

Willem F Duisenberg: The euro and the greater Europe

Speech by Dr Willem F Duisenberg, President of the European Central Bank, at the Parliamentary Assembly of the Council of Europe, during the debate on the theme "The euro and the greater Europe", held in Strasbourg on 24 January 2001.

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Dear President, Members of the Parliamentary Assembly, ladies and gentlemen,

I should first like to thank you, Mr. President, for your warm words of welcome. It is indeed a privilege to address an audience as distinguished and truly pan-European as the Parliamentary Assembly of the Council of Europe. I am happy to continue the exchange of views that commenced with the visit of the Committee of Economic Affairs and Development to the European Central Bank in April 1999, which you mentioned. My presence here today - as with our meeting then - is intended to confirm the great importance which the ECB attaches to the implications of the euro for the greater Europe. In my brief remarks, allow me to elaborate on some of the issues that are raised in the draft resolution of this Assembly, in the hope that I may enrich your discussion by providing an "insider's view".

The effects of the euro on the greater Europe will depend to a large extent on our ability to make the euro a lasting success. I say "our" ability, because I am referring to the joint efforts of all relevant actors within the European Union: not only the ECB and the national central banks, but also policy-makers in EU institutions and in the Member States, business and trade unions, financial market participants and the citizens at large. I am aware that the EU has been criticised for its obsession with its own internal dynamics, and for having little regard for the greater Europe or for the rest of the world. Nevertheless, allow me to start with a brief overview of what we have achieved with respect to our new currency. Thereafter, I shall outline the challenges ahead, many of which are inextricably linked to the prospect of EU enlargement.

By a number of measures, the euro is already a success today. First and foremost, the ECB has fulfilled its mandate to preserve price stability. We consider this a substantial accomplishment, not least in view of the sometimes adverse circumstances, such as the protracted depreciation of the euro or the sharp increase in oil prices. Both led to sizeable, although only temporary, inflationary pressures. We are also witnessing a deepening integration of the financial markets within the euro area and increased efforts to adjust the related regulatory structures to the reality of the euro. The ECB, as an institution, has grown in stature; it has defined its specific place within the institutional architecture of the EU and is actively developing its international relations.

Mr. President, ladies and gentlemen, while we undoubtedly regard the aforementioned achievements with a certain satisfaction, we are far from becoming complacent. Already during our exchanges in April 1999 in Frankfurt, I emphasised that the ECB does not anticipate settling down into "business as usual" anytime soon. In fact, a great number of challenges remain, not only for the ECB as an institution, but also for the EU in its integration process and for the greater Europe.

Allow me to elaborate: our main challenge, as "guardians of the euro", is to **continue to maintain price stability**, and thus to provide the citizens of the euro area with a stable and trusted currency. In the coming months, our focus will be on avoiding possible second-round effects of the temporary increase in inflation, which was due to the depreciation of the euro and the oil price surge. Even though we have recently seen an appreciation of the euro and a decline in the price of oil, we will nevertheless keep calling on the social partners to conclude moderate wage agreements. We will also continue to closely observe developments outside the euro area, in particular in the United States and in the world economy in general. Furthermore, the ECB will continue to urge governments to press ahead with much needed structural reforms, in order to increase the growth potential of the euro area economy.

The ECB also faces a "**communication challenge**". As I have pointed out on various occasions, there is certainly room for improvement in communicating the ECB's policy decisions and measures. The ECB is - I believe - already one of the most open and transparent central banks in the world. Our recent decision to publish projections of economic developments, jointly produced by the staff of the ECB and the 12 euro area national central banks, certainly underscores our efforts in this respect. Therefore, I would not see the availability of information about the ECB's thinking and policy outlook as the principal difficulty. Rather, it is the multinational and multilingual environment of the euro area, with

its widely differing communication practices and traditions - both at the sending *and* at the receiving end - which presents a particular challenge. A single monetary policy for a currency zone that comprises 12 countries requires adaptation on all sides, though I am confident that we are moving up a rather steep learning curve.

The months ahead will also see the final phase of our preparations for the **introduction of euro banknotes and coins**. Guaranteeing an adequate supply of euro banknotes and coins for some 300 million citizens of the euro area, adapting cash dispensers (ATMs) and vending machines, switching the displays of retail prices, and the many other necessary changes - all this adds up to an organisational and logistical task on an almost unprecedented scale, not only for the ECB and the national central banks, but also for the Member States' governments, the banking community and retailers. The preparations for these manifold challenges have now become a clear political priority.

The true "test" of the euro, however, will be its acceptance by the European citizens as "their" currency. In order to familiarise the public with the new currency, its appearance and security features, the ECB, the national central banks, the governments of the euro area Member States, the European Commission as well as the banking community have embarked on a major **information campaign**. The ECB and the 12 national central banks of the euro area alone have earmarked EUR 80 million for their public relations efforts. In addition, we are preparing to open an ECB Information Centre at the Eurotower in Frankfurt. In the weeks to come, we will also be launching a special "euro website".

Finally, in order to gain the citizens' trust in the euro, we will have to "safeguard the currency" in a broader sense, and that includes setting up a comprehensive system to **protect our new currency from counterfeiting**. To this end, the ECB and the national central banks have joined forces with the governments of EU Member States, Europol and the European Commission, and the necessary provisions are being finalised.

Mr. President, ladies and gentlemen, in addition to the ECB's immediate challenges, the longer-term success of the euro is also linked to the wider constitutional evolution of the European Union. The draft resolution of the Assembly, for instance, calls for the establishment of a true **economic union** as a complement to monetary union. Unfortunately, the concept of "economic union" does not appear to be very well defined. In fact, I would argue that the EU, with its Single Market and a vast number of common rules governing economic life, has already reached an advanced stage of economic integration. With the introduction of the euro and the conduct of a single monetary policy by the ECB, with the emergence of an increasingly integrated financial market and a single euro exchange rate, the notion of an "EU economy" has gained real substance. As a consequence, the EU has come to be recognised in the world as an entity in its own right. Further efforts to develop a "single voice" for Europe in international economic and financial affairs are set to reinforce this perception.

With regard to **deeper political integration**, I believe that the EU demonstrated in Nice that it is ready to gradually move towards strengthening the truly European element of decision-making by introducing more qualified majority voting - even though many people expected, and hoped for, greater progress on this issue. Seen from the perspective of independent central bankers - with their necessary distance from politics - it appears that the main accomplishment of the Nice Summit was not necessarily the conclusion of the Intergovernmental Conference on institutional reform. Rather, the Summit's main success lies in what it set in motion: the launch of a thorough and comprehensive discussion about "who does what" at the European, national and regional levels of government.

The results of Nice will **prepare the European Union for the arrival of new members**. Notwithstanding certain flaws and shortcomings in the legal details, the greater Europe will have its institutional framework. The focus of attention will now shift again to the candidate countries' preparations for EU membership.

While a certain impatience on the part of the candidate countries with regard to EU accession, and even a speedy entry into the euro area, is understandable, the full impact of EU membership should be realistically assessed, in particular the consequences of the often intense competition within the Single Market.

All candidate countries currently negotiating EU accession are committed to eventually adopting the euro; there will be no "opt-outs". Provided that the future new Member States demonstrate their ability to fulfil the Maastricht Criteria in a sustainable manner, they will, in time, replace their currencies with the euro. As I explained in our previous exchange of views, the euro will thus indeed contribute to healing the economic divisions in Europe. At the same time, it is clear to me - and I imagine you would agree - that this will be a gradual process and a long-term rather than a short-term prospect.

Nevertheless, in order to ensure that the prospective expansions of the euro area run smoothly, the ECB, and the national central banks of the euro area, take a **keen interest in developments in candidate countries**. Only last month, we continued the high-level policy dialogue with our central bank colleagues from the accession countries at a seminar in Vienna. Through such contacts we seek to build up close and intense professional working relations, which also includes offering technical assistance. In this way, we aim to contribute to developing a vision of the "greater Europe" specifically within the field of central banking.

Such an understanding of the significance of the euro for Europe as a whole is essential, not least since many countries in central, eastern and southern Europe have decided to use the euro as a reference currency for their own monetary and exchange rate policies, as an anchor of stability and credibility. This applies not only to the group of accession countries, but may increasingly also be the case for countries further afield. I expect this international role of the euro to grow in the years to come, not least since euro banknotes and coins - once they have come into circulation in 2002 - will effectively replace the Deutsche Mark, which is widely used in the countries concerned as a means of payment and a store of value.

Mr. President, ladies and gentlemen, the unification of Europe has been, and continues to be, a "work in progress". The introduction of the euro and the establishment of the European Central Bank form an intrinsic part of this constant evolution. In fact, the dynamics inherent in Economic and Monetary Union suggest that the euro might become a powerful catalyst for further integration. Our job at the ECB is to contribute to making the euro a lasting success. In this way the euro will bring benefits to an enlarged EU and beyond.

Thank you very much.