets and current account, a highly trained and skilled labour force, and a high level of technology and innovation in production. Taken together, the economic opportunities to improve growth, employment and living standards in Europe in a lasting manner through Economic and Monetary Union are enormous.

As a consequence, we expect to see greater stability. The large and prosperous European market should be less vulnerable to external economic fluctuations. The euro area, taken as a whole, has become less dependent on external demand and more on the domestic euro area economy than was previously the case in individual member states.

The fact that the members of the euro zone are committed to pursuing healthy economic policies, based on sound fiscal policies, together with the vigorous policy of the European Central Bank to achieve price stability, will ensure that we exploit fully the potential of this large and integrated economy.

However, we are aware that sound macroeconomic policies alone are not sufficient in themselves to make Economic and Monetary Union fully successful. Economic and Monetary Union has made further structural reform necessary. Governments in the euro zone can no longer ignore overdue reforms. More flexible labour markets, deregulation, and reform of the welfare state are now at the top of the agenda of EU governments. There may be stresses and strains to begin with, but eventually these changes will become the basis for a vibrant and dynamic EU economy.

We also expect to see greater competition, as greater price transparency in the European market puts more power in the hands of consumers. This will create healthier firms, drive up the general level of productivity, and create new jobs. There is good evidence to suggest that EU business is consolidating in order to be able to meet these challenges. In the first six months of this year, about 450 billion euro worth of merger and acquisition deals were done in Europe, over 140 billion euro more than in the same period in 1998.

Finally, we expect that the euro will create new positive conditions for the acceleration of economic growth. One benefit is the potential for the reduction of risk premiums built into interest rates, which, in turn, will stimulate productive investment. Another benefit is that a wider and deeper capital market in the euro area will improve intermediation between savers and investors, making it easier and cheaper for companies to raise funds for investment, and stimulate provision of capital for new ventures.

All these benefits will become more and more evident as time goes by, and I am confident that it is only a matter of time before the four members of the EU which are still outside Economic and Monetary Union (Denmark, Greece, Sweden and UK) adopt the euro as their own currency.

The euro also has an important external dimension. As the new President of the European Commission, Mr. Romano Prodi, has pointed out, “the giant stride towards economic and monetary union has introduced a major actor to the international stage –the euro- and brought with it a major responsibility for ensuring monetary stability and stimulating growth after the financial crisis of recent years”.

The EU is ready to take up this responsibility and to encourage the emergence of a genuine tripolar system based on the euro, the dollar and the yen. This implies a need for stronger and more effective international economic cooperation. The EU is open and firmly committed to such international cooperation.

This will not mean, however, that the European Central Bank or any other European institution will pressurise foreign monetary authorities to use the euro. Nor does it mean that the ECB, and I am sure Mr. Noyer will confirm this, will express views or make recommendations to other monetary authorities on their foreign exchange rate orientations or their choices for the investment of reserves.

The euro will gain ground in the international financial markets on the basis of its own intrinsic merits: a high degree of anti-inflationary credibility, durable internal stability, the setting-up of broad and deep financial markets, the strength of its economy, and the position of Europe as the world’s biggest trading economy.

It is for these reasons that the current value of the euro is not, in my view, a matter for undue concern. After all, the euro is simply behaving like a normal currency. It might well be that markets are underestimating the intrinsic strength of the euro. This may reflect the different conjunctural positions of the American and European economies, the difficulty of estimating the real value of assets denominated in a new currency, and also the background of the events that took place in the Balkans. These factors will not last long and, therefore, the relative weakness of the euro should be only a passing phenomenon.

What I said about the internationalisation of the euro is true also for the internationalisation of the yen. We welcome the measures undertaken by the Japanese government in the last year to internationalise the yen. We are convinced that an internationally oriented yen can play a relevant and positive role in the monetary and financial stabilisation of East Asia.

These measures are not intended to boost artificially the internationalisation of the Japanese currency, but to eliminate the obstacles which still exist to the yen playing its role in the international arena.

However, these measures alone will not be sufficient. As stated by the Ministry of Finance's Subcouncil on the Internationalisation of the yen, "the first and foremost prerequisite for assuring broad acceptance of the yen as an international currency is to restore and to enhance domestic and international confidence in the Japanese economy by promptly stabilising the financial system through disposing non-performing loans and by achieving economic recovery. This requires the restoration of medium and long-term balance".

Our assessment is that Japan is on the right track for the recovery of its economy and the recent economic indicators confirm this trend; however, it is clear that a lot of adjustment and structural reform are still needed before strong, self-sustained economic growth can be achieved.

I would like to conclude my introductory remarks by congratulating the Institute for International Monetary Affairs and its president, Mr. Gyohten, for having organised this very timely and relevant symposium. Since I arrived in Japan in April last year, I have felt a strong interest for the euro and the Economic and Monetary Union not only amongst politicians, government officials, businessmen and the media, but amongst the general public. This interest might be the expression both of anxiety and hope.

Anxiety, because it may convey the impression that a new economic superpower is born, and that Japan, particularly in a period of economic difficulties, risks marginalisation.

Hope, because European countries, notwithstanding their past conflicts, have been integrating and are cooperating in new ways that may be of interest for others.

Hope, also because the birth of the euro could help to redefine a more transparent and stable international financial architecture.

These hopes and fears, together with the natural interest of economic players in the implications of the euro, are helping to maintain a high level of interest in the euro amongst the Japanese people. The strong attendance at this symposium also attests to this.

The exceptional level of the panelists gathered today will make the discussion – I am sure – lively and informative. The European Commission is very pleased to be, together with the Friedrich Ebert Foundation, one of the two co-sponsors of the symposium. Mr. Joly Dixon, a senior Director of the International Economic and Financial Affairs Directorate-General of the European Commission, should have been among the panelists. However, last Friday night he was chosen by UN Secretary General Kofi Annan as Vice-Representative of the Secretary General for the Reconstruction and Economic Development of Kosovo. I hope you will understand that under these circumstances he regrettably cannot attend. I wish him luck for his new and very challenging job.

A final remark. There is one aspect of the euro which I think is too often forgotten: its psychological impact. The European Union has many achievements to its credit, but these tend to be taken for granted. The euro will –for the first time- give the Union a "face": it will identify the Union in a way which is practical and symbolic. Both for the citizens of the Union and for its partners around the world, that can only be positive.

Thank you very much.