

Inf€uro

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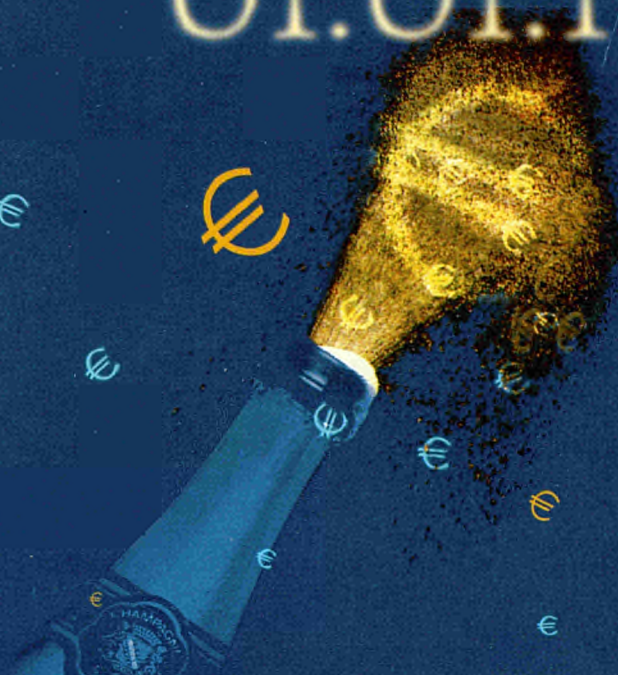
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Internet Site

<http://europa.eu.int/euro/>



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Yves-Thibault de Silguy

The euro zone should carry more weight in the international monetary and financial system



Inf€ The financial crises in Asia and Russia are raising fears about the development of the so-called emerging economies. Europe increasingly stands out as an island of stability. Is this an effect of the euro and the convergence of participating country economies before the currency is even introduced?

Absolutely. We were right to take the decisions we did on 2 May on the list of eleven countries participating in the euro and on the bilateral exchange rates between the currencies concerned. These decisions were the fruit not only of a very strong political determination, but also of a satisfactory convergence of economies. Experience later showed us that these choices were correct because they have protected us from the turbulence in the international economic and financial environment. By way of comparison, I recall that the Mexican peso crisis in the Spring of 1995, indirectly via the dollar, created severe difficulties in Europe: monetary fluctuations cost us at the time two points in growth and 1.5 million jobs. It is therefore clear that, even before it is launched, the euro is already a reality and that it is playing

to the full its role in maintaining stability in Europe, which is currently excellent despite external turbulence.

Inf€ Does this mean that the start-up of the third phase of the Economic and Monetary Union on 1 January will take place under better conditions?

It is going ahead exactly as planned and decided, even though not under ideal conditions. I would have preferred the euro to be launched in a more stable world. This is not the case, but it does show that the euro is fulfilling its role from the very outset and that its launch has been particularly well prepared: well prepared at the political level with the constant and unflagging commitment of the heads of state and government; well prepared in economic terms, with increased convergence of our economic policies and a recovery in growth in Europe (our economic fundamentals are good at the present time); and finally, well prepared at the practical level due to the huge efforts made at all levels: administrations, European institutions, and above all, economic operators. (> 2)

(< 1) Yves-Thibault de Silguy

The euro zone should carry more weight in the international monetary and financial system



Inf€ *With its vocation as a zone of stability, can the Union maintain its objectives independently of developments amongst its external partners? Can Euroland form a haven of stability on its own?*

By its nature, the euro zone cannot live in isolation from what is happening on the outside. Even after eliminating trade between Community countries, it represents 20% of world trade. It is therefore very open. The euro is already playing a role in preserving internal stability within the zone in a world in turmoil. However, it is necessary to complete this work and make Europe a more active player on the international scene in preventing crises and helping to provide solutions where they exist. Hence the importance of the current debate on the reform of the international monetary and financial system, in particular. I believe that in this process of change, Europe must play a dual role: that of initiating and proposing solutions, as well as helping to implement them with other international partners and the international financial institutions.

Inf€ *Many voices, including your own, are calling for Europe to enjoy an image in the world commensurate with its real economic weight. What could be used to put across such an image? Should the European Central Bank alone provide external representation for the euro?*

Europe today must be capable of defining a common position. This is a priority matter. It must then express this common position in a coherent and uniform manner. Our partners, whether Americans, Japanese or others, are waiting for Europe to speak with a single voice. In this respect, you should remember that the Treaty (in article 109, paragraph 4) expressly provides that the position taken by Europe will be defined jointly and that the Council will decide on representation, that is to say the manner in which this position is expressed. It will then be a task of defining the mechanisms and bodies which will be called upon to provide external representation for the euro zone. The Commission will shortly be making a formal proposal on this subject. However, it is important to be aware that our union is not solely a monetary one, it is also economic. Consequently, common representation for EMU must cover these two fields. The Treaty is perfectly clear in this respect.

Inf€ *What are the main fields in which Europe, as an entity, should make its voice heard more in the future?*

Russia is the current priority issue. We are its main trading partner. We absorb 40% of Russian exports, we are the leading investor, the biggest provider of technical assistance and the main supplier of food aid. Obviously, we cannot ignore what is happening there. Although the solution lies primarily in the hands of the Russians themselves, we cannot allow them to lose hope. We have the means to support them through this crisis, which is both a crisis of transition and a crisis of confidence.

The second area where Europe should make its presence felt is in the reform of the International Monetary Fund. The IMF was created 50 years ago. At that time the balance of power was different, free movement of capital did not exist and we were living under a system of virtually fixed exchange rates. For this reason we must adapt both the structure of the IMF and its resources to the new international situation. Europe has a real role to play and it will define a common position on this subject on the basis of proposals put forward mainly by France, Belgium, Spain and the United Kingdom. The Commission will of course become involved in this debate.

Finally, I am convinced that Europe must make its voice heard more strongly on the subject of a system for crisis prevention and management. We should be working towards making the system more transparent, defining the rules of the game and the applicable standards, and ensuring that the private sector is involved as far upstream as possible when defining the programmes drawn up by international institutions.

These are just a few examples. The Russian and Asian crises should prompt us to draw lessons, in other words to define effective preventive and curative mechanisms.

Inf€ *How do you envisage relations between the euro and the dollar? Will they (and should they) be on an equal footing?*

Above all, I am keen to point out that one cannot arbitrarily fix the value of a currency. Its value is only the point of balance between supply and demand on the markets. This value changes in line with the assessment of economic, budgetary and monetary policy, changes in wage levels, inflation and external trade from the zone to the country concerned. As a result, the value of the dollar against the euro will depend on factors that it is clearly impossible for us to forecast at this time. However, we can confidently state that the euro will be a stable currency. This is what matters to our investors, our consumers and for our economy in general.

Moreover, today we are operating in a world which is fundamentally out of balance. The dollar, which is used in 56% of commercial transactions and is involved in 80% of currency exchange transactions, is a currency which, when all is said and done, represents only 18% of world exports. Since by definition the euro is destined to become a major international currency, used increasingly in commercial and financial transactions and as a reserve currency, there will be a progressive realignment in the international monetary system. The euro will provide us with an opportunity to rejoin the debate on an equal footing with the Americans, as well as with our other partners, so that together we can seek the means to bring about more stability in the international monetary and financial system. (> 3)

Chris De Noose, President of the European Savings Banks Group

The euro provides us with an opportunity to strengthen our social role with savers

Inf€ Today, what sets savings banks apart in the world of European finance?

The savings banks pursue aims that are very much their own. Firstly, they are keen to maintain a close relationship with savers, which means that they are highly decentralised, in terms of both distribution networks and decision making. Our network has no less than 60,000 points of contact, including some in geographically remote areas. Compared with commercial banks, we try hard to mobilise savings wherever they are found - in other words at local level. The savings banks are targeted more at individuals and SMEs, and they try to adopt a genuinely social approach (manifested by the adoption of a European code of good conduct which in particular includes the offer of a current account to any citizen who requests one, even if the account will not be profitable). Finally, savings banks have a real desire to cooperate at international and cross-border levels.

Inf€ In what way does this desire of the European Savings Banks group to cooperate manifest itself in the context of the forthcoming Economic and Monetary Union?

We would like to use our network to promote such cooperation, despite the great diversity of institutions throughout Europe. For example, this takes practical form in the creation of Eufiserv, which is today the third largest European payment system, or Euro-Sofac, which specialises in providing assistance and quasi-financial services to SMEs. The group has also participated, in collaboration with the European Commission (DG XXIII), in launching initiatives to raise awareness amongst SMEs of the introduction of the single currency. At cross-border level, our group also encourages bilateral agreements between savings banks.

Inf€ Do you also make special efforts for individuals?

At our own level, and taking into account our specific nature, we play a special role as a provider of information to the general public. In reality we are in a position to act as an information dissemination relay in both directions: downwards from the Commission to the saver; and upwards in the opposite direction to ourselves, enabling us to pass on to the competent authorities any questions still being put by savers on the subject of the introduction of the single currency. Moreover, we fully comply with the recommendation not to pass on to customers any additional costs due to conversion to the euro.

Inf€ The European Council meeting in Cardiff on 15 and 16 June invited the Commission to put forward proposals for improving the functioning of the single market in financial services in time for the forthcoming European Council meeting in Vienna in December. What are your proposals?

As you know, the Commission has launched a broad consultation process on this subject amongst professionals in the sectors concerned. For our part we have particularly stressed the importance of maintaining diversity in Europe within the financial sector, which is characterised by lending establishments with different organisational structures pursuing specific aims. Maintaining this structure is vital to the stability of the banking sector and to its immunity to the financial crises which are currently ravaging the world. All of the efforts deployed at European level, such as those which led to the creation of Economic and Monetary Union and the introduction of the euro, tend to provide enterprises and individuals with as stable an environment as possible. Naturally the European Savings Banks group fully subscribes to this objective.



(< 2) Yves-Thibault de Silguy

Inf€ Do you believe that European citizens are sufficiently familiar with the euro? Isn't the importance given to the practical and financial aspects of the changeover likely to blind them to the political ideal underpinning the introduction of the single currency?

Let's get this clear: the euro was not created simply for bankers and major enterprises! The euro is above all the currency of Europeans. In one way it puts Europe in the pockets and wallets of every citizen, and it is the most concrete manifestation of the construction of Europe since the process began. However, information for citizens should still be given priority. The scenario for the changeover to the single currency takes place in two phases: the changeover for financial transactions on 1 January 1999, and the arrival of notes and coins in 2002. This transition period must be used to the full to familiarise Europeans with their new

currency. Hence the importance of the information campaigns launched at the initiative of the Commission and the European Parliament since 1996, which are now being applied at national, regional and local authority levels.

This significant effort must be sustained over a long period, whilst remaining as close as possible to citizens, in order to explain "why" we need the euro and, perhaps, to reassure certain categories of them who still harbour some fears. I profoundly believe that it is our duty to multiply our information efforts at local level and to maintain this momentum right up until 2002. This is the price we have to pay for getting citizens to accept the euro. Not as a currency imposed on them, but as an essential element in maintaining their purchasing power and, more fundamentally, the prosperity and security of our continent.

Bank of France Governor Jean-Claude Trichet

The euro's success must be made permanent

Inf€ *The development of the world economy has become very uncertain in recent months. Do you see in this an additional reason to make a success of the move to the euro?*

European central bankers have obviously been watching very closely the developments of the global economy and international markets.

We observe that the economies of the future Monetary Union have been spared by the present crisis, with no disturbances in the intra-European foreign exchange markets and in interest rates. This situation undoubtedly reflects the credibility acquired by the plan for Monetary Union, the foundations of which rest on the strict respect of the convergence criteria.

But the success of the euro must be made permanent. I see five conditions for this success: having a serious and credible monetary policy, the budgetary discipline that is inscribed into the Treaty and completed by the Stability and Growth Pact, the unavoidable structural reforms in Europe, the accent which needs to be placed on the real competitiveness of national economies and, finally, the genuine "appropriation" of the euro by all European economic players, so as to maximize the economic benefit of the completion of the single market.

Inf€ *The independence of the European Central Bank (ECB) is an essential criterion for a stable euro. Is this independence unlimited?*

The ECB's independence, which has been sealed by the Treaty of Maastricht, indeed represents a vital factor in the credibility, and hence the success, of the euro. It is also based on the independence of the National Central Banks (NCBs). From the time of its coming into being, the ECB therefore inherits the credibility acquired by the most credible NCBs of the Monetary Union countries, and this benefits the whole system.

But independence does not in any way mean isolation from the democratic institutions and public opinion. The Treaty contains a number of provisions which promote dialogue with the European authorities, the European Parliament, the Council and the Commission, whilst respecting this independence. More generally, the ECB and the national central banks will continue to pay the greatest possible attention to the development of the economy and will undertake a policy of active communication towards the public. In the final analysis, in a political democracy — which is at the same time a democracy guided by public opinion — an independent institution is responsible to public opinion.

Inf€ *The board of governors of the ECB will meet frequently. Will the governors speak with one voice? How do you see the role of the ECB president?*

The ECB board of governors, made up of the

governors of the 11 Central Banks of the Monetary Union and the six members of the ECB directorate, will meet twice a month.

Within this board, as in the Bank of France's Monetary Policy Council or the Bundesbank board, each member will express his or her personal viewpoint on the economic, monetary and financial situation, based in particular on the information prepared by the ECB and each NCB. This can only make the discussion richer. Nonetheless it is important to understand clearly the conceptual change which will take place as from 1 January 1999: each board member will from then on judge the developments of the euro zone as a whole, and not as a function of national interests. This attitude will strengthen the credibility of the decisions taken by the board and implemented by the NCBs. These decisions will then be explained by the ECB president at the European level and by the National Central Bank governors at the national level. They will all put across the same message.

Inf€ *What will be the role of the Bank of France within the European System of Central Banks (ESCB)?*

The Bank of France will, like the other NCBs, be a part of the ESCB, which is a multi-pole system. The distribution of tasks between the ECB and the NCB is clear. In the spirit of the principle of subsidiarity, the ESCB operations will be decentralised. Monetary policy decisions will be taken by the board of governors, based on information supplied by the ECB and the NCBs, and will be implemented by the NCBs, who are the national points of reference for the national financial markets and national banking systems. Like all its "sister" central banks, the Bank of France will carry out monetary policy operations on the money and foreign exchange markets for the account of the ESCB.

Inf€ *The French are very attached to their national currency and at the same time are demonstrating a high degree of confidence in the euro. Is this a paradox in your eyes?*

No, the French are very attached to the franc, which was created more than 600 years ago and which carries the name of their country. They are proud that this franc is a solid and stable currency and support a policy of monetary stability. They also support the single currency project. Far from being contradictory, these two sentiments demonstrate one single thing: the euro will, in their eyes, be the worthy successor of the franc, and of the other best European currencies, the mark, the florin, etc. In this way it will acquire stability and credibility from the outset. It is therefore vital that the ESCB maintain European citizens' confidence in their national currency today, and tomorrow in the euro.

Andrew D. Crockett, General Manager, Bank for International Settlements

The euro: a shield against external turbulence

Inf€ *The stability of the international monetary and financial systems is at the centre of the BIS activities. Regarding the recent crisis, do you believe that the euro could be a positive factor from this point of view?*

The advent of the EMU could be stability enhancing both by better shielding its member countries from external turbulence, and by imparting greater stability to the relationship between the world's major currencies.

Thus far, it would appear that the advent of the euro has contributed to stability within the euro area. One telling comparison is how the financial markets of two similar economies — Finland and Sweden — both of whom qualified to become members of EMU but of which one stayed out on political grounds, have fared in the recent turbulence. Membership in the euro area appears to have sheltered the Finnish currency and bond market, while the Swedish have been subject to a re-pricing of risk. As usual, other factors may have been playing a role, such as the impending election in Sweden. But Denmark also suffered, and more than Finland, in the recent period of strain.

Another approach would be to look at a single euro-area country that in an earlier crisis was not regarded as a plausible candidate for monetary union and ask how it fared in the international turbulence of 1995, and how it has fared in the recent market turbulence? In 1995 Italy was directly affected, but in 1998 essentially no repercussions were noted. This of course reflects not only Italy's membership in the euro area today, but the fact the Italian economy — as a result of the Maastricht process — is much sounder today than it was in 1995.

As for whether the advent of the euro will add stability to the relationship between the principal currencies, there are arguments on both sides. The fact that the world shall be moving from one to two large reserve currency areas where the authorities heed stability oriented policies may bring stability to a very large part of the world economy. But it has also been suggested that since Euroland will be a large and closed economy, it might pay less attention to the euro's exchange value. If so, the argument goes, Euroland might export to external markets the volatility it has internalised by adopting the euro.

Inf€ *86% of the BIS issued share capital is registered in the names of central banks, among them the central banks of EU member countries. Is this situation going to change with the European Central Bank? How will the ECB be integrated into the BIS works?*

The BIS is, and will always be, a central bank organisation. While a few of our shares are privately held, voting rights in the BIS can only be exercised by central banks, and that will not change with the coming of EMU.

What has changed in recent years, largely as a reflection of the globalisation of financial markets, is that the Bank's shareholdership has widened. In 1996, the Board invited the central banks of nine large emerging market economies (Russia, China, Korea, India, Mexico, Brazil, Saudi Arabia, Hong Kong and Singapore) to become shareholders, and more might be invited to do so in future. With this, the proportionate share of the Bank's capital held by European central banks has begun to diminish. As for the ECB, it will probably become a shareholder in due course, but precisely how this will happen needs to be discussed within the framework of the ESCB as well as by the Board of the BIS.

I should note, however, that for many years now, a central bank's participation in the BIS has not been linked to the extent of its shareholdings. The size of an economy, and the scale, sophistication and degree of international integration of its financial markets, are of far greater practical importance in this regard. Clearly, the ECB will preside over a large economic and financial sphere, so it would only be natural that, with or without shareholding, it should be closely integrated into the BIS's various activities. Indeed, since this Summer, the President of the ECB has attended meetings of the Governors of BIS shareholding central banks, including the Committee of G-10 Governors. I expect that we will also have ECB participation in all the various committees of central bankers and supervisors that meet in the Bank.

Inf€ *From the inside, what preparation works have you been doing within the BIS to get ready for the euro's arrival? Is the European currency going to modify your way of working? In which areas?*

Like all financial institutions, we have for some time worked to adapt our systems and working practices to accommodate the new currency. As all financial institutions know, the arrival of the euro requires adjustments in a range of systems and practices, notably those related to payment and settlements. We are also developing new financial instruments to accommodate changes that the euro will bring in central banks' reserves management practices and preferences. In this regard, our ways of working will change in that a number of existing currencies and investment vehicles will change characteristics, as we begin to operate in instruments of the euro financial markets. The BIS also maintains large data bases for central banks, including the ECB, and these have had to be modified technically, conceptually, and presentationally.

With the arrival of the euro, central banks in Europe will hold fewer liquid foreign exchange reserves than in the past and may want to place funds at longer maturities. European central banks have always accounted for a good share of deposits at the BIS, and we will naturally seek to accommodate such a change in their investment preferences.

(> 8)



31 December will mark the start of "the longest week-end"

After months of expectation, Thursday 31 December of this year will be a key date. While most European citizens will be preparing to celebrate New Year's Eve, the economic and financial world will be bustling with activity.

According to article 109 L paragraph 4 of the treaty, the irrevocable euro conversion rates will be fixed by the Council based on a proposal by the Commission and after consultation with the European Central Bank (ECB) on the first day of phase three of Economic and Monetary Union (EMU), that is to say, 1 January 1999.

The method to be used to fix these irrevocable conversion rates was decided on 3 May 1998 in Brussels by finance ministers, central bank governors, the Commission and the European Monetary Institute. The aim was to provide markets with reference points as the historic date approached. This method involves "the present bilateral pivotal rates in effect within the European Exchange Mechanism (EEM) being used to fix the irrevocable euro conversion rates for the currencies of the Member States which will adopt the euro as their single currency on the day phase three comes into effect. These rates are in conformity with basic economic data and are compatible with a lasting convergence of the Member States participating in the euro zone". The central banks of the participating states will be making sure, through the use of appropriate market techniques, that on 31 December 1998 the market exchange rates recorded according to the usual consultation procedure used to calculate the daily exchange rates for the official ecu, are identical with the EEM bilateral pivotal rates defined on 3 May.

This procedure guarantees that the fixing of the irrevocable conversion rates will not modify the external value of the ecu which will be replaced by the euro at a ratio of 1:1. The official ecu rates published on 31 December will be proposed by the Commission as the irrevocable conversion rates for the euro with the participating currencies. These rates will be adopted by the Council "on the day phase three comes into effect, 1 January 1999".

Does this mean that the Council of Ministers will therefore have to meet on the night of 31 December in order to adopt on 1 January at 00.00 the rates proposed by the Commission. The answer is no. The matter was settled at the informal Ecofin of 26 September at Vienna: the necessary Council ruling will be adopted, after consulting the ECB, during the afternoon of 31 December. It will then be published

in the *Official Journal* of 31 December and will enter into force at 00h00 on 1 January.

At the moment *InfEuro 11* was going to press, the foreseen sequence of events for 31 December 1998 was the following. It is hinged on three milestones :

- **12h30 — The Commission adopts the Regulation proposal to the Council**
Further to the usual consultation procedure between the Central Banks, the exchange rates needed for the calculation of the ecu official rates are communicated to the Commission. These rates will become the Commission's proposal for the irrevocable conversion rates for the euro with the 11 participating currencies. They will be included in the Regulation proposal that the Commission will adopt at 12h30 and then transmit to the Council.

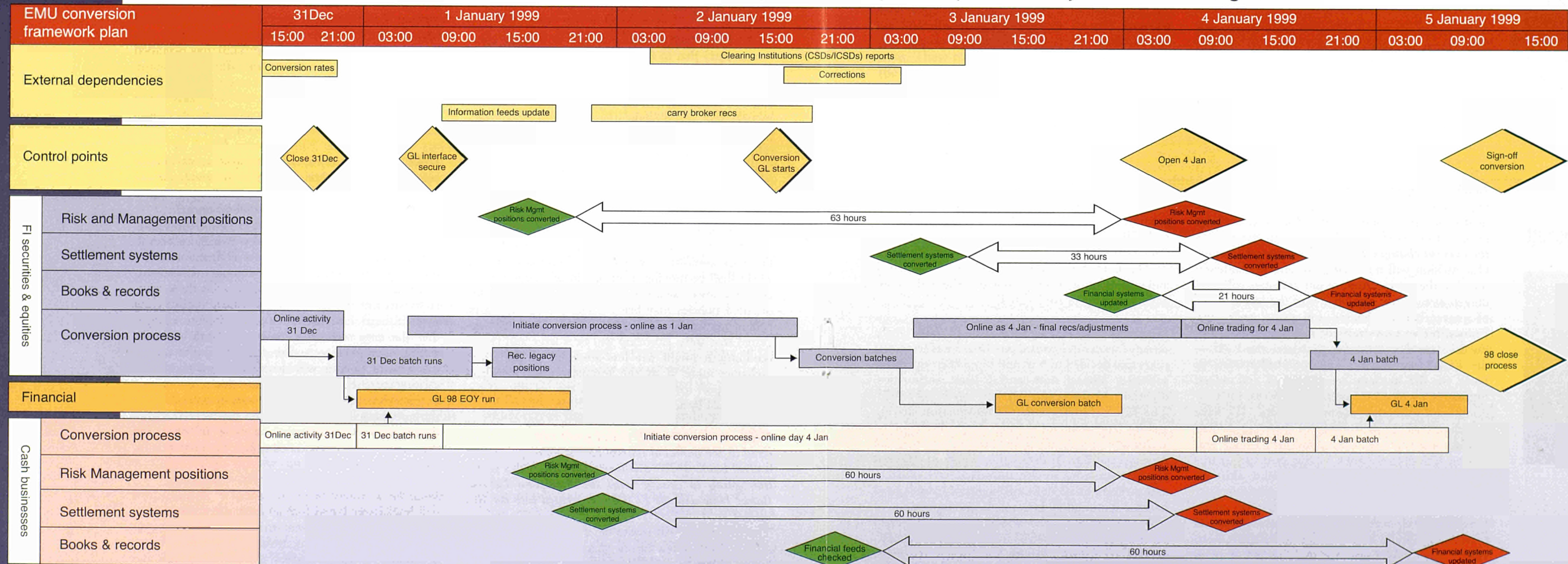
At the same time, the list of proposed conversion rates are made public by DG II via Telerate (page 3287) and Reuters (page locking), Internet (on DGII and DGX web sites — <http://europa.eu.int/euro-birth>) and by fax and e-mail to the Ministries

of Finance and the Central Banks. Finally, the Commission's Spokesman's Service organises the release of the information to press agencies and will hold a press conference.

- **13h30 — The Council adopts the Regulation fixing the euro conversion rates**
After receiving the opinion of the European Central Bank on the Regulation proposal, the Council of Finance ministers meeting in Brussels adopts the Regulation fixing the irrevocable exchange rates between the euro and the 11 participating currencies at 13h30. These rates are published by the Commission via the same channels as those used for its Regulation proposal to the Council.

- **18h00 — The Regulation is published in the Official Journal**
Finally, at approximately 18h00, the regulation fixing the irrevocable conversion rates of the euro with the 11 participating currencies is published in the *Official Journal* in Luxembourg. The conversion rates will come into force at 00h00 local time on 1 January 1999. (> 8)

Even the British feel concerned: here is the work plan of a City financial operator published by the Bank of England



Source: JP Morgan Bank of England, practical issues

(<6)

General mobilisation in financial services

During the long week-end from 1 to 4 January it is obvious that financial professionals will be sitting on hot coals. Certain teams that are normally skeleton-staffed during this holiday period will even be given extra manpower.

As soon as the irrevocable conversion rates for the euro are communicated during the afternoon of 31 December, they must be introduced into the computer systems which must be fully operational from then on. Securities management systems, for example, will need to be brought up to date, whilst making sure that the new positions are correct. All of Europe's financial institutions will have to work in the same direction, with securities custodians needing to communicate their new positions to their clients and have them check and possibly validate them. Banking institutions will also have to convert into euros, in particular the accounts of their clients (undertakings or individuals) who have expressed the wish to switch over at the very beginning of the third phase of the EMU, according to the principle "no compulsion, no prohibition".

At the end of the week-end, on Monday 4 January, a large mass of monetary and financial market operations will take place in euros. New public loans

and monetary policy will have to be in euros. Financial transactions, especially on the financial market, will be made in euros through the European Central Bank clearing system (TARGET), amongst others, which will connect the different national clearing systems in an integrated European system. Private operators will not be obliged to switch over, but many of them will elect to do so at this moment. All the stock exchanges of the euro zone have decided to list, trade and process securities in the single European currency from 4 January, and the stock exchanges of London and Stockholm, among the countries that are not participating, will offer the possibility of quoting certain securities in euros.

"It is true that the work load will be very heavy, but we have been preparing for it for a very long time", comments Frank Stockx, in charge of the Euro Project for Belgian bank BBL (ING group). "All our programmes have already been tested very precisely so that we may be assured they will function perfectly as soon as the conversion operations actually begin". The success of the transitional operations from 31 December to 4 January could not have been ensured without the energetic, highly efficient and devoted efforts of thousands of people over many months.

(<5)

Andrew D. Crockett



Inf€ *One of the essential missions of the BIS is to promote the co-operation of central banks and to provide additional facilities for international co-operation. Is this mission going to evolve with the current changes within the European Union?*

Our mission will not change in any fundamental way, but the composition of our activities will, and indeed already has, changed over the last number of years. Having hosted for many years the Committee of Governors of the central banks of the EU member countries, and later the EMI — the ECBs forerunner — at our headquarters in Basle, the BIS has long been aware of, and indeed intimately involved in, preparatory work for economic and monetary union in Europe. We have therefore had ample warning of the changes that would come when the focal point for co-operation among EU central banks — our principal shareholders by voting capital — would shift to Frankfurt.

Given the integration and globalisation of financial markets, a natural response for the Bank was to seek a more global orientation. The first steps in this direction were an expansion of Board representation in 1994 to include the US Federal Reserve, the Bank of Japan, and the Bank of

Canada, and, as I mentioned earlier, the expansion of the Bank's shareholdership in 1996. A further manifestation of this orientation was our decision to open a Representative Office for Asia and the Pacific in Hong Kong in July this year. This will enable us to deliver our services more efficiently and conveniently in a region where the bulk of our new shareholders are located.

While most of our services are and will remain directed at central banks, our Board has in recent years also decided to host and support co-operative activities among non-central bank authorities, especially in the regulatory and supervisory field. The BIS has long promoted information sharing among, and standard setting efforts by, national authorities as a means of buttressing international financial stability. As distinctions between different types of financial service providers have blurred, and markets in all types of financial services have become increasingly integrated, the importance of co-operation among a wider circle of national supervisory and regulatory authorities has expanded. We are fortunate to have had long experience in accommodating work of this sort, perhaps by virtue of being the world's oldest international financial institution.

Instructions for banks in the euro zone

In September, the European Central Bank (ECB) finalised the procedures which govern its relations with the financial sector in the eleven Member States participating in Economic and Monetary Union (EMU). In this way the guardian of price stability is providing instructions for financial institutions established in Euroland in order to allow them to fine-tune their preparations in the run-up to 4 January 1999. On this date, the ECB will launch its first short-term refinancing operation, which will be followed on 12 January by the first long-term refinancing operation. These operations will enable commercial banks to obtain funds from the ECB in exchange for depositing appropriate securities as collateral.

Amongst the most important decisions taken at the end of the Summer was the confirmation of the mandatory reserves that financial institutions operating in the euro zone will have to deposit with the ECB. The full list of institutions subject to the mandatory reserve system was published in October. The aim of this decision is, firstly, to stabilise interest rates on the money markets by making the system more able to absorb liquidity shocks. Secondly, it is intended to increase the level of liquidity in the banking system covering the European System of Central Banks (ESCB), whose role as the main provider of liquidity within the euro zone will thereby be reinforced. Reserve levels will be set at between 1.5% and 2.5%, and will apply to deposits, to debt securities and to money market paper issued by credit institutions. These reserves will bear interest at the rate of the ESCB's main refinancing instrument.

As of 1 January the ECB will have powers to sanction financial operators who do not respect their

obligations towards it. The penalties will take a variety of forms: payment of a fine based on the missing reserves; the requirement to place non-interest-bearing deposits at the ECB or the national central bank of the country of establishment; the suspension of relations between the ECB and the defaulting institution; and even exclusion from monetary policy operations. However, the imposition of these sanctions will not be automatic, but subject to a review of the circumstances under which the violation was committed by the institution concerned.

The ECB has also adopted a system for gathering the statistics required for pursuing its monetary policy. This will enable it to create aggregate statistics that give an overall picture of the monetary union as a single economic entity. The need for full information means that all institutions in the financial sector, especially credit institutions, will be required to provide information to the ECB on their monetary flows and positions, mainly via the central bank in their own country. Sanctions are also applicable in the event of a failure to respect these obligations.

Having taken these three important decisions, the ECB has been able to define its intermediate monetary policy objective. It is a combination of money supply targeting, on the Bundesbank model, and of direct inflation targeting, as used by the Bank of England. Other parameters, such as expected inflation and capacity usage will be taken into account when making decisions. Finally, the ECB, according to the definition of its role in the Treaty, defined price stability as a rate of inflation equal to or less than 2% a year. ■



Welcome to Luxembourg's new Central bank

On 1 June 1998, the Grand Duchy of Luxembourg transformed its Luxembourg Monetary Institute (IML) into a national central bank. The reasons for this change are directly linked to the forthcoming introduction of the euro and, more generally, to the creation of the European System of Central Banks (ESCB).

Amongst the Member States of the European Union, the Grand Duchy was until recently the only country with no real central bank of its own. Since 1922 it has been part of a monetary union with Belgium within the framework of the Belgo-Luxembourg Economic Union (UEBL). This institution was governed by a Luxembourg monetary law fixing the exchange rate between the Belgian franc and the Luxembourg franc at one-to-one parity. The national bank of Belgium assumed several central bank functions on behalf of Luxembourg through its branch in Luxembourg.

However, with the launch of the third phase of Economic and Monetary Union on 1 January 1999, the situation will be completely changed. Firstly, since monetary and exchange rate policy will fall under the exclusive competence of the European System of Central Banks as from this date, the UEBL will serve no further purpose in monetary terms. Work is currently

under way to ensure a smooth transition from this bilateral arrangement to EMU. Secondly, the Grand Duchy, in which the IML never fully exercised its role in matters of monetary and exchange rate policy, will need to arm itself with the instruments required for implementation of the common monetary and exchange rate policy.

Compared with other Member States in the euro zone, which had to content themselves with adapting their legislation and the statutes of their central banks to make them compatible with the statutes of the ESCB, the Grand Duchy will have to make a particularly significant effort. The heads of the brand new Central Bank of Luxembourg make no secret of the fact that the workload over the past few months has been particularly heavy.

The Central Bank of Luxembourg, created by the transformation of the IML on 1 June 1998, was immediately integrated in the European System of Central Banks. Its independence, which is a vital condition for the proper operation of the ESCB, fully complies with the Treaty. In order to guarantee this, it was necessary to adopt a new law which includes in particular a modification to the possible reasons for dismissing members of the management.



Denmark, Greece, The United Kingdom and Sweden: the state of preparation of the “pre-ins”

Eleven Member States of the European Union were authorized on 2 May 1998 to participate in the launching of phase three of Economic and Monetary Union on 1 January 1999. The United Kingdom, Denmark, Sweden and Greece will not join the euro zone at this date. They may nevertheless do so subsequently, providing they satisfy the convergence criteria. In this case, the decision of admission will be formally taken by the European Council, based on a proposal by the Commission. However, although these states are not members of the EMU, they are already prepared to be the neighbours of a major monetary zone, the economic weight of which will be comparable to that of that of the United States.

The Greek government has presented a convergence programme for the period 1998-2001, the principal aim of which is precisely to meet the conditions permitting full participation in the euro from 2001 onwards. The European Commission evaluated this programme at the end of September, in the context of the new procedures introduced by the stability and growth pact for supervising the economic and budgetary policies of the countries not participating in the euro zone on 1 January 1999. This programme meets, overall, the requirements of the stability and growth pact, and it reiterates the Greek government's undertaking to apply all the budgetary measures and structural reforms that it announced when the drachma entered the European exchange mechanism on 16 March 1998. The Commission stated in particular that the budget programme seemed to be working out according to plan and that the Greek authorities had announced new, and more ambitious, budgetary targets for 1999 (deficit of 1.7% of GDP instead of 2.1%). At the summit of the Ministers of Finance held at Vienna in September, Greece also took its place as a participant in the EMS-II (European Monetary System) starting in January 1999. The Greek drachma will be able to fluctuate within the limits of 15% on either side of its euro parity. This summer the Greek government also finalized its plan of legislative, administrative and regulatory adaptation.

The United Kingdom has informed the Council that it does not intend following phase three of EMU on 1 January 1999, although it is in agreement with the principle of joining the euro zone later. For the present, the pound sterling will fluctuate freely in relation to the euro. A request for membership, followed by a referendum, could be submitted following the next parliamentary elections, which are due in spring 2002 at the latest.

However, preparations are already well under way in the United Kingdom where a national “changeover plan” should be published early next year. Work groups representing all economic sectors and the civil service have been formed. The “euro team” formed within the British Treasury is the largest in any of the fifteen Member States. Campaigns to heighten public awareness are being organized in order to familiarize citizens and economic agents with the euro. The British financial community is already prepared: in the City, for example, the London Stock Exchange has concluded an agreement (open to other European stock exchanges) with its counterpart in Frankfurt for trading major European securities in euros.

Denmark has also announced it will not be participating in phase three of EMU on 1 January, thereby conserving its entire independence in the domain of monetary policy. In mid-September, speculative attacks against the Danish crown led the central bank to raise interest rates, whereas in the euro zone, by contrast, interest rates are gradually diminishing. The Danish Minister of Economy and Finance, Marianne Jelved, emphasized that these speculative pressures were linked to her country's non-participation in the launching of the euro. Nevertheless, the Danish government has kept a side door open: the Danish crown will participate in EMS-II, with narrow fluctuation limits of 2.25%. The Danish economic players are preparing to process certain operations in euros. The Copenhagen stock exchange has, for example, proposed to introduce and trade securities in euros on 4 January 1999. The Stock Exchange will also propose share quoting in euros in the second trimester of 1999, when switching to its new SAX 2000 transaction system.

Not only will Sweden not participate in the euro on 1 January 1999, like the United Kingdom, it will not take part in EMS-II either. Last September's parliamentary elections failed to give a political majority in the Rikstag openly in favour of Sweden's rapid entry into the euro zone. While awaiting a political decision of this nature, and with the country's economic indicators showing in particular a low inflation rate and public indebtedness to be under control, Swedish undertakings have not been inactive. A multinational company such as Ericsson, for example, whose main market outside Sweden is Europe, has long since integrated the euro into the definition of its strategy, in order to take full advantage of the many opportunities it has to offer. It is by no means alone in taking this initiative. ■



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What future is there for the CFA franc after the euro?

On 1 January 1999, the national currencies of eleven Member States will be replaced by the euro. The Community will have sole competence in matters of monetary and exchange rate policy in these eleven countries, and any agreement with third countries concerning monetary and exchange rate matters must take into account this transfer of competence. So, as from this date, what is to become of the agreements which currently guarantee the convertibility of the CFA franc and the Comorian franc with the French franc? Will maintaining these agreements influence the conduct of the common monetary and exchange rate policy within the euro zone?

The Council has decided that these agreements do not have any impact on the euro zone monetary policy and that they can therefore be maintained. However, the Community must be regularly informed of their implementation and any planned changes. If such changes affect the nature or the scope of the agreements, it is up to the Council to approve them, on the recommendation of the Commission and after consultation with the European Central Bank (ECB).

France has concluded several agreements with the West African Economic and Monetary Union (UEMOA), the Central African Economic and Monetary Community (CEMAC) and the Comores. These agreements define, for the CFA franc (issued by the Central Bank of West Africa and the Central Bank of Central Africa) and the Comorian franc (issued by the Central Bank of the Comores), a fixed exchange rate with the French franc. The guarantee of convertibility for the CFA franc and the Comorian franc is based on a budgetary commitment by the French Treasury: each of the central banks concerned keeps an operating account with the French treasury,

which in principle grants it an unlimited overdraft facility. In exchange, the central banks are required to deposit at least 65% of their external assets on their operating account. These agreements, the French authorities stress, have no significant financial implications for France. The Bank of France, for its part, which will form an integral part of the European System of Central Banks system (ESCB) as from 1 January 1999, is not required to guarantee the convertibility of the CFA franc and the Comorian franc. Maintaining the existing agreements should not therefore affect the operation of EMU.

The Council Decision therefore provides that France can maintain these agreements after the replacement of the French franc by the euro, and that signatory countries will retain their responsibility for implementing them. Nevertheless, France must inform the Commission and the Economic and Financial Committee of their implementation and any development likely to influence the functioning of the single monetary and exchange rate policy. It must also inform them in advance of any amendment to the current agreements where the nature or scope of these agreements is not changed. If the planned amendment modifies the nature or scope of the agreements, the French authorities must submit it to these bodies and the plan must be approved by the Council on the recommendation of the Commission after consultation with the ECB. The French authorities must inform the Economic and Financial Committee in advance of any change in the exchange rate between the euro and the CFA and Comorian francs.

If these conditions are respected, the Council believes that it is desirable to maintain these agreements, and both France and the signatory African countries unanimously wish to retain them.



An original campaign to familiarize french council housing residents with the euro

One of the goals adopted by the French National Union of Federations of Council Housing Organisations (UNFOHLM) as part of preparations for the switch to the euro (1) is to develop a favourable attitude towards the euro on the part of council of housing tenants. With 25% of French families living in low-cost council housing, this is a large-scale project.

The project will take the form of a five-point communication campaign:

- a strip cartoon book to be delivered to every letter-box;
- publicity sheets with extracts from these cartoons, which will be displayed in the staircases;
- an informative teaching manual for guardians;
- a video for guardians and proximity service staff;
- tailor-made material for certain specific groups such as elderly people, students, young workers and handicapped persons. This material will be developed in cooperation with local associations.

This project is aimed at a broad public and will make it possible to distribute community-oriented information which is close to the ground

and to the concerns of the groups in question. Its social content is obvious, inasmuch as it is aimed at so-called vulnerable classes (elderly people, low income groups, etc.). Furthermore, it gives pride of place to dissemination by the guardians of the buildings, who are considered to be "trust mediators".

For these reasons, the project has received the support of the European Commission, who are co-financing it via a partnership agreement with the French Ministry of Economy and Finance. In the future, it could inspire similar projects in the other Member States.

(1) The UNFOHLM held a one-day professional congresses on the euro in June 1997 and January 1998, and has set up thematic workshops on the IT, legal, accounting and financial aspects. A workshop on the euro was attended by 200 persons in charge of HLM organisations in Marseilles, during the annual UNFOHLM Congress last September. The UNFOHLM is also distributing a "Euro Changeover Guide", and a free-phone number enables HLM office staff to ask questions on the subject. ■





A Euro label in the shops



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A new logo will soon be appearing in Europe's shops in order to strengthen consumer confidence in the changeover to the common currency. This logo, identical in all the States of the euro zone, will permit consumers to "talk euro" in full confidence with their shopkeepers. It will guarantee that the professionals they are speaking to have voluntarily undertaken to respect six precise rules in their relations with their clients as regards the use of the euro:

- Absolute respect for the conversion and rounding-up rules in the double indication of prices and values, bills, totals, and conversion tools;
- No extra cost for the consumer who chooses to pay in euros;
- Availability of information on the way the euro is being introduced;
- Double indication of prices in euros and in the national currency from the beginning of 1999 and, in a growing crescendo, until 2002;
- Training of staff who are in contact with customers;
- Possibility of paying in euros.

This new logo is the result of an agreement signed on 30 June 1998 under the auspices of the European Commission between representatives of consumers, of the blind and the visually handicapped, and of the European associations of professional distributors and tourism specialists. Any professional person who so

wishes may undertake individually to respect these rules, and may then display this logo which gives the consumer the necessary security. In order to strengthen this security, the negotiators have established a system of supervision and of penalties in the case of abuse. They have also decided to meet annually in order to assess how this agreement is working. The Commission will keep an eye on the efficiency of this system, and could adopt laws if these measures are proved insufficient.

The practical application of this agreement (distribution of the logo, information, supervision) is the task of the Member States and the national associations of consumers, professional distributors and tourism specialists. In a number of Member States the process is already under way.

Commissioners Emma Bonino, responsible for consumer policy, Christos Papoutsis, responsible for small and medium-sized enterprises (SMEs), and Yves-Thibault de Silguy, responsible for economic, monetary and financial affairs, have emphasized the importance of this agreement which "reflects the common interest of consumers and professionals in establishing a climate of confidence at the time of the changeover to the euro, and constitutes one more step towards the instituting of the euro".