

The Arrival of the Euro Currency: January 2002 and Beyond



Institute for International Monetary Affairs

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Institute for International Monetary Affairs

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3-2, Nihombashi Hongoku-cho 1-chome, Chuo-ku,

Tokyo 103-0021, Japan

Telephone: 81-3-3245-6934 Facsimile: 81-3-3231-5422

e-mail: admin@iima.or.jp

URL: <http://www.iima.or.jp>

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No. 11

**The Arrival of the Euro Currency :
January 2002 and Beyond**

**Institute for International Monetary Affairs
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Preface

This is a record of proceedings of the 10th symposium by IIMA, which periodically sponsors symposiums and seminars on international economic and monetary matters. The 10th symposium was held on November 15, 2001, at Hotel Okura in Tokyo, with the cosponsorship of the Delegation of the European Commission in Japan and support by Nihon Keizai Shimbun, Inc. The names of the panelists and organizers and short profiles of them are available below. (Please note that all responsibility in compiling these speeches and discussions is solely of IIMA's, as are any errors in their presentation here.) We hope the opinions and discussions presented here will be informative to those interested in euro and related matters.

Panelists :

Mr. Christian Noyer

Vice President, European Central Bank

- 1972 Advanced degree in Law from University of Paris
 - 1976 Graduated from the Ecole Nationale d'Administration
 - 1976 Joined the French Treasury
 - 1992 Director of the Department responsible for Public Holdings and
 Public Financing
 - 1993 Director of the Treasury
 - 1993-97 Chairman of the Paris Club
 - 1998— Vice President of the European Central Bank
-

Klaus P. Regling

Director-General for Economic and Financial Affairs, European Commission

- 1975 M.A. in Economics from University of Regensburg Joined the International Monetary Fund
- 1981 Economist, German Ministry of Finance
- 1985 Deputy Chief in the International Capital Markets Division/Representative in Indonesia, International Monetary Fund
- 1991 Chief of the International Monetary Affairs Division/Deputy Director-General for International Monetary and Financial Relations/Director-General for European and International Financial Relations, German Ministry of Finance
- 1999 Managing Director, Moore Capital Strategy Group, London
- 2001— Director-General for Economic and Financial Affairs, European Commission

John C. Townend

Director for Europe, Bank of England

Graduated from London School of Economics (BSc (Econ) Hons ; MSc)

- 1968 Joined the Bank of England
 - 1994 Deputy Director of the Bank of England, with responsibility for the Bank's Market operations in the money, gilts and forex markets
 - 1999— First Director for Europe, Bank of England
-

Haruhiko Kuroda

Vice Minister of Finance for International Affairs Ministry of Finance

- 1967 Graduated from University of Tokyo
- 1967 Joined the Ministry of Finance
- 1971 M. Phil. in Economics from University of Oxford
- 1975 International Monetary Fund
- 1987 Director, International Organizations Division
International Finance Bureau, Ministry of Finance
- 1992 Deputy Vice Minister of Finance for International Affairs
- 1996 President, Institute of Fiscal and Monetary Policy, Ministry of
Finance
- 1997 Director-General, International Bureau
- 1999— Vice Minister of Finance for International Affairs

Hidetada Maezawa

Director of International Affairs, Nihon Keizai Shimbun, Inc.

- 1969 Graduated from Waseda University (B.A. Commercial Science)
Joined Nihon Keizai Shimbun Inc.
 - 1983 Paris Correspondent
 - 1986 Deputy Editor/International News Department Editorial Bureau,
Tokyo
 - 1989 Editorial Writer/Editorial Committee, Tokyo
 - 1991 Managing Editor/Editorial Headquarter (London) for Europe, the
Middle East & Africa
 - 1996 Deputy General Manager/President's Office
 - 1997 Editor-in-Chief Editorial Headquarter (London) for Europe, the
Middle East & Africa
 - 1997 President/Nikkei Europe (London)
 - 2001— Director International Affairs, Tokyo
-

Carlos Ghosn

President and CEO, Nissan Motor Co., Ltd.

- 1974 Entered Ecole Polytechnique
- 1978 Graduated from Ecole des Mines de Paris Joined Michelin in France
- 1981 Plant Manager in Le Puy, France
- 1985 Chief Operating Officer of Michelin's South American activities based in Brazil
- 1989 President and Chief Executive Officer of Michelin's North American companies
- 1990 Chairman, President and Chief Executive Officer of Michelin North America
- 1996 Joined Renault
Executive Vice President of the Renault Group
- 1999 Joined Nissan as Chief Operating Officer
- 2000 President and Chief Operating Officer
- 2001 — President and Chief Executive Officer

Thierry Moulonguet

Member of the Board of Directors, Executive Vice President and Chief Financial Officer of Nissan Motor Co., Ltd.

- 1976 Graduated from Ecole Nationale d'administration
 - 1976 Joined Ministry of Finance
 - 1991 Joined Renault
 - 1994 Vice President in charge of Investor Relations
 - 1996 Vice President Controlling Investment
 - 1999 Joined Nissan Motor Co., Ltd.
Member of the Board of Directors, Senior Vice President and Deputy Chief Financial Officer
 - 2000 — Member of the Board of Directors, Executive Vice President and Chief Financial Officer
-

Ove Juul Jørgensen

Ambassador, Head of the Delegation of the European Commission in Japan

- 1967 Graduated in Agricultural Economics and Policy, Royal Veterinary and Agricultural University, Copenhagen
- 1976 Under- Secretary for European Community and International Affairs, Ministry of Agriculture, Copenhagen
- 1981 Head of Cabinet to the Danish Member of the European Commission, Brussels
- 1986 Ambassador, Head of the Delegation of the Commission of the European Communities to Australia and New Zealand, Canberra.
- 1992 Director in the European Commission's Directorate General for External Relations (relations with North America, Australia, New Zealand, NAFTA and APEC), Brussels
- 1998— Ambassador, Head of the Delegation of the European Commission in Japan

Toyoo Gyohten

President, Institute for International Monetary Affairs

- 1955 Graduated from the University of Tokyo Joined the Ministry of Finance
 - 1984 Director-General, International Finance Bureau
 - 1986 Vice Minister of Finance for International Affairs
 - 1990 Visiting Professor at Princeton University
 - 1992 Chairman, The Bank of Tokyo, Ltd.
 - 1995— President, Institute for International Monetary Affairs
 - 1996— Senior Advisor, The Bank of Tokyo-Mitsubishi, Ltd.
-

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1. Opening Remarks

Toyoo Gyohten,

Good afternoon, ladies and gentlemen. Thank you very much for coming to this symposium co-sponsored by our Institute and the European Commission Delegation in Tokyo. Thank you very much for so many of you showing up.

As you very well know, in 1952 the move for European economic integration started with the establishment of the European Coal and Steel Community and efforts for integration in Europe has already taken place for almost 50 years. After all these efforts for such a long time, in January 1999 the single currency euro was introduced, and also the euro system centering around the European Central Bank with the single monetary policy was launched. So, with all these developments from time to time, very important landmarks, European integration is moving ahead very steadily.

As a result of all these efforts, finally from January next year the single currency euro will be distributed in the real form, the form of notes and coins, replacing the respective member countries' currencies. With this the euro becomes the currency for Europe both in name and substance, and of course most probably this euro will not only remain a currency of Europe but also I believe that it is going to be a symbol of integration and stability of Europe.

However, the establishment of the euro as one of the international key currencies unfortunately came at a time when the capitalist market economy of the world had to face new challenges. With the end of the Cold War ten years ago, the golden '90s was brought about, but its prosperity seems to

have come to an end. With the end of the so-called new economy and the terrorism that took place on 11th of September, the global situation underwent a very drastic change which nobody had ever anticipated. As a result of that, the world economy had to face with double blows coming into a very tough situation.

The Japanese economy not only was able to enjoy this golden '90s but is taking another major blow from the simultaneous global recession. How we would be able to recover and resuscitate from this difficulty has now become the most important national undertaking for Japan in the early stage of the 21st century.

At this very crucial stage, it is very timely and of course very important to address the issues regarding the euro that has emerged as an international currency and how Japan should approach this new situation. With our Institute and the European Commission Delegation in Tokyo co-sponsoring and also supported by Nippon Keizai Shimbun, it is my great pleasure that this very important symposium is being held with the euro as the theme. Today, fortuitously we have top-notch experts who will be able to deal with various aspects of this theme for today's symposium. So I hope that for the next three hours you would be able to benefit from the wisdom of the speakers and also participate in our discussion very actively.

With this, I would like to conclude my greetings. Thank you very much.

Ove Juul Jørgensen

Your Excellencies, Ladies and Gentlemen. It is a great pleasure to be here today, and with so many distinguished speakers and panelists we are set to have a fascinating symposium on a fascinating subject.

In barely six weeks' time, the euro banknotes and coins will be introduced across Europe, bringing to a climax the creation of a single and integrated economy on a continent-wide scale. This is an unprecedented event in monetary history, and our speakers and panelists are here today to talk about the consequences. And the consequences are not limited to Europe. Of course, we Europeans are going down this road for our own reasons, to secure macro-economic stability within our own integrated economy, to promote greater competition within that economy, and also to make life easier for businesses and individuals. The supply side and the demand side of the European economy, both of which are more trans-national than people realize, will benefit.

But the consequences outside Europe are equally important. I think history will show that the advent of the euro ushered in greater stability overall in the international financial sphere, and certainly there seems to have been less currency speculation than there used to be. Similarly, the arrival of the euro underlines the integrated nature of the European economy, and it is foreign business including from Japan, which has been well placed to take investment and other decisions as a result. And of course, the replacement of 12 individual currencies will be an immense simplification for tourists from around the world.

So in a few weeks' time, millions of people will have in their hands the new notes and coins. Physically, they will see designs of bridges and

windows which recall periods of European history. But they will also see a symbol of the European Union itself. The story of the European integration still remains rather abstract for many people, and the euro will give it a shape and a physical reality. That cannot but have a psychological impact on how Europeans see themselves and on how others see the European Union.

These are some of the themes we shall hear about today. But I wanted also to mention the amazing complexity of having everything in place for the switchover on New Year's Day. The distribution process for the notes and coins has already started, and we shall hear about that today as well.

In fact, you can already see euro notes and coins here in Japan at an exhibition arranged in conjunction with the Bank of Japan. Individuals in Japan will be able to obtain the notes and coins from the 1st of January itself. And because of the time difference, euros might, in theory at least, be available in Japan in the early hours on New Year's Day before they become legal tender in Europe.

But more importantly, I remain convinced that, within a few days or a few weeks, the euro will be fully accepted as a normal part of every-day life. There could be no greater tribute to those who have worked so hard to bring this extraordinary initiative to fruition. We have the privilege to see some of them here today, and I look forward to what they have to say.

I should now like to leave the floor to Mr. Gyohten and let him get the Symposium under way. Thank you very much.

MODERATOR (GYOHTEN): Thank you, and we would like to start this symposium, the panel session. First we are going to invite the six speakers to give us initial set of remarks. Then time allowing we will have exchange of

views amongst the panelists, and then we are going to open the process to the floor to invite questions and comments from the floor.

Without any ado, I would like to invite Mr. Noyer to speak, Vice President of the European Central Bank.

2. Cash Changeover and International Role of the Euro

Christian Noyer

Thank you very much, indeed. And let me say, ladies and gentlemen, how happy and honored I am to be here at this IIMA-EU Symposium on the eve of one of the most important events of the European integration process.

As the previous speakers have said, on the 1st of January 2002 the euro will be physically introduced in the form of banknotes and coins, and that will mark the conclusion of the changeover to the euro which was initiated three years ago on the 1st of January 1999 when the euro was successfully introduced in the financial markets of the 12 countries now forming the so-called "euro area." And on the 28th of February of 2002 at the latest, the national currencies will lose their legal tender status, although the national central banks of course will redeem their banknotes for at least ten years after this date.

So in less than two months the euro will become a tangible currency for the 300 million citizens of the euro area as well as for travelers, tourists and professional cash handlers from all over the world. The seven euro banknotes, which range from euro 5 to euro 500, show windows, gateways and bridges. These symbols of openness and communication will help to promote a feeling of shared identity and to further strengthen ties and exchanges among the nations of Europe. But at the same time, these symbols of openness and communication are a reflection of the European attitude towards the rest of the world.

Let me take this opportunity to share with you the latest assessment on

our on-going logistical and communication efforts regarding the changeover. And I will also touch briefly on the use of the euro as an international currency, which is to some extent related to that.

But before turning to these topics, I would like to clarify the term I will use, "Eurosystem." "Eurosystem" is the addition of the European Central Bank and the 12 national central banks in the countries which have adopted the euro, and in a sense, you can compare that with the Federal Reserve System, so that the Eurosystem can be considered and must be considered as the euro area central bank.

Now, starting with the issue of the cash changeover, which is naturally the center of public and media attention at present, the introduction of euro banknotes and coins implies an enormous logistical challenge without precedent in European history. Almost 15 billion banknotes and around 50 billion coins are to be produced and distributed.

The euro banknotes are currently being produced by 15 different printing works throughout Europe, including those of a number of national central banks. At the end of October over 13 billion banknotes have been produced, which is significantly more than the 10 billion banknotes expected to be put into circulation after the turn of the year, while the remaining 5 billion banknotes are held, or will be held, as logistical stocks. The new euro banknotes include state of the art security features, which would make the euro one of the safest currencies. Well, the safety of these banknotes actually lies in the combination of different security features, several of which have already proved effective in safeguarding the national banknotes of the euro area countries.

The ECB, together with the national central banks of the euro area, is

aiming to make the introduction as smooth as possible. Therefore, we have decided that the frontloading and sub-frontloading of euro banknotes and coins could start on the 1st of September of this year. Frontloading is the advance distribution of euro banknotes and coins to those credit institutions which are counterparts of the monetary policy operations conducted by the Eurosystem. And in turn, credit institutions can sub-frontload euro banknotes and coins to professional groups such as retailers, cash-in-transit companies and the cash-operated machine industry, provided that certain conditions are fulfilled.

The frontloading of banks and retailers with both euro banknotes and coins prior to the 1st of January of next year, which is also known as E-day, is to take place in all euro area countries. Still each national central bank is free to decide on the specific dates on the starting of this frontloading and sub-frontloading in order to meet the respective national needs. And in most countries, frontloading and sub-frontloading have already started and are well under way.

The general public will be sub-frontloaded only with euro coins from mid-December onwards. Euro banknotes will be made available to the general public from the 1st of January, since we have decided against an early distribution of euro banknotes because it was deemed that the disadvantages of sub-frontloading the general public with banknotes in advance outweighs the advantages, and this was supported by the Finance Ministers of the European Union.

Of course, so far I have focused exclusively on the preparations within the euro area, but I can imagine that the cash changeover in countries outside the euro area might be of particular interest to you. As you may be aware, some of the euro area national currencies are also widely used outside the

euro area. In particular, it is estimated that between 30 and 40% of Deutsche mark banknotes in circulation are held outside Germany. On account of close trading and financial links, it is likely that a large part of these holdings will be replaced by euro banknotes. Every effort should thus be made to ensure a smooth cash changeover outside the euro area. And indeed, for the Eurosystem it is just as important to proactively prepare the international changeover as the domestic one, and to inform the markets and the general public appropriately so as to minimize costs and prevent possible disruptions.

Among other measures the ECB has agreed to allow the distribution or sub-frontloading of euro banknotes to credit institutions located outside the euro area as from the 1st of December 2001. In addition, it has been decided that, in the interest of a smooth cash changeover outside the euro area, foreign central banks can be frontloaded upon request, subject to specific terms and conditions. However, the supply of euro banknotes outside the euro area in 2001 is restricted to the banking sector and the recipients are of course not allowed to put them into circulation before the 1st of January 2002.

Now, ladies and gentlemen, of course, the logistical operations of the cash changeover are only one aspect of the introduction of euro banknotes and coins. These rather technical preparations need to be complemented by communication activities aimed at familiarizing citizens of the euro area and beyond with euro banknotes and coins. Their ready acceptance by the general public will indeed very much depend upon our ability to communicate about our money. If we succeed, we will make an important contribution towards helping to convince Europeans and citizens all over the world that Europe is not an abstract and remote idea, but something real and efficient.

The ECB has embarked on the preparation of an information campaign with the theme “the EURO, OUR money,” which is being coordinated with other campaigns prepared by national authorities and the European Commission. Our campaign is a unique and specialized one focusing on the practical aspects of the introduction of banknotes and coins, and in particular, on four key issues, the detailed visual appearance of banknotes and coins, their main security features, the denominations of banknotes and coins, and the changeover modalities. Our target is very broad indeed, and includes children, professional cash handlers, especially vulnerable groups of society and elderly people as well as minority groups from Europe and beyond. And in fact, our potential target is every person who may have to handle euro banknotes, and that’s quite a lot.

In order to meet these information challenges, we have based our campaign on three pillars. The first pillar is a partnership program. It involves groups and institutions as partners or multipliers. There are over 3,000 already, such as banks, retailers, educational institutions, tourism industry or the media, all of which are disseminating information on euro banknotes and coins to customers, clients or staff. The second pillar, the public and press relations program, was initiated on the 1st of January of this year. It consists of “press kits”, which have been sent to over 3,000 media representatives on set key dates as well as a series of euro conferences. And the third pillar is a mass media campaign which started in mid-September and is running on TV and in the press across the euro area and beyond. In addition, 200 million information leaflets have been printed for every household in the euro area, including facts on the euro banknotes and illustrations of security features, and this can be also downloaded from our dedicated website which has been launched in the 11 official Community languages.

Of course, the international dimension of the euro requires our campaign

to extend its activities beyond the borders of the euro area, so that we have indeed translated this information leaflet into many other languages, and that includes Japanese, so that you can find a Japanese version on our website. The advertising campaign will also run on international TV stations and in the printed press, and that will reach Japan. In-flight magazines will also feature printed advertisements, etc., etc., and our international partners do play an important role in that respect. So by conducting our information campaign outside the euro area, we want to share with you the confidence we have in “our money”. And should you travel to Europe for leisure or on business, then “our money” will also become “your money” for some time.

Now, ladies and gentlemen, let me add to this a few words about the last topic I wanted to mention, that is, the international role of the euro. Given the weight of the euro area in the world economy and the legacy of the former national currencies of the euro in financial markets, it is no surprise that the euro is already the second most widely used international currency behind the U.S. dollar. The first question I wanted to mention concerns the ECB’s policy stance to this international role of the euro. As you know, in the past, some countries have adopted an active stance with regard to internationalization of their own currencies by either fostering or hindering its international use. Besides political considerations, a promotion strategy was sometimes motivated, for instance, by easier financing of balance of payment deficits, for instance, or improved efficiency of the domestic financial markets through positive network externalities and stronger competition. By contrast, there are also examples in history of countries which have resisted the internationalization owing mainly to increased uncertainties about the conduct of economic policies in general, and monetary policy in particular.

For its part, the Eurosystem has adopted a neutral stance. This means that it neither pursues the internationalization as an independent policy goal nor does it attempt to hamper its use by non-residents. There are two main reasons for that.

The first is that we believe that the use of the currency as an international currency is and should remain the outcome of economic and financial developments and policies, and that must be the outcome of decisions of market participants in the context of increasing market integration and liberalization. Given growing globalization, policy makers, we believe, cannot affect directly the internationalization of the currency, and of the euro, in particular. Of course, this consideration is consistent with the objective of European authorities to promote efficient and fully integrated financial markets for euro-denominated assets and liabilities. Reaching this objective, which is domestic objective, may have, and will probably have, the indirect effect of making the euro more attractive to international borrowers and investors. In the same vein, I believe, that a credible monetary policy focused on internal price stability is also a factor enabling a currency to develop an international role. And finally, other European policies such as those concerning regulatory or legal arrangements, the reduction and management of public debt and the enlargement of the EU, are also likely to have some indirect bearing on the use of the euro by non-residents.

On the other hand, from a monetary policy point of view, the impact of the internationalization of the euro on monetary policy should not be overemphasized. We believe our monetary policy strategy, instruments and procedures are fully able of internalizing and accommodating the implications of the international role of the euro.

Now very shortly on the evidence of the international use. Current

trends, which are the results of the market developments and policies, can be summarized as follows : The euro's international role has increased substantially with regard to two specific functions. First as a financing currency, the share of international issues of money market instruments and bonds has increased substantially from around 16% at the beginning of the euro to now respectively 24 and 31% of total international money market and bond issuance. As an investment currency, i.e. a currency of denomination of financial assets, the share in the portfolios of major global asset managers, we believe, was around a quarter of the total at the end of June of this year for bond holdings and 22% for equity holdings.

As an anchor currency, the euro has largely inherited the role played by some of its legacy currencies, mainly the Deutsche mark and the French franc, and overall the euro plays a role as a peg in 55 countries outside the euro area. Arrangements adopted range from very close links, for instance, formal entitlement to use the euro as legal tender, or purely unilateral 'euroisation' and currency boards, to looser forms of anchoring like crawling fluctuation bands and managed floating. And all the countries using the euro as an anchor are located, or most of them, located in the so-called euro-time zone, that is, including Europe, the Mediterranean area, the Middle East and Africa.

As an intervention currency, the role is of course related to its function as an anchor currency, but all the countries may also use it for intervention purposes, in particular in the G-7 context, as was demonstrated in the past.

And with regard to other functions, the use has remained more limited, like the function of a vehicle currency in the foreign exchange market, although it accounts for close to 20 percent of global turnover, and as a reserve currency, the euro's share more or less is comparable to what was

reached by the legacy currencies such as, Deutsche mark, French franc and Dutch guilder, in particular prior to the introduction of the euro.

Ladies and Gentlemen, I should come to a conclusion, and I have attempted to be very short in doing that, and I would wish to conclude simply by paraphrasing the motto of our information campaign: "Our" money can become "your money", insofar as you so wish. Thank you for your attention.

MODERATOR : Thank you very much, Monsieur Noyer, for your succinct but very exhaustive account on this historic task of the currency changeover and also the future role of the euro as an international currency. I was very much interested to hear when you have said that the European Central Bank's stance toward the internationalization of the euro is neutral. I am sure many of our audience would like to follow up that point probably during the discussion session. Thank you very much, indeed.

Now I would like to call upon next speaker, Mr. Carlos Ghosn, CEO of Nissan Motors, whom I don't need any introduction. And Mr. Ghosn, I hope, will tell us his and his Company's view as a leader of the international multinational enterprise on the introduction of the euro and their responses to that. Mr. Ghosn, please.

3. The Euro and Companies' Investment Strategy

Carlos Ghosn

Thank you, Mr. Gyohten. I am going to try to give you a point of view of practitioners. Obviously I am not going to be very technical, I am going to talk about mainly how business sees the importance of the euro and how in everyday decision, planning strategy, the euro may affect our business as a player in euroland, and as some companies interested in the development of the euro.

Obviously we are today living in a period of high volatility in the market, and I am sure it has always been said that at the same time we have high volatility in the market, we are facing very high level of competitive activities. So we have to constantly adapt our strategy, we have to do it constantly and we have to do it quickly. We have to constantly innovate on our action plans to make sure that we will be able to overcome all the hurdles that are facing us in a market like the European market.

So, when this volatility of the market is in a certain way doubled with volatility of exchange rates, there is a natural tendency, I am not saying company by company but overall, to a deceleration of the economical development, and a deceleration of the wealth creation. So it's obvious that we welcome not only the euro but the fact that the euro becomes something more concrete, more palpable, and uniting all the different people existing in euroland, because we think that there is a lot of benefits that I am going to try to pinpoint today from the business point of view.

On top of this, we have a wish, and this wish is obvious, that many of the European markets which remain outside euroland will hopefully join the

euro, because we think that this is in the best interest, and we can go concretely into this, the best interest of consumers, the best interest of companies, and ultimately the best interest of the different countries. Let me try to explain why in our point of view this is of the best interest of companies. I am sure that there will be more development about why it is the best interest of consumers and why it is in the best interest of companies. So I am going to position myself in the point of view of businesses and companies.

There are many reasons; I am going to illustrate each one with a concrete example. The first and most important element is the fact that the euro, the validation of the euro, the extension of the euro, the fact that the euro is partner of the habits of the European countries, gives us increased visibility. You know that mid- and long-term planning is something extremely important for companies. If we don't have a solid, explained, deployed, shared, mid- and long-term plan, there is no way we can prevail in the future. So the mid- and long-term planning has to be done very concretely and shared inside the company, and it's obvious that the euro helps us whenever we are approaching the different markets in Europe to have a higher visibility in our planning process. This is one example. I can give you many other examples where we have higher level of visibility.

The second one that the euro brings on the table is an increased transparency and an increased understanding of what's taking place in the markets. As you know, Europe is already a very complex market. It's a complex market for Europeans. So you can imagine how complex it is for non-Europeans. In the car industry, as you can see today, practically in the last year, only the European car manufacturers were able to be profitable. And all the non-European car manufacturers, when I say "non-Europeans" I am obviously talking about the Japanese but I am talking also about the

Americans and other people who are competing in European markets, have been struggling with their profitability and will continue to struggle with their profitability even though they are based in Europe, and a lot of plants, sources of supply and their teams are based in Europe. This is not due to the fact that the sourcing is coming from outside Europe. This is due to the fact that there is a lot of difficulty to understand the complexity of the European market. And it is true that the fact that now we have one currency gives a much better understanding of the European markets and the mechanism of the European markets, a much better understanding about what's going on. We are able today to better understand our strengths and our weaknesses, and we are able to elaborate action plans to overcome the obstacles that we are facing.

The third element is about the acceleration of development. It's obvious that we are in a situation today to make better decisions in Europe. When you are in a situation where you have lack of visibility, lack of predictability, lack of understanding what's going on in this very complex market, in a certain way it slows down the decision-making, in a certain way it pushes you to have a strategy which is much more conservative, much more defensive, than other ways. High level of visibility and better predictability will allow you for more audacious entrepreneurships.

Finally I would say that the euro helps in a certain way higher level of investment and a higher level of accountability. Let me give you a couple of examples. First, in terms of investment, and especially foreign investment, there is no doubt that the euro is helping and will be helping more foreign investment to be made in the euroland. On the other side, in terms of accountability of management, some companies struggling in the European markets have in fact to rely on the accountability of their own management in the European markets. But when you have outside factors, like, for

example, foreign exchange rate playing and influencing positively or negatively your performance, this accountability of management, which is extremely important for any company, is a little bit diluted because you don't know what you can make your management responsible for and accountable for. We will come back a little bit later on some specific cases of the performance of Nissan in the European market.

So I have no doubt that the euro is becoming more and more a strong currency and a reliable currency, this will help significantly the increase of investment in the euroland, at the same time I think that the profitability of companies would increase, and more importantly, it will be more stable and more predictable. But in a certain way, the best way to measure how important is a currency or how important is a factor in the economical development is to try to think as if this element did not exist. Let's try to imagine today that there is no euro, and in fact, we don't have to use a lot of imagination for this, because you know that there are some countries today in the European market which are not participating to the euro, and let's try to analyze what are the consequences that companies are facing because of the existence of foreign exchange risks.

In the case of Nissan, I would say very simple figures and very simple illustration that in the last two years, the fact that our operations were not all concentrated in the euroland cost us 200 million euro. This is a very straight and simple calculation. If we would have sold the same cars, had the same activities, all of them in the euroland, we would have been 200 million euro richer just for the last two years. This is obviously due to the fact that we had to face the variability of exchange rate between the pound and the euro from one side and obviously the euro and the yen from the other side.

So, how did we react to this? We reacted to this by trying as much as

possible to go for the most obvious and the most urgent task, which is transferring as much as possible of our sourcing to the euroland. Today we have manufacturing capacity which is 70% based in the U.K., 30% based in euroland, while 70% of our sales are in the euroland, and 30% of our sales are in the U.K. And the most obvious way to try to react to the evolution, or unfavorable evolution, of the exchange rate is to try to go for more sourcing in Europe.

Just to illustrate this, let's take one of the most popular cars we have in Europe, which is Micro. Micro is a sister car of March in Japan. The present Micro, which is going to end its life next year giving substitution to the new Micro, the present Micro has in fact 75% of its sourcing in the U.K. The next Micro, for which we have invested recently, will have 75% of its sourcing in Europe. You can imagine the kind of shift of activities described affects suppliers, just because where they are, whether these suppliers are based in the U.K. or whether these suppliers are based in the euroland.

You know fundamentally no company wants to be successful because it's lucky. Obviously, no company wants to be unsuccessful because it's unlucky. We don't like so much elements which are outside of our reach, and one of the elements which is outside of the reach of a company is the evolution of foreign exchange rates. We want to be successful or unsuccessful, because our products are powerful, because they are innovative and because they are attractive. And we accept the negative impact coming from the fact that our products are not so much attractive or are not so much innovative. This is part of the game. We want to be successful because our QCD performance, quality, cost, timeliness of delivery, responsiveness, is adequate to customer expectation, or even better than customer expectation. And we accept the fact that we are not successful because our QCD is not in line with customer expectation. But we don't like so much when there are

some elements which are totally outside of our reach, which are having a major impact on our bottom-line and our profitability, and that we cannot influence the evolution of these elements.

So, just to conclude, and I know that during the debate there will be more exchange of opinions based on real life in Europe; just to conclude I would like to say that Nissan, and I am sure a lot of Japanese companies, welcome the euro, welcome the fact that the euro is becoming a strong reality, would welcome a lot the stability of the euro compared to other foreign exchanges, and obviously our best wish is the fact that the euro will not stay within their geographical borders in which they are today but would extend to other big players in Europe.

Thank you for your attention.

MODERATOR : Thank you very much, Mr. Ghosn, for your very forceful, as usual, arguments, about the value and the benefit of the euro from a practical businessman's point of view. As I informed you, unfortunately, Mr. Ghosn has to leave now, but Nissan's CFO, Chief Financial Officer, and Executive Vice President, Mr. Moulonguet, will stay on with us and join our discussion. Thank you very much, Mr. Ghosn.

Now I would like to call upon our next speaker, Mr. Klaus Regling. He is Director-General, Economic and Financial Affairs, at the European Commission.

4. The Euro : Achievements and Challenges

Klaus Regling

Thank you very much, Mr. Chairman.

Ladies and Gentlemen. It's a pleasure for me to be here today and to give you the view of the European Commission on the euro. I also want to thank the Organizers for inviting me, but also I thought it was very good that you invited Mr. Ghosn and that he had the opportunity to present the view of the businessman. It actually makes my life much easier because it's probably much more convincing if business people tell you about the benefits of the euro than when a bureaucrat like myself talks about that.

Given that we had this view from the business side and that Christian Noyer gave a broad background on the euro changeover, let me focus my remarks on three points. The first is that the euro has already delivered important macroeconomic benefits, and will do so also on the microeconomic level in the future. Secondly, I will turn to some of the challenges and opportunities facing the euro area, including the policy response to the current economic slowdown. And finally, I will mention some of the implications of the euro for countries outside the euro area.

So first, on the benefits of the euro from a macroeconomic side. To understand those macroeconomic benefits we need to go back to the early 1990's. At that time much of the European economy was characterized by high inflation rates and high budget deficits. When the Maastricht Treaty was ratified in 1991, the euro-area inflation rate in what is now the euro area was about 4%. The average budget deficit at the time was 5.5% of GDP. In the subsequent years of preparation for Monetary Union, this situation changed

dramatically. A new culture of economic stability has been established in Europe based on a strong commitment to low inflation and budgetary discipline. The euro-area inflation rate fell to close to 1% in 1998 and 1999, then after that, mainly due to a surge in import prices, headline inflation rose to 2.3% in 2000, but the underlying or domestically generated inflation remained lower. The euro-area budget deficit in 2000 was below 1% of GDP. The benefits have been evident. The euro area enjoyed high growth and strong employment creation in 1999 and 2000; more than 5 million new jobs were created during these two years, before the worldwide deceleration in output growth this year.

To a large extent, these macroeconomic improvements were being felt already before the launch of the single currency. However, it should not be forgotten that a key contribution of the euro has been the removal of the most important remaining barrier in the EU single market, the co-existence of multiple national currencies. With the euro in place, member states have now started to reap the benefits also on the microeconomic level. First, the euro is bringing increased price transparency and more intense competition in the marketplace. This in turn leads to a more efficient allocation of resources, and eventually lower prices for goods and services, to the advantage of all European citizens. Second, by reducing the burden of managing exchange-rate risk and by eliminating it within the euro area, the euro has lowered transaction costs for financial services of companies and individuals. And we have just heard how important it is for businesses to have stability for the long-term planning and how important it is to eliminate the exchange rate risk. Third, there are now greater opportunities for financing and investing in the deeper and more liquid euro-denominated financial markets. The pace of progress in this field has surprised many observers. European money markets, where monetary policy operations take place, are almost completely integrated. Securities markets have become much broader and more liquid.

Moreover, the euro has triggered a significant restructuring and consolidation of the financial sector in Europe. More integrated and efficient capital markets and a stronger financial sector improve the allocation of capital, and hence increase the growth potential of the euro area economy. The new financing opportunities offered by these developments are particularly important for small and medium-sized enterprises, which in Europe account for more than 60% of total employment.

These remarkable achievements do not mean that everything is perfect, and we do need to remain vigilant. The shift to EMU has created a new economic entity whose day-to-day economic management is highly demanding. In addition, EMU is in constant evolution. The reforms introduced by the Treaty of Nice will prepare the Union's institutional framework for enlargement, and an additional inter-governmental conference will be convened in the year 2004 to deal with the post-Nice agenda. As far as EMU is concerned, the economic policy framework in which the various actors at national and euro level interact has performed well so far, but with the passing of time and the accumulation of experience, it will become possible to identify areas for further improvement.

Second, it also applies to the geographical composition of EMU. There has already been a first enlargement from 11 to 12 countries when Greece adopted the euro on the 1st of January of this year. Further enlargements to current or future EU member states will occur in the future, although I wouldn't go as far as Mr. Ghosn was saying that as many countries as possible should join as quickly as possible. I am sure we have an opportunity to talk about that.

While keeping in mind these medium-term challenges, the most pressing issue which we face at the moment is to find the correct policy response to

the present difficult economic situation in the global economy. Even before the terrorist attacks in the United States in September, during this year the unpleasant combination of decelerating output growth worldwide and until recently accelerating inflation was proving a tough test for EU policy makers. Only six months ago we were expecting GDP growth rates in 2001 of 3.5% for the world and 2.8% for the euro area. Now we are looking at growth rates below 2.5% for the world and around 1.5% for the euro area for this year. While there is hope of a growth recovery in the course of 2002 following the events of the 11th of September, uncertainty surrounding future developments are very high, and business and consumer confidence has plunged.

What is the appropriate policy response to this dramatic shift in the economic outlook? The ECB started easing monetary policy in May, as inflationary risks began to diminish. Inflation, while still above the 2% ceiling of the ECB's definition of price stability, is falling rapidly. It has fallen from 3.4% in May to 2.4% in October. Lower oil prices, a more stable euro exchange rate, and lower demand growth have all contributed to improving the outlook for price stability.

Fiscal policy is also providing support to the economy through tax cuts implemented early this year by several euro area countries, which amounted to about half percent of euro area GDP, and fiscal policy is helping through the working of the automatic stabilizers. Additional discretionary fiscal expansion would not be desirable. Past experience tells us that discretionary fiscal policy is not an efficient stabilization tool. It can easily become pro-cyclical, and moreover, can be counter-productive if it were to jeopardize the soundness of public finances which has been regained in Europe during a decade of considerable political efforts. And too high a deficit could also lead to a rise in long-term interest rates. I know the Japanese experiences are a bit

different.

In these difficult circumstances, the euro is contributing to limiting the consequences of the downturn in the international economy for Europe. In support of this view I would point to the following : First, thanks to the adjustment carried out in the 1990's, the economic fundamentals of the euro area are sound. There are no major imbalances in either the public or the private sector in Europe today. Macroeconomic stability provides a favorable climate for investment and consumption. Second, within the euro area we are no longer exposed to damaging intra-European exchange rate tensions which in the past often aggravated the consequences of negative external shocks. Not only has this factor been eliminated but euro area countries have now strong incentives to coordinate their economic policies so as to find the most appropriate policy response for the area as a whole.

Beyond carefully managing macroeconomic policies, it will also be crucial at this juncture to maintain the momentum for structural reforms which aim at raising the growth potential of the European economy. EU countries have certainly seen some progress in this field in the last decade. Compared to the 1970's and 1980's, many distortions have been removed or reduced. The direct involvement of the state in production has fallen as a result of extensive privatization programs. The EU single market program has fostered liberalization and introduced competition in previously protected sectors, for instance, telecommunication, energy and transport. The European economy is now supported by a more efficient and robust financial sector, even in labor markets, traditionally rigid in continental Europe, there have been some moves towards more flexible working arrangements. The euro has accelerated some of these changes, for instance, by acting as a catalyst for the integration of financial markets and by stimulating reforms in product, services and labor markets.

However, despite this progress there is a wide consensus in Europe today that we need to do more. Most estimates of the potential annual growth rate for euro-area GDP are around 2 to 2.5%. Even after years of expansion, the unemployment rate remains unacceptably high, around 8%. The slowdown this year, driven largely by external shocks, comes as a strong warning signal that our economies do not have sufficient internal dynamism. For these reasons, structural issues remain at the top of the EU economic policy agenda.

To achieve the best possible management of all these issues, we will need to periodically review the framework for economic policy coordination in Europe on the basis of our experience. In a communication issued last year, the Commission proposed strengthening economic policy coordination within the euro area by reinforcing the analysis of the economic situation and the policy mix at the euro area level, increasing the transparency of the process and introducing some modifications to the working of the institutions. However, I would like to stress that the growing interest in the aggregate euro area dimension does not come at the expense of the country dimension. The Commission has a specific responsibility for the surveillance of individual countries' economies. We attach the highest priority to this duty, as in our view the proper functioning of EMU depends crucially on the pursuit of appropriate economic policies at the national level.

Before concluding, let me add a few remarks on the implications of the euro for countries outside Europe, that means including for Japan. I am convinced that the euro brings benefits not only to the euro area but also to third countries. First, as we have seen, the euro reinforces macroeconomic stability and growth in the euro area, which is the second largest economic and trading block in the world. This constitutes an evident advantage for our trading partners. Secondly, the emergence of the euro as the second most

important international currency, backed by increasingly deep and liquid financial markets in euro-denominated assets, has opened up new possibilities for diversifying investment and financing sources. In particular, foreign borrowers have readily exploited the possibility to tap new sources of financing. International bond issuance in the euro area has increased dramatically with euro-denominated issues now almost on par with dollar-denominated ones. Thirdly, the euro, by reducing the number of participants, implies a simplification of the international monetary system which facilitates international cooperation. Fourthly, Europe has a 50-year history of successful economic and political integration. Without this record of close cooperation, Monetary Union and the euro would not have been possible. Every economic region is of course different and has its own history and traditions. Nevertheless, European integration may provide a model for achieving closer economic and political cooperation in other parts of the world including in parts of Asia.

To sum up my assessment of these 34 months with the euro is certainly positive. The euro has helped changing the economics culture in Europe towards one favoring economic stability. It has improved the resilience of the euro area economy to external shocks by eliminating internal exchange rate tensions. It has stimulated beneficial economic policy coordination at European level. Perhaps less noticeable, the euro is having a deep impact on the working of our economies also on the microeconomic level. As a result, the euro area is now a much stronger economy with sounder fundamentals than it was ten years ago.

I have also pointed to several challenges which we need to overcome to fully grasp all the opportunities created by the single currency. Some of the issues that lie before us are vast and complex. Yet I am convinced that the same constructive spirit which has allowed the introduction of the euro will

enable us to address the challenges that lie ahead, including limiting the negative consequences of the economic slowdown and ensuring an as smooth as possible changeover to euro banknotes and coins. Thank you very much.

MODERATOR : Thank you very much, Mr. Regling, for your very comprehensive and accurate assessment of the impact of the euro's introduction. I was very much interested about your comment on the importance of the national policy coordination, because on the one hand you talked about increased transparency, reduced exchange risk, all of which indicate that Europe is more and more integrated. But at the same time, you emphasized the importance of policy coordination which presupposes the different national policies. I think this may be also another point for interesting discussions later. Thank you very much, indeed.

Now, our next speaker is Mr. John Townend, Director for Europe, at the Bank of England.

5. The Completion of the Euro as a Currency : A UK Perspective

John Townend

Thank you very much, Mr. Chairman. Good afternoon, ladies and gentlemen. It's a great pleasure to be here again in Tokyo and to have been invited to speak as one of the European contributors to this Symposium on the euro. It's perhaps not immediately obvious why there should be a UK intruder to this event, but I hope that I can contribute a perspective from the UK, a country which is a full member of the European Union but clearly not at this point in time a member of Economic and Monetary Union. What I thought I do is to speak first briefly about the implications for the UK of the completion of the euro as a currency, and then to speak about the wider significance of the event.

The completion of the changeover to the euro from the previous national currencies in just 30 working days' time poses undoubtedly significant logistical challenges, as Christian Noyer has already said. The three biggest, I think, are as follows : First of all, to complete the non-cash changeover, so that all bank accounts are changed to euro by the end of the year and all businesses and public administrations operate entirely in the euro from the end of the year ; second, to meet the ambition which the euro area governments have set themselves to have some three-quarters of cash transactions across the entire euro area economy taking place in euro within just two weeks from the beginning of the year, which clearly requires the notes and coin to be widely and successfully pre-distributed in the process that Christian Noyer referred to, again throughout the euro area before the 31st of December, and then the full cooperation of shopkeepers and their customers after the 31st of December, for example, in having euro only in

their change. And the third challenge, I think, is to accomplish the entire changeover without any discernible impact on prices across the euro area.

The UK will be affected in the near term by these technical changes as well ; banks are carrying out the conversion of bank accounts now, and from the new year they will be able to provide euro cash. But clearly in the UK this is essentially to meet tourist demand, so it isn't the life-changing event as it is for residents in the euro area itself.

Now, besides these immediate implications, there are also broader implications for the UK flowing from the completion of the changeover in the first wave countries. First of all, we need to learn practical lessons from the first wave in case the UK joins EMU at a later stage. And in order to do this effectively, we need to compare and contrast the approaches to the changeover that different countries in the euro area have been taking within the overall framework agreed at European level. Some countries have closely coordinated their changeover according to a common plan while in others the approach has been much less prescriptive and more informal, leaving more to the initiative, for example, of individual banks. Building on the experience of first-wave countries, we would need in a similar way to decide in the UK, for example, whether, and if so, how and when, to encourage banks to begin the changeover of their customer accounts during a UK transition period in order that they could complete this in time without undue risk.

We would also need to learn lessons from the first wave about the cash changeover. For example, is the 1st of January the best date for the introduction of euro cash? Of course, it coincides with the financial year-end for a significant proportion of companies. But it also coincides with the busiest time of year for retailers and the annual peak in banknote circulation, so there are literally huge quantities of notes to exchange. Our own analysis

shows that in the UK note circulation would be over 20 percent lower just six weeks later, so if we were to join EMU, our banks and retailers would much prefer to have euro notes introduced in the UK around the middle of February.

Again, how long should the cash exchange period be? In the first wave, as Christian Noyer has already said, the cash exchange period has already been reduced from six months to a maximum of two, and some countries intend to complete the cash changeover in an even shorter period, four weeks in the Netherlands, for example. There are of course many more detailed lessons and issues, and we will be reporting on these in the next Bank of England publication "Practical issues arising from the euro", which we will be publishing in a few weeks time.

Second, besides learning lessons in the UK from the completion of the changeover in the first wave, there may also be implications from the changeover for the euro-sterling exchange rate. All sorts of explanations have been offered over the past three years for the comparative weakness of the euro against other major currencies in the foreign exchange market. Some market practitioners say that the euro began life at too high a level, although that was not said at the time. Others say that euro-area growth has not matched the market's expectations even though euro area growth is not as subdued now as in the United States. Others point to capital outflows from the euro area to the United States ; because of the high rate of productivity growth it has enjoyed over a long period and what is termed it's more business-friendly environment. Yet, others say that it will take time for the European Central Bank to acquire fully the credibility of the Bundesbank. And now, the argument is gaining ground ahead of the introduction of the new euro notes and coins that when the euro becomes available in physical, rather than simply virtual, form, it will undergo a sustained recovery in the

foreign exchange market. We fervently hope that it will.

In the UK we have a considerable interest in this issue both because the under-valuation of the euro or the over-valuation of sterling is causing difficulties for UK monetary policy now, but also because of the question of the exchange rate for possible EMU entry in future. Insofar as economists ever agree on anything, which is a rare event, almost all would accept that sterling's exchange rate on entry would need to be substantially lower than the present rate, which is judged unsustainable in the medium and longer term, even though economists would differ over the precise margin of over-valuation. The problem for us is that if a lowering came about by a substantial depreciation of sterling's effective exchange rate against other currencies generally, it would be bound to put strong upward pressure on UK inflation with potential implications for UK monetary policy. By contrast, if the euro were to strengthen generally, so that sterling fell back bilaterally against the euro but was unchanged or even stronger against the dollar and other currencies, this would obviously have considerably less potential impact on UK inflation. Regrettably, however, any such benign outcome seems to be in the lap of the Gods rather than policy-makers either in the UK or elsewhere.

Third, the introduction of euro notes and coin may also be significant for the UK because of its possible impact on UK public opinion. So far, although the euro has been extensively used in the City of London since it was launched at the beginning of 1999, it is still very much a theoretical construct for the general public in the UK, who have a less than perfect understanding of what the single currency means in practice. They can, I think, be forgiven for that. But our Government believes that once the British public actually start to use the euro banknotes and coin as tourists, and apparently about 40 million visits to the euro area by UK citizens are

expected during the course of next year alone, they are likely to become much more sympathetic to UK membership of Monetary Union. Public opinion in the UK is vital because the Government is committed to a referendum of the British people if it decides to recommend EMU entry.

But UK policy depends first on meeting five economic tests. These are : whether there is sustainable economic convergence between the UK and the euro area ; whether the UK economy would have sufficient flexibility to adapt ; what the impact of UK entry would be on foreign investment, on financial services, and more generally on growth and jobs. The Government has said that it will make an assessment of these tests within two years of the last general election, which was held in June this year, in other words, by no later than June 2003. These tests are of course quite distinct from the Maastricht convergence criteria, which the UK would also have to meet and would be confident of meeting as well as any first-wave country did in the spring of 1998.

Let me turn now to the wider significance of the euro. Clearly the introduction of the euro in physical form is a momentous event for over 300 million euro area citizens. And clearly, as Klaus Regling has already said, the completion of the single currency will have significant economic effects, as for example prices across the entire euro area may for the first time be readily and directly compared by consumers. That is likely to result ultimately in a much more efficient allocation of economic resources. But much of the broader macroeconomic and market significance of the euro began three years ago when the exchange rates of the legacy currencies were fixed irrevocably against the euro and when the changeover to the euro in wholesale financial markets largely took place.

The euro's wider macroeconomic and market significance can, I think,

be illustrated best again in three ways by referring to the single monetary policy of the European Central Bank, the fiscal policy constraints imposed by the stability and growth pact, and the structural changes that the euro is bringing, particularly in labor and capital markets.

First, a brief word about the single monetary policy. I believe that there is a widespread consensus that the European Central Bank's actions in implementing the single monetary policy over the last three years, the interest rate decisions it has made in both directions during its relatively short life have been entirely appropriate, and certainly no one is in an informed position to second-guess the ECB. But equally, the market's view is that the communication of these decisions, and perhaps more generally of the Eurosystem's over-all guiding strategy, might have been somewhat better handled, and I am sure the ECB is aware of this.

Second, fiscal policy. In EMU, as Klaus has said, the budget deficits of participating countries are strictly constrained by the Stability and Growth Pact with penalties for infringement and strong peer pressure among euro area countries to conform with the best performing. There is a consensus that the Pact is essential to make EMU work, to avoid excessive strains being placed on the single monetary policy. It may well be that in a number of cases fiscal policies would not have been as prudent without EMU, including in the period running up to 1999 when countries were striving to meet the Maastricht criteria. But as Klaus has already said, adhering to the Pact is not without its challenges when growth is relatively weak as at present. And in a much broader sense, the institutional structures underpinning EMU and the interrelationships involved are still bedding down inevitably with EMU still in its relatively early stages.

And third, structural reform under the Cardiff and Luxembourg

processes, which is a matter for the European Union as a whole, rather than for the euro area on its own. Even though the UK is not participating in EMU, it is a full member of the European Union, like other European Member States, both contributing to and benefiting considerably from the Single European Market. As the British Prime Minister said on the 5th of November, "A single currency makes a proper completion of the single market essential." So the UK has been encouraging reform, especially of labor markets, in order to make the whole EU economy work more flexibly and to raise the growth potential of the economy. Change is not just required within the euro area. The UK itself is engaged in reform as well. I think it's too soon at this stage to form a judgment on how well structural reform is working across the EU as a whole. A key test will be at the Barcelona Economic European Summit next March. And in the meantime, the jury remains out.

Besides structural reform in labor markets, the euro has undoubtedly acted as a catalyst for structural reform in capital markets. The City of London has of course been in a good position to play a leading role in the structural development of the euro markets, because it is by a long way the biggest international financial center in the European time zone. And arguably this is the most positive and constructive contribution that the UK can make to the euro on the outside.

Let me briefly illustrate the structural changes in capital markets that have been taking place since the launch of the euro. These are not of course confined to the euro area but are relevant to all EU countries, and indeed beyond. First of all, there has been substantial growth in non-government bond issuance, which has traditionally been much lower in Europe than in the United States. Second, trading in the euro has been increasingly integrated across borders, though not yet fully in all market sectors. Over-all, the euro

market is more liquid and spreads between borrowing and lending rates are generally narrower than they were before. Third, international fund managers have begun to diversify their bond and equity portfolios away from national markets across the euro area as a whole, and even in some cases across the EU, although there may be further to go in this respect. And fourth, from the outset there has been a highly successful integrated wholesale euro payment system based on TARGET established by all 15 EU central banks, but the clearing and settlement infrastructure for securities is still highly fragmented and badly needs consolidation. However, this is mainly controlled by the private sector, the authorities are in a position at present only to encourage consolidation through market solutions.

As a result of the positive and constructive contribution that the City of London has made to the development of the euro markets and to international use of the euro, as Christian Noyer noted, the evidence continues to indicate that since the launch of the euro, London's position as the dominant international financial center in the European time zone has remained unchallenged. The most recent evidence for this comes from the BIS, the Bank for International Settlement's Triennial Survey, published last month and covering the foreign exchange and derivatives markets, where the London markets continue to be much the largest in the world.

One of the reasons that London has continued to thrive as an international financial center is because of the level playing field and balanced regulation we provide for financial institutions of every nationality and for foreign investors. The most recent demonstration of this was the friendly takeover of LIFFE, the London futures exchange, by Euronext, based in Paris, in preference indeed to the London Stock Exchange. So certainly no favoritism there. The City of London will act as Euronext's derivatives center, and LIFFE will continue to be subject to UK regulation. The

partnership between LIFFE and Euronext helps both to cement the relationship between the City of London and the euro area, and to bring about the consolidation in Europe's financial infrastructure that is needed to increase its efficiency.

So in summary, the introduction of the euro in physical form is undoubtedly a historic event and an enormous logistical challenge. We are monitoring it very closely in the UK, and we are keen to learn lessons from the experience of the first wave in case the UK subsequently joins. But the euro also has a wider significance in macroeconomic and market terms. The City of London has played a leading role in the structural development of the euro markets. And as I say, arguably that is the most positive and constructive contribution that the UK can make at present on the outside. Thank you.

MODERATOR : Thank you very much, Mr. Townend. Thank you particularly for your extremely articulate way you describe the UK position to joining the euro zone. I take it that the UK position will be cautious but not overly cautious. Thank you very much. Now, I would like to call on our next speaker, Mr. Haruhiko Kuroda, Vice Minister of Finance for International Affairs.

6. The Euro and International Monetary System

Haruhiko Kuroda

Thank you, Mr. Chairman. Our guests from Europe have already given us a detailed account about how the benefits of the arrival of the euro for the European economy will reduce the economic cost of transactions and improve productivity, as well as promote growth through the introduction of competition. These advantages or benefits will be manifested in an even more concrete way starting next year, with the introduction of euro banknotes and coins.

I would like to speak on three subjects today. First, I will talk about how the post-euro-introduction international monetary system should be ; second, about the yen's internationalization and future prospects ; and, third, about the role of the euro in relation to Japan and Asia.

First of all, how should the international monetary system be constructed after the euro launch? The euro represents a major single currency area: its GDP accounts for 20 percent or more of the global GDP, and its population of 300 million is greater than that of the United States. This means that instead of the single, dollar-based currency system that we have had, we may see a transition to a tri-polar-or three-currency-monetary system, centering on the dollar, the euro, and the yen.

Looking at the situation of the dollar, which is currently the international currency, in the 1990s it mirrored the strong performance of the American economy, improving its status as the international currency. It accounted for more than 50 percent of international bond issuances, and accounted for close

to 40 percent of banks' external-assets portfolios. Almost 90 percent of foreign exchange transactions were conducted in dollars, which also accounted for about 65 percent of foreign reserves.

In comparison, the euro accounted for 30 percent of bond issues, and of banks' external-assets portfolios the euro was 30 percent or so, coming close in its position as the key currency against the US currency in capital transactions. In foreign exchange it was slightly less than 40 percent, but in terms of its reserve currency role it was only 12 percent of global reserves.

What about the yen? In international bond issues and banks' external assets balances, the yen accounted in both cases for less than 10 percent. In capital transactions, the yen's share declined in the 1990s, but in the foreign exchange market or foreign exchange transactions in 2001, transactions involved the yen up to 23 percent of the time, which is an improvement compared to the yen's 20 percent usage three years ago. For trade settlement purposes, the yen's share as the settlement denomination for Japan's exports to Asia has been increasing in the last three or four years. Today, yen settlement is about 50 percent, exceeding settlements made in the US dollar. In terms of the global foreign reserves it has been stabilized at a 5 percent level in the last three or four years. With the decline in Japan's economic performance, the yen's status as a key currency has been declining, but in the last few years—especially in Asia—there were signs that it was once again the currency of choice by many.

This is not a coincidence, because until the 1997 financial crisis many Asian countries' currencies were pegged to the US currency. Today, most have abandoned the system of dollar pegging, because they found out that pegging their currencies to the dollar exposed them to more foreign exchange fluctuations than otherwise. Their foreign exchange policy has become more

flexible, meaning that companies operating in Asia no longer have to stick to dollar-denominated trade or transactions. They can export automobile parts, for instance, to other Asian countries denominated in yen instead of the dollar.

The yen has thereby gained a foothold in improving its status as a key international currency, although as of now one cannot say that there is symmetry amongst the three currencies in their respective roles as key currencies. Now that we have the arrival of the physical euro, one wonders what the future will hold for this potential tri-polar monetary situation. For several reasons, the launch of the euro will at least give us a clear, effective objective of creating a stable tri-currency monetary system, with the dollar, euro, and yen serving as international currencies.

I say this because three economic areas, whose core economies are the US, Europe, and Japan, co-exist in the world. Of course, there is an increasing interdependence among them, such as in their capital markets. The relationship found in different economic areas is increasing, but amongst these three economic areas the fixing of foreign exchange rates or creating a single currency will probably still not be advisable, or even desirable. For the time being, therefore, it will be the dollar, euro, and yen which will be used concurrently and in parallel, which will have to be the inevitable way that the monetary system has to go forward.

Having said this, I would like to turn to my second subject, which is the internationalization of the yen.

For ten years or more now, Japan has suffered from low growth, and its economy has lost the confidence of the people. The first task must be to regain our credibility and confidence. This requires the promotion of the

disposal of non-performing loans, or an increase in the recovery of the functioning of the financial systems, and the promotion of growth through structural reforms, such as by deregulation efforts. These are indispensable.

For the yen to serve as an international currency, it is vital that we enhance the efficiency of its foreign exchange and capital markets. In the Tokyo foreign exchange market, for instance, yen-dollar direct trading is conducted very frequently, but direct yen-against-euro exchange trading is only one-sixth of the volume of dollar-yen direct transactions. Therefore, direct exchange and direct trade transactions between the euro and the yen must be promoted further. For this, it is important that there be a functioning capital market, to which end we have taken such actions as market placement of financial bills and introduction of five-year coupon JGB bonds, and made improvements in terms of the exemption procedures for withholding taxes for non-resident investors in JGBs when they receive coupon payments. Further improvements are desired in terms of paperless transactions for securities settlements, and simplified issuing procedures of Samurai bond transactions.

Lastly, I would also like to talk about the euro's role and implications for Japan and Asia.

Once again, to achieve a stable three-currency monetary system, in view of the importance of the euro economic area in global economic and trading regimes, and also in terms of the euro's role as an international currency, it is important that the euro's value be stabilized, and that its status be elevated even further. The ECB's policy focus on price stability, and the Growth and Stability Pact-based on which fiscal discipline will be maintained-are efforts which work to promote the credence and confidence that people place in the euro.

Ever since its launch, however, the euro has been undervalued against the fundamentals that it is supposed to represent. With the global deceleration in economic activities, I think it important that proper macro-economic policies be implemented, and that structural reform be made to promote growth, so that the European economy can recover. That will heighten the appeal of the euro as a currency, and will help stabilize its value, and indeed add to the euro area's appeal as an investment target.

As the euro's position improves with these actions, this is actually a desirable thing for the yen as well, because a tri-polar international monetary system will be different from the one in which we had the dollar as the sole currency. Now all three currencies will have roles of their own.

In his opening statement Mr. Gyohten mentioned the European integration process which began 50 years ago. Having gone through the experience of introducing the Snake system, or EMS, after the process of trial and error the common currency euro was launched in the 1990s, and in 2002 actual bank notes and coins will be distributed into circulation. This is a great lesson for Asia, I believe. After the 1997 financial crisis, various cooperative efforts have been made by Asian countries to stabilize the currencies of the region. The European experience tells us that such cooperation is indeed beneficial. Furthermore, as we heard from the European speakers already, we can learn from the surveillance methods being used in the EU, or the efforts made to integrate the securities markets of respective countries. These are specific examples from which we can learn a great deal.

There is the Chiang Mai Initiative in Asia, and we are strengthening the policy dialogue amongst Asian countries, to address the need for regional cooperation. So that we can work on financial cooperation and stabilization of Asian currencies, I think we can learn from the experiences, efforts, and

exertions that the Europeans have gone through toward the formation of the euro, a process which is still continuing. Thank you.

MODERATOR : I would like to thank Mr. Kuroda for his contribution. This was particularly helpful, because the view was given from someone outside of the euroland. Because this has helped us to see what roles the euro can play in the world and what roles to be expected of Europe.

Last but not the least, we have a gentleman from Nihon Keizai Shimbun. He is the Director of International Affairs. Mr. Maezawa would speak somewhat from a different vantage point of view as a journalist.

7. The Euro and European Citizens

Hidetada Maezawa

As I stand before you or rather as I have entered into this room, I was surprised, because so many people had gathered. I did not ever dream that I would be facing such a big audience. The secretariat said, “Maybe four hundred.” 400 is a big number indeed, an extraordinary figure. My company is a frequent organizer of symposia and I have often worked as a moderator. I have been in this room many times. So, I can say with my own experience that it is such a hard work to attract such a big audience. My experience suggests that usually the audience will be of a size of 200 and there will be empty places here and there like a half-broken comb. But today the room is packed and you are all listening to the speeches with so much attention and care.

I have been involved in European matters for many years. The euro for many Japanese is something not familiar. It is not a very attractive or fashionable subject for many Japanese. I have a daughter, a high school student. I asked her, “Do you know Euroland?” She said, “What? Are you getting senile? For us, Euroland is somewhere we have visited twice when we used to live in London and Paris.” Her Euroland was Euro Disneyland. Yes, I had visited the park a couple of times. A girl who was born in Paris and lived in London, when she hears euroland, links that to a theme park and not a currency. So, this subject is not a very glamorous subject, maybe. But still such big and distinguished guests have gathered. Therefore, I wish to share three journalistic views vis-a-vis the euro.

Mr. Gyohten earlier stated that being a journalist I must qualify myself as far less an expert in terms of the subject. So, mine is a general view held

by an average citizen. So, maybe I should start as a view of a traveler. Then I would also like to look at this issue from the point of competition, price competition, industrial competition, and business competition. And last I would like to spend a few minutes to say a few words from the cultural point of view.

I am sure many of you have visited overseas maybe for pleasure and for business. I, too, have visited Europe many, many times. I have been a resident in Europe. I have lived in Paris and also in London, and have visited many different European countries. Of course, one thing we could not avoid in Europe was the exchange of money. We used to carry cash when we were on a business trip. It was either the TC or cash. That was a necessity for a business traveler. You would go to London, Paris, Madrid, Rome, and Athens. I have visited many capitals. Nihon Keizai Shimbun, when they order an employee to make a business trip, they make sure that they achieve the highest cost-effectiveness. Efficiency is the rules of day. So, one business trip must at least cover five different countries.

When you land on Heathrow London, the first thing you do or you stop by is the exchange within the airport. When you come to Charles de Gaulle in Paris, you have to go to CHANGE, and if you go to Rome, at the Leonardo da Vinci Airport, you have to stand before CAMBIO.

If it is in England, you have to change into sterling pounds, in France into French francs, and in Italy to change into Italian liras. It is not an easy task. You have sterling pounds, but you may run short of cash and so you have to go to a hotel cashier or some other exchange to get more local currency. Of course, you can use credit cards. Credit cards are very useful. But if you are making small amount shopping, you can't use credit cards. So, cash is of a necessity. So you have to seek the services of the exchange.

You go to the UK, change to sterling pounds. Fine. But what happens if a lot remains? If you go to France, then, you have to change the sterling pound into French francs. Also you have the dollar cash. So you change that into French francs. If you go to Italy, then those moneys will have to be converted into lira. So, in the end you have a whole collection of currencies of all the countries.

And of course, upon your return you have to do the expense report. That alone will take one day of deskwork. I have to write, of course, reports being a journalist. So, what I used to do is to do the expense reports in the airport lobby or during the flight. Nevertheless, this going through the exchange has been the very troublesome experience.

Let me share my experience I had with a gentleman in France. It was a long time ago. A mathematician and physicist named Blaise Pascal was also a philosopher. So, Pascal appeared on a French bank note, which was of the highest denomination. The counterpart would be Prince Shotoku or Yukichi Fukuzawa¹. Pascal used to appear on a banknote at the highest denomination. In those days when I was a student in Paris it had the value of about ¥30,000. But because French franc lost its strength vis-a-vis the yen, it is only about ¥10,000 worth today. But it still is of the highest denomination.

I still had a few Pascals. I took them with me to France. I thought I didn't have to change the money because I had Pascals, the big money. A few of them. So I had at least ¥30,000 worth of French francs. I thought I could use them for my taxi fare from the airport to the hotel. I asked the driver to take me to a hotel in downtown Paris. When I arrived in Paris, I

¹ Prince Shotoku and Yukichi Fukuzawa, both were Japanese historical figures. Prince Shotoku's picture was used for ¥10,000 note and was replaced by Yukichi Fukuzawa's picture later.

pulled out this note from my wallet, only to be told that it was no longer usable. I said, "This is great Pascal. Why can I not use this note?" "A long time ago he is gone," he said, "It is no longer in distribution." He has been taken over by a Nobel prize laureate Madame Curie. So, he said he would accept Madame Curie but not Pascal. "What am I going to do with this bank note?" The driver said, "Why don't you go to a bank?" I did, indeed. But a city bank would not accept it. Someone told me that even after the changeover the old notes could be used for another decade. But in any case I was absent from Paris for some years, and Madame Curie took over and Pascal was no longer usable. I still had three Pascals. I went to a bank to be told no. I asked, "Where shall I go?" They advised me to go to the central bank. Of course, as a journalist I had visited the central bank but never went there for exchange. So, I didn't really know what to do. So, I just gave up and put it back in my wallet. They still reside as a souvenir of my own memories.

It is a funny story. But Europe has many different countries and, if you visit many different countries in Europe, exchange of money is inevitable. It is not done for free. There may be differences but usually they charge 3% of commission fee. If you do that ten times, it is 3 by 10, 30%. Of course, if you do the right calculation, it is 20-some percent. But I am not a mathematician.

So, for simplicity's sake, if you change the money ten times, you would have to pay 30% of your money as commissions. If you took a million yen, and if you went to the exchange ten times, the net money you can use is 700,000, which is a big loss. Now, in the United States, where only the dollar is used, you don't have to go through that process so many times. So, for you and for my own self, the new system will be very convenient because it is a common currency. So, you don't have to suffer those losses

and Europe has become truly, truly convenient. So, personally I applaud the advent of the euro.

The second point I wish to share with you is a little more on a serious note. With the introduction of the common currency - I started to say EC but I should not. I should have said EU, because EC now stands better as the electronic commerce, but for a person from old school EC stands for European Community. Anyway, within the European Union I am sure the competition would become even fiercer. If A, B and C companies offer a product of identical nature, they will have to engage in even more fierce competition. Let me be a little more specific.

Today we have two gentlemen from Renault. Up to now Germany and France had different sets of pricing for the same Renault cars. They were indicated differently. They had different currency denominations to express the prices. But now they will have uniform expression.

I have an article from Financial Times of England. I have a list that compares prices of automobiles in different European countries. This is one year old. Now, Megan of Renault is a very popular vehicle of France. If you are to buy this vehicle in Denmark you have to pay 8,865 euro. If one euro is 100 yen, it is 886,000 yen. If you go to Ireland and buy the same model, you pay 11,084 euro, or roughly speaking 1.1 million yen. So, there is the difference of 200,000 yen for the same vehicle between the two countries.

I recall some of the speakers talked about the lack of transparency or an improvement of transparency. Ireland says 1.1 million. If Denmark says 900,000 yen, the consumers I am sure would not accept those differences. They would challenge this.

I have lived in the UK for a total of six years. Now, if I may dare say so, the price of cars in the UK is so high, very expensive. The same model Megan of Renault - I said in Denmark it was 8,865 euro. In UK the price would be 12,450 euro, very expensive. Since there is a Nissan representative here, how about the Primera of Nissan? According to the European Commission they use an index rather than the actual value. Primera of Nissan, the index in Italy is 108, Germany 123.8, France 117.5. Now, in UK it is 151.9, very expensive indeed. So, different countries have different prices.

Once the euro notes are introduced, I am sure there will be convergence of pricing, because dealers will have to compete more squarely. I am sure that would apply a downward pressure on prices. Again, if I may continue with my UK talk, you could go under the channel and take a Eurostar and go to the continent of Europe and buy Primera. Even if you paid for the traveling cost, I am sure you may be better off buying a vehicle in Europe.

Now, it was pointed out that Brits are not willing to take part in the euro. But when there is a changeover beginning next year, I am sure the UK citizens would see the implications of the euro with their own eyes. When they face the realities as a traveler or maybe through TV programs, I am sure they will be persuaded with the convenience and they would also realize the discrepancy of the prices. Probably they would be persuaded or motivated to take part in EMU. I am sure those in favor of participation would increase in number than before.

The third point is on the cultural dimension. Just one statement. The introduction of a simple currency or a common currency would allow increased flows of people, goods and capital within the European Union with the increased freedom. Of course, that mobility is not limited to intra-Europe

but outside of Europe as well. There will be increased communication between the people through direct dialogues and through other means of technology. Now, in those conversations and telecommunications, I am sure English would be the common language. We have representatives from different countries but each gentleman spoke excellent English as though it were his mother tongue. So, I am sure that English will continue to be and would become the language of communication.

But having said that, I do not believe that English would survive as the only language. French, German and Italian, I do not believe would be marginalized as local languages. To the contrary I believe the importance of such languages would only increase. I hope that during the panel discussion I can expound on this as well. Thank you very much.

MODERATOR : I would like to thank Mr. Maezawa. Yes, a very interesting point of view as a journalist, and I am sure the audience enjoyed your talk.

You referred to the very specific prices of vehicles of certain companies. Now, Mr. Moulonguet of Nissan has requested that he be given the opportunity to respond.

MOULONGUET : Thank you, Mr. Maezawa, to have illustrated your point of view with Renault and Nissan, which is another illustration that this alliance is getting more and more well known worldwide.

You have outlined the very true situation, which is the difference of pricing of cars within the European continent today. Three reasons for those differences, which show that in addition to the euro there is still many steps to complete in order to complete fully the single market in Europe. The biggest reason is the tax, because taxes are different today in different European countries. Clearly fiscal harmonization is still to be done in Europe.

It is a big project for the future. I would say very much necessary for doing business in Europe.

The second reason is the difference of regulations. The safety regulation, emission regulation, and so on in different countries. Here also there is the process of harmonization, which is going on in order to get those regulations as close as possible throughout Europe.

The third reason is the difference in competitiveness of different distribution network organizations in different countries. Here again this is the debate which is at the European level today, which is working to a new distribution system for auto for the future.

So, those are the three reasons for the pricing differences, which point out the three big elements that are not yet implemented in terms of completing the single market. Thank you very much, Mr. Chairman.

8. Panel Discussion

MODERATOR : Thank you very much. So, we have heard from six speakers. We all enjoyed the initial presentation of each of the six speakers. I am committed to have at least half an hour of dialogue between the panel members and the audience, which means that among the panel maybe we should be covering just a couple of subjects.

One is related to this price difference amongst the cars depending on the country. With the full-fledged introduction of the euro, there will be major price integration in Europe. Already many speakers this afternoon have pointed to the improving transparency or the competition becoming fiercer. On the other hand, as these developments ultimately will narrow the differences amongst the markets and the national economies of the members of the EU, in reality as we have just observed in the case of automobiles, there still exists the price difference amongst the different markets. As was also mentioned in relation to the policy coordination issues, especially regarding the fiscal policies, etc., national policies are still taking a major role. Furthermore, the issue of labor which is considered the most important issue in Europe, that is the free movement of labor or harmonization of wages amongst different countries, in other words, the structural reform in the labor market is regarded as the most crucial issue.

One point that I would like to raise this afternoon is : with the introduction of the euro, how will the integration and standardization of European market proceed further on? And the respective nations' economies and markets, how are they to move forward in the future? I would like to know how the panelists regard this movement on the one hand and how the respective countries will move ahead in relation to fiscal policies, etc., on the other. In the long process of single market creation, do you think that it is

going to be an element for the major advance in the future? Or in spite of the introduction of the euro, do you think that the euro economy and respective euro member countries' economy will continue to coexist? Why I picked up this point is because, when corporations, especially Japanese companies, intend to establish itself in Europe and be engaged in business, they will have to come up with their European strategy. The strategy should not remain as "a paper on the table" but it all relates to actual construction of their plants and also relates to how they distribute their resources.

For a company to come up with a strategy in an environment where there is one economy and various regulations established for the whole region and then in parallel there exists the respective countries' situation, I think this is a very important and challenging issue for corporate planners. So, specifically on this point I am very interested to hear the views from Mr. Regling, Mr. Noyer or Mr. Townend, if you have any observation. Mr. Regling, please.

REGLING : Okay, let me try to start. I am sure my neighbors will add to that. So, you are raising in a way the question of where is Europe going to in the future after this important step of creating the euro.

It is not very clear where we are moving to. I am sure European integration will continue. We are aware in Europe that the questions of different tax systems and different regulatory systems, as have been mentioned this afternoon, make life for outside investors more complicated. So, truly, single market would also require further harmonization of the regulatory systems, certainly.

On the tax side that is not so clear, because even in the United States you have different sales tax, different income tax in different states.

Sometimes you have to pay three income taxes. For instance in New York City you pay the Federal income tax, and New York State Tax and New York City Tax. So, it is a kind of problem that you also face in other big currency areas. So I would not promise too much on the tax side. It would be very difficult to harmonize completely the different European tax systems, because there you will really get to the roots of all the traditions, different traditions and histories in European countries. We do not attempt in Europe to harmonize everything. There is also a lot to be said for the tax competition, so that those regions and countries that are more efficient, more productive, and therefore have the lower tax rates can compete better for business and set an example for farther regions. So, tax competition can be very productive flight. The competition normally is very productive and leads to productivity gains.

But on the regulatory side I think more needs to be done. But in general again, the aim is not to give up nation states. Only what needs to be done at the European level should be done at the European level. We are fully aware that we have a fully centralized monetary policy in the Monetary Union but we have decentralized national policies, and we are convinced it will work. Regarding the areas you raised, although it may be easier for outside investors if these things were harmonized, I would argue that the Monetary Union can work very well without that further harmonization

There was one important area that was essential for the Monetary Union to work well. That was the coordination of fiscal policies. That was accomplished in the framework of “Stability and Growth pact”. That was really essential. Without that stability and growth pact, the Monetary Union would probably not work very well. This implies considerable trends for our sovereignty from the national policy making level to the supra-European policy making level. It is not easy but it is working reasonably well. The big

test may come now in the economic downturn, but I am confident that we will pass that test also. That is the core element of political unions that we have in Europe. We don't need more for Monetary Union to work. Further harmonization would be desirable from the economic point of view for business, but it is not essential for Monetary Union to work.

MODERATOR : Thank you very much. Mr. Townend.

TOWNEND : I don't think there is a great deal that I can add to what Klaus has already said. I very much agree with everything he said.

The question that the Chairman is raising is essentially a political question, and it is not one in which central banks would feel they had rights to engage. We have a division of responsibility certainly very clearly. These political matters are entirely to politicians. But I would say that it is a very strong reason why our Prime Minister feels strongly that we should become a member of the single currency at the right time and in the right circumstances. Because he does want to engage in the political debate for the UK voice to be fully heard. He feels that for that to happen we need to be a member of the Economic Monetary Union. It is a very strong reason for the UK in principle to become a member. That does not of course speak about the circumstances, about the timing and terms and conditions. But that certainly is what the Prime Minister feels. But as I say it is not an issue which the central bank would feel we should get involved.

For Monetary Union to work, Klaus is absolutely right, you need strong constraints over fiscal policy to ensure that not too much of a burden is put on the single monetary policy. But what that means is the fiscal deficit level, that the fiscal deficit should not be too great. Clearly it is limited in terms of the stability and growth pact. It does not necessarily mean that you need to

go beyond that to the harmonization of individual taxes, as some of the speakers have implied. It simply has implications of the macro rather than the micro level. Although I can see over time there will be pressures to harmonize the particular taxes as well, when it becomes evident that price differentials for the same good in different members of the Monetary Union are different only because for example of different sales taxes. But as Klaus says, that does not in the United States cause the sales taxes to become the same. So, there will be pressures in that direction but it doesn't have the implication that some speakers have drawn.

MODERATOR : Thank you very much. Mr. Kuroda, you wanted the floor. Please go ahead.

KURODA : The two previous speakers said that in order for the Monetary Union to work, you have to work on the fiscal policy. There has to be certain agreement or constraints on fiscal policy, as represented by Stability and Growth Pact. Another thing is, and this is an important factor, in the regulation of the supervision of financial institutions, there has to be better harmonization or unification. In this respect, the integration of the capital market is a fact of life. It is happening, but the supervision of the capital market is not happening, nor is there any integration of bank supervision. If there is a problem with a bank who is going to be the lender of last resort, that function is not actually centralized at the ECB. So, going forward, the important challenge for the European Monetary Union will be integration of the regulation and supervision of financial institutions, and the function as the lender of last resort.

MODERATOR : Anyone else? Mr. Maezawa and Mr. Moulounguet?

MAEZAWA : Mr. Chairman, you made reference to the prices of goods.

Nikkei has an office in Europe. Three months ago, in October, we conducted a survey, and I would like to share with you the results of the report covering Japanese, European, and American companies. 200 companies were surveyed about the euro cash launch.

The strongest sense we detected in the survey was anxiety among Japanese companies. The launch of cash euro was very anxiety-inducing for Japanese companies because of the pricing question, about how to set prices, whereas before there were different currencies, taxes, and security implications, or differences in situations. So, country by country, prices were set differently. This was allowed, this was possible, but now there has to be unification. The price has to be one and unified, but how are Japanese companies going to do that in Europe? That was the source of the biggest concern they had : the pricing issue, how are they going to do this?

First, they will of course convert to the euro, but still price levels will be reflective of structural differences, cost structures, tax structures, and other structures, so prices will be different among countries. The existing price structures, with all the differences among countries, will be maintained, although they will be all converted into euros. That was the answer given.

As to the future, they will be observing what will happen in the market. Wait-and-see was the attitude indicated by these companies, but how are they going to observe market conditions? Are you going to adopt the highest price or the lowest price? Or are you going to choose the average between the highest and lowest prices currently observable? The answers varied among companies. As far as the American companies were concerned, they said mostly that they would try to find a unified price somewhere in between the highest and the lowest current price range. That is the result of the survey we conducted.

MODERATOR : Mr. Moulonguet, please.

MOULONGUET : It will be a real disappointment if the concrete introduction of the euro would not give a big momentum over a kind of harmonization in Europe. Especially on the fiscal point of view you have referred to the US case. Nissan is selling cars in the US and I can tell you that the differences of the sales taxes in the US are very small and have nothing to do with the differences that we see today in Europe. So, I think there will be a strong pressure from the consumer to move forward toward a much greater fiscal harmonization.

9. Questions and Answers

MODERATOR : I have already collected quite a large number of questions addressed to each one of you so I think at this point I need to close the Panel Discussion Session and move on to the Question-and-Answer Session with the audience.

To expedite the process I think I will ask each panelist to respond to questions addressed to each one of you. I, by my own discretion, made some selection and some modification, but I will start from Monsieur Noyer who sits closest to me.

You have three questions addressed to you. One is your view on the introduction of the Tobin Tax. I understand that there are some discussions raised and this issue is now under study by the European Commission. One of the audience asked about your view on this tax.

The second question is, although you represent the European Central Bank whose major responsibility is price stability, this audience is wondering whether it's better to allow more room for an automatic adjustment mechanism of fiscal policy to achieve the price stability in the end, but now under the Stability Pact there is a very rigid constraint on the fiscal policy of member countries. But if you allow greater flexibility of fiscal policy, in the end that will help the achievement of price stability.

The third question is a bit embarrassing maybe, but this questioner said the European Central Bank's actions are sometimes described as "good policy--bad PR". I think Mr. Townend somewhat alluded to that problem, but the questioner is asking your response to that, so the floor is yours, Mr. Noyer.

NOYER : Thank you very much, Mr. Chairman. I see that your selection is extremely efficient, and I realize also that some of the questions which at least you turned to me could have been handed to my right neighbor but, nevertheless, I will not escape all, not too much.

First, on the Tobin Tax, there have been a lot of discussions along the years but more recently an enormous interest from some groups. It is interesting to look back to what was the original idea of the author of this idea, Tobin himself, and the major idea was that perhaps with a kind of free road tax one could reduce volatility in the market and facilitate monetary policy. Since he wrote this thesis a lot of studies have been made on that, and the general conclusion that central bankers draw is that such a tax is likely not to reduce volatility and not to facilitate the conduct of monetary policy but, on the contrary, to increase volatility, increase costs in international finance operations and have a negative effect on growth and development in the world economy. That's the theory, of course. Nobody has ever tried, and probably nobody will ever try, because the concept can only work if everybody agrees. We need to have a full agreement and it is not an easy task.

But because the governments in Europe wanted not to simply neglect an idea which was popular among certain groups, the finance ministers have asked the European Commission to conduct a thorough study so that they could fully discuss that and see all the arguments. Therefore, my responsibility is less than that of my neighbor, as you can see, but I will try to help.

The second, price stability and fiscal policy and the room for automatic stabilizers, the normal rule is definitely that there is exactly room for automatic stabilizers to play a role. I mean the basic concept of the stability

and growth pattern, that also I speak under the control of Klaus Regling, is that in normal times when growth is satisfactory, etc., governments should target balanced budgets. When difficult times come, that is there is an abrupt slowdown in the economy, then you let the automatic stabilizers play. The rules described in most slowdowns, the famous 3 percent is not just a problem. You have ample room for that. It's only if you have a deep and prolonged recession that you may have problems but, then, there is, of course, an exception to the rule, that there are rules for coping with that. So that if governments play the game, but also play the game in good times, having a balanced budget in good times, automatic stabilizers play very well when there is a slowdown, and this kind of neutrality of public finance, including not increasing the depressing effect of an economic slowdown, is, indeed, what is required for monetary policy makers to have normal conditions to conduct their task.

Last, on the “good policy and PR problem” story, let me say that, first, it's amazing to see that most central banks in the world, and that does include I believe the Bank of Japan, the Bank of England, the Bank of Canada, the Bank of Australia, have a mandate which is very comparable to the mandate of the European Central Bank, so the dominant concept in the word is really that monetary policy has a major task which is to maintain price stability. You may use different wordings but the concept is there and it is based on historical experience. So to think that the ECB is in a very specific situation is not the right thing.

The main major problem we have had, if we did a good policy but communicated not so well, is that we had to communicate on something new without a history. For that reason, because we wanted to be immediately understood by the markets, we have chosen to have an extremely open communication policy. We are, we believe, more transparent, more open,

more communicative than any other central banks in the world.

When we started as just a new institution, of course, backed by the history of the predecessor central banks, the members of the euro system, but, nevertheless, started a new history, we immediately attracted the interest of the whole world and all the markets because we were doing monetary policy for the second currency in the world, almost equal to the first one. So that we have taken the risk to communicate enormously and in an attractive way.

Another problem we have is that we have to inform and explain to the general public, which does not speak only English, but also Italian, French, Spanish and a few other languages. So that the use of different languages is necessary, and since it is not very common to find central bankers who can speak easily 11 languages, we need several voices just to deliver the same message with the same words but, nevertheless, in different languages, and that also, because translation is sometimes difficult, not from the part of our translators but by people who receive the message, that there may be feelings of differences that simply do not exist.

I hope that with the experience we try to build on, these problems will completely disappear.

MODERATOR : Thank you very much. I think the message is very well taken. Now, may I move on to Mr. Regling? You have also three questions.

The first one is how you are going to strike a balance or reconcile between the two competing situations. One is the need to proceed on the reform of the labor market and the possible adverse impact on employment by the reform steps. The questioner is looking for any advice from you to the Japanese situation because, as you know, that is certainly one of the very

acutely discussed problems today in Japan.

The second question is quite a different one. What is your view on the chances and possible speed of the entry of Central and Eastern European countries in the euro zone? They are certainly quite different in their current economic performances, so the questioner is asking what is your prospect or even a prediction of this development

The third question is asking whether you consider the full introduction of euro as the first step, meaningful step, toward the single European government.

REGLING : Do I have two hours? (Laughter)

MODERATOR : No, no, no, no, no. (Laughter)

REGLING : I will try to be brief despite the fact that these questions are very comprehensive and deserve a lot more time.

On the first one, the competing needs to, on the one hand, proceed with labor market reforms to make our economies, and I say now “our” meaning Japan and Europe, more productive, more resilient, healthy, in a way, and the adverse impact on employment. This is a problem, of course, in many countries, not only here and also my own country in Germany, for instance, and in several other European countries. It is always a difficult question when is the right moment to implement difficult things for reforms in good times or in bad times. In theory, good times would be the better moment because then it is easier to digest a painful adjustment. In practice, experience tells us that governments often are not able to do this in bad times. There has to be a crisis to trigger painful adjustments. In general, I would say that it doesn't

pay to postpone adjustments that are needed, anyway.

On the second point, the question of enlargement of the European Union, the European Commission released a report this week, or was it last week, on enlargement. It's a regular report that we issue every year. The message was that 10 out of the 13 countries that have applied for EU membership have a chance to conclude negotiations by the end of next year. They have a chance. They have no guarantee because all of them have to still do their homework. If they work hard they have a chance and it may be concluded by the end of next year, which then could mean after the ratification process, which again is difficult and sometimes risky. We all remember that Ireland didn't ratify in the first round the Nice Treaty, so there can be further obstacles, but there is a chance that quite a large number of countries may join the European Union in 2004.

That does not mean that they join the euro area in 2004 because we have a process that is clearly spelled out in the Maastricht Treaty, what are the requirements to join the euro area, the requirements for the EU member country, and the minimum time that is required after EU membership will be 2 years before countries can join the euro area because one of the Maastricht convergence criterion says that a country has to be in the exchange rate mechanism for at least 2 years without tensions.

So that is the minimum but, then, in addition I think all these East European countries, and the Chairman hinted at that, because they are in a very different stage of development compared to today's European Union members, should really think very hard whether it's in their interest to join too quickly because all these countries have to go through very difficult adjustment processes. One indicator is that the per capita income in most of these countries is only around 30 or 40 percent of the EU average and the

expectations that they will catch up over the next few decades. Ireland, for instance, has demonstrated that this is possible, but this catching up to the EU average standard of living means many structural adjustments, and we know that structural adjustments are very difficult if you don't have all the economic policy instruments available.

Joining the euro area means that a country has to give up two very important economic policy instruments—exchange rate and monetary policy—and the advice from the Commission and the ECB to these countries is not to do it too early and to think whether it's in their interest. I think the euro area—Christian would know better than I—can live with these countries. Their economic weight is relatively small, but it may not be in their interest to do it too early. I'm a bit worried, however, that many of them look at it right now very much in political terms and want to join as quickly as possible, but maybe once they join the European Union we will have a very close dialogue with them and they may see then what the benefits and costs are of joining very early.

The third question was whether the introduction of the euro, creation of the Monetary Union, will be one step on the way to a single European government. A little bit I answered that already earlier when I said that the aim at the moment is not to harmonize all economic policies and other policies, so the “United States of Europe”, which is something that people talked about in the sixties and seventies, is right now not on the agenda. Governments, the Commission, European institutions can only do as much as the population, the electorate, wants them to do. Sometimes they can move a little bit ahead. In some countries there was a feeling with the creation of the euro that governments were already moving a bit ahead of the will of the population. Certainly that was the majority view in my own country, and sometimes politicians have to be brave and give a direction, but there is only

so much they can do without the support of the population, and right now I think it's clear that there is not much support for further integration.

In many areas, yes, there is now a lot of debate and actually action taken to create a common foreign policy, a common defense policy, and in some areas to have a common legal space. So integration is continuing, but I would not foresee a "United European Government" any time soon, and it may not be the appropriate form of government for Europe because Europe has a very diverse history and tradition of governments and very strong regional affiliations. People like to have regional or national identity and that should be respected and can be very healthy. It is also, in the end, a question of competition and preserving the European heritage, and there is no need for a European government and certainly not to make the Monetary Union a success.

MODERATOR : Thank you very much. Now, Mr. Townend, it's your turn. The first question is a rather concrete one, I believe. Do you think the fact that the United Kingdom is not a member of this ERM, Exchange Rate Mechanism Phase 2, provides any difficulty or hindrance to UK's full participation in the euro?

The second question is: The UK economy so far, even among European countries, has been demonstrating a very favorable performance, but now the world economy as a whole is slowing down and losing momentum. Do you think this global slowdown will affect the likelihood of UK's early joining the euro arrangement, or do you think, on the contrary, this global slowdown will provide certain stimulus or impetus to UK's early joining?

TOWNEND : Thank you very much. I think I might have preferred to answer questions addressed to Christian Noyer or Klaus Regling. Never mind that.

On the first question, as the perceptive questioner recognizes, it is the case that the UK takes a rather different view to the exchange rate criterion

under the Maastricht Treaty than most of our European colleagues. I think we are only joined by Sweden in saying that the most significant issue is not membership or otherwise of the Exchange Rate Mechanism for the 2-year period which is set in the Maastricht Treaty, but you have to get behind the words of the treaty to understand what the authors of the treaty were talking about and the reason why they set an exchange rate criterion. We don't deny that you need de facto exchange rate stability as evidence that there has been sustainable convergence between an economy and the euro area. I don't deny that at all, but the question is what does the membership of this particular institutional arrangement add, which is, of course, now a different arrangement from that envisaged at the time the Maastricht Treaty was written. Whether it will be a problem that the government has said it has no intention of joining the Exchange Rate Mechanism, whether it will be a problem or a hindrance for future UK membership I really can't say. It's a question for heads of state or government.

My left neighbor will be responsible under the treaty for providing a report. The Commission has to write a report on whether perspectives of future entrance to the Monetary Union meet the Maastricht criteria or not, and so the European Commission will have to assess the UK in this respect as, indeed, in respect of all the other convergence criteria. The heads of state or government, however, ultimately will take the decision on the basis of the Commission report and a separate report produced by the European Central Bank. So I'm afraid the only people who can give the explicit answer to the question are the heads of state and government, and I'm afraid they are not here, so we'll see in due course if the UK government decides it is in the UK national self interest to join the Monetary Union in due course.

On the second question, it is true that the UK economy has been performing reasonably favorably, including up to the third quarter of this year

where growth in the UK was 0.6 percent, which I have to say was even quite a surprise to the Bank of England, but the global slowdown will undoubtedly affect the UK, as it will affect the euro area, and that is the reason why the Bank of England has been taking monetary action, including the most recent 50 basis point reduction in interest rates, to try and ensure that the UK economy is as little affected as it can possibly be.

The predictions for UK growth for the whole of this year and the whole of next year are, broadly speaking, around 2 percent compared with, broadly speaking now, 1.5 percent for the euro area, and within the margins of error of forecasting I have to say those are not significantly different economic prospects.

The key question for membership will be whether we do achieve sustainable economic convergence with the euro area. I don't really think that is going to be much affected by the impact of the global slowdown within these margins that I mentioned.

MODERATOR : Thank you very much. Now, Mr. Kuroda, you have a very specific question. Do you think the introduction of the euro will affect the yen-dollar exchange rate, and to what extent?

The second question is, are you going to increase the share of the euro in Japanese foreign exchange reserves?

Third, in the euro zone it is understood that fiscal discipline is crucial to the maintenance of currency credibility. Now, in Japan, too, do you think the reform of fiscal discipline will be necessary to encourage greater international use of the yen?

KURODA : Let me be very brief. The first question, regarding whether and how the introduction of euro will affect the dollar-yen exchange rate, is difficult to answer. Looking at the recent exchange rate between the dollar and the yen, at times the euro-yen rate precedes the dollar-yen rate, and the euro-yen rate affects the dollar-yen rate in a similar manner. The reverse situation, of course, also happens. For example, the euro rises against the yen, and there are times when the dollar becomes stronger, and times when the dollar becomes weaker, so there is no general case that we can use.

So to the next question, regarding whether we will increase the share of the euro in our reserves, we believe that the foreign reserves of Japan should be as well balanced as possible. Basically, amongst the G7 countries, regarding foreign exchange intervention we are always having liaisons with each other, communicating with each other, and changing the share of foreign reserves could result in foreign exchange intervention. We are therefore not that free to have ourselves involved in that.

Lastly, to the fiscal question, here in Japan, as you very well know, the private sector has run into surplus savings. There is always the potential that the yen will appreciate even though the government has done nothing. Therefore, reducing the fiscal deficit will not really affect the loss of confidence in the yen or the yen rate going down.

Strictly as a fiscal question, however, we have about a 6 percent fiscal deficit against the GDP and, of course, this is a level we cannot continue in the future, so fiscal structural reform is inevitable here in Japan, but it is not directly related to further internationalization of the yen.

MODERATOR : Mr. Maezawa, you have one interesting question. We discussed about the economic convergence or economic integration of

European countries. As a journalist, after the considerable success in making this economic convergence, how do you think the European people will try to establish an identity as a European, not as a German or a French or an Italian? How do you think the European people will address this problem of identity as a European?

MAEZAWA : I think that is a very difficult question to answer. I don't think there is one answer. According to my quarter of a century as a journalist always observing Europe, speaking from that vantage point, of course, there are various dimensions. So when I write in the newspaper there will be headlines like "Birth of European Man", we come up with this terminology like "European man" trying to come up with the most breathtaking headlines.

But speaking of my individual experience, as I have said during my speech, I have a feeling that identity will always remain with the respective countries. In other words, during my lifetime I don't think that there will be any coming of a European. French is French, British is British, Polish is Polish, so the identity of a nation or tradition or culture up to now was gradually being diluted but in the future, at a certain point of time, I think there will come a situation where the people become more aware of their own identity as a nationality of one country like French, German, etc.

MODERATOR : I'm afraid we'll have to move on. Lastly, Mr. Moulounguet, there are two questions addressed to you. One is : I think Mr. Ghosn in his initial presentation referred to the importance of exchange rate on your business. Do you consider that exchange rate is the most important business factor to be considered in your business plan?

The second question is very straight. Mr. Ghosn said that Nissan is going to shift more production to the euro zone. Does that mean that Nissan

will shed more employees at home and there will be more cut of workers in Nissan factories in Japan?

MOULONGUET : On the first question, yes, it is a very important factor for us, certainly not the most important one, but just to give you two figures. The exposure of Nissan to exchange rates is, when you add the exposure to the dollar, the exposure to the euro and the exposure to the pound together, the order of magnitude is the equivalent of 10 billion US dollars, so when the yen is moving by 1 or 2 yen plus or down, the impact on the operating profitability of the company is very significant.

And just to give you another figure because it is one of our most important parameters to account for the future profitability of our vehicles, we are taking on the medium-term assumption of 100 yen equal 1 dollar equal 1 euro to make all our profitability study for the future with the view that Nissan should remain profitable at this level of exchange rate between the three main currencies in the world.

On the second question, I can tell you that when we launched the Nissan revival plan in 1999, one of the big issues for Nissan was huge over-capacity. The capacity in Japan was used at 50 percent, and the closure of the plants that have been decided was done with a view that the remaining capacity will be the one that will be necessary for Nissan as Nissan is going to redevelop its volume and market share in Japan with new products coming, so we do not anticipate at all coming back with other reduction or closure of plants. This is done once and for all.

MODERATOR : Thank you very much. I think that's a very encouraging news for some.

Well, ladies and gentlemen, thank you very much. We have come to the

end of our symposium. We are 5 minutes late, but I think we have done a very good job because of the very close cooperation of the panelists and the audience, and I'm sure that this symposium has provided tremendous food for thought for all of us, and also I hope that this session was an equally enjoyable one for our distinguished panelists. I'm sure our deepest thanks to all those panelists will be shared by everybody in the room. Thank you very much, indeed. The meeting is adjourned.



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〒103-0021 東京都中央区日本橋本石町1-3-2

Tel: 03-3245-6934 Fax: 03-3231-5422

e-mail: admin@iima.or.jp

URL: <http://www.iima.or.jp>