Jean-Claude Trichet: The Euro and the monetary union

Speech by Mr Jean-Claude Trichet, Governor of the Banque de France, at the Society of Business Economists Annual Dinner, London, 12 February 2002

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Ladies and gentlemen, it is a great pleasure and an honour to be with you today, in the occasion of the Annual Dinner of the Society of Business Economists, in front of such a distinguished audience. I am particularly pleased to express my views on the euro and its prospects following the successful launch of the notes and coins on 1st January 2002.

I am happy to have an opportunity to present my views on the successful set-up of the euro, on the economic and financial integration of Europe and on the challenges that the euro-zone has to cope with.

The Euro: built on a successful set-up

Set-up of the Eurosystem

The single monetary policy is formulated and implemented within a sound institutional framework, the Eurosystem, comprising the European Central Bank and the twelve national central banks of the euro area. Three principles are shaping up the Eurosystem: independence, transparency and decentralisation.

The **independence** of the European Central Bank and national central banks is enshrined in the Treaty. When exercising their powers and carrying out their tasks and duties, neither the central banks of the Eurosystem nor any member of its decision making bodies shall seek or take instructions from Community institutions, from any government of a Member State or from any other body. Independence means institutional, operational and financial independence. We consider that comprehensive concept as an essential contribution to the clarity and the credibility of the single monetary policy.

Transparency and communication: elected authorities, key economic players, as well as all citizens must be fully informed on the conduct of the single monetary policy. At the European level, the ECB maintains a permanent dialogue with the European Council and the European Parliament, as national central banks do with national institutions. The ECB was maybe the first central bank in the world to introduce, on 1st January 1999, the concept of regular, frequent, real-time communication in the domain of monetary policy. Indeed, once a month, immediately after the meeting of the Governing Council, the President of the ECB holds a press conferences.

The independence of a central bank and its democratic accountability are two sides of the same coin. In this respect, both public speeches and testimonies by the president of the European Central Bank and by the Governors of national central Banks, to the attention of institutions as well as public opinion, are significant, and an important part of our collective duty consists in tirelessly explaining the reasons and the arguments that underpin the decisions of the Governing Council.

Lastly, **decentralisation**: as the subsidiarity principle underlies the whole European construction, decentralisation is a major principle guiding the architecture of the Eurosystem. The Eurosystem is a team whose members work in close co-operation, and the team spirit is really strong and fruitful. Monetary policy decisions are taken, at the centre, by the Governing Council, but are implemented by the national central banks in a closely co-ordinated way.

Strategy of the single monetary policy

The Maastricht Treaty clearly defines the ultimate objective of the single monetary policy, that is to say maintaining price stability. However, for this it is essential to have a clear definition of price stability: we define it as a year-on-year *increase* in the overall Harmonised Index of Consumer Prices (HICP) of *below 2%* in the whole euro area.

Bearing in mind this objective, our monetary policy strategy is based on two "pillars".

We have first assigned a key role to the monetary aggregate M3. This "pillar" is based on a *reference value* which we set at 4.5% for the annual growth rate of the broad monetary aggregate M3. The concept of a *reference value* does not imply a commitment on the part of the Eurosystem to automatically correct deviations in monetary growth in the short term. Naturally, we also follow the counterparts of M3 closely, that is to say the sources of money creation, and especially lending to the economy, the evolution of government finance and capital flows with the rest of the world.

However, it is common sense to say that monetary developments alone do not allow for a comprehensive assessment of the risks to price stability. This is why we have defined a second "pillar" for our monetary policy strategy, consisting of a broad range of variables that act as leading indicators of the outlook for euro area price developments.

In fact, we consider the maintenance of price stability over the medium term to be the Eurosystem's greatest contribution to fostering an environment which is favourable to sustainable growth and employment in the longer run. And, it is also its greatest contribution to limiting unnecessary volatility of output and employment in the short run.

The relatively low yields on long-term euro-denominated bonds confirm investors' confidence in the new currency. This was not the case four or five years ago, before the setting up of the euro, when financial markets were convinced that the euro would be the weighted arithmetic mean of its legacy currencies and would not inherit the level of confidence and credibility of the strongest of these, such as the Deutsche mark, the Dutch guilder, or the French franc. The euro has actually been founded on a benchmarking principle, not on a convergence towards an average. That may explain why the euro's interest rates were the lowest in Europe from the outset.

Successful technical framework

However, even the best monetary strategy needs an efficient technical framework. The launch of the euro on the financial markets, on 1 January 1999, has also been an indisputable success from a technical point of view. In this respect, three points are worth mentioning:

- the **monetary policy framework** contains a wide set of instruments chosen with a view to observing the principles of market orientation, equal treatment, simplicity, and transparency. The decentralisation of the operations of national central banks has undoubtedly contributed to the smooth functioning of the framework. Maintaining a close contact between commercial banks and their national central banks has helped the financial markets to quickly adopt the harmonised practices relating to open market operations, eligible collateral for credit operations and minimum reserve systems.
- **operational efficiency** is highlighted by the precise adjustment of banking liquidity and effective steering of short-term interest rates; the Eurosystem has demonstrated this efficiency, in the days after the tragic events of 11th September 2001, by acting quickly and by ensuring a smooth and orderly functioning of the European financial markets.
- **security** is provided by the procedures and systems implemented, both for the execution of interbank transactions, and vis-à-vis large-value payments. The inter-bank market became integrated thanks to the setting up of the Target system for the real-time transfer of large-value payments throughout the euro area and in other EU countries.

Let me turn now to the introduction of euro banknotes and coins, which has been the last step of a now more-than-twenty-year process of monetary integration.

The euro changeover

On 1 January 2002, the euro banknotes and coins were issued and became legal tender in the countries participating in the euro area. This is a unique and highly symbolic event for Europe.

As regard France, **the early changeover of non-cash payments** in 2001, and the rapid introduction of banknotes and coins in euro in early 2002, proved to be a success and entirely in line with the scenarios devised in consultation with all the involved parties (the banking sector, cash-in-transit companies, the Police and the Army, retailers and the general public).

In France, almost 70% of non-cash payments were in euro at the end of December 2001. Since 1 January, all transactions have been conducted in euro, and no major incidents came to light, thanks to the early use of non-cash payments by the general public throughout the second half of 2001. This was also a key factor in the rapid acceptance of the banknotes and coins by the public.

Similar success has been witnessed in all European countries, thanks to national efforts and the co-ordination by the European Commission and the Eurosystem; a month and a half after the introduction of euro banknotes and coins, more than 95% of **cash transactions** in the euro area are now being carried out in euro.

Although the practical changeover to the euro might be considered as an outstanding achievement, we should nevertheless remain vigilant on the following issues:

- First, **price stability**. Although some increases in prices of a certain number of consumer goods have been reported, it is likely that, overall, the effect on price stability will be marginal. But consumers have to be vigilant, companies and retailers must remain responsible as regards price setting, and competition will play its part in lowering the prices in the short-to-medium term.
- Second, we must closely monitor the risks of **counterfeiting of notes and coins** : the **communication campaign of the Eurosystem** "The euro. Our money" was aimed at familiarising all the European citizens with their new banknotes and coins (and their security features) and, by doing so, it helped them to easily identify the obviously fake banknotes. All institutions concerned, both national and European, are co-operating closely to prevent and fight counterfeiting.

The credibility of the Eurosystem and of the single monetary policy, and the successful changeover to the euro are a major achievement. They certainly contribute to the efficient functioning of EMU and to European economic and financial integration, as I will explain now.

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EMU is a balanced concept fostering economic and financial integration

EMU is an economically sound and well-grounded concept

The usual criticism …

A few years ago, it was necessary to convince a great number of sceptics, in Europe as well as in the rest of the world, that the euro would really be launched. The opinion that the single currency would never exist has of course been disproved by the facts. Nevertheless, objections are still being raised from time to time, on the alleged grounds that the euro area economy is full of major inconsistencies that could endanger and challenge the viability of EMU.

Some observers thus claim that the lack of co-ordination between European economic policies, in the absence of a political federation, is likely to deprive the area of an appropriate policy-mix. Others blame the lack of instruments allowing us to tackle any asymetric shocks that may emerge, and underline the poor flexibility or the absence of mobility of the European labour force. Others claim that the presumed economic divergences and structural gaps among euro area countries are too large to ensure a viable monetary union.

…appears invalid from an economic standpoint

How can we address these important objections?

It is not disputable that for EMU to function well, Member States, especially the major ones in terms of GDP, must be aware of the spill-over effects of all their national budgetary policies. The existence of spill-over justifies the implementation of close co-ordination between national economic policies. This is contained in the Treaty itself, which obliges Member States to treat national economic policies "as a matter of common concern" and subjects them to a multilateral procedure.

In this regard, we have seen that for EMU to be successful, an appropriate level of co-ordination between economic policies is needed. To this end, Member States have designed institutions and mechanisms to promote the level of co-ordination. We can now say that EMU has in turn been beneficial to the European economic and financial integration as a whole. Indeed, a coherent operational framework has been provided for the co-ordination of economic policies through close mutual surveillance (under the responsibility of the **"Euro Group"** and the **Ecofin Council)** and through the implementation of the **Stability and Growth Pact**, as I mentioned earlier. Moreover, the **Broad Economic Policy Guidelines,** discussed each year by the Heads of States and Governments, help monitor macroeconomic and structural developments in the Member States.

I will recall some Treaty provisions that gave rise to the Stability and Growth Pact's importance:

– By supervising the fiscal policies of the euro area Member States, the pact together with the Broad Economic Policy Guidelines ensure the appropriate policy mix within the euro area. This is essential for monetary policy, to counterbalance the fact that Europe does not have a significant federal budget, just as it has no federal government.

– The pact also helps prevent well-managed economies from having to bear an unjustified risk premium by setting up a penalty system for excessive deficits.

As regards the second common reproach against EMU, that is to say the lack of instruments to respond to asymetric shocks, I would like to stress that the Stability and Growth Pact itself allows us to disprove this assertion. Indeed, by urging governments to aim at a fiscal position "close to balance or in surplus" in the medium term, the pact enables them to let fiscal deficits increase providing that they do not exceed the 3% reference value. In short, it allows them to create a fiscal buffer during normal economic periods that can be drawn on to counter economic divergences or asymmetric shocks

The last set of criticisms, as mentioned, focuses on presumed economic divergences between economies within the euro area. To answer this last objection, I would like to put forward a few ideas:

– Firstly, monetary union does not necessarily imply that, at any given point in time, all participating countries will have the same rate of inflation or growth, even though the creation of the euro was based on the successful completion of a convergence process. For example, inflation divergences across countries or regions may be accommodated in a monetary union as part of the process of convergence of productivity and living standards.

– Secondly, I would like to quote Professor Mundell in support of EMU, who made, at the beginning of 1998, an interesting clarification of the Optimal Currency Area theory, and demonstrated that in the event of a shift in demand from one member country to another, creating unemployment in the first and inflationary pressure in the second, flexible exchange rates would not be able to solve the problem. I quote: "*If the argument for devaluation were valid, it could be applied to every state or sub-region in any country, with a proliferation of new currencies, so they could be devalued!".*

The co-ordination between economic policies is on the authorities' initiative. But EMU also means the harmonisation of goods and services markets as well as financial markets. In these areas, the integration process is well on track.

EMU fosters economic and financial integration

Financial Europe under construction: the reorganisation of capital markets

In 1999, as soon as the euro was launched, one of the expected advantages was the prospect of deeper, larger and more integrated capital markets contributing to reducing the cost of capital for businesses and giving European savers a greater range of saving options. These expectations have become realities in both the money market and longer-term capital markets.

On the **euro money market**, the unsecured deposit interbank market is highly integrated. EONIA and EURIBOR have provided the market with uniform benchmarks that are fully accepted by all market participants. This is reflected, for instance, in the huge development of the euro interest-rate swap market. These changes have prompted market participants to concentrate their euro cash management activity in order to take advantage of the higher liquidity levels on the secondary market.

On the **euro bond market**, the integration process has registered three main developments:

– *a rapid internationalisation*: The introduction of the euro has fostered euro-denominated private bond market, by enlarging the potential pool of investors, notably international investors. During the period 1990-98, the legacy currencies accounted for 10% of all corporate bonds issued by euro area borrowers and only 2% of those issued by companies outside the area; these ratios have risen to 75% and 20% since 1999 [Galati and Tsatsaronis, 2001].

– *increased competition between issuers*, which has encouraged the standardisation of sovereign bonds, the gradual convergence towards "best practices", the development of a range of attractive and actively traded benchmark issues (especially for sovereign bonds).

Besides, competition has also enhanced liquidity as issuers have increased the average size of outstanding bonds.

– the *modernisation of market structures*: besides the rapid development of electronic trading, the consolidation of Central Securities Depositories is also paving the way for a more efficient functioning of Delivery-versus-Payment procedures, and easier and safer channels of settlement of cross-border securities transactions. This last point is of particular relevance for the Eurosystem, as the smooth functioning of European securities settlement infrastructure is key for the practical implementation of monetary policy.

On the **equity market**, the elimination of the currency risk within the euro area has led investors to shift from a domestic orientation to a more international, sectoral one. The creation of a wide range of pan-European sectoral indices was, thus, a direct consequence of these changes in investor strategies.

Additionally, the introduction of euro has been a strong catalyst for **mergers and acquisitions** in the financial sector. For instance, in this respect, we can stress current trends in mergers or close co-operation between banks, stock exchanges, securities settlement systems, clearing houses. Had the euro not been created, would it have been thinkable that the Paris, Brussels and Amsterdam exchanges merge to create EURONEXT ?

The large European goods and services market.

Such changes in the European financial scene have significantly improved the efficiency of capital allocation. The euro contributes to enabling European savers to easily select the most efficient investments. It also helps the productive sector and companies to achieve significant economies of scale, enhances the transparency of the market and boosts competition and innovation to the benefit of consumers.

Moreover, the pace of internationalisation of the euro area economy has been further spurred by the euro. Allow me to give just one example, the level of French accumulated foreign direct investment abroad since 1999 has been of the order of magnitude of EUR 380 billion (a pace four times as rapidly as before the setting-up of the euro, and the same order of magnitude as the United States' FDI abroad).

The international role of the euro

The euro has become a major currency in the world. As an official reserve currency, it is the second most widely used. As a bond issuance currency, according to the most recent statistics from the BIS, the euro has played a substantial role since the end of 1998 and accounted for around 35% of total issuance in 2001. The share of the euro in international bank assets has also increased significantly over the past two years.

Furthermore, the euro constitutes a major reference currency for exchange rate regimes adopted by third countries. Over 50 countries in the world, mainly in Europe and Africa, are managing exchange rate arrangements that include a reference to the euro. The intensive trade and financial links with the euro area are the main factors behind this choice. Of course, the adoption of a euro-based exchange rate arrangement is a unilateral decision, and does not involve any commitment from the Eurosystem. However, this growing use of the euro as a reference currency, and also the use of euro banknotes and coins outside the euro-area, may be seen as a sign of confidence in the stability-oriented macroeconomic policies of the euro area.

The internationalisation of the euro might develop further, thanks to an established track record of the Eurosystem with reference to its primary objective of price stability and continuing integration of financial markets in the euro area. But the Eurosystem does not pursue the internationalisation of the euro as an independent policy goal: this implies that it neither fosters nor hinders this process. It does not mean that the international dimension is irrelevant for the Eurosystem. Of course, we take into account potential spillover effects on monetary policy. However, the impact of the internationalisation of the euro on monetary policy should not be over-stressed, as the Eurosystem's monetary policy is sufficiently robust to take into account and accommodate its potential implications.

At this point, one may ask what conditions are required to complete the success of the euro and EMU in the medium term. In my opinion, the metaphor of rugby is appropriate: by introducing banknotes and coins in euro, we have scored a try. Now, we must convert our gains. I believe that we have to deal with three main challenges: structural reforms, financial stability and the accession to the EU of new Member States.

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The challenges ahead

Structural reforms

The first challenge is beyond dispute to implement structural reforms in the euro area's economies. Structural reforms were crystallised at the European level in what is called the Lisbon strategy. The first objective of this strategy is to substantially raise our potential output growth. The second is to make our economies more competitive.

Implementing the reforms: the Lisbon strategy

The European Council meeting held in Luxembourg in December 1997 explicitly mentioned structural policies among the items selected for strengthened co-ordination. The Lisbon European Council, held in March 2000, further enhanced the medium-term strategy to introduce structural reforms in the Union. This strategy aims at making the European Union the world's most dynamic knowledge economy by 2010. It has since been rounded out to include social issues (at the Council of Nice) and environmental issues (at the Council of Gothenburg).

Work to date in the field of structural reforms is quite encouraging. Noticeable successes have already been registered with regard to certain policies, such as new rules in telecommunications, electricity and gas markets. Before reviewing the priority areas where fresh impetus is required, I wish to briefly make two remarks:

First, the responsibility for structural reforms in the European Union rests with the individual Member States. Consequently, there is a wide variety of institutional solutions and regulatory arrangements across countries and sectors. I nevertheless consider that such a decentralised approach should be considered as an opportunity, rather than a disadvantage. It encourages "cross fertilisation" of best practices through increased co-ordination of Member States' structural policies.

My second remark concerns the changeover to the euro. This event is a major structural reform in itself, a powerful drive towards restructuring the European economy. It constitutes a strong lever to facilitate the comparison of prices, taxes and incomes.

An important objective consists in raising the potential output growth of the European economy

If France and Europe want to secure sustainable growth at levels that are as high as possible, the key variable is potential output growth. There are three ways of raising the level of potential output growth:

First, boost investment: business leaders are completely free to invest wherever they want in France, Europe or elsewhere in the world. It is thus important that we create economic, legal and fiscal conditions that are as favourable as possible to investment in Europe. The investment appeal of Europe is crucial in this respect: the more we invest, the fewer inflationary pressures we will have, and the stronger potential output growth will be.

The second way of raising potential output growth is to increase the quantity of available labour: The European Council of Lisbon fixed as a central objective increasing the employment rate of our populations from 60 to 70 % in 10 years. As a comparison, the same rate stands at 75% in the USA. The necessary reforms aim, in particular, at eliminating unemployment and poverty traps. For instance, in France, some useful steps have been taken: for example, a series of cuts to employer social security contributions has been implemented in order to reduce labour costs. We must also continue to step up efforts in training and education.

The third way of raising potential output growth is to promote ways to boost gains in labour productivity: The rapid transformation of information systems is likely to accentuate the structural transformation of the economy. Although the euphoria of entering a new economic era has faded somewhat, remarkable potential for economic change remains. This may help to boost labour productivity significantly and on an ongoing basis.

That strategy should be pursued whilst increasing the overall competitiveness of our economy

If I refer to what we observed in the past, the French strategy of competitiveness, which was based on limiting increases in the unit costs of production, gave us a very important advantage. And this competitive advantage for the French economy was transformed into growth, into job creation and into solid external accounts. Thus, in the present situation, it is vital to continue in this direction and to maintain a multi-partisan consensus on this competitive disinflation process.

Competitiveness is also linked to European harmonisation in other fields, for example in the service industries. Most of the barriers to trade in services appear to be due to national regulations and should be abolished or alleviated.

While the Eurosystem acts mainly as a stimulus in the process of structural reforms, it does play a leading part in ensuring financial stability. This brings me to the second challenge that EMU will have to take up.

Financial stability

Like every modern and independent central bank, **the Eurosystem and its individual components, the national central banks of the euro area, have to fulfil two main functions: firstly, ensuring price stability**, a key condition for sustained growth, **and secondly, preserving financial stability**, a growing challenge in a context of globalisation of the world economy, of amplification of financial and economic cycles, of instant access to information. I insist on the highly complementary nature of these two objectives: price stability is the bedrock on which financial stability is built.

The adequacy of European institutional arrangements for financial stability

The adequacy of European institutional arrangements for financial stability has been reviewed in depth at the EU level. In two reports, in April 2000 and April 2001, the Economic and Financial Committee (EFC) took stock of the supervisory and regulatory mechanisms in the EU and examined the issue of financial crisis management. It concluded that the current arrangements provided a coherent and flexible basis for safeguarding financial stability and recommended a further strengthening of cross-border and cross-sector co-operation.

I fully share the assessment put forward in these reports and I would like to stress here the special responsibilities of central banks, due to their position at the heart of financial systems: their role as liquidity supplier to the economy, their close and constant contact with credit institutions, their contribution to banking supervision and to the safe and efficient functioning of payment systems, and at least for some of them, their contribution to the safe and efficient functioning of securities clearing and settlement systems. To sum up, an institutional framework in which the Eurosystem's responsibilities for monetary policy in the euro area are coupled with extensive supervisory responsibilities of NCBs in domestic markets, and with reinforced co-operation at an area-wide level, seems appropriate to tackle the changes triggered by the current financial trends and the introduction of the euro.

Two points of particular relevance for the financial regulatory framework

Let me conclude on this important topic by stressing two points of particular relevance for the European financial regulatory framework:

– There are still some barriers to further integration of EU capital markets. In this regard, the Eurosystem welcomed the objective of the European Council meeting in Lisbon in March 2000, to accelerate completion of the internal market for financial services, and to set a tight timetable so that the Financial Services Action Plan can be implemented by 2005. This Plan is regularly reviewed by European authorities, and progress is being made. I welcome especially the intention of the Spanish EU Presidency to lend impetus to this ongoing process. The Eurosystem also supports the strategic conclusions of the Committee chaired by A. Lamfalussy on the integration of the European securities markets, ratified by the European Council meeting in Stockholm in March 2001 and approved by the European Parliament in early February 2002. We are convinced that the implementation of these broad guidelines and the new cooperation structures at the European level will help make it possible to take full advantage of the introduction of the euro.

- Since the tragic events of 11 September and their impact on financial stability, concerns over the potential abuse of the financial system for the financing of terrorism have received top priority in international and European regulatory discussions. The international community and, within it, the financial community, should step up its efforts to hunt down money used by organised crime and terrorism. We shall not be successful overnight, but, today, there is a strong political determination on the part of the international community to cooperate on this issue. As far as the fight against organised crime and terrorism is concerned, we can no longer accept that certain players are not prepared to observe the rules of international legal cooperation.

Beyond structural reforms and financial stability, the accession of new Member States to the European Union and to EMU is the third challenge that I have identified. The last challenge but not the least.

Accession of new Member States to the EU and EMU

Twelve countries from central, eastern and southern Europe are currently negotiating accession to the EU. According to the calendar endorsed by the European Council, new accessions will take place as from the 1st of January 2004. It provides further evidence, if such were necessary, of the attractiveness of the European framework, which has provided us with both political stability and economic progress for almost half a century.

The accession countries have accomplished significant progress in stabilising and strengthening their economies and institutions. Observing the accession countries since the beginning of the nineties, we see the huge improvements that these countries have made, in barely 10 years, on the road towards convergence with the EU.

Nevertheless, there is also a general agreement on the fact that the gap in terms of average GDP per capita between the accession countries and the euro area, although diminishing, still remains quite significant. On average, GDP per capita in terms of purchasing power parity is around 44% of that of the euro area, while in terms of current exchange rates it is only around 22%. The size of the gap, combined with the limited growth differentials between the two groups of countries, suggests that the process of real convergence will be very gradual and will have to continue far beyond the tentative dates for EU accession. Indeed, real convergence is essential to create economic cohesion within EMU and promote integration between Members States, thereby helping to minimise the risk and the effects of asymetric shocks.

The Eurosystem, and notably the Banque de France, is following the enlargement process with a great deal of attention. Let me stress a few points of particular relevance for the Eurosystem and for accession countries themselves, on the road towards catching up with the EU and achieving convergence.

- **Firstly, nominal convergence** with the EU constitutes a medium-term objective. The strict compliance with Maastricht criteria will be key for joining the euro area, but should not be seen as an immediate requirement to join the EU. Indeed, the EU Treaty calls, as a prerequisite for adopting the euro, for a high degree of *sustainable* convergence, which presumes that sufficient preliminary progress has been made towards real and structural convergence. Therefore, nominal and real convergence should be pursued in parallel, and are not conflicting.
- **Secondly**, I noted that many accession countries have already expressed their intention to join **ERM II** as soon as possible after EU entry. This intention is to be welcomed, although it should be clear that ERM II membership needs neither to happen immediately after EU accession in all cases, nor to be limited to only two years, which is the minimum for adoption of the euro. It would be misleading to consider ERM II as a mere “waiting room” before joining the euro. On the very contrary, ERM II offers a meaningful, partly flexible, credible framework for increasing convergence with the euro area on the road towards the adoption of the euro.
- **Thirdly, a sound and efficient banking and financial system is essential.** Significant progress has been made over the past few years in rehabilitating the banking sector and encouraging foreign ownership, which has also contributed to greater integration into the EU financial system. The intermediation role of the banking sector remains fundamental for the efficient use of capital and sustained growth. Progress in corporate governance,

enhancement of the legal and supervisory frameworks that support the banking sector, and the fight against money laundering, are also crucial.

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In conclusion, let me make three remarks:

- First, you might remember that two months ago there still were a lot of opinions and articles forecasting enormous difficulties associated with the Euro changeover. These catastrophic predictions proved wrong again. The Euro notes and coins changeover has not only been a great technical success, but it has also been accompanied and illuminated by genuine popular enthusiasm. In my view this is a very important and positive phenomenon which has to be reflected upon thoroughly all over Europe, including in the UK.
- Second, the assessment produced by some economists on the international economy is today as bleak as it was buoyant yesterday, both postures being equally excessive. Let us try to remain serious, lucid, serene and balanced in our analysis, in our judgements, in our decisions. Let us all beware of the herd instinct which is always a very bad counsellor. Let us beware of fashion. As regards the present situation, we must remain prudent and cautious, but we have some signs indicating a bottoming out in the US and in Europe, including in my own country. And I see absolutely no reason why the European economy pick up would not be as early as in the US, taking account of the strong European fundamentals.
- Third, confidence is of the essence in the present situation. Confidence in our currency, confidence in its capacity to be a good store of value, confidence in its medium and long-term solidity, confidence in the capacity of the European Central Bank and the Eurosystem as a whole to deliver price stability. This confidence – which is warranted by the central bank – is a very precious asset for the Europeans. It is a very important ingredient for fostering growth through consumer confidence and therefore consumer demand which is presently the main driving force behind the European economy.

I thank you for your attention.