

Discours de Monsieur Jean-Claude TRICHET

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« L'euro à neuf mois »

Reuters Group PLC

Washington, le 28 septembre 1999

Ladies and gentlemen, it is a great pleasure and an honour for me to be speaking here, in Washington, at the invitation of the Reuters Group PLC.

The 1st of January 1999, a unique event in the history of Europe occurred. The euro was born and the irreversible nature of this change has convinced an increasing number of political and economic actors that the success of the euro is a necessity for Europe. It is a keystone of the European single market which will ensure prosperity in Europe for the benefit of the rest of the world.

It is clear that, now and for the future, we have to face a number of challenges to make this success sustainable. I would like today to draw your attention particularly to the following two issues :

■ First, the Europeans have to meet certain conditions for the euro to be a full success;

■ Second, the euro will make an important contribution towards encouraging a balanced international monetary situation.

I/ THE SUCCESS OF THE EURO WILL BE COMPLETE IF A NUMBER OF CHALLENGES ARE TAKEN UP

The successful introduction of the euro is, in itself, a major reform. But it will be fruitful only if a certain number of conditions are met, above and beyond monetary policy, in particular regarding structural reforms.

A few years ago, it was necessary to convince a great number of sceptical people, in Europe but, especially, here in the US, that the euro was a viable project. Many people pointed to its presumed contradictions, and its alleged inconsistencies: for example, the impossibility of achieving an efficient policy mix without a political federation; the impossibility of avoiding some "asymetric shocks" (that is to say difficulties occurring in a Member economy and not in others); the lack of sufficient flexibility of the economy and real mobility of the labour force in the European countries etc... The conclusion was that the euro would never exist!

Facts have refuted these criticisms. But they are useful to help answer the question of what are the conditions for ensuring that the euro is a complete success. I see four conditions:

-The first condition is the credibility of monetary policy guaranteed by the independence of the European Central Bank, which is enshrined in the Maastricht Treaty and rooted in the independence of each national central bank. If the euro is to be a credible currency, it must win the confidence of the 290 million Europeans in the euro area and also the confidence of non-

Europeans with whom we do business. This can only be ensured by resisting any kind of pressure, including political, on how the new currency is managed.

The necessary dialogue between monetary policy officials and economic policy officials must take the independence of the ESCB into account and also the objective of price stability which, according to the Treaty, must guide the monetary policy of the euro area. The respect for the independence of the monetary policy is a condition for the success of the euro, in particular in the framework of the "Cologne process"-macroeconomic dialogue for the implementation of the employment Pact-adopted at the last European Council.

Satisfying this first condition related to the credibility and the independence of the monetary policy, will be facilitated by the harmonious functioning of the European monetary team, which is composed of the ECB and the national central banks from the eleven founding countries.

-The second condition is compliance with the provisions of the Treaty and the guidelines laid down in the Stability and Growth Pact with regard to fiscal policy. Close coordination of fiscal policies and vigilant peer surveillance within the informal council of the eleven participating member states - the "Euro Eleven Club"- and by the ministers of finance of the 15 Member States convened in the Ecofin Council is essential to ensure a balanced policy mix throughout the eurozone. The medium-term objective of achieving "public finances that are close to balance or in surplus" -means nobody gets to run a selfish budget deficit. To comply with this objective is

indispensable for the union as a whole to weather periods of economic difficulty and for individual countries to withstand possible economic downturns which affect only their own economy.

It is the adhesion of all the European governments to the Stability and Growth Pact that allowed the national central banks, and the Governing Council of the ECB to decide, last April, to lower the ECB's key interest rates from 3% to 2.5%, in order to provide the euro area with extremely favourable monetary conditions.

We have to understand that monetary policy alone cannot ensure price stability without the appropriate fiscal discipline at the overall level of the Economic and Monetary Union.

For my part, I would give **three economic justifications** for the Treaty provisions that gave rise to the Stability and Growth Pact.

- First, by coordinating the fiscal policies of the Member States of Monetary Union, the pact ensures a good policy mix within the euro area. This is essential for monetary policy. Since Europe does not have a significant federal budget, just as it has no federal government, the sum of the national budgets must serve as an overall budget for the area as a whole. This calls for close mutual surveillance and coordination of fiscal policies within the area.

- Then, the pact helps prevent well-run economies from having to bear unjustified risk premia by setting up a system of penalties for excessive deficits.

- Finally, the stability pact allows us to disprove the assertion that the euro area has no automatic stabilizers in the event of asymmetric shocks to a member economy. Indeed, by urging governments to aim for a fiscal position of close to balance or in surplus in the medium term, the pact enables them to let fiscal deficits increase during recessions without exceeding the 3% reference value. In short, it allows them to create a fiscal buffer during normal economic periods that can be drawn on, if an asymmetric shock occurs.

- **The third condition** is that all European countries must resolutely undertake structural reforms. Continental Europe is experiencing too high levels of unemployment, despite the fact that the jobless rate has been declining slightly in most of its economies. According to the IMF and the OECD, around 80% of this unemployment is structural, that is, generated by our own burdensome rules and regulations. The Monetary Policy Council of the Banque de France agrees with this analysis.

Just recently, some external observers were still reproaching Europe to focus its efforts and political energy on the euro, instead of implementing the structural reforms necessary for more dynamic job creation.

These critics were wrong regarding the untimeliness of the euro, but their assessment of the problems of the European economy is obviously correct.

The euro will complement, rather than detract from, structural reforms. Most importantly, a single currency will ease the flow of goods, services and capital within the eurozone. And the euro will also encourage "cross fertilization" of best practices through stronger coordination of member states policies in areas such as labour markets, education and training, work and job creation incentives, effective welfare safety nets, etc.. It is the reason why European Council meeting in Luxemburg has decided to take this necessity into account and has explicitly mentioned structural policies among the items selected for reinforced coordination.

-The fourth condition is that all economic leaders in Europe must be clear sighted with regard to the crucial question of competitiveness. Pre-euro economic policy meant monitoring trade balances, the balance of payments and the foreign exchange and interest-rate markets. Authorities thus received constant feedback on key indicators affecting national economic performance and could react accordingly. These indicators were sensible, multiple and very reactive.

Most of these indicators have disappeared at the national level or have seen their significance weakened, with the advent of the euro. But, of course, they remain on the euro-wide level. This is why the coordination of fiscal and economic policy provided for by the Treaty is so important.

Nevertheless, the rules of a market economy, especially competition, continue to apply to each economy. Jobs are created by consumers when they choose the goods and services they feel are the best value for money.

Businessmen allocate these jobs to various possible locations in various countries according to the relative competitiveness of these locations. The leaders of each national economy must therefore monitor competitiveness even more closely than before through indicators such as unit production costs, companies investments, and the tax and regulatory framework.

Contrary to the pre-euro period, loss of competitiveness will not show up so quickly on radar screens like external accounts and foreign exchange markets, so economic managers must be even more vigilant in watching other indicators. The sanctions for economic policy errors might come more slowly and insidiously via rising unemployment and weak growth.

II/ THE SUCCESS OF THE EURO WILL YIELD A MAJOR CONTRIBUTION TO A BETTER ECONOMIC AND MONETARY EQUILIBRIUM IN THE WORLD.

In the current overall economic situation, the success of the euro will greatly help both Europe and the rest of the world which will benefit from European prosperity and growth as part of a healthy world economy.

Clearly, the new monetary setting in Europe has, and will have, far-reaching consequences not only for Europe and its people, but also for the world economy and the international community.

The Euro area contribution to international stability may be appreciated through the development of balanced economic relationships inside the euro

area and with the countries outside the European Union, and through the reinforcement of international financial and monetary stability.

EMU will help to set balanced economic relationships.

The relationship between monetary union and the other European countries will be based on coordination.

Coordination of the economic policies of the 15 countries of the European Community is required by the Treaty. It is necessary for the European Union to function properly at the economic level. It is important that the dialogue between all EU countries continues, even though the changeover to the euro modifies the traditional economic environment of the European Union.

In particular, the coordination between the 15 countries will allow the countries that have not yet joined monetary union to converge towards the euro area. The new exchange-rate mechanism that links, to the euro, some of the currencies concerned (this is the case of the Greek drachma and the Danish krone since January 1st 1999) will play its part in this process. By promoting exchange-rate stability, the new ERM will ensure that the single market operates smoothly and will help the "out" countries to qualify for the single currency.

The Monetary Union will also have close relationships with countries outside the European Union.

First, the monetary union and the European Union will be an attractive pole for our neighbours from central Europe. The results achieved by some of them during the last years show remarkable improvements. They must keep on making an effort to be able to join EMU in fitting conditions, which is in their own interest and in the interest of current EU member states.

With regard to international cooperation, the Euro area will also play a key role. It represents an area of stability and sustainable economic growth for some 290 millions inhabitants, and it will definitely have a major influence in the international community. The euro will make the international economic cooperation process easier between the main partners - the United States, Japan, and the Euro area. Each of them is in a position to speak on behalf of a large economic area. Moreover, each partner is vulnerable to a rather similar degree to adverse shocks occurring in the international financial system.

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In conclusion, let me stress four points, taking stock of the meetings I participated in during the last three days.

1/ Firstly, the global economy is doing much better than a year ago, which is the best demonstration of an appropriate handling of the difficult situation in which we were in September 1998. World output growing at a pace of 3% in 1999 and 3 ½% in 2000 is pretty encouraging. Particularly striking is the fact that the newly industrialized Asian economies are likely to grow at a pace of a little more than 5%, both in 1999 and in 2000.

This calls for two "coups de chapeau": one to the Asian economies themselves which have demonstrated a remarkable capacity to adjust in a very short span of time. The second to the IFIs, and in particular the IMF and the World Bank, which have demonstrated in the most difficult circumstances lucidity, determination and courage. I know that saying that is not fashionable. But it is precisely because it is not fashionable that it is worth saying it.

2/ Secondly, this is not the time for complacency. The global economy is in much better shape but remains fragile, taking into account the risks and the challenges that exist, facing the international community. We

must demonstrate that we, in the industrialized world, can take advantage of a quieter and calmer period to embark rapidly on the reforms that are needed.

Amongst the reforms, I would like to emphasize particularly the necessity:

- to foster structural reforms in Europe in order to consolidate the European economy and to combat unemployment;
- to improve the level of households savings in the US economy in order to help alleviate the external imbalances that are currently observed;
- and to continue to reshape the Japanese economy through appropriate and bold restructuring in the industry.

3/ Thirdly, I am encouraged by a number of orientations that have been pragmatically adopted here in Washington in the recent days. I

see in particular three elements that are of great importance in my personal view:

- the declaration of the G7 on the yen, which is important because it cristallizes the consensus of the major industrialized countries in a simple and clear fashion. In my memory, markets have never neglected such signals of the G7, which are given only exceptionally.
- the statement on gold, underwritten by 15 central banks including Banque de France, which states that gold will remain an important element of global monetary reserves.
- And, last but not least, the solution given to the Heavily Indebted Poor Countries initiative which demonstrates that the international community is mobilizing, through all possible channels, appropriate financing to help the poorest overcome their difficulties.

4/ And fourthly, the strategic stance which seems to me the most appropriate concerning the Eurosystem could be summed up with the two key words of confidence and vigilance, expressed by our President.

Confidence in our currency, in its solidity, and in a non-inflationary and sound evolution of the European economy, which is displaying very encouraging signs all over Europe and particularly in France.

And at the same time, **vigilance**, because a central bank must never relax its vigilant stance -it is like driving a car, when everything is all right, the driver must not, even for a minute, stop paying attention-, because developments in the real economy as well as in the monetary and financial fields have to be scrutinized very carefully in the present period, and because structural reforms are more than ever crucial in the euro area.