

Inf€uro

NUMBER 17 / EN

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By Commissioner Solbes

The Euro is now a fact of life in the European economy

No major change in society can be secured without well thought-out information and communications activities. With the change-over to euro notes and coins not much more than a year away, the time has come for the Commission and the Member States to step up their efforts to ensure that citizens, companies, local authorities and public administrations are as well prepared as possible for that landmark event.

Since the beginning of the year, the Commission has intensified its action with a view to supporting and coordinating Member States' information campaigns and joining with the European Parliament and the ECB in initiatives for securing our common objectives. With *Inf€uro* as one of its tools, the Commission's information policies will be directed at:

- Encouraging small and medium-sized enterprises to be ready to use the euro well before 1 January 2002. They cannot legally choose a later date and leaving it to the last moment is a big gamble that could damage a business ;
- Recommending a more effective use of dual display of prices both to reassure consumers that conversions to euro are being made honestly and also to help them learn euro values ;
- Generating increased use of the euro before the introduction of notes and coins. This will help to avoid bottlenecks in early 2002 while also familiarising people with the euro ;
- Giving a major priority to the needs of groups that have difficulty accessing information such as the blind, the handicapped, the elderly and the poorly educated ;



- Making sure that people understand the details of the final changeover, for example, quite a few are still confused about when it will no longer be possible to pay in national currency. Some of these themes are dealt with in this issue of *Inf€uro* and we shall undoubtedly be returning to them in future issues.

Besides its efforts to raise knowledge and awareness of the changeover to the euro, the Commission is actively monitoring progress in the preparations for the €-days, is encouraging Member States to ensure that the measures needed for a smooth changeover will be taken in time, and is promoting best practices between Member States. It will soon adopt a recommendation on specific actions with a view to increasing the use of the euro and accelerating the preparations for the introduction of euro notes and coins.

The euro is now a fact of life in the European economy and some of its benefits are already coming through. These are important achievements to have been registered in the short time since the launch of the single currency on the first day of 1999. We must now crown this growing success with a smooth and trouble-free introduction of euro notes and coins. ■

From a virtual currency to the coin in your pocket

There is barely one year to go before the citizens of the EU will be able to use euro notes and coins. So now is the moment to take stock of this unique "big bang" in monetary history.

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Internet Site

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“What will happen to a firm that is not ready for the deadline of 1 January 2002?”

The various polls and studies conducted are unanimous: SMEs are still not sufficiently ready for the introduction of the euro. It is in this context that publication by the Federation of European Accountants (FEE) (1) of two documents specifically addressed to SME managers should be looked at.

The Eurogroup : a brief description

The Eurogroup is an informal grouping of the Economics and Finance Ministers of the Member States participating in the euro zone. It was established on the occasion of the Luxembourg European Council in December 1997 when the Heads of State and Government decided that the Ministers of the Member States participating in the euro zone could “meet informally among themselves in order to discuss questions relating to the specific responsibilities which they share as regards the single currency”. The Commission and, where necessary, the European Central Bank are invited to participate in the meetings. The European Council also stated that, whenever questions of common interest are involved, these will be discussed by the Ministers of all the Member States and that, whenever a decision has to be taken, this will be done by the ECOFIN Council and in accordance with the procedures laid down by the Treaty. The Eurogroup usually meets immediately before an ECOFIN Council meeting.

The aim of the FEE is clear: it is to emphasise the risks that will be run by firms which wait until the last minute before switching over to the euro or which will not be ready for the deadline of 1 January 2002. These firms will encounter real difficulties in ensuring continuity of their operations: such is the immediate warning given by the FEE, which is conducting a survey of the various problems which could arise (2).

To be lawful, book-money financial transactions will have to be carried out in euros as from 1 January 2002 since the national currency units will then have ceased to exist and, depending on the country involved (see table on page 6&7), only notes and coins will still be legal tender for a number of weeks. And so firms which have not switched over to euro accounting by that date will inevitably be faced with situations involving disputes with the various parties they deal with: suppliers and customers, of course, but also their employees, who will have to be paid in euros, as well as various public administrations such as the VAT administration and social security bodies. From a purely practical point of view, it will therefore be almost impossible for a firm to hope to operate on an internal basis – even temporarily – with a national currency unit and at the same time to fulfil its obligations to the external parties it has to deal with.

The FEE also explains in particular the risks of a loss of competitiveness for firms that are insufficiently prepared and therefore incapable of correctly indicating a price policy in euros, especially if they do business in a highly competitive market with tight margins and high volumes. In such scenarios, the risk of miscalculations due to errors in the currency change-over process will not only be real but also potentially dangerous.

In a second document (3), which also focuses on the absolute need to anticipate and plan the change-over to the euro, the FEE analyses the IT impact of the change-over, starting from the principle that the point at issue is not simply a software or accounting problem. While the change-over probably entails less work for an SME than for a large company, the actual scale of the task should not be underestimated. Waiting until the last minute could expose a firm to problems not only of a practical but also of a financial nature since employing outside consultants could prove to be very expensive during the final quarter of 2001.

The changeover is a process, not an event

The message from the FEE is thus an urgent one: every firm must make the change-over by 31 December 2001 at the latest. This operation should therefore be planned very carefully, not only because of its impact on a firm's competitive position but also because of the need to convert all its operational and financial systems so as to bring them into line with the very many legal and contractual requirements which they will not be able to avoid as from that date. ■

(1) *The Federation of European Accountants is a body representing the accountancy profession in Europe.*

It has as members the 38 main institutes of accountants in 26 countries, including the 15 members of the EU. Its address is: FEE, Rue de la Loi 83, B-1040 Brussels, Belgium.

Internet: www.fee.be

(2) *“Changing to the euro – what happens to a company if it is not ready at 1 January 2002?”.*

(3) *“Changing to the euro – accounting and financial software issues for small and medium sized enterprises (SMEs)”.*

50 billion coins and 14.5 billion notes have to be produced!

With a view to their actual introduction on 1 January 2002, the work of producing euro notes and coins is making great progress. The task is quite out of the ordinary: 50.3 billion coins will have to be minted and 14.5 billion notes will have to come off the printing presses. With the exception of Luxembourg, which has entrusted this task to the Dutch Mint, each Member State will mint its own coins, while the production of notes will be the responsibility of central banks. At the halfway stage the production timetable has been adhered to. Greece obviously began its production later, following the decision taken by the Council on 19 June this year relating to adoption by Greece of the single currency on 1 January 2001.

Strict measures aimed at combating counterfeiting

The definition of the characteristics and quality standards for the notes and coins was, of course, the subject of major preparations involving many partners, including the vending machine industry, the blind and consumers. In the case of vending machines in particular, there is some justification in saying that the new euro coins resulting from those preparatory discussions will ultimately be safer than any of the national coins currently in circulation thanks to the combination of safer material composition and more detailed and generally tighter specifications than those for national coins in circulation. Quality control is ensured by very strict quality assurance procedures under the control of the European Central Bank (ECB).

By its very nature, this level of quality for the notes and coins (which also incorporate the most sophisticated authentication and security features) guarantees the best protection against counterfeiting. Nevertheless, in view of its worldwide importance, the euro could clearly become a preferred target for counterfeiters. For this reason, the European institutions and Member States have taken further measures to strengthen protection for the single currency.

These include the convening by the Commission (OLAF or the European Anti-Fraud Office) at the beginning of 1998 of a group of experts composed of representatives from national police forces, the ECB, Europol and Interpol in order to examine the risks of counterfeiting and measures to be taken against it. In April 1999 the Council extended Europol's mandate to include combating forgery of money and means of payment. In May 2000 it also adopted a framework decision aimed at increasing protection against counterfeiting and

providing in particular for effective, proportionate and dissuasive penalties: counterfeiting in the form of the fraudulent making or altering of currency will be punishable by a term of imprisonment of at least eight years.

As regards the technical aspects of combating counterfeiting, Member States and the Commission, in conjunction with the ECB, have devised arrangements for handling counterfeit euro coins. Each Member State will establish a National Coin Analysis Centre which will conduct an initial analysis of suspect coins. The centrepiece of the scheme is the European Technical and Scientific Centre (ETSC), which will be provisionally established in France and will analyse and classify new counterfeit coins. At each of the national central banks, a National Counterfeiting Centre will provide the link with the ECB which is preparing a database on both note and coin counterfeits.

The tradition of commemorative and collector coins to be maintained

The issuing of collector coins forms part of a long tradition and should therefore be allowed to continue without impediment following withdrawal of coins denominated in national currency units. However, with a view to avoiding any confusion in connection with the introduction of the new coins, Member States have agreed on a number of common rules. Unless otherwise provided for in temporary regulations adopted by the competent authorities, collector coins will be legal tender in the issuing country alone. To ensure that they are readily distinguishable from euro coins intended for circulation, collector coins must differ as regards face value, design and some physical properties. The identity of the issuing Member State will have to be clearly and easily recognisable.

With a view to avoiding any confusion for the public, Member States have also been called upon not to issue euro-denominated collector coins or coins with a dual euro/national currency denomination before the end of 2001. Moreover, various measures will also ensure that confusion is avoided in the commercial field: in particular, collector coins, medals and tokens which bear the words "euro" or "euro cent" or show a design similar to that appearing on a euro coin are banned for commercial purposes.

Finally, Member States have agreed on a moratorium on the issue of commemorative coins intended for circulation during the early years of euro note and coin circulation. ■



Preparations for the euro – From 1995 to 2002

The reference scenario for the changeover to the single currency was adopted by the Madrid European Council in December 1995. The legal framework was spelt out by the Council Regulations of June 1997 and May 1998. The Member States of the euro zone then adapted their legislation in preparation for the arrival of the euro. This enabled financial markets to make the changeover on 1 January 1999 and firms to use the euro in their financial statements, in denominating their capital and in their tax returns. Mention should also be made of the Commission recommendations of April 1998 regarding bank charges for conversion, dual price displays and information concerning the euro. In addition, there were the initiatives of the European Central Bank, which established regular contact with the representatives of the main users of the euro. Since then, all the Member States have been drawing up their scenarios for the introduction of euro notes and coins on 1 January 2002, when this whole process will come to an end with a twofold challenge: switching over to the euro, and the dual operation of putting euro notes and coins into circulation and withdrawing the notes and coins denominated in national-currency subdivisions.

Businesses

Contrary to expectations, there has been no “snowball” effect spreading from large to small firms. The latter are not great users of the euro. The share of the euro in payments by firms in the euro zone has increased to 25% although, according to statistics published in April 2000, payments in euros account for only 2.4% of transactions in volume terms. This discrepancy between payments in value and volume terms clearly shows that SMEs are lagging behind. According to a study carried out at the beginning of the year 2000 (“Europe’s Response to EMU” by KPMG), 15% of SMEs were ready at the time to carry out all their operations in euros and 25% said they would be ready by the end of 2001 while 50% considered that the changeover would be possible only in 2002 (see the article on page ... concerning preparations by SMEs). In the case of large firms, preparations are more advanced: 40% would like to make the changeover this year while 20% have already done so. Overall, communication efforts are essential if the process is to be speeded up.

The public

For the public, the impact will be greatest in 2002 because overnight they will find themselves in a completely euro environment and with a short period in which to adapt (see the table for the dura-

tion of dual circulation in individual countries). This is why it is important for people to acquaint themselves with the euro right away. Until now, use of the euro by individuals has been limited: 2.4% of payments in volume terms within the euro zone and 13% of cross-border payments (figures for the first quarter of 2000). At that time, euro-denominated accounts represented less than 1% of the total number of accounts in most of the participating countries.

Banking instruments:

It is interesting to note that French and Belgian banks are preparing to switch their customers' accounts to the euro as from July 2001 unless the latter specifically request otherwise. As regards payment terminals, 45% of the machines in the euro zone (with the exception of Austria, Ireland and the Netherlands) were accepting payments in euros in April 2000. It is important that all consumer-oriented devices be developed in such a way that the public will be set to use the euro more intensively before 31 December 2001.

Dual display of prices:

The decision to display prices in two currencies (the euro and the national currency) has been left to traders. The results are satisfactory, ranging from 30% in Ireland to 81% in Luxembourg. Only Austria has decided to make dual pricing mandatory as from 1 October 2001. The principle of reverse dual display has begun to gain ground.

Vulnerable social groups

Under “The Euro Made Easy” programme, the Commission has been working with associations of people who could be excluded from information flows (the elderly, the economically and socially disadvantaged, the blind and partially sighted, the deaf and the hard of hearing, people with physical and mental disabilities, and migrants). Various suitable training and information tools were tested during pilot operations and are now available to Member States. In addition to the national initiatives, mention can be made of the training packs which will be prepared by the European Central Bank in the autumn of 2000. The various campaigns need to be stepped up.

Public administrations

At national level, most Member States in the euro zone have authorised optional use of the euro since January 1999 for nearly all financial flows and for financial statements to the public authorities.

IRIS: Information Campaign for Women on the Euro

This project, funded by the PRINCE Programme and co-ordinated by IRIS asbl, has been under way since September 1999. IRIS asbl, a Brussels-based Europe-wide training network focusing on equal opportunities and diversity issues, and its partners in Belgium, Italy and Germany are currently developing an information campaign on the euro for women that specifically addresses their needs and concerns.

Following an extensive recruitment campaign in women's magazines in each partner country, a series of creative workshops for women were held in Belgium, Italy and Germany between March and June 2000. Women from a range of backgrounds attended. Their views, feelings, concerns and hopes have fed into the overall design and content of the information campaign.

Uncertainty, scepticism, anxiety but also excitement and optimism were the mixed bag of emotions expressed by participants. They knew the euro was coming but few wanted to prepare themselves this far in advance and they felt there was still time to adapt.

The general opinion was that women and men react differently to the introduction of the euro. Women are more resistant to its introduction than men, and are unwilling to make the necessary



On the other hand, virtually all of them have chosen to switch over their accounts to the euro only at the end of the transitional period. By then, Member States will have a definite interest in rapidly adopting the additional regulations and in encouraging to an even greater extent firms and the public to use the euro. Even if the changeover is a matter for Member States, mutual information and exchange of experience are very useful. This can be done through CIRCA, an extranet tool developed by the Commission.

Local authorities have a key role to play. Firstly, they have to prepare themselves for the changeover. According to a survey conducted by the Commission, the process appears to have got off to a good start, with 64% of them having already organised training for their staff and with most of the others planning to do so during the second half of 2001. Furthermore, over half of the

authorities questioned said that they were using euro-compatible software. It should be noted that authorities which wait until the second half of 2001 to adapt their tools could encounter practical difficulties. A majority of local authorities are also accepting payments and returns in euros. Secondly, local authorities are particularly well placed to raise public awareness and they are already doing this extensively, with 55% of them having already conducted general information campaigns and with one-third of them having experience of working with vulnerable social groups. ■

See in this connection the Commission Communication to the European Parliament, the Council, the Economic and Social Committee, the Committee of the Regions and the European Central Bank entitled "Practical aspects of the euro: progress report and tasks ahead" (COM (2000) 443 final of 12 July 2000).

mental adaptations before they have to, that is, until the euro coins and banknotes are in their hands.

So far, dual pricing and use of the euro symbol have not been sufficient to encourage most women to think in terms of the euro and learn to adapt to a euro environment.

But many also said that the euro represented a "common point" which brought the participating EU countries closer together. For them, the euro will facilitate working and travelling within the euro zone and contribute to bringing a change of attitude reinforcing the European identity.

Alongside the workshops, a competition for the best slogan in each country was launched. The winning entry from Italy was "Euro mette in tasca un nuovo valore" (The euro puts a new value in your pocket). The winning entry from Belgium was "L'Euro, l'Europe au quotidien" (The euro, everyday Europe). There was no winning entry from Germany and the slogan competition has been relaunched in that country and will last until the end of September 2000.

The IRIS information campaign, comprising a highly visual booklet and a series of posters, will be ready in Autumn 2000. It will be conducted amongst the media, women's magazines, women's organisations and non-governmental organisations across Europe during the run-up to the introduction of the euro in 2002. ■

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"Hello Europe, exchange free of charge"

Tourists from the Member States of the European Union who have spent their holidays at the seaside resort of Bellaria Igea Marina in Italy have had the opportunity of benefiting from a first: they can change their currencies without having to pay a charge. For some months now, the Banca di Credito Cooperativo Romagna has been converting all Union currencies into lire without any charge whatsoever to its customers and even to others. And tourists can do the same free of charge in several hotels in this resort.

With the slogan, "Hello Europe, exchange free of charge", this initiative represents a continuation of a voluntary approach to the euro. This is not the first attempt made by Bellaria Igea Italia as regards popularising the euro. Since 1998, the shops, hotels, restaurants, resort businesses and all activities involving contact with consumers have been carrying dual price displays in lire and euros.

A very specific initiative

European Commission officials were received in Bellaria Igea Marino last summer. In addition to on-the-spot visits to shops with dual price displays on the one hand and an exchange transaction involving a "for real" exchange of pesetas into lire on the other, they participated in a conference on the euro which also brought together Gianni Scenna, the mayor of Bellaria Igea Marino, Corrado Monti, the President of the Banco di Credito Cooperativo Romagna Est and representatives of all the local associations. All the participants expressed satisfaction with this very specific initiative as it enables them to bring the euro closer to the public and prepare them for notes and coins which will be put into circulation as from 1 January 2002. After all, EU citizens will best be able to familiarise themselves with their currency in the field, and nowhere else. ■

The following is an explanation of some of the terms used in the table

Notes : Euro notes will be in denominations of 5, 10, 50, 100, 200 and 500.

Legal tender : A currency is legal tender when the notes and coins involved can be used as means of payment in the country concerned. For example, the peseta is legal tender in Spain and the drachma is legal tender in Greece. As from 2002 (see the dates in the table), only the euro will be legal tender in the twelve countries of the euro zone.

Exchange and redemption : This will be done at the irrevocable conversion rates set by the Council on 1 January 1999 for eleven currencies and in June 2000 for the drachma.

Exchange at banks : This relates to the period during which notes and coins denominated in a national currency can be exchanged at commercial banks.

Exchange by banks free of charge : This relates to the exchange of national notes and coins for euro notes and coins. Payments into an account are not therefore covered. Subject to certain country variations, such exchange will be possible only for bank customers.

Financial institutions : In this particular case, the term also includes cash transport companies.

Pack : The advance distribution to traders and the like will take the form of packs comprising a broad range of notes and coins. The value of the pack will vary according to the country involved. Some countries are also planning to introduce packs containing coins that are intended solely for private individuals.














Coins : The following coins will be available: 1, 2, 5, 10, 20 and 50 cents, and 1 and 2 euros.

Advance distribution : In order to facilitate their introduction, most Member States have already decided to distribute euro notes and coins before 1 January 2002. As a general rule, financial institutions (and cash transport companies) and retailers can be supplied with notes and coins as from 1 September 2001, beginning with financial institutions and cash transport companies which in turn will supply the sectors in direct contact with consumers (retail trades, local authorities, etc.). No advance distribution is planned for private individuals.

Redemption once national currency is no longer legal tender : In several countries the banks and postal authorities will continue to accept the national currency after its withdrawal as legal tender. Subsequently, only the central bank in each of the countries concerned (head office and branches) will be authorised to accept the national currency. Note: The redemption period will be unlimited in some countries and limited in others.

Withdrawal of coins : This will be a large-scale operation involving 50 billion coins.

Exchange of notes and coins: the situation by country (at 4 July 2000)

| |  | Advance distribution to financial institutions and retailers | Advance distribution of coins to the public | Exchange by banks free of charge (*) | Denominations of notes in ATMs | Withdrawal as legal tender | Withdrawal of national coins | Exchange at banks once national currency no longer legal tender | Redemption period once national currency no longer legal tender (**) |
|---|---|--|---|---|--------------------------------|------------------------------|--|---|--|
|  | Belgium | Financial institutions: 1.9.2001 Retailers: 1.12.2001 | 15.12.2001 | | € 20 and 50 | 28 February 2002, midnight | By banks under supervision of the BNB and the Belgian Mint | 31 December 2002 | Notes: unlimited Coins: end-2004 |
|  | Germany | 1.9.2001 | 17.12.2001 | | € 5, 10, 20 and 50 at most | 31 December 2001 | | 28 February 2002 | Unlimited |
|  | Greece | | Not planned | GDR 30 000 (planned) up to GDR 600 000 | € 5, 10, 20 and 50 mainly | 28 February 2002 | | Possible, period to be specified | Notes: 10 years Coins: 2 years |
|  | Spain | Financial institutions: 1.9.2001; (Retailers: Nov-Dec 2001) | (15.12.2001) | (No limit) | € 10, 20 and 50 or € 20 and 50 | 28 February 2002 | | 30 June | Notes: unlimited (Coins: 4 years or unlimited) |
|  | France | Retailers: December 2001 | Exact date not yet decided | | | Second half of February 2002 | Standard pack for retailers, stored at BDF | Several months | Notes: 10 years Coins: at least 1 year |
|  | Ireland | Notes: probably mid-November 2001 Coins sooner | Not planned | Up to a total of IEP 500 per person | € 10 and 20 mainly | 9 February 2002, midnight | | For a period not yet specified | Unlimited |
|  | Italy | Retailers: closing days of 2001 | Not planned | € 500 recommended No limit with one-day notice | € 50 and 10 or € 20 and 10 | 28 February 2002 | ITL 50 and 100 coins before 2002 | | 10 years |
|  | Luxembourg | 1.9.2001 | 15.12.2001 | No charge for customers | | 28 February 2002 | By banks under BCL supervision | 31.12.2002 planned | Notes: unlimited Coins: end-2004 |
|  | Netherlands | Retailers: second week of December | 17.12.2001 | No limit up to 1.4.2002, exchange via bank account | € 5, 10, 20 and 50 | 28 January 2002, midnight | | | Up to 1.1.2007 for coins and up to 1.1.2032 for notes |
|  | Austria | 1.9.2001 | 17.12.2001 | ATS 50 000 recommended | € 10 and 100 | 28 February 2002 | | | Unlimited |
|  | Portugal | 1.9.2001 | 17.12.2001 | No limit for a deposit; also one transaction of up to € 500 | € 5, 10, 20 and 50 | 28 February 2002 | Storage at army facilities | | Notes: 20 years Coins: 1 year |
|  | Finland | | | | | 28 February 2002 | | No official period | Notes and coins: 10 years |

Figures in brackets indicate government intentions. * For customers. ** At central banks.

The situation in the euro zone

Since the currency was launched, developments relating to the euro in the foreign exchange markets have given rise to many questions which are also of concern to citizens. *Inf€uro* asked four well-known economists for their views. They spoke with complete freedom on the following four major issues:

1 The current state of the euro zone economy, including its strengths and weaknesses

2 What developments are likely over the next few months or even the next few years?



Prof. Dr. Joachim SCHEIDE
The Kiel Institute of World
Economics Head of the Business
Cycles Department, Kiel

1 *What is your assessment of the current state of the economy in the euro zone? What are its strengths, what are its weaknesses?*

The euro economy is in the strongest upswing for more than a decade. Real GDP growth will be around 3.5 percent in 2000. As a favorable aspect, unemployment has come down considerably; this appears to be not only a cyclical phenomenon but also due to more labour market flexibility and to wage moderation in more and more countries.

Nevertheless, the development does not altogether reflect fundamental strength. To a great extent, net exports contribute to the high growth rate, caused by an exceptional performance of the world economy and by the devaluation of the euro. Furthermore, internal demand has so far been stimulated by monetary policy, leading to inflationary pressure. So the upswing is not balanced, and there will be a correction in the near future.

2 *What changes do you foresee in the coming months or years?*

The main cyclical forces will soon lose their impact. The peak of the upswing is likely to be reached in the third quarter of 2000, possibly already in the second quarter, as some leading indicators seem to deteriorate. The world economy will slow down, partly because the US economy will have to land sooner or later. In addition, the stimulative effects of the euro depreciation will soon fade. These two factors will reduce export growth. Internal demand will be dampened by monetary policy as the expansionary course cannot continue. Currently, the ECB is already close to a neutral course after the interest rate hikes, which have been quite substantial. There is a possibility that monetary policy will become even slightly restrictive, as inflationary pressures are more persistent than anticipated. Anyway, domestic demand growth will slow down as a consequence. While GDP growth will, on average, still exceed potential output growth, there will be a slowdown in the course of next year. So looking ahead to 2002, GDP growth will be close to 2.5 percent in the absence of new major shocks. As far as potential output growth is concerned, there is probably a slight upward revision compared to previous estimates higher due to fiscal consolidation and more favorable behavior of wages; so instead of 2.3 percent it may be a quarter of a percentage point. So far, it is too early to identify a significant impact of the new economy on overall productivity growth.

3 *What role does the euro play as a common currency in the zone? In the medium and long term will it be an advantage for European businesses?*

A common currency is certainly an advantage for European business as it reduces transaction costs. The major problem, however, is currently the lack of acceptance among the population. In part, this is due to the external weakness, which may be viewed differently in the member countries; but the majority probably has only little confidence in the value of the new currency. In addition, there has been the promise of internal stability of the euro. Although oil prices have driven up inflation as well, rates of more than 2 percent are not accepted by the people. In some countries of the euro area, inflation is even much higher. Although this is one of the consequences of monetary union and the ECB cannot influence regional differences, people are disappointed because they have to accept high rates which were not acceptable previously to the national central banks.

4 *How do you see the exchange rate between the dollar and the euro evolving over the long run?*

Explaining or even predicting exchange rate movements is extremely difficult, both in the short and in the long run. The recent past has shown that the value of a currency is not determined by the size of the currency area as many observers had predicted, that is why the euro did not appreciate simply because of monetary union. The future value of the euro will depend especially on growth performance in the euro area — i.e. not the cyclical development but rather medium-term prospects — and on the development of inflation. At present, the growth outlook for Europe has not improved by more than that for the US, and the opposite is probably true given the recent upward revisions of potential output growth for the US. The second important factor is that market participants must get the impression that the ECB has inflation under control and that the strategy for doing this is credible and transparent. The weakness of the euro may also be due to the fact that there is some lack of confidence in this regard — in other words, the reputation of the ECB is not as high as it could be. Once this uncertainty is reduced, there may be a strengthening of the currency against the dollar, although not by much. Things would change in the case of a hard landing in the US which would put the dollar under severe pressure. ■

3 The role of the euro as a common currency in the zone



Prof. Gustav A. HORN
*Deutsches Institut für
 Wirtschaftsforschung, Berlin*

1 *What is your assessment of the current state of the economy in the euro zone? What are its strengths, what are its weaknesses?*

Since the end of last year the EMU economies face a strong economic upturn, which should in the course of this year lead to a growth rate of GDP of around 3,5%. The strong growth is driven mainly by exports. Reasons for this remarkable expansion are the still very dynamic US economy, the buoyant recovery of the South-East Asian countries plus the weakness of the euro in the currency markets. But consumption and investment are also picking up speed. The significantly better employment situation creates a confident consumption climate and strong foreign sales induce higher investment. Despite this positive growth record, the economic upswing is still too shortlived to reduce unemployment to a satisfactory level. A too high unemployment rate mirroring a too low employment level remains the biggest problem of the euro zone.

2 *What changes do you foresee in the coming months or years?*

For the next few months, strong growth will continue unabated. However, towards the end of the year a change is to be expected. The economic situation in the US will not continue. The Fed has for a long time entered a course of monetary policy which in the end will lead to a markedly slowed down growth in the US, albeit no recession. Also will the recovery in South East Asia lose speed and the economic development of these countries will enter a slower phase. Against this backdrop the export expansion of the euro zone will lose steam. In addition to that, a slowdown of the US economy will diminish the difference in growth between the US and the euro zone. This up to now very high difference has been the main force driving the value of the euro down. If it becomes smaller it can be expected that the euro gains strength and appreciates in relation to the dollar, what will be another reason why exports should slow down. The main reason why growth in the euro will not continue at the same high speed is a domestic one. Since autumn last year the European Central Bank (ECB) has tightened its monetary stance significantly by raising interest rates by almost 2 percentage points. It takes some time until the impact of stricter monetary policy will be felt, normally around one year. Consequently the euro zone economies will face a slowdown from autumn of this year onwards. The main effect will be that interest rate-sensitive investment, in particular in the construction sector,

4 What is the likely future of the euro-dollar exchange rate over a long period?

will be restrained. But also consumption should be affected to some extent. Such a development does not mean that Europe is heading for a recession, but the probability is high that growth during the next year will be much smaller than this year, probably even below 3%. Unfortunately this means that the reduction of unemployment and the build-up of employment will also not continue at the same speed. Hence the euro zone biggest economic problem, high unemployment, will prevail for the time being.

3 *What role does the euro play as a common currency in the zone? In the medium and long term will it be an advantage for European businesses?*

The introduction of a joint currency is already presently proving a major advantage for the EMU Member states. There are two main reasons for this. Firstly several countries like Spain, Portugal, Italy and to a certain extent also France benefit from the fact that by joining the currency union they have now a monetary policy with higher credibility with respect to price stability than their previously separate monetary policies. This is predominantly reflected in real interest rates which are now much lower in these economies. Therefore there occurred a monetary impulse which is still stimulating their growth. This explains the relative (in terms of the EMU average) good performance of these countries with the exception of Italy where other influences prevail. The second more general advantage refers to the external relations. With a joint currency the economies of the euro zone are now better protected against external shocks. This means that e.g. exchange rate fluctuations, which have in the past played a major role for the trade performance of many Member countries, are now of minor importance. The export ratio of the EMU is only about 10% to e.g. 25% in Germany. Hence if there are strong currency movements the impact on the real economy is now smaller – one reason why the weakness of the euro should not create too much concern.

4 *How do you see the exchange rate between the dollar and the euro evolving over the long run?*

There are good reasons to foresee a stronger euro in the future. With the bridging of the growth gap to the USA the dollar will depreciate against the euro. Moreover, in the long run the value of a currency is heavily influenced by inflation differences. Since the start of its existence inflation rate for the euro is lower than for the dollar. This argument will prevail in the future and it speaks for a significantly stronger euro. ■



Dr. John LIPSKY
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1 *What is your assessment of the current state of the economy in the euro zone? What are its strengths, what are its weaknesses? What changes do you foresee in the coming months or years?*

These are very broad questions and might be split between short-term, cyclical considerations and medium-term, structural developments.

Cyclical factors.

Economic growth this year has accelerated to a solid 4% annual pace, spurred by handsome export gains. The double-digit rate of growth in euro zone exports this year has reflected stronger growth abroad, plus the euro's weakening. Accelerating growth has helped to reduce unemployment rates everywhere in the euro zone. In the coming year, however, growth is likely to slow to about 3%, and it will be relatively more dependent upon increases in domestic demand. At the same time, inflation should recede to less than 2% in 2001, as energy price increases unwind, even if oil prices merely stabilise at current levels.

The outlook for domestic spending growth in the euro zone is favourable. Faster growth in both jobs and income should help to boost consumption. However, employment growth has not been spread evenly in the area, as job growth has been minimal in some of the large, slower-growing economies. A less positive development is that growth in capital spending – key to “new economy” productivity gains – remains modest. For example, year-on-year growth in euro zone investment is about 4%, compared with more than double-digit annual growth in US capital spending that has been registered for most of the past decade.

Structural factors

The discussions and debates on structural reform in the euro zone are both intense and unending. Yet the rhetoric seems to be out of sync with the reality. Policymakers have tended to herald the arrival of the “new economy” to their jurisdictions. At the same time, there appears to have been little forward movement toward liberalizing labour legislation, despite widespread agreement that more flexible work practices are a critical element in spurring faster productivity growth.

The data, however, suggest another reality: capital spending growth in the euro zone remains unimpressive, as noted already. Job growth, however, has accelerated notably relative to GDP growth. Therefore, the first sign of structural reform has been accompanied – somewhat ironically – by faster job growth, but a slowing in productivity gains. At the same time, wage growth has been less inflationary than consensus expectations, further encouraging employment growth. The lowering of inflation expectations in previously high-inflation EU economies – a major benefit of EMU – may help to explain this positive development.

Looking forward, the outlook for structural improvement in the euro zone economy is favourable. Increased flexibility in labour markets

does not appear to rely solely on legal or regulatory changes, but is mainly occurring in response to market forces. The surge in euro zone merger and acquisition activity points to efficiency-boosting corporate restructuring. Moreover, the revolution underway in communications technology and organization will help to boost investment spending and spur productivity gains.

One potential roadblock to improved economic performance may be uncertainty about the EU's competition policy. The combination of aggressive EU anti-trust enforcement but unclear guidelines may have encouraged euro zone businesses to look outside the region for expansion plans.

3 *What role does the euro play as a common currency in the zone? In the medium and long term will it be an advantage for European businesses?*

A single currency, governed by a credible, anti-inflationary central bank operating in an integrated and flexible European financial market is a powerful force for economic growth and reform. By ensuring low and stable inflation throughout the euro zone, by increasing price transparency and by reducing transaction costs, the euro will spur the emergence of a more efficient euro zone economy.

The development of a more flexible, modern, efficient and transparent euro zone financial system will boost investment spending, aiding productivity growth. By giving euro zone savers access to a broader range of financial instruments and on a broader scale than at present, the resulting improvement in corporate governance should be evident. By helping to enforce fiscal policy discipline and balance, the EMU process will further help to improve the medium- and long-term outlook for European businesses.

4 *How do you see the exchange rate between the dollar and the euro evolving over the long run?*

While the weakness of the euro since January 1999 has been a cause of much worried comment, it has not weakened the euro zone economy, nor boosted inflation. Although the euro's decline in part reflected the large European investment flows to the United States, it also helped to boost euro zone exports. The strength of the dollar versus the euro more than anything has reflected faster-than-expected US economic growth, underpinned by the impressive acceleration in US productivity gains and the strength in US corporate profitability.

If euro zone productivity growth accelerates as expected – reducing the current gap with that of the United States – while inflation rates in the US and the euro zone remain broadly similar, the euro/dollar exchange rate should stabilize, and eventually strengthen to a rate that is somewhat stronger than at present. The creation of an efficient and liquid euro zone financial market will hasten this process. ■



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 and Social Research, London*

1 *What is your assessment of the current state of the economy in the euro zone? What are its strengths, what are its weaknesses?*

The euro zone economy has grown rapidly in the last year, and is approaching the full use of capacity. Growth accelerated from 2.3% in 1999 to an anticipated 3.6% in 2000. There are few signs of internal dynamic driving growth. Private investment growth appears to be slowing, and unemployment is likely to fall only to an average of 9% this year. The strong performance has been almost entirely fuelled by external demand, and domestic demand growth is expected to fall from 2.9% in 1999 to 2.7% in 2000. The effects on euro area exports of strong activity growth in the US and East Asia have been reinforced by the effects of significantly improved competitiveness. This improvement is the result of a fall of more than 20% in the euro US dollar exchange rate over the last 20 months.

Inflation has risen sharply during the year, although this has been driven in part by strong oil prices. The high level of demand has not yet begun to affect wage settlements in the core economies. However, we would expect that the recent fall in the euro from around parity to 90 cents to the dollar will feed through to inflation, holding it higher than it would otherwise have been unless the ECB reacts by raising interest rates significantly.

The weakness of the euro area economy remains its labour market. It is inflexible, and employment takes a long time to adjust. Unemployment is high compared to the US, and participation in the workforce is low. However, the last few years have seen an increase in participation, and labour markets have become more flexible, for instance in France, Spain, Denmark and the Netherlands as government policies have begun to have an effect. Low wage settlements in Germany despite falling unemployment also suggest an improved labour market, with potential employment rising.

2 *What changes do you foresee in the coming months or years?*

The first 20 months of EMU have seen the emergence of inflationary pressures and divergences in growth and inflation between the core and the periphery. There are inflationary pressures developing, but these should not be confused with the increase in inflation which we have seen in countries such as Finland, Spain and Ireland. There are signs that these economies are overheating, with inflation expected to be 2.6%, 2.9% and 5.0% respectively in 2000 as compared to a euro area average of 2.2%. This is a sign of convergence, as these economies entered the monetary union undervalued. As a result there is traded-sector-led pressure on capacity, and this will continue to raise their relative inflation levels until their competitive advantage is worn away. We foresee that their inflation differential against the other

Member countries will decline, and will average 0.1 to 0.2% a year between 2002 and 2006.

Stronger than anticipated growth has contributed to the observed improvement in fiscal balances throughout Europe. Strong revenues have persuaded countries such as Germany, France, Italy, Spain and Ireland to undertake tax cuts. These have been matched over the medium term by expenditure cuts in countries such as Germany. The increase in revenues has generally been treated as structural, although the evidence for this is not always clear. We believe that 2000 will see a small overall boost to demand from the government sector because of the perceived strength of revenues. However, fiscal stances will change within the year, and there will be a return to overall fiscal consolidation.

The process of integration through the Single Market Programme should increase the potential capacity of the European Union economies. Increased competition and deregulation increase efficiency and output. Labour market reforms should also reduce unemployment and raise the potential level of output. These changes should raise potential growth above the recent underlying level of 2.5% to around 2.8% over the next 5 years. The effects of reforms will take some years to be seen fully. However, there is little evidence that the euro area economies will see US style technology-based improved productivity performance.

4 *How do you see the exchange rate between the dollar and the euro evolving over the long run?*

The fall of the euro exchange rate from inception to 0.90 now is in part the result of perceived strengths in the US, and partly perceived problems in Europe. The ECB has to discern the inflationary consequences of the fall. If the US had seen tighter monetary policy, with lower expected inflation and a higher dollar, then there would be no long term inflationary consequences for the euro area. There would also be no inflationary consequences for the euro area if new technology-induced product improvement in the US had driven up the dollar. Both these forces have been at work over the last 20 months, and much of the fall in the euro can be attributed to them with no inflationary consequences.

The fall in the exchange rate could have inflationary consequences, and the ECB should react. There needs to be a significant increase in interest rates to raise the euro back to parity with the dollar. If this does not happen, prices will rise by enough to remove the competitiveness advantage that has emerged in the last few months. Action has to be taken in the next few months, and we believe that will see a return of the exchange rate to 1.0 against the dollar. If there is no action to keep EMU inflation on target, the dollar rate will stay where it is. ■



The greek themes on euro coins



2-euro denomination
depicting a scene from mythology, i.e. Europa being abducted by Zeus in the shape of a bull (from a mosaic in Sparta)



1-euro denomination
depicting an Owl (design taken from an ancient Athenian 4-drachma coin).

About InfEuro

InfEuro is published six times a year in the 11 EU official languages by the European Commission's programme "Euro: one currency for Europe".

Production and layout:
De Visu Digital Document
Design, Brussels

Coordinator:
SCAT - Juan Arcas, Brussels

Translations: ISO, Brussels

Editorial coordination :
Synedi, Brussels
with the editorial collaboration
of: Benoît Joly and ECO-European
Communications, Brussels.

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20-cent denomination (20 lepta)
depicting Ioannis Capodistrias (1776-1831)
A leading national and European politician and diplomat,
first Governor (1830-1831) of Greece after the War of Independence.
After taking charge of the final stage of the revolution and playing a
decisive role in the ultimate victory, Ioannis Capodistrias made notable
contributions in such fields as domestic policy, education, justice, public
works, social welfare, agriculture, stock breeding, trade and shipping.



50-cent denomination (50 lepta)
depicting Eleftherios Venizelos (1864-1936)
One of Greece's most important political
figures. Seven times Prime Minister,
Eleftherios Venizelos was a pioneer in social
reform and a versatile diplomat.

10-cent denomination (10 lepta)
depicting Rigas Velestinis-Fereos
(1757-1798).

A forerunner and leading figure
of Greek Enlightenment, Rigas
Velestinis-Fereos was also a visionary
and a herald of the Balkans'
liberation from Ottoman rule.
A fervent defender of the movement
for Greece's independence and a
martyr of the then-enslaved nation.



5-cent denomination (5 lepta)
depicting a modern tanker ship.



2-cent denomination (2 lepta)
depicting a corvette, i.e. a type
of ship used during the Greek War
of Independence (1821).



1-cent denomination (1 lepta)
depicting an advanced model of an
Athenian trireme, dating from the
times of Kimon (Maritime Museum).



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OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg