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In under 500 days' time Europe will have its own currency, the euro. The process leading to economic and monetary union is now irreversible. The creation of the euro will positively impact growth and employment in Europe. It will also benefit the European Union's partners, and in particular the countries of Asia.

My visits to Asia between 19 and 23 September, to Bangkok for the meeting of ASEM Finance Ministers and to Hong Kong for the IMF and World Bank annual meetings, have given me the opportunity to explain to our Asian friends the meaning and advantages of the arrival of the euro, an event of historical significance for Europe and the world.

As the currency of the world's largest economic and commercial power, the euro will progressively become an international settlement, transaction and reserve currency. The euro will be a stable and credible currency. The euro, managed by an independent European Central Bank, with the objective of ensuring price stability, will be based on healthy economies and properly structured public finances, thanks to the introduction of the stability and growth pact.

At the same time the depth, transparency and liquidity of the European financial market will facilitate transactions on this market, thereby increasing the attraction of the euro as an asset for international investments looking for diversification, and as a reserve instrument for central banks. The change-over to the euro will take place gradually on the financial markets, but the euro will rapidly become an international transaction currency in the same way as the dollar.

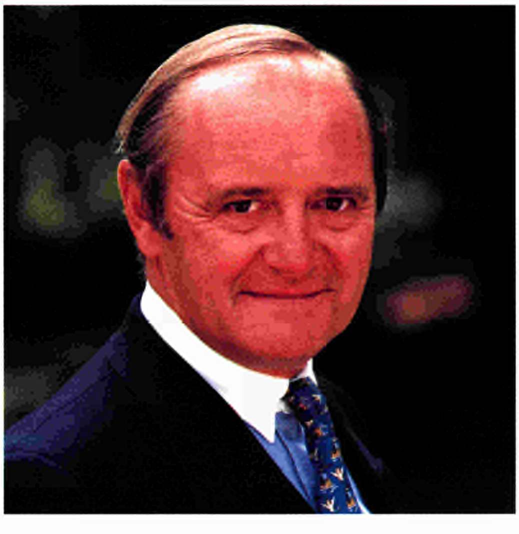
The euro will be a source of savings for business enterprises, be it European enterprises, enterprises trading with the European Union or third country enterprises set up inside the Union, by significantly reducing the foreign currency risk.

They will no longer suffer the effects of monetary fluctuation between the Union's 14 currencies. On top of this the disappearance of the costs of currency conversion (foreign exchange commissions) and hedging within the euro zone will bring substantial savings.

The legal and technical framework necessary for the smooth operation of the euro is already in place, guaranteeing the continuity of existing and future contracts and operations and already offering Europeans and their partners, in particular those from Asia, all the necessary legal security.

In this way, the euro concerns not only European enterprises but also those of Asian countries. The first to be ready will be those who will benefit most. I therefore invite them to prepare without delay for this major financial event.

Yves-Thibault de SILGUY



Internet Site
http://europa.eu.int/euro/

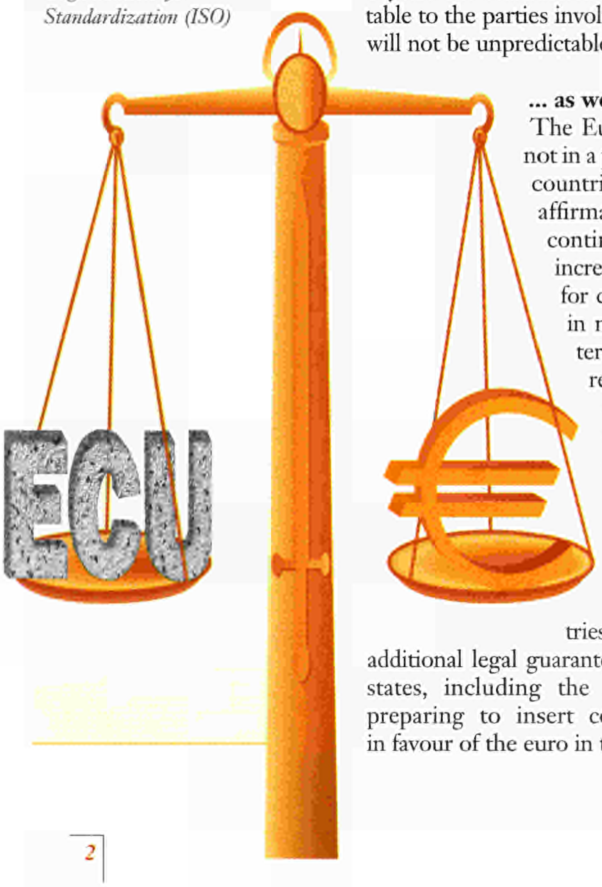
Using the euro in complete legal security

For Europeans and their partners, the euro already has a stable legal framework guaranteeing the continuity of present and future operations.

The euro will become a reality on 1 January 1999 and already operators can rely on a stable legal framework. This framework hinges on two regulations : the first is based on article 235 of the Treaty, with immediate effect in all Member States, and the second, based on article 109 L S4, which will come into force on 1 January 1999 in all countries in the euro zone. The first of these regulations deals mainly with the continuity of contracts and rounding rules for conversion. The second constitutes the future monetary law of Europe. The main points are listed below.

The legal texts

Regulation article 235 was published on 19 June in the Official Journal of the European Communities. Given its legal bases regulation article 109 L § 4 cannot be formally adopted before the names of the members taking part in Monetary Union are known, i.e. in spring 1998. Nonetheless it was approved by the Ministers in a resolution adopted on 7 July 1997. In addition, the euro logo (€) is right now being registered with the International Organization for Standardization (ISO)



1 Ecu = 1 euro

The rate for converting Ecus into euros has been set at 1/1. This applies not only to public use of the Ecu, but also to all private contracts which make an explicit or implicit reference to the official Ecu basket of currencies.

Guaranteed continuity...

The replacement of national currencies by the euro on 1 January 1999 and the substitution of the Ecu by the euro will not constitute a fundamental break in the execution of a contract or any other legal instrument. The introduction of the euro will not justify the invocation of the principle of unpredictability which could result in the unilateral revocation of a contract. Indeed, the conditions required to invoke this principle will not be fulfilled. Firstly, there will be no radical change in the financial factors going beyond the contractual risk considered to be acceptable to the parties involved, and secondly, the event will not be unpredictable.

... as well as with third countries

The European Union is obviously not in a position to legislate for third countries. Nevertheless, strong affirmation of the principle of continuity in Member States increases the degree of certainty for contractors and jurisdictions in non-EU countries. The latter may base their decisions on references in contracts to the currency as being legal tender at the time of payment of the contract. This also ensures the continuity of contracts expressed in currencies which will be replaced by the euro for jurisdictions in third countries. In order to provide an additional legal guarantee, several North American states, including the State of New York, are preparing to insert contract continuity clauses in favour of the euro in their legislation.

Very precise conversions

The use of conversion rates as from 1 January 1999 is provided for in the regulations in such a way as to ensure a very high degree of precision and to avoid any abuse in conversion operations. It has already been stipulated that the rate of conversion into euros for each participating currency will be fixed. This rate will be adopted by the Council to six significant figures which may not be rounded or simplified when used to make a conversion. There will be no conversion rates between national currencies.

Guaranteed equivalence

During the transition period between 1 January 1999 and the end of the year 2001 at the latest, there will be only one currency: the euro. National currencies will no longer be anything more than a non-decimal expression of this currency. Since euro notes and coins will not yet be in circulation, economic operators will continue to use national currencies during this period (e.g. euro-francs, euro-marks, and so on). This situation guarantees equivalence during the transition period. At the end of the six months following the transition period, at the latest on 30 June 2002, notes and coins in the national currency will no longer be legal tender. Member States are free to shorten this six- month period.

Free choice of euro or national currency

Use of the euro during the transition period will be governed by a fundamental principle adopted by the European Council at its meeting in Madrid in December 1995. "No obligation, no prohibition". This principle is valid for laws as well as for contracts. For new contracts, for example, the contracting parties may freely choose the desired denomination and they will refer to it in all associated documents (payments, invoices, etc.). Economic operators will only work in euros if they have accepted its use. In their dealings with national public administrations, they may not be forced to use the euro unless Community legislation expressly stipulates this.

Three exceptions

Use of the euro may however be imposed in three cases:

- a debtor may decide to effect his payments via the banks in euros or in the national currency of the country in which the beneficiary's account is situated.
- Member States may decide to re-denominate the existing stock of public debt, whilst in certain cases private issuers will also have the same option.
- Member States may take measures to allow markets, for example stock markets, to change their unit of account.

Prevention of counterfeiting

Participating Member States are required to take all necessary measures to prevent counterfeiting and the falsification of notes and coins.

Financial markets: a gentle changeover

A group of experts chaired by A. Giovannini of the Long Term Capital Management Group has just formulated its recommendations to the Commission for the changeover of financial markets. The objective is to define a set of common rules to promote a euro securities market which is as large, liquid and transparent as possible.

Bonds

With the introduction of the euro on 1 January 1999 there will be just one single currency for participating countries. From that moment onwards, any new negotiable public debt will have to be issued in euro. The group of experts believes that it is also important to re-denominate existing public debt in euro so as to support liquidity and to increase the credibility of the changeover to the euro.

For re-denominating debt, the experts are recommending the "bottom-up" technique, whilst not excluding other methods. Initially, each individual euro asset is converted at fixed conversion rates, and the result rounded to the second decimal point. The sum of individual assets is then be calculated and compared with the total held by the central depository. The assets held by the latter remain unchanged, and the operation therefore does not affect the total volume of issued securities. This operation will not affect in any way the initial agreements applicable to these securities, given that the fundamental principle of continuity of contracts guarantees the application of the original agreements and rules.

To minimize the risk of error or dispute, a harmonization of market rules is desirable. The cost of harmonization would be borne largely by the markets, which would have to decide themselves which strategy to adopt, if possible using as a model an existing international standard, such as that of the eurodollar market.

When it comes to the number of days used in interest calculations, the recommended solution is a shift to the "exact number of days/365" basis (also known as "exact number/exact number"), as is the most precise way of measuring accumulated bond interest. Such a convention would provide consistency with the method adopted by the American treasury bill market and permit a harmonization with the Japanese government bond market.

For coupons, a choice will remain between annual payment, as is customary in many European countries, and the system of semi-annual payments as practised on major bond markets such as Great Britain and Italy. The experts are also recommending a standard definition of working days based on the days on which the TARGET system is working. This system ought to be operational throughout the year except between 25 December and 1 January.

It is also important to ensure continuity of reference prices with the national bases (Pibor, Fibor, etc.), preferably with a new European basis (Eurobor). It is desirable to have indicative rates published at euro zone level and harmonized criteria for calculating regional indicators. For bond ratings, the shift to the euro poses the question of the supernationality of the issuing currency for sovereign issuers.

What Will Happen and When

Timing	Actions	Responsibility
End March1998	• Two reports to the Council on how each Member State has respected the obligations on EMU laid down by the Treaty	• Commission, EMI*
End April/ Begining May 1998	• decision on participating Member States	• European Council**
During 1998	• creation of the ECB* and appointment of its executive board • start production of Euro banknotes and coins • adoption of necessary secondary legislation	• Council (Member States participating in EMU only) • Council and Member States • Commission proposes, Council decides
January 1, 1999	• conversion rates are irrevocably fixed and various legislations come into force, notably on the legal status of the Euro • definition and execution of the single monetary policy in Euro • foreign exchange operations in Euro • new public debt issues in Euro	• ESCB* • ESCB* • Member States, European Investment Bank, Commission
January 1, 1999 to January 1, 2002 (at the latest)	• changeover to the Euro by the banking and finance industry • assist the whole economy in an orderly changeover (IT, accounting, etc.)	• Commission (and Member States if needed)
January 1, 2002 (at the latest)	• start circulation of Euro banknotes • start circulation of Euro coins • complete changeover to the Euro of public administrations	• ESCB* • Member States • Member States
July 1, 2002 at the latest	• cancel the legal tender status of national banknotes and coins	• Member States, ESCB*

**ECB- European Central Bank — ESCB - European System of Central Banks — EMI -European Monetary Institute, precursor of the ECB. - ** on a recommendation from the Council of Ministers on the basis of reports and recommendations from the Commission and the EMI.*

Equities

Equities will be traded and listed in euro as from 1 January 1999 on EMU country stock markets. Intermediaries will have to undertake the necessary conversions to provide customers with statements in the national currency unit of their choice. Compared with bonds, the need to re-denominate is less obvious, as the reference currency of the company capital does not influence either its economic value or its tradability. On the other hand the shift to the euro would be greatly helped by participating countries' permitting the issue of no-par value shares.

Money and currency markets

On these two items, the European Monetary Institute should be making recommendations during the autumn.

Derivatives

Europe has a highly active and very broad-based market for derivatives, and the questions raised by the move to the euro are the same as those posed by the underlying markets. The shift to the euro will not in any way weaken operator confidence, as the principle of contract continuity is guaranteed. However, it is important that markets ensure transparency, so that changes made to underlying contracts due to conversion, a change in denomination or the adopting of new reference indices be exactly reflected in the derivatives.

The euro : a guarantee for international stability

"United we stand" could gain currency as the motto for Economic and Monetary Union when the euro enters the international monetary scene.

In the present context of growing economic globalisation, the introduction of the euro by the European Union will equip it with a tool that is commensurate with the role it plays in trade, according to an analysis published by the European Commission in April 1997. In 1996, the fifteen Member States together represented 38.3% of the gross domestic product of the member countries of the Organization for Economic Cooperation and Development (OECD), compared with 32.5% for the United States and 20.5% for Japan. The Union's external trade, excluding intra-Community trade, totals 20.9% of world trade, compared with 19.6% for the United States and 10.5% for Japan. Immediately after the euro is introduced on 1 January 1999, the Union will have access to a financial market on a par with the role its economy plays on the world stage. This will mean a fundamental change for the Member States, whether they are among the "ins" or the "pre-ins", as well as for all the countries that maintain commercial and financial relations with them.

A bond market to be reckoned with

The first effect will be measured in financial terms when the markets of the Member States are integrated. All government bond issues will be denominated exclusively in euros as from 1 January 1999 which will make them virtually uniform. With the total disappearance of the currency risk, long term interest rate differentials between countries will probably be minimal as a result of the nominal convergence required for entry into the third phase of EMU. The euro bond market is set to rapidly become one of the most important financial markets in the world.

Greater stability

The latest monetary crises demonstrated that Europe is extremely sensitive to fluctuations in currency markets. The average openness of Member States' economies is 30%, compared with 8% for the United States and 9% for Japan. This makes Europe highly vulnerable to any shifts in national currencies. The euro will reduce this openness to 10% whilst ensuring better cyclical synchronisation due to convergence between the economic policies of the euro zone countries. At the micro-economic level, businesses in participating countries will be less affected by currency fluctuations. This will make the European Union a more stable partner at all levels.

An increasingly international euro

As from 1 January 1999, enterprises in the euro zone will be able to use the European currency for intra-Community transactions, as well as for international trade. Gradually the euro will break into international trade and little by little will represent an attractive alternative to the dollar. The greenback currently represents 50% of commercial transactions and is used in 80% of currency market operations. Simple calculations based only on exports currently denominated in DM suggest that 30 % of world exports could be invoiced in euros once EMU comes into being.

Coordination of the economic and financial policies of participating States, together with the policy of the European Central Bank (ECB), whose primary objective is price stability, guarantee the stability of the Euro. This will make it a particularly attractive reserve currency for central banks, as well as allowing private investors to diversify their portfolios. We are already seeing a steady increase in the proportion of world savings held in European currencies, currently standing at 37% compared with 40% for the dollar. This percentage is set to rise still further with the introduction of the euro.

Geographically speaking, the use of the euro will spread first to countries which have privileged links with the European Union in Central and Eastern Europe, the Mediterranean basin and certain regions of Africa, such as the CFA zone. Elsewhere, use of the euro will spread more slowly depending on the position occupied by the dollar today.

The introduction of the euro will have consequences for the Union's relations with international monetary institutions responsible for strengthening the stability of the world monetary system. However, in all likelihood the current system of managed floating exchange rates will be maintained. EMU is expected to provide a better balance within the international monetary system, thereby reinforcing the benefits of international economic coordination and permitting a better distribution of these benefits. The advent of the euro will therefore provide an opportunity to enhance the effectiveness of coordinated economic policies which will contribute to greater exchange rate stability.

About Inf€uro

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