

**Dr. Duisenberg responds to being made European Banker of the Year** Brief speech by the President of the Netherlands Bank and of the Bank for International Settlements, Dr. W.F. Duisenberg, on receiving the European Banker of the Year award in Frankfurt on 3/3/97.

First of all I would like to thank you for presenting me with the European Banker of the Year award. I must confess that apart from feeling highly honoured at having such a prize bestowed on me, I feel slightly surprised as well. It is not until 1st July of this year that I will be taking over the leadership of the EMI to become a veritable European Banker.

There is something symbolic about this prize being presented in Frankfurt, which is not just the vibrant financial heart of Germany, but also the city where the monetary policy of the Economic and Monetary Union will be made. And it is about EMU that I wish to speak today.

With the moment of deciding which Member States meet the criteria for accession to EMU creeping up on us, the discussion on EMU is increasingly centring on the question of *how* EMU is to be achieved rather than on *whether* EMU will be achieved. And rightly so, because the completion of EMU became a certainty when it was laid down in the Maastricht Treaty in 1992. EMU is to start off on 1st January 1999. In the spring of 1998 the Heads of Government of the European Union will decide which Member States meet the criteria for entry. By signing and ratifying the Treaty, Member States opted to join EMU as soon as they fulfil the criteria. Only the United Kingdom and Denmark insisted on an opt-out clause, releasing them from the obligation to introduce the euro upon qualifying for EMU. The completion of EMU is irreversible, the introduction of the euro definitive.

When EMU takes off, all Member States participating in the euro area will be confronted with a fundamental change of environment. A proper start is of the utmost importance, with the euro being just as hard as the guilder or, if you will, the Deutsche mark. I need not explain to you the importance of low inflation, and hence of a strong currency. If we want the euro to be strong, there is nothing for it but to comply strictly with the convergence criteria. A weak euro and the attending high interest rate level would be of no benefit to anybody, and that includes the potential derogation countries. Please keep in mind that a monetary union with ill-converging Member States would be incapable of absorbing economic shocks. Ultimately the tensions attending a malfunctioning EMU would jeopardise the achievements of the Single Market. In my view, potential derogation countries should not even *wish* to take part in an EMU which allows insufficiently converged Member States to join.

That brings me to the position of Member States with a derogation. At present many Member States are making desperate attempts to meet the convergence criteria for introduction of the euro. Nevertheless we must make allowance for the fact that a number of them will not be able to participate when EMU takes off on 1st January 1999. We should not make too much of their predicament. After all, a Member State with a derogation is not excommunicated, but will be allowed to join at a later date. If they succeed in meeting the convergence criteria within the near future, some of these countries will be able to join the core group when the euro banknotes and coins are introduced in 2002.

Moreover, an exchange rate mechanism is presently being designed which seeks to ensure that the derogation countries retain close links with the core group. The mechanism will support their exchange rate policies. It aims to prevent unduly large exchange rate movements within the European Union which might impede the workings of the Single Market. At the same time, efforts will have to be made to reinforce convergence between the so-called

ins and outs in Stage Three in order to promote the accession of the derogation countries. Here the pact for stability and growth can make a major contribution. Under the pact, the EU Member States, whether in or outside the euro area, commit themselves to strive for a near-balanced budget or even a budget surplus. In fact, the pact would bring about a return to the budgetary discipline adhered to before the deficits of many countries began to get out of hand in the 1970s and 1980s.

A strong monetary union creates the right climate for low inflation. Low inflation, i.e. price stability, is the overriding objective of the ECB. Internal stability, meaning stable prices, is the principal aim. External stability, though not a primary objective, may ensue. There is after all a clear connection between a strong EMU with low inflation and the external value of the euro; it is in fact a precondition for a strong and stable euro. When the three large trade blocks, the US, Japan and Europe all pursue policies aiming for internal stability, they will not only reap the fruits domestically, but they will also contribute to a global climate of exchange rate stability. One of the main reasons for exchange rate disturbances, viz. an inconsistent and insufficiently confidence-inspiring policy, would thus be removed.

The importance of reasonably stable exchange rates all over the world brings me to the international position of the euro. Let me conclude with a few remarks on that score. Obviously an economy stands to benefit materially when its currency evolves into an international key currency. A country whose currency figures in large numbers of transactions elsewhere faces far fewer exchange rate risks, while its financial sector is given a major boost. A currency circulating within private sectors outside its own country brings in income for its issuer, the so-called seigniorage. The euro is well placed to play an important role as an international currency. Such a position is, however, not acquired overnight, but will have to be won gradually. However, several major conditions for such a position in the longer term are already fulfilled. The European single market, encompassing 350 million inhabitants, offers a solid foundation for the euro. Another condition is the existence of sophisticated financial markets. Building up on the position attained by the Deutsche mark, the euro's prospects are good in this respect. And last but not least, the euro will have to be a strong and stable currency. Only a hard currency will make it in the international financial markets. With the euro's future role as an international currency in mind, let us make sure that EMU starts off with really converged economies, so that the ECB will be able to realise its objective of price stability without having to resort to overly painful policy measures. That will enable the euro to become a prominent international currency.