

## **Jean-Claude Trichet: The euro area and its role in the global economy**

Remarks by Mr Jean-Claude Trichet, President of the European Central Bank, upon reception of the 2011 Global Economy Prize, Kiel, 19 June 2011.

\* \* \*

It is a privilege to receive this Global Prize today. I would like to thank the jury for this distinction, which honours the ECB and its staff.

Kiel has a long tradition of openness. It has forged close ties with the rest of the world, ever since it joined the Hanseatic League in 1283. Seven centuries later, Kiel is today part of the euro area, a vast economic continent, which is itself globally open and linked in many ways to the rest of the world. It is about the euro area and of its role in the global economy that I would like to share with you some thoughts in receiving this Prize today.

How can we characterize the salient features of the euro area and of its role in the global economy? And what are the challenges that need to be addressed in this context?

Three key aspects deserve attention in my view.

### **First, the euro area is amongst the most open of large economies in the world.**

The euro area's trade relations with the rest of the world have grown appreciably since 1999, which underscores that the euro area is not a closed shop. The euro area's trade openness has increased by about 9 percentage points over the first years of the euro, from roughly one-quarter to one-third of output, notably as a result of rapidly growing trade with vibrant economies, such as the new EU Member States or China.

The euro area is the world's largest trading partner, after the European Union itself, accounting for about 14% of global exports and imports in 2010. Economic and Monetary Union has fostered trade. Not only inside the euro area (+50% increase in trade volumes over the first years of the euro), but even more so with the European Union as a whole and the rest of the world (+80% over the same period).

The euro area is also very open financially, and increasingly so. Its international assets and liabilities averaged each around 170% of GDP in 2009, compared with roughly 140% of GDP for the US and 90% of GDP for Japan. As financial globalisation unfolded in the last decade, the euro area's external assets and liabilities have grown in tandem, by roughly 80 percentage points of GDP between 1999 and 2009.

The euro area is a vast continent of more than 331 million citizens. By population size, it is comparable with the other large economy of the developed world, namely the United States, with a population of 310 million.

In terms of economic output, the euro area is second only to the United States. It accounted for about 20% of world output in 2010, twice the share of Japan (about 10% of world output), and somewhat less than the United States (about one-quarter of world output).

### **Second, the euro is a stable and credible currency.**

For over 12 years now, the European Central Bank –together with all national central banks– has been delivering what it is expected to deliver: price stability in the euro area as a whole over the medium-term, with an average annual inflation of less than 2%, but close to 2%. Since we are in Kiel, let me add that in Germany the average yearly inflation has been 1.5%, which is a better result than for any such 12 year period over the last 50 years.

We have thereby been safeguarding the euro's purchasing power. This has been achieved despite several headwinds to the European economy: oil prices went up; the internet bubble burst; violence and wars have raged in some parts of the world; and starting in mid-2007 we had to cope with the most severe global financial crisis in over 60 years.

Taken as a whole, the euro area performed soundly also when looking at other macroeconomic indicators, or comparing with other large developed economies.

- Adjusted for differences in population growth, per capita GDP growth in the euro area over the last decade has been almost the same as in the United States, at about 1% per year.
- The dispersion of real GDP growth rates across euro area countries is comparable with the equivalent dispersion across U.S. states. For instance, the difference between the fastest and slowest-growing U.S. states is not of a markedly different order of magnitude as that between euro area countries.
- Overall employment in the euro area increased by 14 million during the first twelve years, compared with a rise of about 8 million in the United States.
- And the overall yearly public finance deficit in the euro area is presently about half that in the United States or in Japan. The IMF projects indeed the euro area's fiscal deficit to reach 4.4% of GDP this year, against 10.8% of GDP in the U.S. and 10.0% in Japan.

The euro's international status is the outcome of market forces. But one of the particular characteristics of the euro's international role is to be markedly regional and strongest in economies with close geographical and institutional links to the euro area.

The euro's international role also displays a high degree of stability. And the available factual evidence suggests that it has remained broadly unchanged since the outbreak of the global financial crisis, in particular.

For instance, the euro accounted in 2010 for about one-quarter of disclosed foreign exchange reserves globally (against around 60% for the US dollar and 4% for the yen). It also accounted for about one-quarter of the stock of international debt securities and for roughly 20% of foreign exchange turnover.

### **Third, the euro area has a balanced current account.**

As such, the euro area does not contribute to global imbalances, one of the main challenges facing the global economy and the world community.

It is worth stressing that the euro area is the relevant dimension to consider for a vast single currency and economic area with a common exchange rate and monetary policy. And there, the numbers are clear: the euro area current account balance averaged less than 0.1% of GDP over 2005–2007 before the global crisis broke out, according to IMF figures. Moreover, the euro area current account is still projected by the Fund to be broadly balanced this year and the next up to 2015. The picture is very different in other parts of the world.

A concern is that after some partial reduction induced by the crisis, global imbalances are starting to widen again. This raises challenges for international monetary and financial cooperation. The euro area has a significant stake in effective global re-balancing, notably through sounder domestic policies worldwide which, in turn, would contribute to global external stability. The global economy has a lot of homework to do if it is to address these challenges.

People of goodwill, inspired by the desire to keep the global economy "open, market-based, just and protective" will surely be needed to that end. Credit should therefore be given to initiatives such as the Global Economy Prize to encourage them to press ahead in that direction.