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EMU, Cohesion and Portugal

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The 21st century will be the Euro Age. The creation of the euro will be one of the most important developments in the international monetary system and will contribute to a multipolar currency regime with changes for monetary stability which is badly needed for the world economy.

The single currency is a new chance for Europe. The euro will complete the single market. But the euro is not only a monetary project. It will also give new incentives to the political integration of Europe. A tighter economic union will demand closer political cooperation as well as common principles and guidelines. The euro can become the instrument to speed up the process of Europe's integration and contribute to the creation of the innovative milieu to prepare for the 21st century.

In stage III of the Economic and Monetary Union, it is the European Central Bank who executes a common monetary policy. Transferring this economic instrument to one central institution does not mean that the member states give up their sovereignty. In reality, the member states ceded to be independent in their monetary decisions a long time ago. Globalized markets ask for interdependent decisions. Over the past two decades the economic environment has dramatically changed. Regulatory barriers have been dismantled and, in particular, technical innovations in information and communication technology took place. Today we are living in a world of globalization, emerging economies and strong financial markets.

Europe is the largest market of the world economy with a population of roughly 370 million people, compared to the US with a population of 260 million and Japan of 125 million people. Why should Europe in this situation afford efficiency losses stemming from 15 different currencies instead of gaining the benefits of the worlds largest single market with more than 370 million consumers? The euro will provide the means to do this.

Not even 12 months separate us from the historic moment. On the 1st of January, stage III of the EMU will begin, there is no doubt about it. Within four months, we will know who qualifies for EMU. The convergence requirements have already made the member states improve their macroeconomic policies. They all committed themselves to profound and far-reaching measures. Actual figures show that EMU can start with many participants at the same time. As a big monetary union did not seem very likely not too long ago, is already a success. I am especially glad to learn that Portugal will qualify to be among the countries who enter stage III of Monetary Union next year. After long years of difficult adjustment processes, it will now harvest the fruits of its political and economic, financial and monetary efforts. The potential benefits for Portugal of being part of the a successful single currency area are enormous. Terms of trade, transparency of costs and currency stability will give new incentives for the economy, if the single currency is soundly based. Positive effects on the labour market situation, on business initiatives and the economy as a whole can be expected. So it is the right decision for Portugal to join the single currency.

EMU will strengthen European integration, complete the single European market, and bring about economic benefits by creating a wider area of monetary stability. With the creation of the euro, transaction costs and hedging costs will disappear. Finally, we will be able to benefit totally from the single market. Especially the SMEs, the biggest employer in the Union, will expand their activities on the Single Market because of the elimination of the exchange rate risks and conversion costs. According to Ifo, the German economic research institute, these costs correspond to 1% of the EU´s GDP — each year. This refers only to the "direct creation of wealth" and not to the indirect impact of EMU on better conditions for employment and growth, which will be significantly higher.

We still need Europe to cope with the shadows of our past. But even more we need Europe to take up the challenges of the future. No longer can the nation state offer solutions and answers to the social, environmental and economical questions. No state or government possesses any longer the means to control capital flows and transfers of resources. No state or government can preserve the so-called social market economy, fight unemployment, protect the environment and realise social justice or save the European social model on its own.

Globalization and communication technologies enable capital movements to go round the world 24 hours a day. Capital movements and financial transactions do not reflect real economy developments anymore. Only 4% of the capital is still linked to the real economy. Therefore, we cannot keep our borders closed any longer. We need to find a different kind of response. To this extent, EMU is an answer. For Europe to be more effective, we have to co-operate closely. EMU will contribute to international monetary stability, but it will also enable Europe to regain political power. But on the globe, Europe is also small. In the light of the new challenges a stronger and a more united Europe is needed. So far, through lack of cooperation and coordination, the European countries were only able to make little impact. The lack of coordination of the EU economic policies during 1991-1996 has deprived us of 3% in terms of growth. The lack of coordination and cooperation does not contribute to the modernisation of the EU innovation, technology and competitive results in researched development. The lack of cooperation and coordination in infrastructure investment is harmful for our future development. What we need are new fields of coordination and cooperation. We have to be efficient and innovative. I do not plead for complete harmonisation — I am in favour of keeping different national traditions. But we badly need more integration. Since the Treaty of Rome, we have committed ourselves to the guiding principle of an ever closer Union. But the people of Europe are only approaching gradually and slowly.

The more the globalization progresses the more European integration stands for sovereignty gains not losses. EMU will strengthen the position of Europe. It may also be an enormous step forward in the deepening of the European integration, bringing forward new dynamism and thus also prepare us for the necessary enlargement of the European Union.

1. The Impact of EMU on European Integration and Europe's Economy

The introduction of the Euro is essential for the completion of the Single European Market. Market transparency will increase significantly. The single currency will bring about significantly more wage and price transparency, increased competition between enterprises and on labour markets will follow. EMU is not a remedy for structural problems of the labour and goods markets. Neither is EMU a labour market programme in itself. But it can be expected that it will foster employment indirectly by generating a sound basis for an investment led sustainable growth. The EU has made good progress on the way to EMU and convergence is visible. The average inflation rate in the EU is expected to drop from 2,6% in 1996 to 2,1% in 1997. Moreover, convergence in inflation rates throughout the European Union becomes visible. In "EU-14" — this means excluding Greece — the spread between the best and the worst inflation performer decreased from 3,1 percent points to almost 1 percent point or slightly above. For this reason, long term interest rates in the EU are close to historic values and keep converging. At present, differentials in interest rates in all member states fulfil the Maastricht criterion of 2 percent points referring to the average of the three most stable member states. Consequently to this convergence of key economic factors, we also experience exchange rate stability between the European currencies. According to the latest Commission forecast of autumn 1997, thirteen member states will have a budget deficit of only 3% of GDP or less, with France at 3,1 % and only the Greek deficit exceeding 4% of GDP. There has been a cultural revolution in the EU towards a stability maintaining culture. Therefore, the sustainability of convergence can be expected.

The technical preparation work for Stage III is almost finished. It is a fact that EMU will be implemented according to the timetable of the Madrid Summit and start 1st of January 1999.

2. EMU and Economic and Social Cohesion

The promotion of economic and social cohesion constitutes, along with the completion of the internal market and the implementation of EMU, one of the EUs three main political priorities. Embedded in Article 2 and Article 130a of the Treaty on European Union, it is the basis for any cooperation. The Structural Funds represent the main financial source for stimulating development and reducing disparities through the Community Support Frameworks and Single Programming Documents agreed with the Member States. In addition to the mainstream funding, however, additional money is approved for particular needs and opportunities. Border regions, for example, are frequently affected by serious and persistent problems of population decline, weak economies and infrastructural deficiencies. In 1988, the year of the Delors I package, 17,2% of the EU budget were dedicated to structural policy. This share rose to 31,5% in 1992, the year of the Delors II package because of the firm commitment of the European Parliament towards cohesion and remained stable until 1996. These efforts have a measurable positive impact on the social and economic cohesion in the EU. In accordance, the four poorest countries have successfully increased their GDP per capita from 2/3 to 3/4 of the average GDP of the Union. These figures show that structural policy and cohesion are truly among the most important issues of the European Union.

The future of social and economic cohesion policy will be a key factor in the Unions overall evolution, not only because it is a core task of the Union, but also because it plays an important role in the enlargement process of the European Union. The Central and Eastern European Countries are all considerably poorer than the least prosperous amongst us today. Hence, the Agenda 2000 embraces the objective of social and economic cohesion of the Treaty on European Union. To achieve better cohesion results in terms of employment and social stability, it is foreseen to direct very rightly the structural fund interventions towards job-intensive economic growth.

Convergence of macroeconomic indicators, as required by the Maastricht Treaty, is not enough to create a successful EMU and a functioning Internal Market or European Union by themselves. What we need is in addition the convergence of the real economy and a narrowing of the structural differences between the member states of the EU. This has been taken into account in the Maastricht Treaty with the foundation of the cohesion fund and an allocation of 15,15 bn ECU for the years 1994-1999 to this fund. The cohesion fund must be seen as an important element of the structural policy of the European Union. The purpose of the cohesion fund, according to Art. 130 d of the treaty, is to reduce disparities between the levels of development of the various regions. Its task is to support member states with a GDP per head less than 90% of the EU average — Ireland, Greece, Spain and Portugal — in their preparations and their structural adjustments for EMU. Especially structural adjustment measures are very important for these countries to ensure their competitiveness in a future single market with EMU, when exchange rate adjustments will no longer be possible as a means of competition. The cohesion fund supports these structural adjustment measures as it helps to move towards closer integration.

In recent years a certain eveningout as for cohesion has been achieved, but, as the comparison of regional per capita income levels reveals, substantial regional disparities still persist: in the ten poorest regions of the European Union, per capita income is 3 1/2 lower than the average income in the ten richest regions and, in contrast, the unemployment rate is six times higher (4,5% in the ten richest and 28% in the ten poorest regions). Further substantial disparities exist e.g., with regard to basic infrastructure and the numbers of skilled workers available.

But how does real convergence relate to nominal convergence? To what extent do efforts to meet the convergence criteria favour or inhibit the achievement of economic and social cohesion between the Member States? There are Member States who succeeded simultaneously in stabilising nominal values and in achieving considerable progress to fight unemployment and foster economic growth. Denmark and Ireland are outstanding examples. Ireland is one of the four countries which receives cohesion funding in addition to the other forms of regional funding.

The Danish Government succeeded to develop from an annual deficit of 9,18% of GDP in 1982 to achieve an budget surplus of 3,4% in 1986. In the same period, the Danish economy grew almost twice as fast as the average of all the EC-Member States, while the unemployment rate fell by 3,5 percent points to 5,4%. In Ireland, the government has been pursuing a nominal convergence policy since the mid-1980s, while simultaneously succeeding in raising per capita income from 55% of the Community average in 1986 to 82% in 1994.

These examples show that nominal and real convergence are not necessarily two mutually contradictory goals. They complement each other. Sound public finances, stable prices, low interest rates and stable exchange rates are prerequisites for growth and employment.

3. The cohesion countries and the positive impacts of EMU

EMU will undoubtedly have a positive impact on economic and social cohesion. As the single European currency will reduce transaction costs on goods and factor markets between participating countries, especially the peripheral Member States will take advantage of the euro. If embraced and supported by sound economic policies, it will favour the process of income convergence. Growth differentials caused by a process of catching-up may require some changes in real exchange rates, but do not necessarily have to rely on the nominal exchange rate as an instrument of economic policy since they can also be effected by changing relative prices of non-traded goods and immobile factors of production without implying an overall higher inflation rate.

In EMU, the exchange rates are irrevocably fixed. This implies that the nominal exchange rate can no longer be used as an instrument of economic policy. But the question is, whether in general a change of the nominal exchange rate is an appropriate instrument for economic policy to respond to differences in country-specific long-term development trends.

Although relative price changes can in general not be avoided in a catching-up process and are necessary in the context of structural change, there is no inherent need for higher inflation rates, the latter depending rather on the stability orientation of economic policy. This is especially the case in the EU, given the small growth differentials and the long term character of catching-up which makes the increase in prices of non-traded goods likely to be slow enough to avoid inflationary pressure. Already within countries, growth is not spatially uniform and rather takes place in growth poles which spread their positive effects to other regions; changes of real exchange rates between regions within a country do take place, although not through a nominal exchange rate but through prices of non-traded goods and immobile factors of production . A monetary union, therefore, allows for adjustments of relative prices with regionally different inflation rates without causing an overall higher inflation rate in the entire currency area as has been evidenced by German unification — a situation you cannot compare with EMU.

The most important function of money is to facilitate transactions by avoiding the inconveniences of barter. For transactions between different currency areas, costs occur for at least one of the partners whose transaction is carried out in a foreign currency in order to exchange foreign currency, to compare prices and to manage exchange rate risks. In other words, the mere existence of multiple currencies implies at least additional transaction costs strictly speaking , information costs, multi-currency cash management costs (know-how investment and financial costs) and exchange risk hedging costs. To the extent that these various transaction costs between the previously different currency areas cease to exist within a single currency area, economic integration of goods and factor markets increase which tends to raise the quantity of transactions, to decrease price differences and to provide static and dynamic welfare gains. These integration effects are to be expected on goods, capital and labour markets.

The reduction of transaction costs brought about by monetary union and its resulting advantages for trading merchandises and services are higher for a country the more intensive its trade with partners of the monetary union is, the less frequently its currency is used for transactions, and the less developed its foreign exchange market is. These conditions are clearly fulfilled for the small , open Member States Ireland, Portugal and Greece, so that higher than average transactions cost savings can be expected for these countries. A European Commissions study which estimates that EMU could save between 0,3 and 0,4% of GDP of transaction costs stresses that in relative terms transaction costs can be 8 times more important for small open economies than for the largest Member State.

In spite of some uncertainties on the exact amount of transaction cost savings, it is certain, that a single currency, similar to a reduction of tariffs or transport costs, increases the market integration of the previously different currency areas.

Thus income convergence through trade can be expected if regional competitive advantages go hand in hand with a significant reduction of transaction costs, such as provided by the combination of the single currency, the Single market, a stability-oriented economic policy and a good provision of infrastructure.

Lower transaction costs for capital movements in EMU will have a considerable impact on price and availability of capital which is crucial for a process of catching-up. Interest rates would diminish due to disappearing exchange rate risk premiums, lower public sector borrowing requirements, increased efficiency of financial markets and higher international demand for assets in euro. The merging of several national markets and the switch to a real international currency implies deeper, more competitive and more liquid financial markets with better access to capital. Due to the importance of qualitative considerations of financial and hedging instruments, demand for national bonds and equities by domestic and international capital holders will increase. The rise in the quality of financial supply may come about by the development of new markets, the upgrading of financial technology, an improvement in independence and monitoring of Central Banks as well as the fading risk of future exchange control. Therefore , EMU will benefit both private investment and public finance, in particular for SMEs and small European countries.

Transaction cost savings on labour markets are less straightforward to identify. As regards migration between countries, currencies are much less of a barrier to mobility than language or culture because migrants income and expenditure are usually effected in the same currency. However, links to the home country tend to remain through family or other financial obligations which require transfers between different countries and currencies. Due to emigration mainly in 1960s and 1970s, the volume of these transfers is of macroeconomic significance for some cohesion countries and appears in the balance of payments under the category unrequited private transfers. Saving costs on foreign currency exchange for these transfers may hence be a particular advantage for cohesion countries.

A widespread concern on the impact of a single currency on labour markets is that the reduction in information costs would allow to easier compare wages between participating countries. While hardly anybody expects an induced increase in migration towards high-wage countries due to this, it is frequently argued that collective wage bargaining in low-wage countries would come under pressure to adjust their wages to levels of high-wage countries. The concern is that — as far as this upward adjustment of wages is not in line with increases in productivity — a loss of competitiveness and jobs would be the consequence with a call for EU transfers.

However, it seems extremely unrealistic that catching-up Member States, implicitly assumed to be subject to exchange rate illusion and until now unconscious of wage differentials, would put at risk their main competitive advantage of low labour costs. In general, upward pressure on wages seem hardly to depend on information, but rather on the potential of geographic labour mobility: A low potential of labour mobility as it exists between the EU Member States can therefore be an important contribution to cohesion in a monetary union allowing its participants to converge on the basis of maintained regional competitiveness by wage differentials without causing desertion of low-wage areas . In this respect, the German and the European monetary unions are hardly comparable because of the fundamental difference regarding the potential of geographic labour mobility which gave little room for wage differences between East and West Germany.

Thus, the disadvantaged regions will benefit just as much as the developed regions from the single currency: cuts in transaction costs, elimination of exchange rate risks, standardisation of interest rates, growth and employment without inflation and without disruption caused by financial and currency market crises, economic development based on the full exploitation of monetary stability and the concomitant increase in the competitiveness of European undertaking.

By completing the internal market and improving the climate for investment and job creation in the European Union, economic and monetary union is intended to foster economic and social cohesion and eliminate the destructive effects on jobs of exchange-rate fluctuation and speculation. Economic and social cohesion is essential in particular for the peripheral regions, as the risk premium will no longer apply to those regions and interest rates will fall, thus improving the climate for investment and potentially stimulating growth and employment. The operation of the internal market must not be jeopardised by any turmoil between participating and non-participating Member States in EMU.

The long-term objectives of economic and social cohesion and EMU are not mutually exclusive. Only an economic policy based on lasting nominal and real convergence within an integrated economic and monetary area can maintain (or indeed strengthen) the Community's competitiveness vis-à-vis third countries and help overcome the structural weakness of the national economies. Therefore an integrated cohesion strategy needs to continue.

4. EMU and Portugal

Portugal is an excellent example of the recent progress in convergence and of the best possible use of the structural and cohesion funds. Income and productivity differentials between Portugal and other EU countries have narrowed considerably. GDP per head rose from slightly above 50% of the EU average in 1985 to about 70% in 1995. During the same period, labour productivity increased from slightly below 50% of the EU average to around 60%. Consequently, the Portuguese economy improved in terms of efficiency substantially. Portugal's position on foreign markets show this improvement as well. Portuguese market shares in the EU, for example, increased by nearly 40% between 1985 and 1994. Comparing the performance of the Portuguese economy with other cohesion countries, it becomes clear that it is catching up significantly. In particular, the negative gap in GDP per capita between Portugal and Spain narrowed from about 17 percent points in 1985 to seven percent points in 1995. The negative gap in the same indicator vis-à-vis Greece in the beginning of the same period turned into a positive gap as from 1990 onwards.

Structural reforms have played a key role in the Portuguese strategy to promote real income convergence: The strengthening of the competitiveness of the production sector, the development of a well-functioning capital market, the privatisation programme, the promotion of efficiency in public services, the enhancement of flexibility in the labour market and the improvement of the education and training systems have been and still are the main objectives of these structural adjustment reforms.

European integration has been crucial to this process. The flows from the EU structural funds permitted a high rate of investment in infrastructure. On an annual basis, EU structural funds payments to Portugal rose from 641 million ECU in 1988 to 2.447 million ECU in 1995. As a proportion of Portugal's GDP, contributions from this fund increased from 1,6% in 1988 to more than 3% in 1996. The total assistance for Portugal by the cohesion fund in the years 1994-1996 equals about 18% of the total cohesion fund contributions for all four recipient countries in that period.

Thus Portugal demonstrates that the best possible way to create macroeconomic and real convergence and to catch up with the other Member States, is to introduce structural reforms supported by community assistance through the structural funds. As a result of its reforms, the 1997 economic growth in Portugal has been higher than the EU average for the second year in a row. The macroeconomic setting is favourable and Portugal can enter a phase of real income convergence again. The unemployment rate has stabilised and even a reduction can be expected in the near future. According to the autumn 1997 forecast of the European Commission, GDP growth in Portugal can be expected to reach 3,5% compared to the 2,6% average of the EU Member States. Unemployment will supposedly fall from 7,3 % in 1996 to 6,8% in 1997, inflation will be reduced from 3,3% in 1996 to 2,2% in 1997. This will most probably lead to a further convergence of long term interest rates. Finally, the budget deficit is expected to decline from 3,2% in 1996 to 2,7% in 1997. Economic as well as social cohesion throughout Europe are as fundamental. The member states who are currently catching up in this convergence progress should see the completion of the Single Market as a chance to reduce the gaps even quicker. Portugal is an excellent example for the recent progress and for the success of the structural and cohesion funds. Portugal will benefit from the reduction of transaction costs and the improved free movement of goods, persons, services and capital. It is well prepared to gain from the future real common market. Portugal is also a good example of how economic integration and higher economic growth can be achieved. It might serve as a model for the Central and Eastern European Countries of how to prepare for membership in the European Union. Consequently, Portugal will most likely fulfil the convergence criteria of the Maastricht Treaty for EMU-membership.

5. EMU and Employment

Mass-unemployment and massive under-employment are the real challenges of the EU. EMU will not find any support or acceptance within the European citizens if we do not demonstrate the positive impact of EMU on job security and job creation. The Euro itself is not an employment programme. But the euro will contribute to improve the investment in the euro area and thus growth and employment opportunities. In order to overcome unemployment EMU is needed because the non-existence of EMU is also responsible for job losses. The monetary turbulence contributed to the elimination of jobs between 1992-1996. 20% of job losses are according to the European Commission due to the exchange rate fluctuations because enterprises invested into rationalisation of employment in order to save costs. Europe also lost at least 1% in growth which means hundreds of thousands of jobs because of the non-existence of EMU. Especially the export-oriented sectors were concerned, and this lead to a negative impact on the jobs in the supply industry and other SMEs. Car producing factories, a typical exporting sector was heavily affected by the monetary turbulence as well as the steel manufacturers. The textile industry lost orders in significant dimensions only because of monetary revaluations.

As already illustrated above, the chances to achieve full employment are more favourable now:

a) Inflation is as low as during the most stable years of the post-war period,

b) Profitability of investment is as high as in the 1960s, the period of full employment,

c) the monetary conditions favour a healthy revival of demand on the markets.

In addition to the cyclical economic upturn which is beginning to develop, a constant growth process supported by investment now seems feasible. The political challenge consists in promoting these favourable economic conditions.

The completion of Economic and Monetary Union (EMU) could play a crucial role in preventing a revival of the following obstacles to growth:

1. Monetary union eliminates monetary turbulences between the participating countries. The more countries participate, the stronger the positive impact on the Internal Market will be. But even extra-Community trade, which only accounts for some 10% of Community GDP, would stand to grow, since the euro will probably be strong enough to stabilise the international monetary system as well.

2. Monetary Union will eliminate obstacles to growth arising from potential stability conflicts. The provisions of Articles 104 to 104c of the Treaty, in particular the ban on the financing of government deficits by printing money in Art. 104, greatly reduce the risk of conflicts between budgetary policy and monetary policy. The implementation of the Stability and Growth Pact with a view to balancing the budget under normal economic circumstances has the same effect, in so far that the reduction of deficits and the burden of debt gives budgetary policy greater scope to take pressure off monetary policy in the course of the economic cycle. Overall, this can be expected to have a lowering effect on interest rates.

This economic framework will help to make wage trends consistent with stability and it will be easier to generate the additional production capacities needed for employment growth. Stable economic conditions and a well-established policy mix of monetary and fiscal policies lead to low interest rates and reduce the pressure of wage rises. Consequently, this has a positive impact on investments, growth and employment.

Taking productivity gains into consideration, increases in real wages should take into account the need to strengthen both the return on job-creating investment and the purchasing power of wage earners.

Indeed, the more the stability task of monetary policy is facilitated by a sound budgetary policy and by appropriate wage trends, the more favourable to growth and employment will be the monetary conditions, including the euro exchange-rate and long-term interest rates. This means also that, in accordance with Art. 105 (1) of the EC Treaty, the European Central Bank will pursue in a forceful and credible manner its primary objective, to maintain price stability , but also that, without prejudice to the objective of price stability, it shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2 of the Treaty including the objectives of growth and employment.

3. In this way, Monetary Union creates a more stable and less conflicting environment for growth and employment. This in turn is the crucial precondition for overcoming the third obstacle to growth, namely inadequate growth in production capacity. Only if, through strong capacity-increasing investment, the growth in production capacity lies well above the rise in productivity can enough jobs be created to integrate the Community's huge labour reserves gradually into the production process. The existing high profitability and the ongoing revival of demand foster such patterns of investment. This approach, which promotes both growth and stability, is already the basis of the Community Broad economic policy guidelines and is the subject of EU-wide consensus and should be given far greater prominence.

It is important not to jeopardise the favourable prerequisites for growth and employment, and not to permit the emergence of fresh obstacles to growth. The responsibility for this lies with the Ministers for Economic, Financial and Social Affairs, the Social Partners and the European Central Bank. A long term pact for growth and employment would facilitate co-ordination among these players on macro-economic and structural policy, and hence favour the full-employment objective.

6. Perspectives

The start of stage III of EMU before the end of the twentieth century is a necessary logical and historical step in the process of European integration. Once more I would like to underline how impressive the convergence results in the field of monetary policy are because member states have converged to stable inflation as well as interest rates at a level that would have been wishful thinking 10 years ago. This shows that Europe is able to meet difficult challenges even when they do not seem entirely manageable. So we will have a good perspective to start EMU at the 1st of January 1999 with a big majority of countries. We have to keep the convergence process and the time-table for EMU on track. Hesitations would harm the Unions cogency and credibility. There is no alternative. Postponement of EMU would not only stop EMU for another 20 years but also put back the European integration. There is a great deal at stake. In a world of globalization the EU member states have to stick closer together. Common policies especially in the field of economy and employment will stand for a gain in sovereignty. Europe is so small on the globe and so are the member states. A nation state alone can no longer provide for with solutions to all problems. Therefore the EU with the Single Market and the Single Currency is a right answer to the challenges of globalization.

EMU should not be looked upon as a technical project. It is crucial to our economic and social future. Therefore the Amsterdam and the Luxembourg summits 1997 contributed very rightly to promote economic coordination and co-operation and stimulated far more than ever the necessity of the convergence of economic, employment and labour market policies - by the new chapter on employment in the Amsterdam Treaty, by common policy programmes with respect to fighting unemployment and stimulating sound labour relations as well as social justice.

EMU will also contribute to contain the economically disastrous speculations currently effecting especially the Asian economies because with the euro there will be three leading currencies in this world and thus contribute to international monetary stability. At present, the US-Dollar is the dominating currency in the world reserves as well as in world trade. The other currencies depend largely on the exchange rate to the US-Dollar despite the economic weight of the other economies.

According to the BIS world currency reserves are currently about 1,5 billion US-dollars.

65% of the reserves are held in US-dollars all over the world. 13% of world currency reserve holdings are in D-Mark. That shows that current international reserve holdings in European currencies fall far short of the potential importance of the euro area in terms of output and world trade. In particular, after European Union countries' reserve holdings of each other's currencies are netted out, the share of EU G-10 members in G 10 output and world trade is twice the share of their currencies in global reserves. This shows the potential future importance of the euro as a world reserve and trade currency.

The euro's international role will depend crucially on the credibility of the ECB and its monetary policy and as a result of its credibility on its use as an anchor currency by non-G-10 countries. The use of European currencies as an anchor currently does not extend beyond parts of Eastern Europe, Africa and the Middle East. The dollar, in contrast, serves as an anchor for currencies in the Americas and Asia, for the Australian dollar and even for some Eastern European currencies. The role of the Yen as an international currency is limited even in Asia.

Looking ahead, the exchange rate policies of Russia and China could become more important. The current dollar orientation of Russian policy and foreign exchange holdings favour linkage to the dollar, but growing trade with Europe could shift the balance towards the euro over time. So, if the euro is a credible and sound currency, what I am deeply convinced of, it will be a serious alternative for the US-dollar as a world trade and reserve currency.

Similar developments might be expected in the areas of financial markets and the role of the euro as a currency reserve: According to BIS the euro — compared to its predecessor currencies — would attract more international borrowing as well as investment.

Despite the current problems of unemployment and the public finances — the EU has made good progress on its way to EMU. Moreover, the convergence is to be seen and the technical preparatory work for Stage Three is almost done. That's why I'm convinced of the fact that we will achieve EMU in time, according to the timetable.

Though we expect economic gains from EMU, above all, I think the single European currency has to be achieved because of its benefits for the European Integration as a whole. With EMU we will be able to meet the challenges of the globalized world of the next century. This is the basis on which the next challenge of European Integration — the enlargement of the European Union to the Central and East European Countries — can build on. Both challenges — EMU and enlargement — therefore are not a contradiction but one chance for Europe to achieve stability and the necessary dynamism — in political and economic terms — for the whole continent.