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Joint conference with Hans Eichel,
German Federal Minister of Finance:
"Vision for Europe and the Euro"

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Thank you very much, Hans, for your presentation. I thank it is important and meaningful that both of us could explain here, side by side, what are the situation and perspectives of Europe and the Euro.

I will touch upon two issues to complement Hans Eichel's intervention:

- policy coordination in Europe and the future of Europe's institutions,
- Euro financial markets and the international role of the Euro.

1. EFFECTIVE POLICY COORDINATION

⇒Seen from the outside, **the functioning of a single currency area, with 12 sovereign Member States, may raise legitimate questions.** Our conviction and experience is that the institutional set-up makes it possible to coordinate economic policies in an efficient way – even if improvements could still be made.

Let me remind you the key features of policy coordination in the Euro area.

⇒**Coordination and subsidiarity.** We are acting more and more together in the economic field. Whereas there is a single monetary policy, most other policies, including fiscal and tax policies, are decided at a national level with an European coordination.

⇒**Three institutions are essential to ensure an effective policy-making:**

・The ECOFIN Council, made of the 15 EU Finance Ministers, adopts Community legislation in the economic and financial fields and coordinates economic policies. The backbone of coordination is formed by ① the so-called "broad economic policy guidelines", and ② the multi-year "stability" programs submitted by the Member States, aiming at maintaining national fiscal positions close to balance or in surplus.

- The Eurogroup, made of the 12 Euro area Finance Ministers, was created to strengthen policy coordination within the Euro area. It is presided this year by our Belgian colleague. It acts as an informal forum to monitor the economic situation of the area and to discuss fiscal policies, structural reforms, and issues directly related to the single currency such as the changeover to Euro notes and coins. It is also an instance of dialogue between Ministers and the ECB since the President of the European Central Bank is invited on a regular basis to Eurogroup meetings.

- The Eurosystem, in charge of the single monetary policy, is composed of the ECB and the twelve national central banks of the Euro area. The independence of the ECB is guaranteed by the EC Treaty. Its primary objective is to maintain price stability.

⇒**The Eurogroup and ECB have proved their ability to maintain the appropriate policy-mix in the Euro area.** Trust is paramount in this process, hence the importance of continued dialogue between these two actors.

⇒**This obviously includes exchange rate issues.** The constant dialogue between Ministers and the ECB regarding the external value of the Euro makes it possible for the Euro area to speak with one voice. The interventions performed by the ECB and other G7 central banks highlighted this efficient coordination and have contributed to engineer the pickup of the Euro.

⇒**In the last months, the Eurogroup has improved its working methods and enlarged its sphere of action.** Structural issues are increasingly being discussed. For example, in the second half of 2000, Ministers and the ECB discussed tax reforms undertaken in different countries of the Euro area and measures envisaged to face population ageing. Also, the President of the Eurogroup now holds press conferences after its meetings. Our new President, my friend the Minister of Finance of Belgium, Didier Reynders, will pursue these efforts to improve the visibility of the group and the efficiency of policy coordination.

2. EUROPE'S CHALLENGES FOR THE FUTURE

⇒**Let me take the opportunity of the end of the French Presidency and of this meeting to mention important European challenges for the future. Let me concentrate on some key issues:**

- I have already mentioned the strengthening of the Eurogroup. **Tax coordination** is another field where important progress has been made as there are improvement on VAT issues, on mutual assistance with tax collection, on a tax framework for e-commerce and, recently, through the consensus achieved on the "tax package" concerning corporate and savings taxation. The next step on this issues will be to achieve agreements with third countries;

- European growth can only become sustainable in a stable and consolidated international economic and financial environment. The European Union is taking full responsibility for its role in developing international regulations. Among our actions, the fight against financial crime is one of our top priorities and several achievements were reached.

- **A good preparation for enlargement is a vital challenge for the future of the Community** as, in addition to the legal aspects of accepting the so-called "acquis communautaire" (that is to say the incorporation into national law of the EU regulatory framework), the applicant countries will need to prepare their economies. In order to help this, the future framework of the exchange rate policy needed to participate in the Economic and Monetary Union has been clarified. The setting up of an organised dialogue with candidate countries will foster policy co-ordination in order to ensure economic and financial stability.

- **Finally, a few words on the Nice Treaty institutional aspects.** The European Council in last December has been the longest ever in the European Union's history. Not only because France wished to enter the Guinness Book of Record, but because the negotiations were complex and the issues at stake fundamental: the functioning of the Community institutions in an enlarged Union. The results are satisfactory;

- there is an agreement on the reform of the institutions: a positive result was a pre-condition to envisage with equanimity the forthcoming adhesion of the eastern European candidates;

- this agreement will facilitate the decision-making process in Europe through the passage from unanimity voting to qualified-majority voting on several topics, through the easing to set up “enhanced co-operations” among countries willing to do it in specific areas, and through the reform of the Community institutions’ governing bodies

The EU structures are now ready to accept new members from Eastern Europe. This is good news both for the economic growth of the EU and for the Euro.

3. EURO FINANCIAL MARKETS

⇒**EU financial markets have grown considerably closer over the last few years** under pressure from internationalisation of financial portfolios, in an effort to diversify risks, development of new trading and selling techniques for financial products and thanks to the modernisation of the legal environment. That has done away with market monopolies and membership restrictions and opened the sector up to competition.

The volumes of equity traded grew by 30% a year over the period 1995-1999. The EU stock market capitalisation now represents 109% of GDP.

This trend gathered speed with the changeover to the single currency. The introduction of the Euro and the resulting structural changes such as alliances between “traditional” exchanges, the emergence of new trading platforms and the development of electronic systems in financial services marketing, have accelerated the integration of the European financial market.

A single EU securities market must and can now become a reality in order to ensure more competitive funding for EU enterprises, increased liquidity, better service provision at lower cost and improved returns for investors, all this resulting in a stronger EU economy. Private sector savings in Europe amount to some 20% of GDP – a valuable asset, if efficiently used, to stimulate growth and job-creation

Significant benefits are to be expected for market users and shareholders from the ongoing process of exchanges consolidation. Here again, European co-operation is a key to efficiency. The European Union must be in a position to cope with those challenges linked to the integration of the securities market integration.

The Action Plan adopted in 1999 contains a series of key measures to eliminate the mass of barriers that remain. Work is underway and has been accelerated during our Presidency especially regarding common rules for collective investment schemes and financial reporting standards for listed companies.

Moreover, last July, the Council and the Commission vested upon a “wise persons” committee chaired by Mr. Lamfalussy a mission to reflect and make proposals on the implementation of the securities market and financial information regulation.

We are currently reviewing the regulatory framework to enable market participations to do efficient, safe and transparent business throughout the European Union.

4. THE INTERNATIONAL ROLE OF THE EURO

I would like to give you briefly some key facts and figures which provide a clear account of the importance and of the potential of the Euro, both in the short and in the long run. The single currency fully justifies the hopes we have placed in it.

⇒**The Euro is a major currency in global trade.** Euroland accounts for 15% of world exports. Roughly speaking, between two-thirds and three-quarters of the external trade of the Euro area is denominated in Euro. **The Euro also acts as a magnet on the countries which have close trade links with the Euro area.** In Great Britain for instance, nearly 30% of international trade transactions are already carried out in Euro. Major British exporters, especially international groups subsidiaries, increasingly ask their counterparts to bill them in Euro.

On the commodity market, some developments are indicating that significant commodities exporters could progressively diversify their currency exposition in partly billing their exports in Euro.

⇒**The Euro already gained a top position in the bond market.**

Let me make a specific point on the Euro denominated bond market since sovereigns issuers, especially France and Germany which are among the biggest borrowers on this market, are particularly sensitive to the development of an integrated and efficient debt market. Investors will benefit from the ongoing efforts by the Euro sovereign issuers to improve the transparency and predictability of their issuing policies. This is an appropriate answer to the concern sometimes expressed, especially by Japanese investors, about the coexistence of twelve sovereign issuers issuing in a common currency. Issuers have also made huge efforts to increase the liquidity of their debt.

Consequently, the Euro government debt has become much more efficient, after only two years of issuing policies in Euro. The size of the Euro Government debt, its liquidity and its sophistication are comparable to the US Treasury market.

The rapid emergence of an efficient Government debt market denominated in Euro is contributing to the rapid development of a corporate bond market. **Since the introduction of the single currency, corporate issuance totalled more than 230 billions euros, an amount roughly comparable to the issuance volume in dollar. The Euro-denominated bond market is a high-grade market (95% of the total amount issued is A-rated or more). On the supply side, it is also one of the most diversified and it is one of the most internationalised as well:** in the corporate segment alone, Euro area-resident issuers account only for slightly more than 50%.

I see two merits to this very quick and positive evolution: it is good for the European companies, which can expand their financing tools and find better financing conditions; and it is also positive for investors, who can find a wider range of opportunities.

⇒**The emergence of a major currency offers real diversification opportunities for official reserve managers.** 66% of official reserves are still denominated in dollar. The Euro represents an important diversification opportunity. Euro-denominated reserves already account for 12.5% of global official reserves and this 《market share》 has a considerable prospect of expansion. One must bear in mind that it is the currency of more than 300 millions people with a high purchasing power and that the changeover on January 1st 2002 to a “real” currency in the pockets of these 300 millions people will be a powerful asset and incentive.

⇒**Market driving factors give good reasons to be strongly confident in the future developments of the value of the Euro:**

a) From its beginning and until November 2000, the Euro underwent a depreciation against the dollar. **The magnitude of the depreciation was justified neither by the growth differential with the United States nor by capital outflows outside the Euro-area.**

   The shared conviction of the Eurogroup and the ECB is that a strong economy goes along with a strong currency. As early as May, the Eurogroup stated solemnly that the level of the Euro was a matter of concern and that interventions were an available instrument. On 22nd September, just ahead of the G7 ministerial meeting, the European Central Bank intervened together with its G7 counterparts. The commitment of the Euro-area was furthermore exemplified by further ECB interventions in November.

b) **The upward potential of the Euro begins to materialise.** The single currency has appreciated more than 15% against the dollar and nearly 20% against the yen. Market operators are now pricing better the growth perspectives of the Euro area and the United States.

   It is important to note that **in the third quarter of 2000, for the first time since many years, the growth rate of the Euro area outperformed that of the United States. All available indications suggest that this momentum will go on.**

As Hans Eichel explained earlier this morning, the sound macroeconomic fundamentals of the Euro area are extending well beyond the growth rate. Employment is at its best for ten years. So far as France is concerned, the figure of job creation last year is the highest in a century, with low inflation and a continuous drop of public debt and deficit. The European current transaction position is sustainable in comparison with the huge U.S. deficit and Japanese surplus. Net capital outflows including foreign direct investments and portfolio investments have began to decrease in the course of last year.

Indeed, the Euro is a stable and strong currency. It is backed by sound and reactive economies and policy-mix. It is carrying the ambition Europe is nourishing for the future. It is a currency for today and for the future. More than ever, we – not only Germany and France but twelve countries throughout Europe – are convinced that our currency deserves the confidence of international investors.