Frankfurt EBC

Goodbye Lisbon

14th Frankfurt European Banking Congress · 2004
www.frankfurt-ebc.com

Goodbye Lisbon

14th Frankfurt European Banking Congress
November 19, 2004

Contents

Dinner Speech at Schlosshotel Kronberg, November 18, 2004

THE CURRENT EUROPEAN DEBATE

Hans Tietmeyer
President, European Business School, Oestrich-Winkel
Former President, Deutsche Bundesbank, Frankfurt am Main 5

Frankfurt European Banking Congress, November 19, 2004

GOODBYE LISBON
Welcome Address

Petra Roth
Mayor, City of Frankfurt am Main 13

Introduction: Herbert Walter
Chairman of this year's Frankfurt European Banking Congress
Chairman of the Board of Managing Directors, Dresdner Bank, Frankfurt am Main 15

I. EUROPE IN WIDER CIRCLES

Panel Chairman: Herbert Walter
Chairman of the Board of Managing Directors, Dresdner Bank, Frankfurt am Main 19

Silvio Fagiolo
Ambassador, Embassy of the Republic of Italy, Berlin..................................... 21

Mirosław Gronicki
Minister of Finance, Republic of Poland, Warsaw 25

Jean Lemierre*
President, European Bank for Reconstruction and Development, London 27

Ivan Mikloš*
Deputy Prime Minister and Minister of Finance, Slovak Republic, Bratislava 31

* Summary by the organizer of the Frankfurt European Banking Congress

II. REGULATION AND SUPERVISION IN FINANCIAL MARKETS

Panel Chairman: Klaus-Peter Müller
Chairman, Commerzbank, Frankfurt am Main 35

Jaime Caruana
Chairman of the Basel Committee on Banking Supervision
Governor, Banco de España, Madrid 37

Charles H. Dallara
Managing Director, The Institute of International Finance, Inc., Washington, DC ... 41

Antonio Fazio
Governor, Banca d'Italia, Rome 45

Jochen Sanio
President, Federal Financial Supervisory Authority, Bonn 49

III. EURO IN WIDER CIRCLES

Panel Chairman: Josef Ackermann
Spokesman of the Board of Managing Directors, Chairman of the Group
Executive Committee, Deutsche Bank, Frankfurt am Main 53

Alan Greenspan
Chairman of the Board of Governors,
The Federal Reserve System, Washington, DC 55

Kazumasa Iwata
Deputy Governor, Bank of Japan, Tokyo 59

Jean-Claude Trichet
President, European Central Bank, Frankfurt am Main 63

Closing Remarks: Axel A. Weber
President, Deutsche Bundesbank, Frankfurt am Main 67

Information about the EBC.. 71
Steering Committee 72
List of Speakers and Dinner Speakers 73

The Current European Debate

Hans Tietmeyer

I

When an old-timer like me is invited to make a few comments on the current Europe debate, he is easily inclined to start by presenting an extended look back at the past.

I deliberately want to resist that temptation. The list of current topics is too long for that and the evening is too short.

Even so, we should not forget what has already been achieved in Europe in the past 50 years.

- The successive establishment of the European Coal and Steel Community, Euratom and the European Community by the six founding member states with a supplementary free-trade zone in western Europe.
- The enlargement of the Community of Six, which started in 1972, to first nine members, then 10, 12, 15 and now 25 members – eight of which are from the former Eastern Bloc.
- And, not least, many stages of deeper and deeper integration leading up to monetary union with, at present, 12 members.

All of this has undoubtedly helped to make Europe more peaceful, wealthier, freer and also more open to the outside world than ever before.

But that must not obscure our view of the fact that, at the same time, there are still

- a large number of urgent issues and new risks as well as
- considerable differences of opinion about the future process of economic and political integration.

I would like to make a few comments on some of those issues. In saying that, I regard it as an advantage that I no longer hold an official position and, therefore, do not have to make so many allowances.

II

It is a well known fact that economic developments in the EU over the past few years have been characterised by considerable differentials. While the majority of non-euro-area countries, including the countries in transition in central and eastern Europe, are still showing relatively good rates of growth and employment, that is only partly true of the countries in the euro area.

Above all, the large euro-area economies of Germany, Italy and – to a somewhat lesser extent – France are evidently experiencing difficulties in regaining access to the new boom in the world economy.

Italy is now discovering for the first time that a depreciation of the national currency is no longer an option. And, in Germany, the sharp rise in exports – contrary to all tradition – has not triggered any new multiplier effect in investment. Without the economic motor provided by investment, however, there has never yet been a sustained upswing in this country. And without dynamic growth in the largest euro-area economy, large parts of the rest of the euro area will have difficulty in significantly improving their prospects for growth and employment.

Certainly, since 1999 some euro-area countries have been benefiting to a particular extent from the broad absence of exchange and interest rate problems as well from what are (for them) mostly negative real rates of interest. That is revealed, in particular, by developments in Finland, Ireland, Spain and Portugal. It remains to be seen, however, whether that will still be the case in future without a simultaneous new dynamism in the large euro-area economies.

At all events, convincing reform policies which generate new confidence in the future are especially important in those economies – both for their own economic future and for the continued cohesion of the monetary union. Solemn but unrealistic declarations, such as that made in Lisbon in 2002, do not take matters forward. What counts is actual policy.

III

So far, experience of the euro and of European monetary policy has been quite positive on the whole. Despite all the accusations that it would fuel inflation, the euro has now become a recognised and respected currency inside and outside the euro area.

This gratifying status report must not delude us concerning the new challenges linked to monetary union, however.

Those challenges already start with the transformation of locational competition within the union. The Federal Republic of Germany, first and foremost, but also the Netherlands and France are confronted with that in a particular way.

For these countries, the D-Mark and a close linkage to it mainly had the advantage of relatively low money and capital market rates. In relation to the other present euro-area countries, that was a very considerable advantage at times. Now, virtually the same interest rates apply throughout the euro area. A currency-related interest rate privilege no longer exists.

The individual country is virtually no longer a factor in terms of investors' risk diversification. For the investor, the euro and the euro area now represent a single currency risk.

For Germany, in particular, this absence of the "D-Mark privilege" changed the locational conditions at a stroke. Now, the other locational factors, such as labour costs, labour law, the tax system and bureaucracy play a quite different role in investment decisions than before.

The changeover to the euro therefore created new competitive conditions, especially for Germany. Earlier, I often warned publicly that "The euro will not solve our structural problems but it will reveal them." Some politicians and bankers mistakenly interpreted such warnings as criticism of the euro, whereas I was concerned with the structural problems in Germany being addressed in a timely manner.

IV

Given the underlying situation and the prevailing set of problems in the euro area as a whole, I feel that the more expansionary fiscal policy now being called for by some economists and politicians would not be helpful in achieving either growth policy or stability policy objectives. On the contrary, fiscal policy stimuli without simultaneous convincing structural policy adjustments and without substantial longer-term fiscal policy savings on the expenditure side would have scarcely any positive impact, at least in the "problem" countries. It would rather be the case that the deficit forecasts would only continue to rise in the longer term, too.

On the basis of empirical analyses, the study on "Has Fiscal Behaviour changed under Economic and Monetary Union" published in the September 2004 IMF World Economic Outlook arrives at similar conclusions. I quote, "Overall, ... the empirical analysis suggests that fiscal behaviour under EMU has not improved as much as might have been hoped for, and in some respects ... may have slipped, resulting in an increasing bias towards deficits." It then goes on to say, "At the present conjuncture, this underscores the danger that – without a significant change in fiscal behaviour relative to the past – euro area countries could once again fail to take advantage of an upturn to make progress in dealing with their substantial medium term problems." (page 116)

There has already been much argument about the Stability and Growth Pact and its virtual non-application in important instances. The necessity of having a set of rules of this kind in a monetary union comprising a large number of countries with autonomous economic and fiscal policies with government ratios at 50% of GDP is something about which there should really be no differences of opinion.

Of course, it is always possible to argue about the selected threshold values. Given the underlying situation and the already foreseeable future strains and burdens, however, I regard them as being more on the generous side than restrictive – quite apart from their in-built flexibility.

Respecting the Stability and Growth Pact, however, is mainly a question of credibility which a monetary union cannot and must not for go. The loosening and expansion of the scope for discretion called for by some governments is something which I regard – just like the ECB – as problematical and dangerous.

What would seem to me to be prudent and necessary is an increased use of options for preventive action. Unfortunately, this is where the European Commission failed between 1999 and 2001. It was not clear enough in reprimanding the large structural deficits that already existed at the time.

The actual problem in applying the Stability and Growth Pact is the inadequate governance structure. Even at the time, I repeatedly pointed out that, in concrete cases, the requisite majority decisions of the Council could not be expected when sanctions were due. Experience has shown that potential transgressors do not condemn their neighbours who have transgressed. At the time, I therefore also advocated a Stability and Growth Pact on the basis of a supplementary treaty along the lines of the Schengen Agreement. Unfortunately, without success.

In my estimation, the European Commission is not, on its own, in the position to effect the necessary public pressure. It is too much under the influence of short-term national interests really to be able to exercise a role as a guardian in that way. An independent legal authority, such as a court of justice, would be more in a position to do so. But, for that to happen, an amendment to treaty would be needed, and that would hardly be feasible at the present time.

On the other hand, what might be possible and, I feel, useful would be the involvement of an independent authority, such as the European Court of Justice or a special Council of Experts which could review developments on a regular basis and make its judgement known to the general public early on. By the way, the IMF study I have already mentioned makes a similar proposal.

Of course, that is not a "one-size-fits-all" solution. But it could enhance the effectiveness and actual application of the Pact. Even then, however, the fiscal policy flank would still be open.

V

At this point, I could cite the statement of the Central Bank Council of the Bundesbank in 1999, which said that, going by all experience, a monetary union "requires a more far-reaching commitment in the form of a comprehensive political union for it to be permanent".

Nevertheless, neither at the time nor later did we say much more about the actual form and powers of such a political union. I do indeed have my own personal ideas about that but I do not wish to go into them in greater detail at the moment.

Instead, I would like to confine myself to making some comments on the opportunities and limitations of economic policy cooperation in what is known as the Euro Group.

The Euro Group of economic and finance ministers, which already exists on an informal basis, is to be formally recognised according to the draft constitution. And, in anticipation of that, the Ecofin Council has already agreed on Jean-Claude Junker as chairman. The other Jean-Claude has rightly commented that there will not only be a "Mr Euro" but also a "Mr Euro Group".

I think that a strengthening of cooperation in the Euro Group is definitely useful and sensible. At the time it was made, I rejected the original French proposal for an economic government because the idea was for such a regime to be a "counterweight" or "controlling body" for the ECB. I had nothing against strengthened cooperation between the economic and finance ministers back then nor do I have anything against it now.

But what does "strengthened cooperation" mean? The Community's foreign trade policy is already largely centralised in Brussels, anyway. And, for exchange rate policy, the Maastricht Treaty has established a clear demarcation of powers between the ECB and the Council (Article 111).

Centralising general economic and social policy, on the other hand, would not only be in conflict with the treaty. Given the differing structures in the member countries, it would, if anything, be counterproductive since it would tend to produce problemfraught compromises rather than meaningful political competition. What that leads to is shown by developments in Germany.

Strengthened competition can therefore reasonably only mean: more pressure on the "problem" countries to undertake forward-looking reform policies. General decisions and resolutions are not the way forward, as the non-outcome of the Lisbon Agenda has yet again revealed. By contrast, regular meetings, as proposed by the Kok group might very well exert greater pressure.

VI

In the final analysis, what is of crucial importance is the answer to the question: what is the future objective of integration in Europe?

If I see it correctly, there are already significantly different positions among the member states with regard to how integration has progressed so far. It is true that they have ratified all the earlier treaties. But there are many differences of opinion about their application, ranging from the member states with a derogation, the United Kingdom and Denmark, quite apart from the issue of monetary union.

The draft constitution that has now been signed leaves that question entirely open. It is based mainly on cooperation, dispenses largely with a demarcation of powers and – despite modifying majority voting rights and the creation of two new executive agencies – brings about no more than marginal progress for the institutional structure of the union and its power to act.

Only the next year or so will show whether this treaty will be ratified by all the existing members. The announcement of a prior referendum (in the UK and France, for example) has not exactly improved the prospect of it actually being ratified.

VII

Rapid clarification of the future intensity and structure of European integration is an especially pressing matter, however, owing to the present size of the union, which now has 25 members. In many areas, it now has hardly any operational or decision-making capacity.

Added to this is the fact that there will soon very probably be further enlargement negotiations with Romania, Bulgaria, Croatia and, possibly, also with Turkey.

At this point, I shall forgo a detailed discussion of the arguments for and against Turkey's accession. However, I do not hesitate to say that I do not see the union being in a position to cope with such an accession in the foreseeable future.

The union should, first of all, decide what kind of integration it really wants. Without such a decision, there is a risk of a backward development towards a loose cooperation among its members – a construction that may, in any case, be appealing to some member countries.

With monetary union, however, it has decided on a different course – at least in the monetary field. In doing so, it has also initiated a two-stage process. Whether that is temporary or for the long term is something that remains to be seen.

This two-stage process could be extended to other areas and perhaps be supplemented by a third loose stage "on the outside" in the manner of a structure with "concentric circles". Such a model might provide fresh opportunities for further European integration.

The way for a progressive integration of a given country into the next inner circle could be left open for all European countries which qualify and are ready to accept the permanent consequences. There should be no easy way back, however.

I am aware that it is precisely with this last "comment" that I have raised some key and far-reaching questions. But I did not want to withhold from you what is my own fundamental position.

It is the opinion of an interested observer of European policy – of someone who was himself involved in the historical task of European integration for around 40 years and who is still a passionate European.

Goodbye Lisbon

Petra Roth

It's a great pleasure to welcome you at the Frankfurt European Banking Congress 2004. We are very proud that Frankfurt is hosting this Congress for the 14th time. When we – Commerzbank, Deutsche Bank, Dresdner Bank and the City of Frankfurt – established the Frankfurt European Banking Congress in 1991, we did not yet know what a great success this event would become. However, the Frankfurt European Banking Congress is an important element for the Euro City Frankfurt, where the European Central Bank as well as – since June of this year – the General Secretariat of CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) give the well developed financial community of the Financial Center Frankfurt even more international importance.

The conference has seen many highly important CEO’s from the global financial world, governors of central banks as well as Presidents, Prime Ministers and Ministers of State from all over the world. I'm convinced that the Frankfurt European Banking Congress has been established as one of the important events dealing with European affairs.

This year's topic is “Goodbye Lisbon“. It refers to the difference between the aims of the Lisbon summit in March 2000 and the actual development in the years thereafter. The strategic goal of Lisbon was that the European Union would become the most competetive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. In fact, the view into the European economic future was a very optimistic one. But remember, in those days optimism was far-spread and the promises of the New Economy were without any limits. The deep recession after the burst of the bubble ended the dream of ongoing growth.

Additionally, the economic development of the United States and the European Union has been different. Despite some weakness, the U.S. economy has grown more dynamically than the EU economy. Apparently the EU member states have not been able yet to muster enough strength and the means to create the necessary prerequisites and conditions for greater growth in the Union. This is also – and especially – true for our country. On top of this, the European Union has been dealing with other questions. But high-minded tasks such as enlargement of the Union or drafting the European Constitution do not meet the daily needs of the ordinary EU citizens. What they especially want from Europe is: jobs!

And the question of how much of European communities' economic development can be attributed to the merging of markets and the dismantling of tariff barriers, is a moot point. Surely, for some EU members, for example Ireland or Spain, entry has indeed triggered rapid economic growth. But the core European economies that they sought to emulate began to stagnate. However, Europe needs growth and jobs urgently – otherwise, to speak with the Belgian Prime Minister Guy Verhofstadt, "we risk turning Europe into a social and economic museum".

So with a view to the enlargement, one can also argue that our new Eastern member states will press the leaders of the EU 15 to intensify the structural reform policy which is needed to become more competitive globally. In a world where growth in the United States is over 3 %, in China over 10 % and where many countries strain every nerve to get some prosperity, Europe can no longer proceed as in the last decade. What we need is a revival of Lisbon – so to speak: Lisbon hello again – but on a realistic basis with a realistic perspective.

Europe has to get fit quickly, has to turn to real growth and less unemployment, because there are really serious challenges ahead and the EU's real economic problems are yet to come. Europe is growing old far more rapidly than all other countries. What will happen with an economy where there will no longer be 35 pensioners per 100 working persons, but 75 pensioners per 100 workers? Who knows the answers? At the moment, there are no satisfying answers to the many questions relating to the demographic time bomb. But I think EU member states should get economically as strong as possible to meet this fundamental challenge.

The organizers of the European Banking Congress have created a highly interesting programme. The panels are once again composed of distinguished personalities from business and politics. I would like to express my gratitude to you, the panelists, for your cooperation and contribution in actively shaping this conference. I also would like to thank all those who have made this conference possible. Especially I thank Herbert Walter, Chairman of this year's Banking Congress, and his peers from Commerzbank and Deutsche Bank, Klaus-Peter Müller and Joseph Ackermann. And I want to thank the members of the steering committee who have prepared the programme. Last but not least I'd like to thank you, the participants for being here. I wish you a successful congress and I hope you will have a pleasant stay in our city.

Goodbye Lisbon

Herbert Walter

Good morning everybody!
Mayor Roth, Excellencies,
Ladies and Gentlemen,

It's a great honor and pleasure to welcome you, also on behalf of my colleagues from Deutsche Bank and Commerzbank, to this year's European Banking Congress.

And a special word of thanks to all of you for coming to Frankfurt and supporting the good tradition of this conference. Once again this Congress has attracted both distinguished speakers and a distinguished audience. I see many familiar faces: from business and banking, as well as from central banking and government authorities. Today's topics, on the European economy and its financial markets, couldn't be more relevant. As you have seen, the title of this year's Congress is "Goodbye Lisbon".

Goodbye Lisbon.
These are probably the very words that Christopher Columbus said in 1484, 520 years ago, on leaving the Portuguese capital. His departure was the result of a failure … his failure to convince the Portuguese ruler to finance his discovery of the New World. But this was not the end of Columbus's dream. As his failure was soon followed by success at the Court of the Spanish Queen, Isabel the second…. The rest of course is history.

So…Goodbye Lisbon.

In a similar way, many today look at the 10-year targets for growth and employment set at the Lisbon Summit in 2000. And the cynical amongst us see, at best, a demonstration of Brussels' notorious sense of humor!

Be that as it may. It's clear to us all, that the economic performance in the EU has not been good enough. Certainly not good enough to become the world's most dynamic economic region within a decade. It may be the goals were over-ambitious to start with.

The main point is that we must now focus our efforts. Focus on getting the European economy back on track. Back towards higher growth: that was the real essence of Lisbon. And I think on that we probably all agree.

So the question is: "What do we need to do?" Clearly, there are lots of forces at play and lots of players involved. And contributions are needed from all sides. I want to mention a few that focus on:

- Policymakers
- Regulators and Supervisors
- and Central bankers

First, to stimulate long-term growth, we need to re-inject life into the original Lisbon objectives. And this is one of the main roles of policymakers. As we all know, they set the overall conditions for growth. The last rounds of European enlargement have, for example, stimulated economic activity in the whole community. As a matter of fact, the eastern and southern countries of "New Europe" have been outperformers. In banking, new and fast growing markets have developed. But despite enlargement and some areas of outperformance and some growing markets there's still a lot of uncertainty about the prospects of the EU as a whole.

Top managers face tough questions: Is Europe, our home-market, really attractive? Or do we have to look beyond Europe for further growth?

Obviously, the benefits of enlargement are not enough to keep the European economy going strongly. Real, long-term, sustainable economic growth requires strength right at the heart of Europe. The former power-houses – like Germany – need to recharge.

And this is where policymakers come in. There's no doubt we all need to foster deeper economic integration in order to reap the benefits of the huge European market. And to stimulate growth, we need to breathe new life into the original Lisbon agenda. Growth and economic integration affect all businesses. They're also a political must, if we want to increase the weight of the EU in the international arena. And they're a must if we want to contemplate further enlargement. Neither of these will be possible without stronger growth.

My second point is that we need a common financial market without excessive red tape. And this clearly concerns regulators and supervisors. One of their important contributions to promoting growth is further financial integration. The European market for banking, especially retail banking, is still a far cry from being a fully integrated single market. Progress here is essential. A "deepening" of financial markets could foster growth as it has done in the US. The American financial market contributes 9% to total value added as opposed to just 5% in the EU. So, an integrated regulatory framework will make cross-border mergers in banking easier and more attractive. And this in turn will allow truly pan-European corporate strategies.

But of course there are some pitfalls on the way. Financial services is a heavily regulated industry and will remain so. European integration should not mean more regulations to meet all national interests. As I said, we need a common financial market without excessive red tape. And that's where the Regulators and Supervisors can really make their mark.

This brings me to my third point, the field of the Central Bankers. To some extent the success of the EU also depends on the success of the euro. The present valuation on forex markets - this morning we are at just under 1.30 - certainly is an encouraging development. International investors obviously have some confidence in the euro. But the recent strong and rapid appreciation puts the European Central Bank in a difficult position. Intervention in support of the US-dollar would further expand the supply of money. Excess liquidity would increase.

The success of monetary policies in maintaining price stability has created new demands on central bankers. Not satisfied with price stability alone, we now expect central banks

- to revive our economies,

- stabilize exchange rates

- and prevent asset price bubbles

- as well as overcome economic imbalances

I think the real point is: we should not dump all problems at the central bankers' door.

That brings us back to the main theme of our Congress: stepping up our efforts for growth in Europe.

Today's first panel, the policy maker panel, will take a fresh look at "Europe in Wider Circles". We have speakers from across the EU, including two finance ministers from new member states. I think that we can look forward to a lively discussion on how the injection of new thinking will resonate throughout the whole EU. And of course, as a business manager, I will be interested to hear about further EU enlargement and the integration of new markets.

Our second panel has top people in their field too. This panel will focus on financial market supervision and on regulation. I outlined a moment ago the challenge at the European level. But given the global flow of capital, a Europe-only approach to supervision would not be enough. This global dimension makes supervision one of the most contentious areas, as illustrated by the discussions around Basel II. We look forward to an interesting exchange here.

In the central bankers' panel we have the leaders of the world's most powerful monetary authorities. They will talk about the "Euro in Wider Circles". With the euro reaching new highs, it will be interesting to hear what our panelists have to say about the euro's role as an international reserve currency.

Does the tumbling dollar signal a new allocation of portfolios on the international currency front? And can the intervention of Asian banks continue at the pace of recent times? We will certainly be treated to a fascinating discussion.

Europe in Wider Circles

Herbert Walter

Ladies and Gentlemen,
So now we come to the first panel discussion, "Europe in Wider Circles".

We invited representatives from both old and new EU member states and from the leading institution preparing the field for EU enlargement, the European Bank for Reconstruction and Development.

First we have Silvio Fagiolo, Ambassador of the Italian Republic to Germany. He is taking the place of Domenico Siniscalco, who is blocked by the government reshuffle.

Next Miroslaw Gronicki, Minister of Finance of the Republic of Poland. Jean Lemierre, President of the European Bank for Reconstruction and Development, and Ivan Mikloš, the Deputy Prime Minister and Minister of Finance of the Slovak Republic.

Sadly, Jin Renqing, the minister of finance of China, who was announced as a panelist in your invitations, cannot join us this morning.

As I have already presented some of my thoughts on the subject, I'm now going to ask our panelists to give their statements.

I turn first to: Silvio Fagiolo, Italian Ambassador to Germany. He is one of Italy's most distinguished diplomats with exhaustive experience of European affairs. He is ideally placed to reflect on the idea of Europe, from an original member perspective. And to give your remarks even higher credibility, Rome is your home town: Brussels may be the bureaucratic capital of the EU, Frankfurt, with the ECB and the EBC, the capital of European finance, but Rome is its spiritual center. Almost 50 years ago, it was in Rome that six European states signed the founding document of the EU, today known as the Treaty of Rome. And just three weeks ago, European leaders gathered again in the seven-hilled city to sign the EU Constitutional Treaty.

Now we turn to: Miroslaw Gronicki, the Minister of Finance of the Republic of Poland and a former chief economist of Bank Millennium. He is in the enviable position of not only having an intimate knowledge of the potential candidate countries, but is also very familiar with the thinking of the private business world.

Ladies and Gentlemen, if the EU is preparing for a grand new project, you can be sure that Jean Lemierre is already there. During the 1990s he was a member of the European Monetary Committee paving the way for Monetary Union. And since 2000 he has been the president of the EBRD, preparing the ground for further enlargement. The EBRD now covers countries from Azerbaijan to Uzbeskistan. It's tempting to ask whether the expansion of the EBRD's operating area is a forerunner for future enlargement of the EU. We are looking forward to hearing your remarks.

Our next panelist, Ivan Mikloš, is known across Europe as "Mr. 19 per cent", referring to his radical tax reform. Mr Miklos is the Deputy Prime Minister and Minister of Finance of the Slovak Republic. New governments are normally judged after 100 days in office. The Slovak Republic has already been in the EU for more than 200 days. It will be very interesting to hear the critical first impressions.

Europe in Wider Circles

Silvio Fagiolo

I am glad to participate in this important meeting, with such a qualified audience; but I have also to express the regret of Finance Minister Siniscalco and his Deputy Baldassarri, both forced to stay in Rome due to institutional engagements connected to the approval of the budget law.

It seems particularly enticing to deal with the subject of the "Lisbon Strategy" just a week after the publication of the Kok Report, whose conclusions have been intensively debated not only in Germany, but in the whole of Europe. As a result, the European Council of 5-6 November could not help but to stress the importance to revitalise the Lisbon Process, instead of abandoning it: therefore, I would deem more appropriate "Welcome back Lisbon" rather than "Goodbye Lisbon" as title of the present Conference.

At the Lisbon European Council in Spring 2000, Member States endorsed a far-reaching growth-directed agenda, with implications at the national, as well as at the European level of policy making. We set out a number of ambitious objectives for 2010 and made commitments about what we must do to achieve them. As you may well know, the whole history of European integration is pervaded by timetables, whose mandatory character was a crucial factor for the deepening of the Community profile: it was so for the Single Market in 1992, as well as for the three phases of the Economic and Monetary Union, which has finally come into effect in 1999. Next spring, we will be halfway to 2010. The Spring European Council will determine how far we have come in five years. And what still needs to be done. The basis for the review is the report of the High Level Group headed by Wim Kok, whose proposals will be elaborated by the Commission and the Council. And member states must be able to make their contribution: you may well recall, as a matter of fact, that the German Federal Government has already joined the discussion with a comprehensive position paper on the Mid Term Review.

The urgency of streamlining the Lisbon Strategy along the main axes of growth and employment, pointed out by the German Federal Government as well as by the Commission, is also shared by Italy: we must admit that one of the main shortcomings of the Lisbon Strategy is the overall excessive numbers of objectives. 28 main goals, 170 indicators, and 25 different coordination methods: we must concentrate on a smaller and better-focused range of targets.

Italy shares some of the suggestions made by Germany on the need for a more ambitious approach in completing the single market (the so-called "seven opportunities" highlighted by Chancellor Gerhard Schroeder in the economic newspaper "Handelsblatt"): the removal of the lingering technical and administrative barriers – which continue to hamper intra-EU trade – remains one of the central instruments for attaining the Lisbon goals. As far as the implementation of EU directives is concerned, the Italian Government has already strengthened its commitment to meet the requirements set by the Stockholm European Council in 2002 through an enhanced surveillance and coordination of the administrative bodies involved in the transposition and in the application of European law.

Reaching the Lisbon goals, however, is not merely a matter of adoption and implementation of European law. In the framework of the current review of the Strategy, it is necessary to better emphasize the role of material (e.g. transport networks) and immaterial infrastructure as a necessary precondition for ensuring a proper functioning of the internal market. On this subject I would remind that in 2003, under the auspices of the Italian Presidency, the European Council adopted a programme concerning the creation of a wide range of infrastructures and related initiatives in the field of research and development, which was labelled "European Initiative for Growth ". I believe that a greater commitment from our part is needed for its material realisation, as regards both the early realisation of the priority project envisaged in the "quick-start" list, as well as the coordination among European, national and private sources of financing. It would be appropriate to use the investment plan in infrastructure to incisively face the problems of alpine passes and other natural barriers that often represent a real distortion in competitiveness with serious damage to the economies of countries like Italy and the peripheral countries in general.

We must also reaffirm the role of education as a means of promoting and spreading the knowledge society: in order to meet the Lisbon objectives it is necessary to call attention to human capital as a fundamental factor in social cohesion and economic growth. In this context, a regular monitoring process of the results of education and training systems, comprehensive of an evaluation of transparency and recognition of titles of study and the support of mobility processes, is much hoped for.

I also believe that it could prove useful to link the analysis on the reform of the Stability Pact with the achievement of the Lisbon Strategy. In other words, I wonder if it is possible to re-direct the Pact, inserting it in a mainframe coherent and compatible with the Lisbon goals, and therefore emphasizing its contribution to Europe's growth. Even the structural funds and the cohesion policies, that we begun to reform in accordance with the next financial perspectives, should be reshaped, so to be used in support of the Lisbon Strategy. It is indeed important to promote greater adherence and functionality of EU budget to Lisbon objectives, highlighting its potential as an instrument for the Union policies aimed at increasing competitiveness and innovation. Within a framework of fiscal discipline that should include the European public finances as well, budget structure should better reflect the priorities of economic growth, increasing employment, high level of social and regional cohesion and sustainable management of natural resources.

In this case, too, I just express a general consideration, as I am aware of the fact that in the framework of the preparation of European Council of 22-23 March 2005 Member States will deal with these topics in an appropriate manner.

The current process of reorientation of the Lisbon goals is also a mean to address the issues connected to the structural loss of competitiveness of European industries towards low-cost emerging markets. Before dealing with the specific problems faced by the manufacturing sector in Italy, I would like to underscore the fact that the issue of deverticalization of the production structure through offshoring of low value-added manufacturing abroad is a common concern of all OECD countries: in 1990 Japanese industry employed 15 million people in Japan and 1.2 million abroad. Ten years later it employs only 13 million in Japan and 2.8 million abroad.

There is nothing new about the emergence of new competitors. However, a number of developments are today undermining the logic behind the international division of labour between North and South:

- substantial cuts in transaction, transport and communications costs;
- the opening-up of large economies with an abundance of cheap labour;
- the scope for overseas subsidiaries of multinational corporations to tap this labour by using advanced technologies.

The emergence of competitors with a very broad spectrum of comparative advantages in industrial activities, as exemplified by China, and sometimes in services too, as is the case of India, has revived the issue of the future of manufacturing industry in the industrialised countries in the face of competition from low-wage economies.

The public policies to be introduced are hard to identify. Should manufacturers be encouraged not to delocalise? Should there be massive investment in research and development in an effort to maintain a technological edge? Should barriers be restored at the EU frontiers to protect European industry? Yet for all the decline of manufacturing in total employment (what is commonly called "deindustrialisation"), industry continues to play a key role in Europe's economy: also the debate in Germany about the risks of a "bazaar economy" highlighted by the prominent Munich economist Hans Werner-Sinn has been judged also by some relevant German-based think-tanks as too ideologically biased. It must however be stressed that the Italian industry is suffering from the competition of emerging markets much more than other EU countries. The trend of Italy's market shares on world export in the last decade is far from being encouraging, as it has constantly deteriorated from 4% in 1991 to a minimum level of 3,8% in the year 2000; it slightly improved only in the last 2 years, up to the actual 4% rate. There are many reasons behind the lagging behind of Italian competitiveness, and I would like to like to concentrate my remarks on the following:

- **Paramount role of small and medium enterprises in exporting goods**: Italy counts about 180.000 exporting firms, but only 930 of them have more than 500 employees. Consequently, Italian export heavily depends on a limited choice of foreign markets: 44% of Italian enterprises exports to one country; 58% to no more than two countries. Even the difficulties in establishing on a permanent basis in a foreign market are caused by the limited dimension of Italian companies: only 38% of the exporting firms, globally considered, sold its products abroad in the previous seven years but the share falls down to 12% if we consider only small enterprises. In other words, Italian enterprises are ready to enter foreign markets, but also to leave them, adjusting to variations in the economic conjuncture and to the trend in relative prices.
- **Difference in the productive structure if compared with other OECD countries, regarding both industry specialization and factorial endowment.** Italian comparative advantages are still mainly focused in labour intensive sectors with a middle or high level of worker productivity, but with a slow growth of world demand (metallurgy of iron, mechanics, food), or with a rapid growth of world demand but a low worker productivity (rubber, plastic materials).
- **A family ownership enterprise model,** which has a result a predisposition for increasing the productive capacity of companies through reinvestment of equity or through bank loans, rather than through the stock market (only 265 companies are listed at the Italian stock exchange, against a German average of 715 companies and of 2.405 in the United Kingdom).
- **A limited role of research and development activities** carried out by private companies: if we consider the total spending for R&D (15,5 billion dollars in 2001, expressed in PPA terms), Italy reaches the eighth position in OECD countries; however, if we limit our analysis to private R&D, we fall to the twentieth position, outclassed even by some new Member State.
- **Rigidities in the labour market.** The peculiar intensity of the processes of industrial deverticalization in Italy is striking as regards its dimensions (already in mid-nineties Italy had with respect to its other European partners the lowest value added/total value of production ratio, being it equal to 32%) as well as its motivations (always in the nineties, almost 42% of total Italian investment abroad was driven by labour-seeking purposes).

Many steps have been taken in Italy and in the whole of Europe to facilitate the achievement of the Lisbon goals in 2010, and considerable progress is being made to enhance competition in product, labor, and financial markets. But more will need to be done to ensure that our economies are sufficiently resilient to respond effectively to all the structural changes that the future – with its unavoidable demographic adjustment – will surely bring.

Thank you for your attention

Europe in Wider Circles

Miroslaw Gronicki

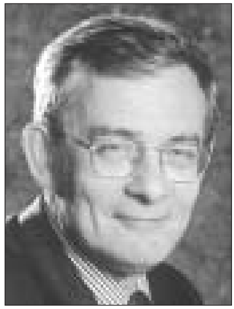
In this short presentation, I got a pleasure of presenting my, as a member of Polish government, view on the transformation process in Poland, its achievements as well as further challenges. After fifteen years of transition, Poland is firmly set on a path of sustainable growth. In 1989, then freshly liberalized from the Soviet influence, Poland was a long way from a market economy, with inherited mechanism of resources allocation, flawed by central planning system. Readjustments in allocation policies, liberalization of internal and external exchange looked hard, but necessary to introduce. Poland followed a path of brave and sometimes painful reforms to achieve a status of a free market economy as soon as possible. Such a solution proved rational and succeeded in an association with structures of European Union.

Today Poland is a member of European Union and belongs to the club of the most developed countries (OECD). After a period of a rather slow economic activity at the beginning of this decade, the Polish economy recovered and stepped onto a path of what is currently perceived as a robust, but at the same time, balanced growth. The Polish government estimates a growth rate to be above 5% this year and to remain around this level in 2005. Such a rapid rate of growth were possible thanks to an upsurge in productivity, especially in export-oriented industry. Poland benefits from its educated, but at the same time still relatively cheap labor force. Although an unprecedented growth in a productivity keeps an unemployment rate at the level, which is highest in the EU, rising business activity and structural changes in the economy, shall encourage employment. It is worth to notice, that participation rate, currently below 50%, is also the lowest in the EU, which creates a large area for the improvement. Furthermore, unemployment touches especially younger generation . On the other hand, one needs to remember, that cautiousness of most EU nations does not improve the situation of labor market participants in Poland. Only three out of fifteen countries of an old-EU, namely United Kingdom, Sweden and Ireland, opened their markets for a young Polish labor force. Such a move was not only profitable for those, who found an employment in mentioned countries, but also for economies of those countries, enhancing their competitiveness. I believe, that relaxation of employment policies would benefit countries, which decided to protect their market, therefore hindering competitiveness of their economies. This would help to put the EU closer to goals, once set in a Lisbon strategy.

While persisting on the path of a real convergence with other EU nations, Poland remains directed at a soon euro adoption. The government believes, that all Maastricht criteria have a great chance to be fulfilled in 2007, so the common currency could be introduced before the end of this decade. The budget project for the next year is consistent with a long-term priority of a fiscal stabilization. There are also structural reforms implemented in public finances, which will help to bring a general government deficit below the ceiling of 3% of GDP. On the other hand, debt to GDP ratio remains comfortably below the 60% of the GDP. While assessing our fulfillment of nominal convergence criteria we presume, that countries, which introduced pension system reforms will not be punished in comparison to the countries, which still hide their future obligations in a pay-go systems. After the EU entry in May this year, inflation rate rose to around 4,5% y/y in recent months, mostly due to a robust exports of food products and high inflationary expectations. Price stabilization suffered also from the rise in oil prices, although this factor was softened by a strong zloty. As supply factors seem to be transitory, inflation rate may fall back well within a range of the inflation target next year. A perspective of those convergence criteria would allow also for a further alignments of Polish zloty's and euro's yield curves.

This short presentation, shows that although not all solutions implemented in an economic policy in last 15 years were accurate, Poland remains on the path of growth and development. As the government remains committed to a process of a convergence in both nominal and real terms, Poland may bring its part in improving the competitiveness of the whole European Union.

Europe in Wider Circles



Jean Lemierre*

The introductory remarks were slightly provocative because the EBRD has always operated in Azerbaijan and Uzbekistan and I would not like to convey the impression that my words on these countries may anticipate an enlargement of the EU to these countries. I do not want to say the contrary either. I would simply like to make a few remarks. The way we see Europe in circles, circles meaning for us the eastern part of Europe.

My two colleagues on the panel know the situation in Central Europe much better. I will just make one comment: EBRD has been investing heavily in Central Europe. These countries have done a marvellous job in difficult circumstances, but it is not finished yet. I fully agree with what has been said, and there is a very sound basis for progress. However, I think we should look at the other parts of eastern Europe, so just to complete the picture I am going to say a few words about the southeast – Romania, Bulgaria, Balkans, Caucasus – Central Asia, and of course Russia. I do not say that this is enlargement, I say that this is part of the European sphere.

First, I think this is a region which is enjoying a high rate of growth. For the fourth or fifth consecutive year this region has a higher rate of growth than the rest of the world. This should not be forgotten.

I come to my first conclusion which is that in 2004 this region probably really arrived on the map of the global economy. It is no longer immune from the shocks of the global economy. It really is on the map. Let us be very clear that this was not the case before. Remember in 2001, even in 2002, the situation was totally different.

There are a number of driving forces in the region. In the south, it is clearly the accession process to the EU. We see a repetition of the story we know well in Romania and Bulgaria, and I would like to include Croatia, and hopefully one day other countries of the Balkans. The EU accession process is an extraordinary driving force to make reforms. We can learn a few lessons from Central Europe. The first is certainly from the government: the quicker you deal with the past the better it is. It is easy to say, it is very difficult to do, because the past is costly and a burden. It has to do with the restructuring of old activities - steel, shipyards, re-organisation of the railway sector. All of these ac-

* Summary by the organizer of the Frankfurt European Banking Congress

tivities are difficult from a political point of view and very costly. We can all help them to do this with clever financing and clever approaches. The private sector can help a lot. The quicker it is done, the better it is. I fully agree on the need for infrastructure for the future, but never forget the burden on the budget of the past; dealing with the past is as important as dealing with the future.

The second remark is quite straightforward – creation of entrepreneurship. This is not an easy task. It has been achieved and we see the beginning of entrepreneurship in Central Europe today. Foreign investors are crucial, they bring money, they bring skills and they bring marketing capacities, but there is a need for the governments and for the banking sector to pay a good deal of attention to the creation of a new generation of entrepreneurs. Many banks can and do find really good markets and bring many improvements to the financing of the real economy by taking risks. It is clear that this is a very crucial task, both for the governments and for the banking sector and I welcome those who have taken the risk and are preparing well for the future. It is not easy.

My third remark is that the reform process must be sustained especially in the banking sector. Central Europe has done well. What we see today in Bulgaria, in Croatia, and in Romania is good too. There is a strong movement in favour of privatisations, involvement of foreign investors and improvement of commercial banks. This is of course very efficient. All the central banks in the region are doing well too, and the quality of banking supervision has been enhanced, but it is not enough. It would be good if central bankers could look at different sectors of financial activities, for example insurance. There are a few sectors which are probably not very well regulated today. This will improve but it is a very strong asset in the quality of banking supervision.

There are, of course, costs involved in creating infrastructure, restructuring the past and creating the banking sector in a clever way, but it is being undertaken, and it is working well.

Regarding business opportunities, there is a lesson to be learned from Central Europe: the later you come in, the more difficult it is. This is a very strong message. So many investors today regret not having invested in Poland or Slovakia earlier. This should be considered when taking decisions in these regions. Of course there are challenges, let us be clear on this. There is a need for better institutions. There is a need for better implementation of the rule of law. There is a need to fight corruption. We all agree on this. This is part of the process, but it will not be done without the private sector, engaging with the governments, who are increasingly more open in the region, and listening to investors. This is the process, the win-win process, we have seen in Central Europe and which we need to see elsewhere. Engaging rather than waiting is certainly the lesson to be learnt from the first phase of enlargement to the east. You should engage, this is the only way to go forward and of course you know that EBRD is ready to engage with you.

I would like to say a few words about the other circle: Ukraine. Maybe I should not elaborate too much on Ukraine. Let us wait for Sunday which will be a very crucial moment when the tone, the attitude, will be set. But this is part of a circle close to Europe and I know that many of you are looking at Ukraine. I can tell you that many investors are looking at Ukraine thinking about this country which is now growing at 10 per cent a year and which is coming onto the map. But let us wait for Sunday or Monday to elaborate some more.

The Caucasus is a fantastic zone as well as Central Asia, especially Kazakhstan. It is very clear too that it is a growing zone. There is a transit zone in the Caucasus. Azerbaijan is growing quite fast and becoming a hub for the region and Kazakhstan is developing quite fast for very clear reasons.

I would like to spend a little more time on Russia. The comment I made about the region being on the map of the global economy is especially true for Russia. Russia is now on the map of the global economy, it is on the map of the European economy and it is on the map of the Pacific economy. No-one should forget this, especially with regard to gas, and gas does not only mean pipelines. The big story in Russia today is that gas means LNG. With this technology gas can be sold elsewhere than on the Continent. That is the big news which I think opens new views on this part of Europe, of the European continent. This is a new window. More and more people are talking about what I call "Pacific Russia", not only in Moscow, but in Europe and also outside Europe, especially in Washington.

There are many questions on Russia, but the first point is always to look at the driving forces. What are the driving forces in Russia today? They have a good macro-economic situation and they have a high rate of growth. This comes from the high price of oil and raw materials and gas. It comes from reforms and predictability, brought about over the last years by President Putin and his government, and it comes from China. It is clear that China has become a key partner for Russia, for energy, steel, aluminium, electricity and so on. There are questions on Russia. It is clear that Yukos is a question. My normal answer to this is that EBRD is by far the single largest investor in Russia today in the financial sector and we do not see such difficulties in our portfolio. But of course, the question does exist. At the same time, Russia is changing quickly. I would like to say a word about the banking sector. The banking sector in Russia is changing. There are state-owned banks, this is well known. There is Sberbank, there is VKB. They are state-owned banks, they are big banks. But I see a growing private sector, foreign owned, moving from what in 1997 was mainly short-term financing to real involvement in Russia, deep in Russia, in the retail business. Many of you are developing this type of activity: mortgage financing, leasing, consumer financing. There is a big change with a very strong commitment to Russia. Sometimes people say there are crises in the banking sector. In June, words such as "mini-crisis" and "liquidity crisis" were used. Let us be serious, there was no crisis. There was an attempt by the central bank to clean up the sector which was good and should be supported. I think we see a better attitude by the central bank monitoring the banking sector in a better way and trying to avoid tensions for the future. There is another sector which is growing in Russia in banking activities: the regional banks. This is certainly the main news in Russia. EBRD has invested until the beginning of the year, we have taken three equity stakes in regional banks. They are not big, but they are good. They know their clients.

Europe is changing quite fast in various circles. One is coming closer, being driven by the EU accession process and the other one, Russia being closer certainly to Europe, willing to be part of the global economy, part of the partnership with Europe, accession to the WTO, signing and ratification of the Kyoto Protocol. All of this is creating many opportunities for investments, for you, for your clients and trade. This is a major change in this area. I think it is bringing a lot to the western part of Europe and the western part of Europe can bring a lot and can take a lot out of this partnership, trade and investments. EBRD has been willing to support this, we have done so for years. I am not here to make a statement about what should be the political enlargement of the EU, but I have no doubt that from an economic point of view, trade point of view, energy point of view, investment point of view, cross-border activities and integration are growing today. This is contributing much to our activities, your activities and the western part of Europe.

Europe in Wider Circles

Ivan Mikloš*

Ladies and Gentlemen, thank you for inviting me and giving me this opportunity to speak to you. Let me say a few remarks on the topics of this panel and this conference. A lot has been said and there will be a lot of discussions and disputes on the reasons for the less than satisfactory fulfilment of the Lisbon agenda goals and of course there are different views but there is also some consensus.

I will speak briefly about what we have done in Slovakia during the last year and especially during the last two years. In this regard I will talk about what we have done in the field of macroeconomic stabilisation and structural reforms because I think it could be inspiring for new member countries, for candidate countries, and for those countries that will some time in the future become members of the European Union. But I think it could be inspiring also for the present or old, for the so-called old member countries.

Slovakia is a very young country and we have been introducing real reforms in only a short period of time of about six years, and in particular during the last two years which were the years of really deep and strong and speedy reform efforts.

We started from the same goals or conclusions as Mr Walter in his introductory speech, when he said that higher growth was the aim of Lisbon. This was and still is the priority goal. A major priority of the present government's economic policy is to create pre-conditions for high and sustainable economic growth. And I would like to stress the word 'sustainable', not only high.

In my opinion, the most important thing for this is to have a sound macro-economic policy that provides macro-economic stabilisation and the necessary structural changes and as a result of this creates an as good as possible business environment for achieving high and sustainable economic growth. By the way, talking about ambitious programmes in this context: two years ago and at present we can say that it works. We have done a lot, major structural reforms have been passed and also in macro-economic stabilisation, the largest part of this difficult job has been completed.

Our fiscal deficit in 2002 was 5.7 %, last year it was 3.7 %., which means a 2 percentage point reduction in one year. This year it will be approximately the same and our goal during the current election term is to meet the Maastricht criteria, i.e. less than 3 %

* Summary by the organizer of the Frankfurt European Banking Congress

and to enter the euro zone as soon as possible. This is another strategy goal. The main reason for this goal is to support higher growth. Our analyses are showing that there will be about one half of one per cent maybe one per cent of additional growth because of membership in the European monetary union.

Of crucial importance in this regard are the structural reforms. Also because macroeconomic stability and sustainable growth are not possible without structural reforms. Moreover, fulfilling the Maastricht criteria on a sustainable basis is impossible without structural reforms. We have passed, as I said, a very ambitious programme and I will mention briefly what are the most important structural reforms because I think this is the most important effort and also because the most important reason for the less than satisfactory fulfilment of the Lisbon strategy is the lack of structural reforms.

First, the best-known reform, as Mr Chairman already mentioned, is our tax reform. It has been effective since January 1st of this year. The main difference from the previous system is that we have now a flat rate for both corporate tax and personal income tax at a level of 19 %. Before that, corporate tax was 25 % and personal income tax was steeply progressive from 10 % to 38 %. Now we have only one rate: 19 %. In reality, the effective tax burden from personal income tax is between 0 and 19 %. Because we increased significantly tax-free income and as a result of this, low-income earners are not paying any income tax and then it is growing from 0 to 19 %. We have also cancelled some taxes, for instance we have cancelled tax on dividends, gift tax, inheritance tax and real estate transfer tax. In order to compensate partially for the fiscal consequences of this reduction of direct taxes and cancelling of some taxes we have unified VAT, we have now only one level of VAT at 19 %, without any exemptions. And we have also increased excise taxes, we had to do this because of the minimum level in the European Union. After the first months of experience we can say that the results are very very positive. The interesting thing is that for those taxes which we lowered, collection is better than expected. For taxes which we increased collection is weaker than expected. But overall, tax collection is better than expected and we see also other direct positive effects on the business environment, in particular, we have now very stable, neutral, simple and non-distorting taxes. There are no exemptions, exceptions, deductions or special rates in tax registration, only one level for every kind of income which is 19 % and this has really significantly improved the business environment and the situation and serves as a strong incentive for higher and sustainable economic growth which is making Slovakia attractive for foreign investors. That means, all our experiences until now are good and we expect that even more direct and indirect positive effects will come and improve the medium- and long-term perspectives for higher growth, higher job creation and higher foreign direct investment influx.

Then, let me very briefly mention some of the other reforms. We also passed a pension reform which is based on the three pillar system: a pay-as-you-go system, a strong capitalisation system which is obligatory for young people who enter the labour market and those who are already working can choose if they want to enter the system. People who choose to join pay 9 % of their salaries to their personal retirement account which is managed by a private pension fund. And then we also have a third pillar which is voluntary, a capitalisation pillar.

We have changed the social welfare system by introducing a stricter, means-tested system with much less abuse; it is much more motivating for people to be active. The general idea of these reforms was to reduce social benefits for those who are only passive, who are only passively waiting for state benefits. But for all the people who are active and actively participating in the programmes organised by local, regional and state governments benefits have not been decreased, they receive even more than before. The main idea behind this was to increase the difference between low salaries, especially for unskilled people, and social benefits. Because before there was no difference and therefore no incentive to work. The new system works, we now see a much higher motivation and of course it has also contributed to economic growth.

Then our labour market reform. We passed a new labour code which created in Slovakia the most flexible labour market in Europe. According to the latest world bank report on "doing business in the world" which compares 145 countries all over the world, Slovakia was named last year the most reformed country regarding improving its business environment. On labour market flexibility we were number two among these 145 countries. In the first place was Hong Kong. Flexibility, especially regarding hiring and firing of people, flexibility of working hours and so on were the key factors.

Another important reform and maybe one of the most complicated political and social reforms was health care reform. The health care system was operating very poorly, it was very costly, it created public deficits of about 1 % of GDP every year. We made this reform in two parts. The first was a demand-side reform, the second part which was passed just a few weeks ago, was a supply-side reform. The main idea was to reduce over-demand and over-supply and to introduce in the system constraints and competition. It seems to be working. This year the new debt will be only about one quarter of previous years and for next year we expect to balance the system and to improve its operation.

Then we passed an education reform and fiscal decentralisation to strengthen local and regional governments and their responsibilities and competences but also imposed stricter rules on them to avoid increasing public deficits.

Let me now conclude with a very brief explanation of the reforms we introduced. We are now in the middle of the election term and almost all structural reforms we planned for this four-year period have been done. For the next future, the most important challenge will be to support, improve, and enhance our knowledge-based economy and everything that goes with it, i.e. education, research and development, innovation, e-government, IT-technologies and also of course, an improved business environment, especially in law enforcement and all these areas.

What are the main lessons or maybe at least inspirations which could be useful? Not only for new member countries, i.e. for countries which will enter the EU later but also for all member countries. Our first experience is that applying for a European membership and the accession process is very helpful as President Lemierre already mentioned, because it is another incentive and tool for promoting the necessary reforms, stabilisation and especially because people are supporting membership. This means that they support the necessary steps to be taken for these reforms.

The same conclusion applies to membership in the monetary union. It could serve as an additional supportive tool for making the necessary changes.

Another important experience is that EU membership is very important for convergence policy, the catching-up policy. It is giving the new members, even the candidate countries, additional incentives for higher growth and convergence. But our most important experience in this regard is that it is important but not necessary. Even more important for membership are the structural reforms and sound economic policies at home. Only if these two groups of effects are combined, real results in terms of speed, quick catching up and convergence can be achieved.

One the most important and maybe also most obvious experiences is that the key to reforms is political will. Implementing reforms is not a technical problem, maybe some reforms such as health care are technical, but they are much more a political problem and political achievements. A necessary precondition for reforms and to ensure that they do not become political self-killers - because the majority of the reforms are unpopular and of course problematic - is that certain conditions must be fulfilled to create a chance for a politically successful process. First, there must be a political will, as I said. Second, reforms must be prepared in advance. Third, reforms must be started immediately after starting the term of office to get a chance to bring about positive political results in the end.

Another important conclusion in my opinion is that realising reforms means that politicians are unpopular, that is true. But it is not true that politicians who are not doing reforms are popular. That is in my opinion a very important conclusion. On the contrary, if reforms are complex and comprehensive enough and if they are bold enough they create additional incentives for higher economic growth and for better political and social results. It means, I think, there is some kind of artificial fear among politicians about doing reforms because they think that every reform must have consequences and might involve political failure. I am not saying that we are proving the contrary, I don't know, we will see in two years. But I think there is at least a chance. And all forecasts and estimates, not only ours but also independent foreign estimates suggest that Slovakia because of the reforms that we have been doing has a chance in the next years to see real high and sustainable economic growth and all the positive social results connected with high real wage growth and so on.

Let me finally conclude by saying that I am convinced that EU enlargement is a very good example of a win-win strategy because EU enlargement is giving to Europe new and additional incentives for growth. Not because of the size of the market. The 10 new EU countries represent only 16 % of the EU inhabitants and only 4 % of GDP in nominal terms. But because of the new incentives for doing reforms, new competition, maybe also new inspirations, I think it will be extremely helpful for the whole of Europe. Thank you.

Regulation and Supervision in Financial Markets

Klaus-Peter Müller

Ladies and Gentlemen,

Let us move on from the “Europe in Wider Circles” discussed before the coffee break to take a closer look at European financial markets. It is my pleasure to introduce four high-calibre panelists to cover our topic of “Regulation and Supervision in Financial Markets”. All of them deal with various aspects of supervision and are proponents of a stable international financial system.

- First, may I welcome **Jaime Caruana,** Governor of the Banco de España and Chairman of the Basel Committee on Banking Supervision. In his capacity as “Mr. Basel II”, he presented the framework agreement for the new Basel accord this June. It is clearly a milestone on the road to a system of regulation in the banking sector that embraces the latest methods of risk measurement and control.

- A warm welcome also to the President of Germany’s Federal Financial Supervisory Authority, **Jochen Sanio.** He is responsible for monitoring not only the German banking sector but also the insurance sector and securities trading. I hope Mr. Sanio will share his experience and his know-how on such a supervisory structure with us.

- The next panelist joins us from Washington, D.C. I welcome **Charles H. Dallara,** Managing Director of the Institute of International Finance, representing the standpoint of the leading global financial institutes. His world-wide expertise and deep knowledge on the emerging markets is a valuable addition to our panel as an outside view on questions such as the role Europe ought to play in the regulation debate.

- And last but not least, may I welcome **Antonio Fazio,** Governor of the Banca d’Italia, who first joined us here in 1996. One of his bank’s direct responsibilities is banking supervision. Mr. Fazio will therefore be able to tell us from experience what aspects of financial market regulation apart from those covered by Basel II need to be considered.

Ladies and Gentlemen, as I see it, there are three major aspects to be considered, which also cover the subject of this panel discussion.

1. The European Union has still not really finalized the single market in financial services. There is no getting around the fact that the degree of harmonization achieved so far is insufficient. There are still too many areas in which regulations vary from country to country, ranging from consumer protection to company law.

2. To an increasing extent, regulation and supervision are becoming a significant strategic issue for banks, especially in global competition. How far is regulation already influencing the structure of banking systems, for instance? Are we Europeans falling behind our American and Asian competitors?

3. Banking regulation and supervision is growing increasingly professional and is being improved all the time. But aren't we establishing a bigger and bigger gap between those aspects of the financial markets which are regulated and those which are not? I'm thinking here above all of the more frequent use of derivatives as part of portfolio management, for example. Do supervisors know enough about risks concealed by hedge funds?

There are many more topics of interest to us all. So I look forward now to hearing what our speakers have to say.

- **Governor Caruana,** the Basel committee has covered an awful lot of ground over the past five years. How do you see the present status of talks in the committee, and what obstacles to implementing the new accord lie ahead?

- **President Sanio,** efficient processes call for efficient structures. As Europe becomes more close-knit, is there a need for a common European financial supervisory body?

- **Mr. Dallara,** how do you view the significance of the European Union within the Basel II process? And do you feel that Europe's supervisory authorities are adequately positioned for this?

- **Governor Fazio,** apart from the new Basel accord, what issues still need to be addressed by Europe's supervisory authorities and banks?

Regulation and Supervision in Financial Markets

Jaime Caruana

Thank you, Mr Müller, for your kind words of welcome and for launching our discussion. I would also like to thank Mr Walter, the members of the Steering Committee and our hosts for inviting me to participate in this important event today. I am honored to share some of my perspectives as Chairman of the Basel Committee on Banking Supervision (BCBS) and governor of an EU central bank in charge of banking supervision. A fully single market for financial services in the EU is a vital part of the success of the Lisbon process. The adoption and implementation of Basel II provides us with an opportunity to deliver this fully integrated market and to avoid the risk implied in the title of this Congress – "Goodbye Lisbon".

I must say that it seems highly appropriate for representatives of the financial services industry and representatives of central banks and regulatory agencies to meet in a setting as wonderful as Frankfurt's historic opera house. For more than 120 years, people from all walks of life have come to these halls to enjoy the music and harmonies played by the best-known concert musicians from around the world.

I dare say that all of us can draw an example from that Bankers and supervisors should likewise continue to work harmoniously across markets and jurisdictions to encourage the responsible pursuit of opportunities, the appropriate management of risk, and the continued circulation of credit for the good of businesses and consumers alike.

Indeed, any discussion on financial regulation in recent years has focused on one of the most extensive efforts to create greater harmony across banking markets and to attune supervision more carefully to the actual economic risks that banks face. The publication last June of the Basel II text represented the culmination of considerable hard work and dedication on the part of the industry and the supervisory community worldwide.

I believe it was important for the process to be thorough and careful. The depth of the discussions among bankers, supervisors and the public reflected the importance of capital to the health of the banking system. I would like to extend my sincere thanks to all of the institutions and individuals who offered their views, shared relevant data and helped to strengthen the Basel Committee's framework.

But our work is not done yet. The focus for supervisors and bankers is now shifting to the adoption of the Basel II framework and its three pillars into national rules, and to the implementation of the new standard.

For bankers, this means continuing the preparations so that systems are ready and able to assess exposures to credit and operational risk more comprehensively; that their internal assessments of their overall capital needs are prudent; and that their financial reporting offers greater insight into the profile and strengths of their risk management processes. This may also mean participating in the national field tests that some jurisdictions are planning, as well as preparing to run "parallel" calculations of capital requirements under the existing rules and under Basel II. I urge all members of the industry participating in these projects to provide the best data possible to their national supervisors: such data will help us to confirm that the new framework performs as expected.

Supervisors, likewise, are preparing their own staff and enhancing their capacity to exercise prudential oversight through Basel II. We are also working to ensure a smooth transition to the new rules and a consistent implementation. Allow me to elaborate on this latter effort.

Certainly, as with any international framework, the goal is to encourage its consistent application across borders. We believe competition between internationally active banks should be driven by differences between each bank's individual strengths, rather than by differences in each country's rules. Many banks agree and have relayed their concerns that supervisors must work to avoid large differences in the adoption of Basel II and, more specifically, in the use of advanced approaches across jurisdictions.

Basel II provides a valuable opportunity to enhance communication and co-operation among supervisors and, therefore, for delivering results on consistency of implementation and convergence of supervisory practices.

We have to be both pragmatic and ambitious. And within the European Union we can be even more ambitious because we have additional tools and, I would say, additional responsibilities in relation to the single market objective and the Lisbon process.

Pragmatic because differences have existed in the past, and will continue to exist, between jurisdictions on some of the details. Basel II cannot abrogate the legal responsibilities that each supervisor has to ensure that all banks in its jurisdiction are adequately capitalised.

At the same time, we can be ambitious in our objective to promote the consistent application of minimum standards for the supervision of the capital of internationally active institutions. The process that we set up, as part of Basel II, to enhance home-host co-operation will promote consistency and the convergence of supervisory practices. It can help avoid performing redundant and unco-ordinated approval and validation work in order to reduce the implementation burden on banks and conserve supervisory resources.

We are encouraging supervisors to engage in practical exercises right now to determine how best to apply Basel II effectively and efficiently to internationally active banking organisations. Based on the work so far in identifying issues that may arise in the application of Basel II across borders, I believe we have made two important findings regarding preparations that banks themselves can make to ease their transition to the new framework and reduce the potential for excessive burden.

One finding is that the ability of supervisors to make plans to co-operate across borders, and thereby reduce the regulatory burden on an individual bank during the transition to the new framework, depends to a great degree on the clarity of a bank's own implementation plans.

Another finding is that, in some cases, the overseas branches and subsidiaries of a bank may know very little about its own plans to adopt Basel II. This may be true even in some institutions that plan to adopt advanced approaches. Because the bank's local managers may lack knowledge of how Basel II will be implemented internally, supervisors in the host jurisdiction may be uncomfortable with the bank's overall readiness for Basel II. It may simultaneously increase the host supervisor's need to contact the bank's head office for more information – something that might duplicate requests for information.

The bottom line is that for home and host supervisors to work toward a more consistent application of Basel II, each bank's own plans for adopting the approaches in the new framework should be clear and comprehensive. Equally important, banks should communicate those plans not just to their supervisors but also to the bank's own overseas branches and subsidiaries.

On this last point, and from my perspective as a banking supervisor in Europe, I mentioned that we can be more ambitious in the EU. I believe we are in a unique position to encourage greater consistency in the cross-border implementation and further convergence of supervisory practices. The work to create a single market, and the work under way through the Committee of European Banking Supervisors, strengthens our ability to bring supervisory expectations into alignment. That could make Europe an example of consistency and co-operation for many others. We could deliver tangible results, on matters like model approval, on reporting, on the enhanced role of the consolidating supervisor, even on supervisory disclosure.

I would like to conclude my remarks by briefly updating you on the present work of the BCBS. We have three strands of work: calibration of the accord; adoption and implementation, which I have already alluded to; and the improvements to the framework that can be incorporated shortly.

I believe we have an excellent framework ready for implementation. Still, Basel II is intended to be a living document: The Committee wants the framework to remain flexible and forward-looking so that it can incorporate advances in risk measurement and management. This will require that the Committee maintain a very active dialogue with the industry on emerging risks and approaches.

In fact, our dialogue on several technical issues is already well under way. I'll mention two topics we are currently studying. One concerns the treatment of "double default," a situation that emerges when a borrower and a guarantor both default on the same obligation. We are likewise undertaking similar work on another technical area, namely the treatment of certain trading book items under Basel II.

In both cases, the Committee and its working groups are discussing the relevant issues and concerns with representatives of the industry, and are developing or clarifying solutions that are compatible with the principles and goals of Basel II. These projects will help to ensure the new framework provides sound guidance and requirements for banks whose businesses create such exposures.

I'll stop there and will be glad to hear the views of my fellow panellists. I look forward to a lively discussion.

Regulation and Supervision in Financial Markets

Charles H. Dallara

The overall theme of this conference is the Lisbon process: how Europe is responding to the major economic challenges it set for itself. The Financial Services Action Plan is an important part of the Lisbon Agenda. While much progress has been made on the specific legislative components of the Action Plan, I would like to underscore the importance of continuing to strengthen the strategic objectives set forth in the Plan, including increasing the Europeanization of trading markets and streamlining the cross-border retail business. As Europe proceeds down the path toward a truly integrated market for financial services, it is important to determine a cohesive view on cross-border acquisition, which is a big component of seamless integration.

I would like to spend most of my time today discussing one of the main components of the Action Plan, which is of utmost importance to the banking industry – implementation of Basel II. However, it is critical to remember that successful implementation of Basel II is not only a European goal, but also a goal adopted by the G-10 countries that are part of the Basel Committee and, in fact, over 100 jurisdictions worldwide. The Basel II process has profound implications for global financial services regulation. Adoption of Basel II does not equate with the development of sophisticated risk management systems; however, it provides banks with the opportunity to upgrade their risk management infrastructure and to strive toward the goal of aligning modern risk management methodology with regulatory requirements. For this goal to be achieved, Basel II must be implemented in a way that is consistent and cost-effective for banks.

Since the publication of the Basel Framework in June, the eyes of the banking industry have turned to the ongoing national rule-making processes that will translate this global framework into national regulation. Such a process is underway in the United States, and as you are well aware, in Europe. In many ways, the banking industry and regulators alike are looking toward the EU to set an example of how this complex standard can be implemented on a cross-border basis. If a group of countries with a defined and firm goal of creating a common market for financial services cannot agree upon a consistent and practical approach for banks to implement Basel II, then it is highly unlikely such a goal will be realized in other parts of the world.

At this point in time, the industry is hopeful that Europe will realize this goal of consistent and efficient application of Basel II, and I think it is fair to say that Europe gets some real credit for creative leadership, for really wanting to make the complex new Basel process work. What do I mean by this? A priority concern of the banking industry is the so-called "home/host" issue. It is imperative that the home regulator of a banking group works with host regulators to ensure that Basel II is applied in a consistent and efficient manner across jurisdictions. If not, the costs to an international bank in terms of time, IT infrastructure, and personnel would present a significant burden.

The EU is in the process of giving European regulators many of the tools they need to manage implementation of a complex accord efficiently across 25 very different countries. The draft Capital Requirements Directive (CRD) forthrightly takes up what is probably the biggest challenge of Basel II: how do you balance the legitimate regulatory concerns of "host country" supervisors when the firm looks to its "home country" supervisor for most of its regulatory cues? Finding an answer to this question is particularly acute in Europe, especially for countries in Central Europe where a large part of the banking systems are foreign-owned. Although regulators may be host supervisors for these foreign-owned firms, they have strong interests in their soundness given that these banks have systemic importance for their overall financial systems.

The CRD uses the concept of the lead, or "consolidating supervisor", to describe the job of a bank's home supervisor. The CRD creates real incentives to focus the regulatory process on the consolidating supervisor, who knows the firm the best, who examines not only its books but also its processes and procedures in detail. The home supervisor would be the main point of contact between a bank and its host regulators. The concept of the consolidating supervisor also recognizes that host supervisors have a real and important legal interest in the soundness of all banks they oversee. But it provides procedures and structures that – if properly developed and implemented – make sure that the big picture is kept in sight, and that banks aren't over-burdened with pointless duplication of supervisory requests and analysis.

Importantly, the CRD provides a procedure to allow the lead or "consolidating" supervisor to break an impasse on the validations and approvals necessary to comply with Pillar 1 of the capital framework, which sets forth the minimum capital requirements for a banking group. This is a tough-minded solution, one that not everybody likes. But it shows a seriousness of purpose about the new European commitment to effective and efficient regulation. The industry would like to see this commitment confirmed in the final draft of the CRD and for it to be clarified that the consolidating supervisor also is clearly in charge of Pillar 2 discussions in which supervisors will review a bank's overall risk profile and its compliance with the Pillar 1 minimum requirements. The CRD in its present form shows how powerful a force for efficiency the European vision can be. If the provisions set forth for a strong consolidating supervisor are carried through into European law, this will provide an excellent template for supervisors worldwide to frame their home/host discussions.

Another crucial tool to increase efficiency is the Committee of European Banking Supervisors (CEBS), which brings together the 25 EU bank supervisors with an avowed aim and real political spurs to regulatory convergence. CEBS is there to make a success of implementation of CRD and to oversee cross-border banking regulation as a continuous process. If they stick to the goals they have set, the members of CEBS can achieve safety and soundness without the kind of regulatory burdens that contributed to what newspapers used to love to call "Eurosclerosis". Importantly, CRD and CEBS reflect a new commitment to regulatory transparency that – if it is carried through in the coming years – will be hugely important for sustaining a flexible system and avoiding costly mistakes. The point is: If Europe sticks to the conceptually correct macro direction it has adopted in implementing Basel II, it will end up with a much more robust, safer and sounder cross-border financial system at a cost to the industry that, if properly managed, will be much more reasonable than 25 regulatory systems could ever be. This will provide an example to other supervisors around the globe how to manage an increasingly integrated international financial system with an appropriate and proportionate allocation of roles between national supervisors. The international financial services industry wants to see the commitment to progress in that direction continued and deepened.

We must keep in mind, however, that while Europe can set a high standard for streamlining implementation, other jurisdictions must also work to define efficient implementation plans within the construct of their own regulatory structures. Whereas the European system is complicated by a multiplicity of member-states with their own regulators working together through CEBS, but not under the umbrella of a single unified regulator, the US system is complicated by the interactions necessary among its primary regulatory authorities (the Fed, OCC, FDIC, and OTS for banks, and the SEC). As such, the US will face a different set of challenges to coordinate Basel implementation among these agencies and with other regulators worldwide.

Finally, it is important to remember that while implementation discussions are underway, important aspects of the Accord itself still need to be finalized. For example, the Trading Book review is ongoing and progress in this area needs to continue. We also need to encourage greater conceptual convergence of the regulatory capital framework with accounting standards. The Institute has established a three-way dialogue among the Basel Committee, the International Accounting Standards Board, and IIF members. This group had a very productive meeting just last week in Amsterdam, and the discussion emphasized the importance of aligning both accounting and regulatory requirements with modern risk management practices, even if complete convergence does not occur between the standards themselves.

In order for the Basel II process to be a success, regulators and the industry must continue to press forward toward resolution of all these important issues.

Regulation and Supervision in Financial Markets

Antonio Fazio

1. Development and integration of financial markets in the euro area

The introduction of the single currency has given a decisive impetus to financial integration in Europe.

The integration of the money market has been rendered possible by the creation of TARGET, the European payment system. The launch of the new-generation system based on a single platform is scheduled for 2007.

The euro has had a particularly significant impact on the European market for private-sector bonds; there has been a considerable increase in the number of even medium-sized firms placing issues outside their home country. The home-bias of equity portfolios has diminished.

In the main industrialized countries the medium-term growth in the quantity of money, and hence in the volume of bank deposits, is in line with that of the nominal GDP.

The faster rate of expansion in the aggregate volume of financial assets, that is the process of financial deepening, is the outcome of the direct relationship established in the financial markets between the firms and the public sector issuing securities on the one hand, and the investors purchasing them on the other.

In Italy, between 1995 and 2003 the volume of funds raised directly on the financial markets by firms issuing shares, bonds and other instruments grew from 20 billion to 65 billion euros.

The amount of households' financial wealth consisting of corporate securities increased from 180 billion euros to 470 billion, that is from 19 to 36 per cent of GDP.

Similar developments have taken place in other markets.

The stability of the banking system, the protection of the savings it intermediates and their efficient allocation are entrusted to the banking supervisory authority, as well as to market discipline.

In order to strengthen, in this new context, the safeguards for savings invested in securities, steps must be taken to ensure more effective controls on financial markets and firms issuing securities, if necessary by forging Europe-wide links.

2. Banks and financial markets

During the 1990s the large-scale process of consolidation and consequent growth in the size of banks encouraged the spread of the universal bank, which combines retail and wholesale business and simultaneously offers both commercial and investment banking services.

The banks themselves have greatly stepped up their role in the distribution of third-party financial products, insurance policies, investment funds and corporate bonds. Credit risks and market risks have diminished with their progressive transfer away from banks' balance sheets, but other types of risks have emerged.

The reputation of a bank is inevitably and increasingly affected by the quality of the products it supplies to its customers. There has also been an increase in both legal and operational risks.

The banks' increasing role in the distribution of third parties' products makes it crucial to monitor for conflicts of interest. It is extremely important that conduct should be ethical. The integrity and completeness of the information provided to the public must be guaranteed and internal controls must be reinforced. Staff incentives must be designed to prevent the risk of improper conduct.

3. Supervision

International cooperation between banking, insurance and financial market supervisory authorities is strengthening. In view of the close links between the systems of the major areas - in the first place those of central and western Europe and the United States, but also to an increasing extent those of eastern Europe and Asia - supervisory cooperation has spread to the global level.

In Europe, the nationally-based organization of banking supervision is in conformity with the cardinal principle of the single European market, founded on maximum harmonization and mutual recognition.

Supervision on a national basis permits the authorities to operate near the entities subject to control. It favors a constant exchange of information and direct contact with intermediaries. This is particularly effective if it is also realized by means of a widespread presence in the country and through on-site inspections.

Banking supervision is rooted in the legal and administrative systems of each country, not least owing to the possible involvement of public money in crises.

Europe has equipped itself with a well-structured system of multilateral cooperation and bilateral agreements between the national authorities responsible for supervising the banking and financial markets.

Spurred by the guidelines set by the Ecofin Council meeting of Oviedo in 2002, in 2004 the application of the Lamfalussy reform was completed, extending to the banking and insurance sectors bodies and legislative procedures that had already been introduced in the securities field. The reform process sees national authorities and European institutions engaged in speeding up the approval of harmonized European regulation, ensuring its uniform application in national law, and further strengthening cooperation among the supervisory authorities.

4. Derivatives

In the last four years the cyclical slowdown of the global economy, stock market turbulence, the failure of large companies operating at international level and the default of sovereign states have subjected financial systems to strong pressures in both advanced and emerging economies.

Banks have demonstrated a great capacity to absorb the destabilizing impulses. Both in Europe and in the United States, the ratio of losses on loans has been lower than that registered during the recession of the early 1990s. There have been no significant episodes of instability.

The greater soundness and flexibility of the system derive above all from the reorganization and capital strengthening of intermediaries, prompted in many countries by the public authorities since the second half of the 1990s. The strong expansion of the bond market, which has allowed firms to supplement bank loans with funds raised directly from savers, has contributed to the stability of the system.

The shocks that have hit the international financial system have been absorbed thanks also to the development of the derivatives market. At the end of 2003 the notional value of over-the-counter derivatives was approximately 200 trillion dollars, nearly twice as much as at the end of 2001.

Interest rate derivatives account for about three-quarters of the entire derivatives market. In the last few years credit derivatives have grown especially fast; in the middle of this year the notional value of credit default swaps was of the order of 5.4 trillion dollars.

The greater scope for managing risks has made it possible to avoid compounding the difficulties of the real economy and international political tensions with financial instability. For these reasons as well, the recent phase of cyclical weakness has been shallower than in similar periods in the past.

The use of derivatives is not without its own risks.

In an environment characterized by abundant liquidity and low interest rates, the sharp decline in volatility recorded in recent months on the financial markets of leading countries is connected to some extent with the search for higher profitability by major international financial institutions through the purchase of high-yield instruments. Intermediaries appear to have increased the supply of derivative instruments that provide protection against possible changes in the value of financial assets, thereby lowering option prices and volatility, and to have taken on the related risks.

To forestall the potential adverse effects of the growth of derivatives markets, a high level of professionalism on the part of market participants is indispensable.

The role of regulatory authorities and central banks is of fundamental importance. Supervisory regulations and practices, accounting standards, and the information that intermediaries have to provide are continuously updated, both at national level and via international cooperation. This allows them to keep up with the development of the markets and contain the systemic risks associated with the potential benefits offered by the growing use of derivatives.

5. Conclusions

Efficient intermediaries developed financial markets, capable of channeling funds towards firms with favourable growth prospects, improve the allocation of resources and stimulate investment and saving.

But the very efficiency of the financial system and its stability depend ultimately on the strength of the real economy, on the latter's ability to grow and compete.

The economy of the euro area is afflicted by a loss of competitiveness that reflects structural weaknesses in several fields. Productivity growth is unsatisfactory.

It is necessary to remove the factors of an institutional, legal and fiscal nature that hamper flexibility in the use of labor and capital.

In Europe the efforts to consolidate public finances must be continued, not least so as to loosen the constraints that are holding back economic activity. The action of the Eurosystem aimed at guaranteeing price stability provides an essential condition for a firmly-based economic recovery.

Regulation and Supervision in Financial Markets

Jochen Sanio

The title of this event "Goodbye Lisbon" is a neatly ambiguous phrase, one full of history and philosophy. In the year 1755, early morning of All Saints' Day, one of the deadliest earthquakes was followed by an enormous tsunami, destroyed Lisbon and killed thousands of people. The earthquake shook a lot more than the Portuguese city. It was this event that led writers like Voltaire to say "goodbye" to the optimism of Enlightenment philosophy. In Voltaire's short novel "Candide" the young and naïve title character is continually taught by his tutor Pangloss to embrace the idea – and now I am approaching my topic - that everything is for the best and that man lives in the "best of all possible worlds", with perfect order and reason. In the end, Candide must abandon this belief after living through horrific events.

Today I want to ask the question: what is, for European Banks, the best of all possible worlds in supervision? The issue is not whether we should say "goodbye" to the idea of the EU's Financial Services Action Plan (FSAP), which is restructuring financial regulation in Europe. It would be far too easy to bow our heads in grief in final farewell to the FSAP. But the FSAP is now coming to an end, and I think we can already say that it has proved to be a great success in strengthening the internal market, though not finalising it.

So a large part of the homework has been done, but the task doesn't end there. In the course of the FSAP we have been overwhelmed by a flood of new European legislation. The national parliaments and governments have been asked to incorporate this legislation into national law over the coming months. This process must be completed quickly and on time. Otherwise, the EU Action Plan will remain no more than a theoretical concept of no practical significance. The hard part comes after implementation, when we try to put the concept into practice. Only then shall we see whether all the bright ideas contained in the FSAP will actually translate into reality.

But even assuming that the EU member countries do implement the FSAP on time and the FSAP proves effective, are we then entitled to sit back and relax? Probably not. The markets are changing all the time, and the supervisors have to keep up with them. Already there is talk of moving far beyond the FSAP – in the direction of a single European supervisory authority. In a recent strategy paper the German government described the creation of a European system of financial supervision for global players as a long-term goal and gave convincing reasons for doing so.

At the time of the debate on the creation of a single European market, which, as you know, is not limited to the financial services sector, the heads of government had to choose between two alternatives. One was to introduce a basic legal framework that would be identical for all sectors throughout Europe. This was an ambitious aim that was then felt to be unrealistic, both in terms of timing and in light of political considerations. Moreover, it raised the spectres of a mindless egalitarianism and rampant bureaucracy. The other alternative was to achieve a minimum of harmonisation, mostly by means of Directives, with particular emphasis on the principle of mutual recognition. It is this latter minimalist approach that the EU has adopted up to now.

If the call is now for a single European supervisory authority, doesn't that mean abandoning the principle of minimum harmonization? Mightn't it even suggest a desire for maximum harmonization, and not just for the financial market? If this really is the case, Ladies and Gentlemen, we must say so out loud. And we also ought to consider the implications of such a shift in opinion.

It is clear that many people would like to see a "single regulator", but what they mean by that is "uniform rules and their uniform implementation". However, if that is the goal, it is not to be achieved simply by creating a European authority. Believe me, I know from experience. When we realised in Germany that owing to the blurring of boundaries between the financial sectors supervision needed to be conducted "under one roof", the German legislator set up the BaFin. But I cannot exactly claim that there all our problems ended.

We are on the way to developing a viable and indeed efficient system of "one-stop" supervision. But the process has been far from simple, for the following reasons: Firstly, the supervisory practices of BaFin's three precursors in some respects differed from each other to an extent that justifies us in speaking of different supervisory cultures; Secondly, and much more importantly, hitherto the basic legal frameworks were created for specific sectors. What on earth are we to expect if we now want to unify the supervisory authorities of twenty-five countries or place parts of them under one roof? That makes at least seventy authorities. Compared with the merger of our three authorities, such an effort can only be described as heroic.

Moreover, it would be naive to believe that uniform supervision will be achieved by creating a single authority if there is no uniform legal underpinning. Uniform supervision does not necessarily mean supervision by one authority, but supervision conducted at the same degree of intensity, with the individual authorities exercising the same statutory powers and applying a similar interpretation of the basic legislation.

A more balanced, because gradualist, approach would be to analyse each individual sector of supervision and ask ourselves whether uniform supervision conducted Europe-wide under one roof is really the appropriate solution. Two years ago the German government took up this idea and cogently argued the case for creating a European

Prospectus Agency that would be given responsibility for vetting the prospectuses for products marketed across Europe. Unfortunately, this proposal, which would have been a carefully chosen first step, failed to find majority support in the Council.

Another thing I have learned from my experience in helping to set up BaFin is that before embarking on any such analysis we need to define our objectives. What are our objectives as supervisors? Across Europe we find many differences in emphasis as to objectives, even among supervisors working in the same sector. Many of the guidelines issued under the FSAP are the result of a political compromise and therefore do not take us much further forward. Only when we know what objectives we are pursuing in our supervision and we have agreed common goals, shall we be able to talk convincingly about definitions and the content and degree of supervision. Evidently we cannot decide about objectives in the European supervisory committees. What we need is political guidance.

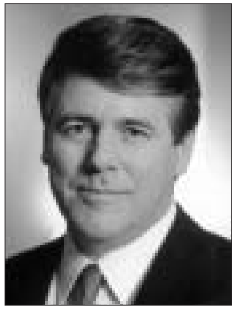
At the European level, the securities sector is currently leading the way. Most of the FSAP legislation has already been adopted. The essential task now is to ensure that the new legal framework is implemented uniformly in the individual member states. Much is expected of CESR, the Committee of European Securities Regulators, and rightly so. CESR has already had its first practical experience. But the Committee is not a European supervisory body. Its task, among others, is to push forward, at Level 3 of the Lamfalussy Procedure, the process towards uniform supervisory practice in all EU countries.

It is now up to the members of CESR to ensure, at Level 3, that the Action Plan works. The practical experience gained over the coming years will show whether we need to press even further ahead with harmonization and whether we need European supervision and, if so, in which sectors. The politicians will then have to decide on the next step. I am sure there are some of them who really would like to say "Goodbye, national supervisors". But nobody should underestimate our staying power. These days, a widely accepted motto of our profession could be:

> Never say goodbye,
> When you still want to try.

Whether you like it or not, in the often Byzantine world of policy formulation it will take some time before the EU is ready for any critical post-FSAP decision. For the time being, I can assure you that unlike Pangloss EU supervisors will not assert over and over again that "tout est au mieux". Instead, we will maintain our sense of perspective hoping for the right sort of enlightenment and bearing in mind the insight Candide gained at the end of his long ordeal, and that is the famous last sentence of the novel and the victory of realism: "Cela est bien dit, répondit Candide, mais il faut cultiver notre jardin." – Or in my rather free translation: "In the meantime, we have to look after our FSAP garden, dig deep and reap a good harvest for our clients, among them the European banks."

Euro in Wider Circles



Josef Ackermann

Ladies and Gentlemen,

Welcome to our session "The Euro in Wider Circles". The distinguished composition of our panel provides us with a unique chance to assess the euro's performance from a truly global view.

Most of us will recall that the prospects for the euro's international role were a subject of debate right from the start of monetary union in 1999. At that time, optimists expected the euro to become the darling of international investors – essentially at a level equal to the dollar. Pessimists focused on the potential problems associated with monetary union, especially with regard to the heterogeneity of the participating economies. Some international experts, including eminent scholars such as Milton Friedman and Martin Feldstein, warned that European monetary integration was doomed to fail and might even create chaos in its wake.

Obviously, the European Monetary Union is alive and well, with an impressive record in terms of internal price stability and the number of countries applying for membership – but some important questions still remain relevant:

Although the euro has gained ground as an international investment currency and is catching up as an official reserve currency, it is still more or less a regional currency. Will it only be a matter of time until the euro assumes a stronger global role – or are there structural impediments to prevent this?

Apart from its international role, the euro's exchange rate has experienced a roller-coaster ride in its short lifetime. In September 2000 the euro touched ground at close to USD 0.82, whereas at the moment concerns are growing in Europe that a further appreciation of the euro will damage European growth prospects. Considering the global imbalances, a question from the past naturally re-surfaces: Will international policy coordination become an issue closer to the hearts and minds of politicians and central bankers in leading countries? And what would be the appropriate framework to deal with this question: the G3? Or could international cooperation pursued "in even wider circles" be more successful?

These are key questions, and we are very fortunate to have the most important monetary policymakers as panelists today to discuss the global perception of Europe's common currency.

It is a special honor to have the doyen of the world's central bankers with us today: welcome, Mr. Alan Greenspan. Since taking office in 1987, Mr. Greenspan has become the most influential Chairman of the Federal Reserve in US history. Given his outstanding experience, he is in a unique position to assess the euro's role, and we are certainly keen to hear his views on it.

Our second panelist is Mr. Kazumasa Iwata, Deputy Governor of the Bank of Japan. Thank you very much for coming to Frankfurt. Mr. Iwata can look back on an eminent professional career in administration and politics, and he was also a distinguished Professor of Economics at the University of Tokyo. I am sure his comments will enhance our understanding of Japan's role in managing the global imbalances.

Finally, I would like to welcome Mr. Jean-Claude Trichet, the President of the European Central Bank or, more informally, Mr. Euro. Following a long and distinguished career in French public administration, Jean-Claude Trichet has been in office at the ECB for more than a year now. Within this short period of time, Mr. Trichet has gained the highest respect among policymakers and market participants alike, and I am very pleased that he will be contributing a European perspective on the panel.

We are very much looking forward to hearing all of the panelists' thoughts on "The Euro in Wider Circles". To start us off, Mr. Greenspan, the floor is yours.

Euro in Wider Circles

Alan Greenspan

I am pleased to join my central bank colleagues in appraising an increasingly important issue – the globalization of trade and finance. I should emphasize that I speak for myself and not necessarily for the Federal Reserve.

Among the many aspects of the euro addressed in today's discussion, we should include its role in the ongoing globalization of economic activity. The euro ties together a sizable share of the world economy with a single currency and, by doing so, lowers transaction costs associated with trade and finance within the region.

More generally, globalization of trade in goods, services, and assets continues to move forward at an impressive pace, despite some indications of increased resistance to that process and the evident difficulties in completing the Doha Round. The volume of trade relative to world gross domestic product has been rising for decades, largely because of decreasing transportation costs and lowered trade barriers. The increasing shift of world GDP toward items with greater conceptual content has further facilitated increased trade because ideas and services tend to move across borders with greater ease and speed than goods.

Foreign exchange trading volumes have grown rapidly, and the magnitude of cross-border claims continues to increase at an impressive rate. Although international trade in goods, services, and assets rose markedly after World War II, a persistent dispersion of current account balances across countries did not emerge until recent years. But, as the U.S. deficit crossed 4 percent of GDP in 2000, financed with the current account surpluses of other countries, the widening dispersion of current account balances became more evident. Previous postwar increases in trade relative to world GDP had represented a more balanced grossing up of exports and imports without engendering chronic large trade deficits in the United States, and surpluses among many other countries.

Home bias – the propensity of residents of a country to invest their savings disproportionately in domestic assets – prevailed for most of the post-World War II period. Indeed, Feldstein and Horioka found a remarkably high degree of home bias in their seminal 1980 study[1]. Through most of the postwar period up to the mid-1990s, the GDP-weighted correlation coefficient between domestic saving and domestic investment across countries accounting for four-fifths of world GDP hovered around 0.95.

[1] Martin Feldstein and Charles Horioka (1980), ADomestic Saving and International Capital Flows,@ The Economic Journal (June), pp. 314-29.

That bias, however, diminished rather dramatically over the past ten years, arguably in large measure because of the acceleration in productivity growth in the United States. The associated elevation of expected real rates of return relative to those available elsewhere increased investment opportunities in the United States. The correlation coefficient accordingly fell from 0.95 in 1993 to less than 0.8 by 2002. When one excludes the United States, the correlation coefficients decline was even more pronounced. Preliminary estimates for a smaller sample of countries over the past two years indicate a continued decline on net.

Basic national income accounting implies that domestic saving less domestic investment is equal to net foreign investment, a close approximation of a nations current account balance. The correlation coefficient between domestic saving and domestic investment varies inversely over time with the dispersion of current account balances across countries. Obviously, if the correlation coefficient is 1.0, meaning that every country allocates its domestic saving only to domestic investment, then no country has a current account deficit, and the variance of world current account balances is zero. As the correlation coefficient falls, as it has over the past decade, one would expect the near algebraic equivalent – the dispersion of current account balances – to increase. And, of course, it has. Over the past ten years, a large current account deficit has emerged in the United States matched by current account surpluses in other countries.

How far can the decline in home bias and the increase in the variance of current account balances be expected to proceed, and where will it lead?

Current account imbalances, per se, need not be a problem, but cumulative deficits, which result in a marked decline of a countrys net international investment position – as is occurring in the United States – raise more complex issues. The U.S. current account deficit has risen to more than 5 percent of GDP. Because the deficit is essentially the change in net claims against U.S. residents, the U.S. net international investment position excluding valuation adjustments must also be declining in dollar terms at an annual pace equivalent to roughly 5 percent of U.S. GDP.

The question now confronting us is how large a current account deficit in the United States can be financed before resistance to acquiring new claims against U.S. residents leads to adjustment. Even considering heavy purchases by central banks of U.S. Treasury and agency issues, we see only limited indications that the large U.S. current account deficit is meeting financing resistance. Yet, net claims against residents of the United States cannot continue to increase forever in international portfolios at their recent pace. Net debt service cost, though currently still modest, would eventually become burdensome. At some point, diversification considerations will slow and possibly limit the desire of investors to add dollar claims to their portfolios.

Resistance to financing, however, is likely to emerge well before debt servicing becomes an issue, or before the economic return on assets invested in the United States or in dollars more generally starts to erode. Even if returns hold steady, a continued buildup of dollar assets increases concentration risk.

Net cross-border claims against U.S. residents now amount to about one-fourth of annual U.S. GDP. A continued financing even of todays current account deficits as a percentage of GDP doubtless will, at some future point, increase shares of dollar claims in investor portfolios to levels that imply an unacceptable amount of concentration risk.

This situation suggests that international investors will eventually adjust their accumulation of dollar assets or, alternatively, seek higher dollar returns to offset concentration risk, elevating the cost of financing of the U.S. current account deficit and rendering it increasingly less tenable. If a net importing country finds financing for its net deficit too expensive, that country will, of necessity, import less.

It seems persuasive that, given the size of the U.S. current account deficit, a diminished appetite for adding to dollar balances must occur at some point. But when, through what channels, and from what level of the dollar? Regrettably, no answer to those questions is convincing. This is a reason that forecasting the exchange rate for the dollar and other major currencies is problematic.

Our analytic difficulty is that the forces driving the current account deficit are more, perhaps far more, visible than those determining the ex ante financing of the deficit. The former are captured by reasonably reliable estimates of income- and price-driven trade imbalances and net interest income; the latter by the considerably more amorphous assessments of international portfolio choices.

The inability to anticipate changes in supply and demand for a currency is at the root of the statistically robust finding that forecasting exchange rates has a success rate no better than that of forecasting the outcome of a coin toss.[2]

U.S. policy initiatives can reinforce other factors in the global economy and marketplace that foster external adjustment. Policy success, of course, requires that domestic saving must rise relative to domestic investment. Policy initiatives addressing individual components of domestic saving in years past appear to have had significant effects on total domestic saving, even though changes in the individual components are not wholly independent of one another.

Reducing the federal budget deficit (or preferably moving it to surplus) appears to be the most effective action that could be taken to augment domestic saving. Significantly increasing private saving in the United States – more particularly, finding policies that would elevate the personal saving rate from its current extraordinarily low level – of course would also be helpful. Corporate saving in the United States has risen to its highest rate in decades and is unlikely to increase materially. Alternative approaches to reducing our current account imbalance by reducing domestic investment or inducing recession to suppress consumption obviously are not constructive long-term solutions.

It is of course possible that U.S. policy initiatives directed at closing the gap between our domestic investment and domestic saving, and hence narrowing our current account deficit, may not suffice. But should such initiatives fall short, the marked increase in the economic flexibility of the American economy that has developed in recent years suggests that market forces should over time restore, without crises, a sustainable U.S. balance of payments. At least this is the experience of developed countries, which since

---

[2] The exceptions to this conclusion are those few cases of successful speculation in which governments have tried and failed to support a particular exchange rate. Nonetheless, despite extensive efforts on the part of analysts, to my knowledge, no model projecting directional movements in exchange rates is significantly superior to tossing a coin. I am aware that, of the thousands who try, some are quite successful. So are winners of coin-tossing contests. The seeming ability of a number of banking organizations to make consistent profits from foreign exchange trading likely derives not from their insight into exchange rate determination but from the revenues they derive from making markets.

1980, have managed and eliminated large current account deficits, some in double digits, without major disruption.[3]

Flexibility, as history persuasively shows, enables an economic system to better absorb and rebound from shocks. In the United States, for example, real output contracted very little during our most recent cyclical episode despite having been subjected to a number of shocks: the bursting of the technology bubble, the terrorist attack of September 2001, and the corporate governance scandals. Indeed, the U.S. economy has exhibited a degree of resilience in the face of these adversities not evident in previous decades. Presumably, the rise in product and labor market flexibility in the United States and in a number of other countries over the past quarter-century is continuing to pay off. If such flexibility can be achieved more fully on a global scale, adjustments to the future current account imbalances of both developed and emerging economies could be rendered significantly less stressful than in the past.

An admittedly exceptional example of how a flexible system adjusts even with fixed exchange rates is seen at the state level in the United States. For more than two centuries, the United States has experienced largely unencumbered interstate free trade. Although we have scant data on cross-border transactions among the separate states, anecdotal evidence suggests that over the decades significant apparent imbalances have been resolved without precipitating interstate balance-of-payments crises. The dispersion of unemployment rates among the states – one measure of imbalances – has tended to spike up during periods of economic stress but has then rapidly returned to modest levels, reflecting a high degree of adjustment flexibility. That flexibility is even more apparent in regional money markets. Interest rates, which presumably reflect differential imbalances in states current accounts, and hence cross-border borrowing requirements, have exhibited very little interstate dispersion in recent years. This observation suggests either negligible cross-state-border imbalances, an unlikely occurrence given the pattern of state unemployment dispersion, or more likely very rapid financial adjustments.

Although we have examples of the efficacy of flexibility in selected markets and evidence that, among developed countries, current account deficits, even large ones, have been defused without significant consequences, we cannot become complacent. History is not an infallible guide to the future. We in the United States need to continue to increase our degree of flexibility and resilience. Similar initiatives elsewhere will enhance global resilience to shocks.

Many steps have been taken in the euro area to facilitate the free flow of labor and capital across national borders, and considerable progress is being made to enhance competition in product, labor, and financial markets. But more will need to be done in Europe as well as in the United States to ensure that our economies are sufficiently resilient to respond effectively to all the shocks and adjustments that the future will surely bring.

[3] Caroline Freund (2000), ACurrent Account Adjustment in Industrialized Countries,@ Board of Governors of the Federal Reserve System, International Finance Discussion, Paper No. 692, December.

Euro in Wider Circles

Kazumasa Iwata

1. Looking back over the postwar history, we observe that the first proposal on European Monetary Union by the EC Committee appeared in 1962. At that time it aimed at consolidating and completing the Bretton Woods system. After two decades the European Monetary Union was established in 1979 based on the Exchange Rate Mechanism which replaced the „snake in the tunnel“ system (joint floating rate vis-a-vis dollar) after the breakdown of the dollar standard system in 1971. After forming a single market, the Euro was launched in 1999. Now the international monetary system has moved from the dollar-based system to the bipolar dollar-Euro system. The role of the Euro as a vehicle currency in the international money markets, an invoice currency in trade, reserve money, as well as an intervention currency has been solidly established. Moreover, it has expanded more rapidly and widely than the rigorous definition of an optimal currency area might suggest. It is a great achievement and it has added a new dimension to the architecture of the international monetary system. I feel sympathy with the argument that either a common currency area or a flexible exchange system is the only viable choice for the international monetary system of the 21st century.

2. With regards to the history of currency unification in Japan, the introduction of a common currency and a central bank imparted significant impact on economic development and financial markets. Before the Meiji Restoration in 1868, more than 200 local governments (clan) issued their notes. These local notes circulated alongside gold, silver and copper coins. Most of the local notes were convertible in principle, but in many cases they were issued excessively. In the early Meiji Era both government notes and Japanese National Bank Notes circulated replacing the local notes. The National Banking System in Japan was modeled after that of the United States which started to issue „greenbacks“ after the Civil War. The need to finance the Seinan Civil War in 1877 escalated the issue of government and National Bank notes which were inconvertible into gold and silver, resulting in a rampant inflation. The Bank of Japan was established in 1882 to introduce the convertible common currency and to launch a modern credit system. The common currency was introduced in 1885, replacing government and National Bank notes. The introduction of a convertible common currency issued by the Bank of Japan contributed to securing price stability. The establishment of a modern credit system includes the stabilization of interest rates both geographically and inter-

temporarily. The Bank of Japan facilitated financial transactions through the consolidation of payment systems. And the convergence of interest rates emerged after the establishment of the Bank of Japan through the development of a nation-wide financial network.

3. The Euroland, after the introduction of the Euro and the European Central Bank, also achieved price stability and convergence of interest rates and inflation rates, although initially a divergence of inflation rates among member countries lingered[1]. It was also expected that a massive increase in intra-regional trade and investment would raise efficiency (total factor productivity), giving rise to a dynamic bonus effect on the potential growth rate[2]. Although we have not yet seen a visible rise in the potential growth rate of the Euro area, we may expect the realization of higher growth over coming years.

4. On the external front, the trade and investment linkage between Europe and Asia has been strengthened significantly. There is an increasing tendency for Asian multinational companies to raise funds in Euro-denominated debt, while currency diversification among private asset-holders is proceeding, albeit gradually. Yet some Asian countries presume that the stability of their exchange rates against the dollar is essential for an export-oriented development strategy[3]. In addition, the development of domestic capital markets is delayed, reflecting a still largely bank-based financial system in many Asian countries. As a result, dollar-denominated assets dominate asset holdings among Asian investors. Thus, the use of the Euro as a key currency in Asia has so far been limited. Furthermore, the move and institutional arrangements toward economic integration and a common currency area are far behind the case of the Euroland.

5. The experience of European monetary integration, however, provides us with several important implications. First, the evolution of an international currency can be promoted by market selection and political will[4]. The case of the Euro serves as a good model

---

[1] I once pointed out that the remaining price level divergence within the Euro area may be due partly to the difference of fiscal policy management (Statement at the Conference on the ASEM expert meeting in March 2002). Initial divergence of inflation may be due to the difference in the initial level of interest rates and the transmission mechanism of monetary policy arising from different sensitivities to demand shocks and different slopes of the Phillips curve (I. Angeloni and M. Ehrman, "Euro Area and Inflation Differentials", No.388, September 2004, ECB Working Paper Series).

[2] A dynamic bonus effect on growth can be expressed as the change in total factor productivity multiplied by the saving rate. The IMF presented the simulation result that the growth rate in the Euroland may increase by 1-3% in the coming decade (IMF, "World Economic Outlook", May 1999).

[3] Dooley, Folkerts-Landau and Garber identified the trade account region (Asia) and capital account region (Europe); the former groups are concerned about stability of exchange rate vis-à-vis dollar and belong to the revived Bretton Woods system, while the latter care about risk and return of investment position in the U.S. and adopt floating exchange rates. More recently they argue that the U.S. current account deficit provides the periphery with the collateral for a total return swap between government bond and equity in the form of foreign direct investment (M.P. Dooley, D. Folkerts-Landau and P.M. Garber, "The U.S. Current Account Deficit and Economic Development: Collateral for a Total Return Swap", NBER Working Paper, No.10727, 2004).

[4] Matsuyama, Kiyotaki and Matsui developed the market selection hypothesis and argued that an international currency can emerge from too many currency areas in the evolutionary process and enhance welfare within a framework of random matching game theory (K.Matsuyama, N.Kiyotaki and A.Matsui, "Toward a Theory of International Currency", Review of Economic Studies, 60, 1993).

of a combination of the two. On the other hand, in Asia, market selection based on the relative market size of participating countries and economic integration may play a more important role given the lack of strong political will among major countries.

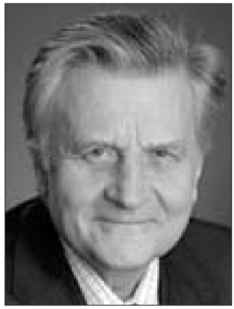
Having said this, I would like to emphasize that cooperative actions are beginning in Asia. The Chiang Mai Initiative on swap arrangements among Asian countries promotes international cooperation, while projects by the EMEAP of eleven central banks, such as the Asian Bond Fund I (an investment fund in dollar-denominated bonds issued by Asian counties) and the Asian Bond Fund II, (an investment fund in Asian currency-denominated bonds) serve to develop the Asian capital market.

Second, it is interesting to see that the use of a basket currency such as the ECU preceded the introduction of the common currency, serving as the unit of account in Europe. It will still take a very long time to talk about the ACU for Asia. Nevertheless, it raises the issue as to whether the stability of a currency's value in terms of a basket of major currencies (dollar, Euro and Yen), instead of the dollar, may enhance the stability of trade account. Moreover there may arise another interesting issue; if the policy concern among Asian countries changes from trade to price stability, what would the implication of the shift be for the international monetary system?

Third, the success of the formation of a single market in Europe enhanced the introduction of a common currency issued by the ECB. In the case of Asia, it is urgent to promote regional economic integration through the formation of free trade areas compatible with the multilateral trade and investment rules.

Finally, I would like to stress that the process of the Asian move toward economic and monetary integration is evolutionary, and based on market selection, given the wide differences in development stages and divergent cultures.

Euro in Wider Circles



Jean-Claude Trichet

Ladies and Gentlemen,

It is a pleasure for me to share with you some thoughts on the euro in wider circles. Reflecting on what the term "wider circles" means for the euro, I think of the EU Member States that still use their national currencies and that aim to adopt the single currency in the future, and in particular the ten new Member States that joined the EU earlier this year and their path towards the euro. Let me briefly say a few words on this aspect.

The euro goes east

It is now 15 years ago that the Berlin Wall fell, giving rise to one of the most astonishing political and economic transformations in European history. Who could have imagined 15 years ago that in May 2004, eight countries in central and eastern Europe, together with two countries in the Mediterranean, would be members of the European Union? The perspective of joining the European Union and eventually adopting a European single currency was out of sight for even the most imaginative minds. In only 15 years, these countries managed to restore and entrench democratic institutions and market economies, replacing the communist ones that were imposed there before.

The accession of ten new countries to the EU was an important milestone in a process that will lead to the eventual adoption of the euro by these new Member States. The euro will go east and south and the road to the adoption of the euro is embedded in a well-defined institutional framework. A crucial phase before euro adoption is ERM II membership for at least two years. Although there are no formal criteria to be met for entry into ERM II, successful participation in the mechanism requires that major policy adjustments – for example relating to fiscal policy and price liberalisation – are undertaken before joining the mechanism. Participation in ERM II is an important means to anchor exchange rate and inflation expectations and to promote consistently sound policies. It helps to orient macroeconomic policies to stability, while at the same time allowing for a degree of flexibility, if needed, through the wide standard fluctuation band and the possibility of adjusting the central parity.

As you know, three new EU countries have in the meantime entered the ERM II: with effect from 28 June 2004, Estonia, Lithuania and Slovenia joined Denmark as participants in the mechanism. The three new entrants joined with a standard fluctuation band of ±15% around their central rates against the euro, while Estonia and Lithuania kept their currency boards as a unilateral commitment. In order to ensure a smooth participation in ERM II, countries have firmly committed to take the necessary measures to preserve macroeconomic and exchange rate stability. Participation in ERM II has been smooth. The four currencies in the ERM II have traded continuously at or close to their central rates, while short-term interest rate differentials vis-à-vis the euro area have been small.

Beyond ERM II membership lies the adoption of the euro, the crowning achievement of the monetary integration process. In order to adopt the euro, nonparticipating EU Member States have to achieve a high degree of sustainable economic and legal convergence. Every country will be assessed on its own merits and its own particular situation, on the basis of a strict analysis of the performance relating to the Maastricht convergence criteria. Let me stress that there is no pre-set timetable for the enlargement of the euro area.

Economic challenges for the new Member States

How far are the new Member States on this road towards the euro? The countries that joined the EU this year have shown impressive economic growth rates and have made great strides in reducing inflation. They belong to the most dynamic economies in the EU, having gone through profound structural changes. For example, they have taken thorough measures to reform their product and labour markets, and some new Member States, in some respects, may be even more advanced than other, existing EU countries. They have become more integrated with the euro area, with the major part of their trade now occurring with the euro area and tight financial links: as a matter of fact, the share of the new 10 Member States in the total external trade of the euro area stands around 11 %, compared with around 14 % for the US and 3 % for Japan. In addition, the transition process has brought their economic structures closer to those of the euro area. At the same time, while remaining a diverse group in many respects, the new Member States still display distinct economic characteristics that differ from the euro area. Their income-per-capita and productivity levels are still low relative to the euro area, which may have an impact on their inflation rates.

Let me mention two particularly important economic challenges that the new Member States are confronted with on the road to the euro: price stability and fiscal policy. Price stability is an essential requirement for a successful monetary integration process. Inflation rates in many new Member States have picked up recently to an average of almost 5%, following increases in food and energy prices and indirect tax changes. The challenge for the new Member States is to contain inflation and inflation expectations in an environment of rapid catching-up. Besides solid macroeconomic policy frameworks and prudent wage policies, progress in structural reforms is conducive to price stability by improving the supply side of the economy and enhancing the growth potential.

This brings me to the second challenge that I want to mention: the need to achieve sound fiscal positions. Fiscal deficits are on average high or even very high in a number of new Member States and mostly despite very high economic growth. Their governments are confronted with competing expenditure demands, including public investment in infrastructure and the need to strengthen the effectiveness of public administration and the judicial systems. This, however, should not be seen as an excuse to delay fiscal consolidation, but as an additional reason to design and implement a credible consolidation path based on durable and growth-enhancing structural reforms. It is important to bear in mind that fiscal consolidation in the new Member States becomes increasingly important in the course of the monetary integration process and it is essential for a smooth participation in ERM II and the eventual adoption of the euro.

Conclusion

Let me conclude. The historic enlargement of the EU is now six months ago and I think we can say that it has been a genuine success. Following a remarkable transformation in the past 15 years, the further integration of the new Member States into the European family has progressed smoothly and without any disruptions. The new Member States have shown an impressive economic performance, though various important challenges still remain to be fully tackled, including those relating to the recent pick-up in inflation and to fiscal imbalances.

Closing Remarks

Axel A. Weber

1 Introduction

Ladies and Gentlemen,

Although I have been entrusted with delivering today's closing remarks, I am unwilling to say goodbye to Lisbon.

The Lisbon agenda started off as a visionary project in March 2000, which was at the very peak of the hype surrounding the New Economy, the pinnacle of irrational exuberance in the stock market – if I may refer thus to Alan Greenspan –, and the high point of overconfidence. At times like those, visions tend to become oversized – which is fine for visions.

European Monetary Union started off once as a seemingly oversized vision, too. The original plan was aired as early as 1970. From then on, it took more than 30 years before you could feel the change in your pocket. Now that we are almost six years into the euro era, we can safely conclude that the euro was a vision worth pursuing. The vision of a stable single European currency has come true.

The Lisbon project basically aims at boosting the EU member states' potential for dynamic growth. Progress towards the Lisbon goal hinges crucially on the efforts of national governments. For keeping up spirits during the nitty-gritty of making this vision become reality, European leaders need, as the Kok report rightly states, "to instil (the) hope that tomorrow will be better than today". This visionary stance contrasts sharply with the present reality, where there is a prevalent, rather vague sense of Europe being an underachiever.

2 Institutional foundations of stability

The two big European visionary projects – EMU and the Lisbon agenda – are interrelated. First, reinvigorating the growth dynamics in Europe is crucial for fully exploiting the potential of a stable single currency. Second, sustainable economic growth requires more than Lisbon-style reforms; price stability is of the essence for sustainable economic growth. Stability and growth go hand in hand.

Stability must be safeguarded by a cleverly designed institutional framework that generates proper incentives. I very much welcome the fact that this year's Nobel Prize for Economics rewards theoretical research on the importance of a sound institutional setting. It should come as a useful and timely wake up-call for those who are, in effect, contemplating watering down the institutional foundations of the euro's stability.

Reforming the Stability and Growth Pact under the pretext of rendering it more growth-friendly would be the wrong path to take. There is no such thing as the alleged trade-off between economic growth and fiscal prudence! Nor is the budgetary discipline to be guaranteed by the Stability and Growth Pact a hardship that central bankers wish to impose on finance ministers. Budgetary discipline is a "must" in a monetary union of sovereign states. That is because the consequences of fiscal misbehaviour would have to be borne by all the participants in the form of higher interest rates – which in itself might weigh on growth. In history, currency unions used to fail due to a lack of fiscal commitment. Fiscal rules are of the essence, and they need to promote sustainable fiscal positions.

The Maastricht Treaty enshrines the core fiscal rules of the EU: the obligation to avoid excessive deficits, the practice of budgetary surveillance, and the excessive deficit procedure. The Stability and Growth Pact clarifies these rules and puts them in more concrete terms: member states have committed themselves to the aim of achieving budgetary positions close to balance or in surplus and to submitting to annual stability (or convergence) programmes. Rules need to be straightforward, transparent and binding. In its present shape, the Stability and Growth Pact is straightforward and transparent. Its Achilles heel lies in its unsatisfactory lack of binding character in practice.

3 Changes to the Stability and Growth Pact

Let me comment briefly on the changes now envisaged for the Stability and Growth Pact. This week the ECOFIN Council discussed the "strengthening, clarification and better implementation" of the Pact. The new framework is scheduled to be finalised in spring 2005. The debate keeps on going under its own momentum, and new proposals are constantly being ventilated.

Against this backdrop, it may be worthwhile recalling the basic economic idea behind the Stability and Growth Pact: Sound public finances are to prevent the emergence of conflicts between monetary and fiscal policies right from the outset. The state of sound public finances is characterised by a balanced budget and a low level of public debt. This state of sound public finances is to be realised as soon as possible. Nobody has ever refuted the underlying economic rationale of the Stability and Growth Pact. Thus, the Pact suffers from neither a lack of economic reasoning nor a lack of clarity.

For a monetary policymaker committed to stability, the ongoing debate on revising the Stability and Growth Pact is utterly uninspiring. Placing greater weight on the long-term sustainability of public finances sounds reasonable; however, this provision should not be used as a "back door" for introducing all kinds of exceptions. Discriminating between good and bad types of expenditure is of no help either. I have serious misgivings about any endeavours to loosen the obligation to trim excessive deficits in a speedy manner and about tolerating excessive deficits in periods of economic stagnation or low growth.

Overall, the debate on reforming the Stability and Growth Pact has the air of reshaping the rules to fit current fiscal practice – instead of reshaping fiscal practice to fit the pre-agreed rules.

Basically, the proposals now under discussion amount to substituting discretion for rules. The implications of this paradigm shift must be borne in mind: heightened complexity, reduced transparency, and discarding the principle of equal treatment. Abandoning rules in favour of discretion would represent a major step backwards. EMU was once meant to be placed on a solid institutional foundation instilling credibility. Rewriting the Pact as envisaged would deal another blow to the credibility of the fiscal framework of the monetary union. From the viewpoint of a monetary policymaker committed to stability, the envisaged change to the nature of the Stability and Growth Pact would not yield any major benefits. It could, however, come at a great cost.

4 Fiscal policy and structural reforms

The growth policies agreed on in the Lisbon agenda are, amongst other things:

- the completion of the internal market,
- stimulating competition and deregulating the product markets,
- reforms improving flexibility in the labour market,
- generating a climate conducive to entrepreneurial activity, to research and development.

I very much support this agenda. I do, however, not support proposals which, with reference to the Lisbon agenda, suggest that expenditure related to growth policies should be disregarded when calculating the deficit. In my, view, using the Lisbon agenda as an excuse for weakening the Stability and Growth Pact amounts to upending conventional economic wisdom. The correlation between debt and deficits, on the one hand, and economic growth, on the other, is negative. Never in economic history have spendthrift policies produced sustainable growth. The opposite is true, and all the more so as all European countries have to brace themselves for sharply rising fiscal costs resulting from the pending demographic shift in an ageing society. Loosening budgetary discipline is no viable option for promoting economic growth. On the contrary, it would undermine the long-term sustainability of fiscal positions and thereby weigh heavily on future growth.

Public finances in Europe are already characterised by a large sustainability gap. Future pension obligations in most countries are several times higher than the explicit debt burden revealed in the national accounts. By a very rough calculation, it would, for example, take Germany three and a half years' output to honour its combined explicit and implicit debt. If future generations are to handle this sizeable burden – in Germany as well as elsewhere – there is, first, no way of getting around a tough course of fiscal consolidation, which has to be augmented, second, by coherent policies to lift growth potential – as agreed on in the Lisbon agenda.

I appreciate the fact that, last year, Germany directed its attention to structural reforms in the spirit of the Lisbon agenda – even if this was driven more by the "push" of persistent economic stagnation than by the "pull" of the Lisbon vision. Under the Federal Government's "Agenda 2010", labour market flexibility has been improved in terms of the institutional framework, collective wage bargaining agreements and working hours. Reforms in the social security systems have been enacted and will help to contain the implicit debt burden. Among the remaining tasks, priority status should be given to untying the link between labour costs and social security and to raising the statutory retirement age.

5 Concluding remark

Stability and growth go hand in hand. The Lisbon agenda and the Stability and Growth Pact complement each other in lifting the EU's growth potential. Both are needed and we should not say goodbye to either of them.

Information about the EBC

The Frankfurt European Banking Congress (EBC) premiered in 1991 on the initiative of the International Bankers Forum Frankfurt (IBF). Since 1992, the congress has been hosted annually by Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as by the Deutsche Bundesbank, the City of Frankfurt and the IBF. Each year, the chairmen of Commerzbank, Deutsche Bank and Dresdner Bank take turns in officially hosting the EBC. Traditionally, the EBC takes place on the Friday prior to the very last Friday in November at the Alte Oper Frankfurt.

The EBC aims at providing a forum for open and forward oriented discussion of European issues, their role in the world of politics and financial markets. European politics and finance are discussed by leading decision makers and eminent heads-of-state in three panel discussions. The first panel brings together political leaders, the second panel banking leaders, and the final panel governors of central banks. Topics and speakers for each year's event are chosen by the EBC's steering committee.

Today, the EBC is among Europe's most prestigious banking congresses. The EBC is an established meeting place for high level representatives from politics, business, finance, and academia and attracts every year approximately 1.000 delegates and 300 press representatives from more than fifty countries to the Alte Oper in Frankfurt. Admission to the congress is on personal invitation only.

Topics and speakers for each year's Frankfurt European Banking Congress (EBC) are selected by a steering committee. The EBC's steering committee consists of members of Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as representatives of the Deutsche Bundesbank, the City of Frankfurt and the International Bankers Forum. The steering committee meets regularly and is the sole organ responsible for the EBC's structure and content.

.

Further information about the EBC can be obtained from the

Frankfurt EBC Office
Maleki Group
Wiesenau 1
60323 Frankfurt am Main
Telephone: +49 (69) 9 71 76-3 03 or 3 08
Fax: +49 (0)69-9 71 76-5 55
e-mail: l.handl@malekigroup.com
Internet: www.frankfurt-ebc.com

Steering Committee

Michael Heise
Chief Economist
Allianz/Dresdner Bank, Frankfurt

Nader Maleki
President
International Bankers Forum, Frankfurt

Wolfgang Mörke
Head of Department Press and Information
Deutsche Bundesbank, Frankfurt

Ulrich Ramm
Chief Economist
Commerzbank, Frankfurt

Hartmut Schwesinger
Managing Director
Economic Development Corporation, City of Frankfurt

Norbert Walter
Chief Economist
Deutsche Bank Group, Frankfurt

List of Speakers and Dinner Speakers*

Surname	First name	Organisation	Year
Abelein	Manfred	European Bank for Reconstruction and Development (EBRD)	'91
Achleitner	Paul	Allianz AG	'00
Ackermann	Josef	Deutsche Bank AG	'02-'04
Alexander of Weedom, Lord	Robert	National Westminster Bank plc	'95
Alphandéry	Edmond	Ministère de l'Economie et du Budget, France	'93
Andersen	Bodil Nyboe	Danmarks Nationalbank	'97
Arthuis	Jean	Ministère de l'Economie, des Finances et du Plan, France	'96
Aznar	José María	Prime Minister, Spain	'99
Bäckström	Urban	Sveriges Riksbank	'96
Bangemann	Martin	European Commission	'92
Balcerowicz	Leszek	Ministry of Finance, Poland National Bank of Poland	'98, '01
Barre	Raymond	Mayor of Lyon, France	'97*
Bischoff	Manfred	DaimlerChrysler	'99
Blessing	Martin	Commerzbank AG	'03
Breuer	Rolf-E.	Deutsche Bank AG	'97-'01
Brittan	Sir Leon	European Commission	'98
Brodsky	William J.	Chicago Mercantile Exchange	'94
Brok	Elmar	European Parliament	'95
Bryan	Lowell L.	McKinsey & Company, Inc.	'96
Bürkner	Hans-Paul	The Boston Consulting Group	'96,'03
Buxton	Andrew R. F.	Barclays Bank	'98
Cartellieri	Ulrich	Deutsche Bank AG	'91
Caruana	Jaime	Basel Committee on Banking Surpervision, Banco de España	'04
Cavallo	Domingo Felipe	Fundación Mediterránea	'97
Christophersen	Henning	European Commission	'91, '02
Ciampi	Carlo Azeglio	Ministry of Treasury, Budget and Economic Planning, Italy	'96
Corcóstegui	Ángel	Banco Santander Central Hispano S.A.	'00
Crockett	Andrew D.	Bank for International Settlements	'94, '98, '99
Dallara	Charles H.	The Institute of International Finance	'04
Davies	Howard	The Financial Services Authority	'00

Surname	First name	Organisation	Year
Davignon, Viscount	Etienne	Société Générale de Belgique	’95
de Rato	Rodrigo	Minsterio de Economía y Hacienda, Spain	’96
de Silguy	Yves-Thibault	European Commission	’95
Dervis	Kemal	State Minister, Turkey	’01*
Doerig	Hans-Ulrich	Credit Suisse	’93
Duisenberg	Willem F.	European Central Bank	’97-’01
Eichel, MP	Hans	Minister President of Hesse,	’91
		Minister of Finance, Germany	’99
Enger Lahnstein	Anne	Center Party, Norway	’95
Fagiolo	Silvio	Ambassador of Italy, Berlin	’04
Fahrholz	Bernd	Dresdner Bank AG	’00 -’02
Fazio	Antonio	Banca d’Italia	’96, ’04
Ferrer	Carlos	Ferrer International S.A.	’94
Fini	Gianfranco	Deputy Prime Minister, Italy	’03
Fischer, MP	Joschka	Federal Minister for Foreign Affairs, Germany	’00,’03
Floether	Karl-Heinz	Accenture	’03
François-Poncet	Jean	French Senate, France	’97
François-Poncet	Michel	Banque Paribas S.A.	’95
Freeman	Ron	European Bank for Reconstruction and Development (EBRD)	’93
George	Sir Edward A.J.	Bank of England	’93, ’95
Greenspan	Alan	U.S. Federal Reserve System	’98, ’04
Gronicki	Mirosław	Minister of Finance, Poland	’04
Gronkiewicz-Waltz	Hanna	National Bank of Poland	’93
Harney	Mary	Ministry for Enterprise, Trade and Employment, Ireland	’98
Heikensten	Lars	Sveriges Riksbank	’03
Howe	Robert M.	IBM Corporation	’96
Howe of Aberavon, Lord	Geoffrey	Former Foreign Secretary, United Kingdom	’96*
Hübner	Danuta	Minister for European Integration, Poland	’02
Hüppi	Rolf	Zurich Financial Services	’99
Iozzo	Alfonso	Instituto Bancario San Paolo di Torino	’91
Iwata	Kazumasa	Bank of Japan	’04

Surname	First name	Organisation	Year
Járai	Zsigmond	Minister of Finance, Hungary	’99
Jeancourt-Galignani	Antoine	Banque Indosuez	’92
Kallas	Sjim	Minister of Finance, Estonia	’01
Kempe	Frederick	The Wall Street Journal Europe	’93
Klaus	Václav	Prime Minister, Czech Republic	’97
Koch	Roland	Minister President of Hesse	’02*
Kohl	Helmut	Chancellor, Germany	’96
Kohlhaussen	Martin	Commerzbank AG	’92-’00
Kohn	Donald L.	The Federal Reserve System	’02
Kopper	Hilmar	Deutsche Bank AG	’92-’96
Kostrzewa	Wojciech	BRE Bank	’01
Kraus	Adolf	Schröder Münchmeyer Hengst & Co	’91
Lagayette	Philippe	Caisse de Dépôts et Consignations	’93
Lamfalussy, Baron	Alexandre	European Monetary Institute Université catholique de Louvain	’94-’96, ’00, ’02
László	Csaba	Minister of Finance, Hungary	’03
Lefebvre	Olivier	Euronext	’02
Leigh-Pemberton	Robin	Bank of England	’92
Lemierre	Jean	European Bank for Reconstruction and Development (EBRD)	’01, ’04
Lindh	Anna	Minister for Foreign Affairs, Sweden	’01
Liener	Gerhard	Daimler Benz AG	’93
Lim	Hng Kiang	Second Minister for Finance, Singapore	’02
Maas	Cees	ING Groep NV	’95, ’00*
Mallinckrodt	George W.	Schroders PLC	’92
Marsh	David	Financial Times	’92
Martini	Eberhard	Bayerische Hypotheken- und Wechsel-Bank AG	’91
McDonough	William J.	Federal Reserve Bank of New York	’94
Mentré	Paul	Banque C.S.I.A.	’91
Mikloš	Ivan	Deputy Prime Minister and Minister of Finance, Slovak Republic	’04
Monti	Mario	European Commission	’94, ’99
Müller	Horst	Dresdner Bank AG	’03
Müller	Klaus-Peter	Commerzbank AG	’91, ’01-’04
Müller-Vogg	Hugo	Frankfurter Allgemeine Zeitung	’98
Naumann	Klaus	General, retired	’99*
Ng	Kok Song	Government of Singapore Investment Corporation	’97
Nonnenmacher	Günther	Frankfurter Allgemeine Zeitung	’95

Surname	First name	Organisation	Year
Obolensky	Arianne	Ministère de L'Economie et du Budget, France	'92
Ogata	Shijuro	Yamaichi Securities Co. Ltd.	'91
Olechowski	Andrzej	Ministry of Foreign Affairs, Poland	'94
Orbán	Viktor	Prime Minister, Hungary	'98*, '00
Padoa-Schioppa	Tommaso	European Central Bank	'02
Papademos	Lucas D.	Bank of Greece	'99
Prodi	Romano	European Commission	'92, '98, '00, '02
Profumo	Alessandro	UniCredito Italiano	'01
Quinn	Ruairi	Minister for Finance, Ireland	'96
Rau	Johannes	President, Germany	'02
Repše	Einars	Bank of Latvia	'01
Richardson	James	Cisco Systems Inc.	'00
Rolander	John S.	Gemini Consulting	'96
Röller	Wolfgang	Dresdner Bank AG	'92
Roth	Jean-Pierre	SBN Swiss National Bank	'03
Roth	Petra	Mayor, City of Frankfurt am Main	'95 - '04
Roth	Wolfgang	European Investment Bank	'93
Rudloff	Hans-Jörg	Barclays Capital	'03
Sampaio Malan	Pedro A.	Minister of Finance, Brazil	'99
Sanio	Jochen	Federal Financial Supervisory Authority	'04
Sarrazin	Jürgen	Dresdner Bank AG	'93 - '97
Schäuble	Wolfgang	Group of the Christian Democratic Union/ Christian Social Union	'97
Schlesinger	Helmut	Deutsche Bundesbank	'91, '92
Schmögnerová	Brigita	Minister of Finance, Slovak Republic	'01
Scholey	Sir David	S.G. Warburg Group plc	'93
Schulmann	Horst	Landeszentralbank in Hessen	'92
Schüssel	Wolfgang	Federal Chancellor, Austria	'01
Seifert	Werner G.	Deutsche Börse AG	'00, '02
Simon of Highbury, Lord		Ministry for European Trade and Competitiveness, United Kingdom	'97
Simmons	Hardwick	The Nasdaq Stock Market	'02
Sobchak	Anatoly	City of St. Petersburg	'91
Strutz	Wolfgang	BHF-BANK Aktiengesellschaft	'91
Tănăsescu	Mihai Nicolae	Minister of Public Finance, Romania	'01
Taylor	Charles R.	The Group of Thirty	'94
Thalwitz	Wilfried P.	The World Bank	'92

Surname	**First name**	**Organisation**	**Year**
Thiemann	Bernd	DG Bank	’91
Thygesen	Niels	Institute of Economics – University of Copenhagen	’92
Tietmeyer	Hans	Deutsche Bundesbank	’93 - ’98, ’04*
Titzrath	Alfons	Dresdner Bank AG	’91
Tošovský	Josef	Czech National Bank	’91
		Bank for International Settlements	’01
Trichet	Jean-Claude	Banque de France	’94*, ’97
		European Central Bank	’03*, ’03 - ’04
Tůma	Zdeněk	Czech National Bank	’03
Verheugen	Günther	European Commission	’01
Viermetz	Kurt F.	J.P. Morgan & Co. Incorporated	’93
Volcker	Paul A.	Federal Reserve Bank of the United States of America	’97
von Hauenschild	Caspar	Bayerische Vereinsbank AG	’91
von Schoeler	Andreas	Mayor, City of Frankfurt am Main	’91 - ’94
Vita	Guiseppe	Schering AG	’98
Wagner	Udo N.	ABB Asea Brown Boveri AG	’94
Walter	Bernhard	Dresdner Bank AG	’98, ’99
Walter	Herbert	Dresdner Bank AG	’04
Walter	Ingo	New York University Salomon Center	’92
Weber	Axel A.	Deutsche Bundesbank	’04
Welteke	Ernst	Deutsche Bundesbank	’99 - ’01, ’03
Weston	John Pix	British Aerospace	’99
Yamaguchi	Yutaka	Bank of Japan	’02
Yavlinsky	Grigory	EPICENTER	’95*

* Dinner Speaker

Editors: Alexander John Maisner, Dennis Phillips, Dr. Detlev Rahmsdorf
Typesetting: Central-Druck Trost GmbH & Co.
Order address: Frankfurt EBC Office
Maleki Group · Fax: +49 (69) 9 71 76-5 55
Internet: www.frankfurt-ebc.com

Notes

Notes

Notes