

Andreas Dombret: Global currency blocs – is the euro a burden or a competitive advantage?

Opening address by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Europe Symposium of the CDU Economic Council, Brussels, 3 December 2013.

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1. Introduction

Ladies and Gentlemen

Thank you very much for inviting me to the CDU Economic Council's Europe Symposium. I am delighted to be here and to have the opportunity to talk to you. As regards the theme of the symposium – global currency blocs – there is one thing we can state with some pride, and that is that the euro has become the second pillar of the international currency system.

2. The euro as the second pillar of the international currency system

For practically all purposes, the euro is the second most important currency in the world – a role it took over from the Deutsche Mark. In some respects it has even surpassed the Deutsche Mark, for instance in its share of global currency reserves.

Obviously, the US dollar remains the world's leading currency. Jeffrey Frankel from Harvard University did recently point out that the US dollar's leading role is not a law of nature and that the day may come when it would have to succumb to a rival. However, in his words, "today is not that day."

It would probably be presumptuous, in fact, to believe that the euro might steal a march on the dollar in the medium term. Nonetheless, as the second pillar in the international currency system it fulfils an important role – it provides support and stability. At the same time, the euro gives international investors additional options in a very liquid market.

However, one thing is undeniable, and that is that the problems in the euro area at present have weakened the euro's standing. We need to deal with these problems if the euro is to play a lasting role as a stabilising factor in the international currency system.

The reforms in the individual euro-area countries are an important step in this direction. Another step is the reforms in the institutional framework of monetary union, principally the work on a banking union. These measures put the euro area well on the way to rendering itself less vulnerable and remaining an attractive destination for international investors.

After all, in the final analysis robust economic health in the euro-area countries is crucial to the future role of the euro.

3. Competitiveness in Europe

And one thing which is pivotal to economic health is competitiveness. In and of itself, a common currency is in the first instance an opportunity for greater competitiveness. A single currency area provides enterprises with a wider market, and one in which foreign exchange risks are eliminated. In turn, this creates a solid footing for international expansion.

What is more: the more prominent a domestic currency and the economic area from which it originates, the easier it is for exporters or importers to use their own currency for transactions outside the currency area. In addition, enterprises benefit from a broad and well-developed financial market, and this kind of market is more likely to exist, the larger and more successful the relevant currency area is and the more trustworthy the currency. It is also easier in a single currency area for enterprises to achieve the critical mass required to be competitive in international trade outside the euro area.

On the other hand, a large currency area represents a challenge for enterprises, too. They are exposed to stiffer competition on account of the larger number of market players. However, from a macroeconomic point of view, greater competition is to be welcomed, because it spurs innovation and promotes necessary reforms.

Against this backdrop, how are we to explain the lack of competitiveness in some euro-area countries? This does not primarily have to do with the single currency. The causes are to be found, rather, in excessive credit growth, deficient labour market regulation, and pay increases not backed by productivity growth.

These are factors which were also clearly a national rather than a supranational responsibility. Expectations that introducing the euro would automatically exert pressure to reform and bring about greater harmonisation between the economies of all euro-area countries have not been fully met.

The crisis has shifted attention back to the competitiveness of euro-area economies – with the focus on countries which have lost some of their competitiveness. If the crisis is to be overcome, it is vitally important that these countries become more competitive again. And that, in turn, requires that work continue on the reforms which have begun. Some initial success can be seen already, and this should encourage governments to stay the course of the path they have embarked upon.

4. The German current account surplus

Apropos competitiveness: in recent weeks Germany's current account surpluses have come under fire again. These, too, are often linked to the currency.

Germany's large current account surpluses may be partly accounted for by the euro's relatively weak external value in German terms. However, other factors are more significant. These include the global focus of German enterprises stretching back over decades, and high growth in the markets outside Europe.

We need to keep in mind that Germany's current account balance is the result of a market process and not of planned policy. The balance on current account reflects the investment and savings decisions of millions of households and enterprises. A high household savings ratio and a current account surplus also make good sense in macroeconomic terms in view of the future demographic challenges which Germany faces.

Furthermore, the demand for German products from the rest of the world is of benefit to other euro-area countries, as it boosts German imports. As the Spanish economy minister recently told the Financial Times, "for Spain, the main help we can receive from Germany in these times is that the rhythm of their exports continues."

Ultimately, then, neither the other euro-area countries nor the euro area as a whole would benefit if Germany were to artificially weaken its own competitiveness.

And if we look at the figures, we see that an adjustment is already under way – in fact, Germany's current account surplus with the other euro-area countries halved between 2009 and 2012. Furthermore, and contrary to widespread belief, the current upturn in Germany is being driven principally by strong domestic demand, not by exports.

5. Conclusion

Ladies and Gentlemen, the euro offers many opportunities for the European economies to achieve competitive advantages. However, to sustain these opportunities on a lasting basis, everyone must contribute to ensuring that the euro remains a stable and trustworthy currency. Then, the euro itself will continue to contribute to a stable global currency system.

Thank you very much for listening.