

The Euro Goes East

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Ladies and Gentlemen:

It is one of the most difficult things to get back to work after lunch and the second difficult thing to keep one's listeners awake. Hopefully the panel will successfully do both; at least the first task seems to be achieved now. This is the third panel of today's congress and the session is labelled "The Euro Goes East". For the sake of the panellists who were not here yet, the first session dealt with the political and macroeconomic implications and ramifications of Europe going East, meaning EU enlargement. Then we had a session on banking in Eastern Europe in the wake of the upcoming enlargement. And now our panel will deal with the currency, the euro itself, going East. Some people could argue that is still too far away, so why do you discuss it? I think that is too superficial. I would like to share three observations with you suggesting that the euro going East is closer than we think.

The first observation is that future participation in EMU is part of the *acquis communautaire* and therefore it is a consequence of joining EU. So it is expected that candidate countries for the EU become full members of EMU once they have joined the EU. We should talk about meeting the convergence criteria in time without sacrificing growth and that, of course, requires long-term strategies. We will discuss what kind of strategies might be the right ones.

The second observation in this context is that there are some countries in the East which are *de facto* already members of the euro club, for instance Estonia with a currency board. We have to discuss the controversial issue of "euroisation", i.e. the introduction of the euro without complying to the rules of the EU Treaty and fulfilling the convergence criteria. "Euroisation" seems to provide some sort of a short-cut to the euro for countries not willing to go through the regular prescribed process of joining EMU. We know very well that not everybody here approves of euroisation.

The third observation is that we will see the euro going East already on January 1st 2002, namely in the form of coins and notes. As we know, there are a lot of Deutschmarks in eastern Europe in “piggy banks”, as so-called “mattress money”, or wherever people keep the personal cash reserves. So the question in this context is a very interesting one: what happens with that money and will it just be changed into euro coins and notes and meet with the same fate as the former Deutschmark personal reserves, the black-market money or whatever. So that means the euro going East starts in less than forty days.

Now, the envisaged EMU membership of EU accession countries is accompanied by a lot of expectations on the one hand and concerns on the other. For one, there is a rather superficial argument in the world, specifically here in Germany, which says that enlargement could potentially contribute to the weakness of the euro rather than to its strength and that part of the present external weakness of the euro is due to the expectation of candidate countries joining EU and later on EMU and adding volatility to the currency. We have to discuss that even though my personal feeling is that this is a terrible prejudice. We have to talk about the famous convergence criteria and we must discuss whether those convergence criteria should be handled as strictly as in the selection of the first-round EMU member states. We have to keep in mind that the economic situations and structures of the candidate countries are extremely different compared with the current member states. Just take per-capita income which in the case of Bulgaria is one-fifth, and in the case of Cyprus four-fifths of the EU average. It shows that the candidates start from extremely different situations. And then real convergence. We heard this morning from the Swedish Minister of Foreign Affairs, Anna Lindh, about the bumpy road to the euro. Indeed, there are a lot of problems to solve. I hope the panel will discuss some of those difficult issues.