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Every reason to be proud

Welcoming the delegates and congratulating the organisers is how Commissioner Joaquín Almunia started his opening address to the 2008 BEF. He underlined the special significance of this year's conference which coincides with the tenth anniversary in May 1998 of the decisions on Economic and Monetary Union and the launch of the euro.

The Commissioner went on to outline the main achievements of what he described as a "crucial stepping stone to ever closer union". From day 1, he told the audience, EMU created a zone of macroeconomic stability and put an end to traumatising exchange rate realignments, noting that without the euro today, the present turmoil in financial markets would be placing enormous strains on euro-area economies with serious consequences for trade and investment. "We ought to recall this simple fact, for those who forget our past monetary turbulences," he reminded listeners.

Commissioner Almunia went on to note that while it is true that price inflation has been pushed up recently by soaring oil and commodity prices, it is forecast to return closer to the ECB's target in coming quarters. "Our central bank deserves to take its part of the credit here," he said. "Its conduct of monetary policy over the last decade has been very proficient, earning it a high level of confidence keeping inflation expectations stable."

Balanced budgets

He also pointed to the improving fiscal situation, particularly since the

reform of the SGP in 2005. "Thanks to important consolidation efforts, the euro area managed to reduce its average budget deficit to just 0.6% last year – the best result since 1973," he explained. In fact, if the Council follows the recent Commission recommendations on Italy and Portugal, for the first time since 2002 there is currently no euro-area country in the excessive-deficit procedure – the majority have either surplus or balanced budgets!

"And last but not least," continued Joaquín Almunia, "citizens have been among the first to benefit from EMU's achievements. Price stability has shielded more vulnerable groups from abrupt loss of purchasing power." He also pointed to the combination of enhanced stability, deeper integration and reforms that have had such a striking impact on the labour market, creating 16 million jobs over the last ten years, substantially more than in previous decades.

Future challenges for a future agenda

Looking ahead the Commissioner warned that, while EMU has left the Union stronger, not everything is positive. Economic growth is too low in some Member States, productivity



growth is much lower than expected, and there are persistent divergences between euro-area Member States, which pose risks for the ability of the block as a whole to adjust to economic shocks.

To address these and other challenges the Commissioner proposed a three-pillar agenda for the future. The first 'domestic pillar' involves reinforced – broader and deeper – coordination and surveillance to identify quickly growing risks arising from imbalances and instability.

The second pillar concerns developing a clear international strategy. The increasing role of the euro in international markets demands this. A global currency runs global risks so it is vital that the voice of the euro area is heard clearly in international fora.

Moving to the third and final pillar, the Commissioner spoke on euro-area governance, in particular a closer coordination between ECOFIN and the Eurogroup will become more important as the

euro area enlarges. He suggested deepening the agenda and strengthening debates within the Eurogroup including on structural reforms.

In conclusion, he praised the decision made ten years ago to give the green light to EMU: "We are reaping the rewards of that truly bold decision. The euro is a huge success and we have every reason to be proud of our single currency," Commissioner Almunia reiterated. ■

A symbol of unity and stability

"Over 320 million Europeans from Nicosia to Helsinki carry euro notes and coins in their pockets, purses and wallets. The single currency is an immensely powerful symbol of unity, of stability and of confidence. The euro has more than proved its worth. The doubters have been confounded. The challenge now is to realise its full potential."

Commission President José Manuel Barroso on ten years of EMU.



"What has the EMU ever done for us?"

The overall mood was one of resounding success as the ninth Brussels Economic Forum got under way with its first session, 'Growth and Employment in Europe – Assessing Ten Years of EMU'.

All of the speakers touched on the euro's rocky path to inception, but commented that the doubters had been confounded. Tommaso Padoa Schioppa, Italy's former Minister of Finance, praised the sense of normality that the euro has achieved, observing that "we only feel symptoms when we are in pain" – on the basis of which the EMU is in good health.

Wouter Bos, Deputy Prime Minister and Minister of Finance for the Netherlands, pondered what might have happened in the past ten years without the EMU, and painted an unhappy hypothetical picture of poorly controlled inflation and tensions between Member States.

An example of the euro's positive effects for a Member State came from Spain's Deputy Prime Minister

and Minister for Finance, Pedro Solbes, who said that the single currency had greatly enhanced the resilience of the Spanish economy.

Malcolm Knight, General Manager of the Bank of International Settlements, demonstrated the global ramifications of the creation of the world's new second currency, which continues to gain in acceptance and usage.

Looking forward to EMU's second decade

The session served not only as a retrospective, but also as a glimpse of what is to come. Session Chair Marco Buti, DG ECFIN's Deputy Director-General, set the tone when he stated: "We are in forward-looking mode".

A number of the speakers outlined

key objectives to ensure the future success of the monetary union. Bos argued for stronger crisis management, tighter budgetary coordination between Member States, and greater accountability as regards spending.

Pervenche Berès, Chairwoman of the European Parliament's Committee on Economic and Monetary Affairs, applauded the euro's ability to protect the European economy but suggested it could do more. "We are better as guardians of stability than as guardians of growth," she explained.

As Bos enquired: "Ten years of the euro have been a success, but what will the next ten years bring?" Only time will tell, but the Commission has outlined the way forward in its recent Communication on EMU@10. ■



"The euro introduction was an exceptional, historic and unique chain of events, driven by vision and leadership."

Wouter Bos, Deputy Prime Minister and Minister of Finance, the Netherlands

From the sessions | EMU on the international scene – weathering the storms

Political will is key to euro's international success



IMF chief Dominique Strauss-Kahn has urged euro-area countries to build on the phenomenal success of the euro by showing the political will-power to forge a single international policy.

Dominique Strauss-Kahn, the managing director of the International Monetary Fund (IMF), addressed session two on Thursday, which focused on the euro's place on the international scene and how it would weather the current global financial storm.

Strauss-Kahn, who was the French Finance Minister at the time of the launch of the single currency in 1999, started by recalling the challenges involved in laying the ground for the euro and allaying the fears of skeptics.

"What we did back then was a piece of history, at least a piece of economic history," he stressed. "Now the euro is here and it works. The success is there to see."

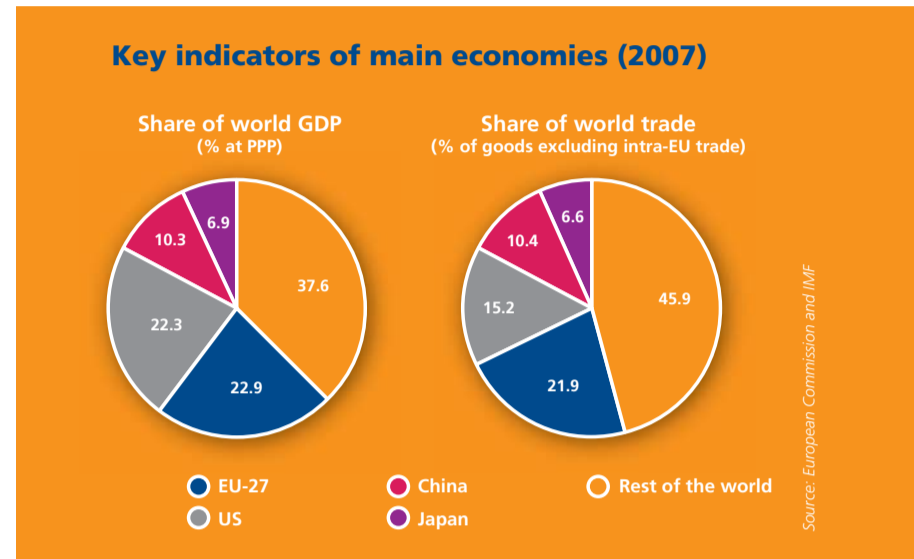
Among its successes, he listed, was how it facilitated travel, simplified trade and underpinned economic stability. "The ECB is now a credible and respected central bank," he added.

The IMF chief also observed that the single currency had helped to underwrite economic growth in the euro area. "Financing today is far less expensive thanks to the euro... 16 million jobs have been created since the launch of the euro and private sector employment growth is faster than in the US."

On the minus side, he pointed to imperfections in the Stability and Growth Pact and lack of budgetary discipline.

Economic shock absorber

According to Strauss-Kahn, Economic and Monetary Union has so far helped cushion the euro area against the volatilities of the global system. "The euro reduces the vulnerability of our economies", he said, "by better shielding the area from external shocks."



However, he expressed his view that the true extent of this resilience has not yet been put through its paces. "This protective capacity hasn't seriously been tested but perhaps it is being tested now by the sub-prime crisis."

How well the euro area copes with this transatlantic volatility will only become apparent in the future but, Strauss-Kahn pointed out, the IMF's own forecast of the euro area's ability to weather the storm was a little more pessimistic than that of the Commission.

Worlds apart

The euro's success as an international currency has confounded many, especially since it was largely spontaneous and demand-driven. Despite its obvious success, Strauss-Kahn believes that the single currency is punching below its weight globally.

"The euro should be one of the pillars of the international financial system," he explained. "The euro has economic influence but it does

not yet have the political influence it should."

The IMF chief urged euro-area countries to coordinate their international policies more closely. "The question is not whether or not the euro area should have a single chair in international institutions – the point is to have a single policy and position."

He expressed his belief that a single voice for the euro area would not just be good for Europe but would be good for global economic stability. "As always with the EU, it is political will that will make the difference," he noted.

"Ten years ago, we began to build something together. Ten years on, some successes have been achieved but the euro is not yet complete," he concluded.

Dominique Strauss-Kahn took some time out from the conference to talk to THE FORUM.

If you had to choose the two main benefits that the euro has brought to Europe and to the world, what would these be?

Strauss-Kahn: For the countries of the euro zone I would say that the euro allows economic policies which are less contingent to external shock. So it makes it more possible for the countries in the euro zone to define their economic policies looking at the needs and possibilities of the population and not be constrained by the external environment. For the world, the answer is that a euro zone which goes well is an advantage for the world. It is one of the economic models of the world. One is the US, of course. The others are the emerging countries. Today, the emerging countries are much stronger, more than the euro zone. But in other times it may be the euro zone. The euro zone has an input into global growth. This is certainly one of the biggest achievements of the euro.

To view the video streaming of the interview go to DG ECFIN's website where it will be available next week along with others from the Brussels Economic Forum.

Keynote address | Jean-Claude Juncker

A man on a mission

As President of the Eurogroup of EMU members, Jean-Claude Juncker is keen to sing the praises of the euro. In his keynote address on Thursday, the Prime Minister of Luxembourg paid tribute to past successes and gave his views on what should happen next.

The euro is "a political symbol of European integration", Juncker explained, "but it is not just a symbol, it is a shared objective." It is an "undeniable success", he proclaimed, which has been realised despite all of the claims that it was doomed to failure.

He praised the vision of the EMU's pioneers who remained unfazed and continued with their bold plans to create a new kind of monetary union.

Juncker was not unrelenting in his praise for the euro, however, stating that the EMU had not yielded all of

its potential benefits. Growth has been robust, employment is up, and unemployment figures are down, but there is room for improvement in all of these areas. Overall, Juncker argued, "the standard of living has not necessarily gone up enough". Summing up the situation, he said that there remains a "gap between our ambitions and our achievements".

Speaking with one voice

He went on to call for greater unity amongst the euro-area members, particularly in terms of having a



single voice at international level. Coordination is "easy in the good times, but harder when the going gets tough", which must change if the euro-zone members are to reap the long-term rewards. The Eurogroup is vital for this and Juncker expressed his satisfaction at the extension of its scope beyond purely budgetary matters.

But the remaining challenges should not detract from the overall success story: "the EMU seemed impossible for some. It is a success and we should be proud of it." It shows what Europe can achieve "if [it] is brave enough... and we need ambitions such as these."

The Forum: the story so far

With the launch of the euro in 1999, the need arose to explain the challenges and opportunities of Economic and Monetary Union to a wider audience. The Brussels Economic Forum – or BEF – is part of this effort.

The original vision, which holds today, is to bring together a wide mix of participants to discuss the economic challenges facing the EU and then take these issues, ideas and proposals outwards to national, regional and local actors and citizens.

The first Forum was held in 2000 with 500 participants. Since then, this annual event has gone from strength to strength, pulling in more than 1100 registered participants this year, coming from government authorities, international organisations, financial institutions, and the media.

“... collectively we have been better guardians of stability than guardians of growth.” Pervenche Berès, MEP, Chairman of the Committee on Economic and Monetary Affairs



From the sessions | The euro in a rapidly changing international environment

Euro and dollar “shoulder to shoulder”

The euro stands “shoulder to shoulder” with the US dollar in Asia, according to Haruhiko Kuroda, head of the Asian Development Bank. Meanwhile, ECB Vice-President Lucas Papademos charted the euro’s rise to become the world’s second most important currency.

Asia has taken to the euro with surprising enthusiasm. “In less than ten years, the euro has evolved into an international currency that can stand shoulder to shoulder with the US dollar,” remarked Asian Development Bank President Haruhiko Kuroda. “Asia has been particularly interested to see how the euro has helped promote prosperity and financial security in Europe.”

“The euro has played an essential role in fostering harmony among diverse economies which had conflicting monetary and fiscal policies, tariffs and other restrictions on trade and investment,” he added. “This experience is extremely useful for Asia as the region moves ever more resolutely towards its own style of regionalism.”

along its path as an alternative international currency to the US dollar,” Kuroda forecast.

The Asian Development Bank chief described efforts in Asia to promote more regional co-operation to foster financial stability. “In its move towards greater co-operation and integration, Asia is looking to Europe for practical experience,” he stated.

He referred to the Asian financial crisis of 1997 and described how Asia’s economies had weathered the storm and rapidly bounced back, making them important partners for Europe.

Kuroda attributed the success story of the euro in Asia to the fact that Europe had become a more important destination for Asian exports, and the falling value of the dollar had prompted Asian entrepreneurs and traders to seek alternative currencies. “With the rapid depreciation of the dollar in recent years, preference for the euro in financing trade has been steadily on the rise.”

Giant leaps

ECB Vice-President Lucas Papademos charted the impressive rise of the euro as a global currency during the last decade. “Over the past ten years, the euro has established itself as the second most important currency after the dollar. Its share is greater than its legacy currencies combined,” he noted.

An essential role

“With structural reforms in place and competition intensifying, our region’s international economic influence has surged,” he explained.

And this trend is set to continue. “I expect that the euro will continue

Among the wealth of statistics he presented, he noted that about a



quarter of foreign exchange reserves in the world were now held in euros, while the single currency’s share of international debt securities currently stands at about a third.

pointed out. Nevertheless, it indirectly strengthened the euro’s international role through its stewardship of the single currency. He described the growing status of the euro on the world stage as a “vote of confidence” in the ECB’s policies.

Vote of confidence

On the home front, there have been plenty of benefits, too. “The efficiency of euro-area financial markets has increased significantly since the introduction of the euro,” he mentioned as an example.

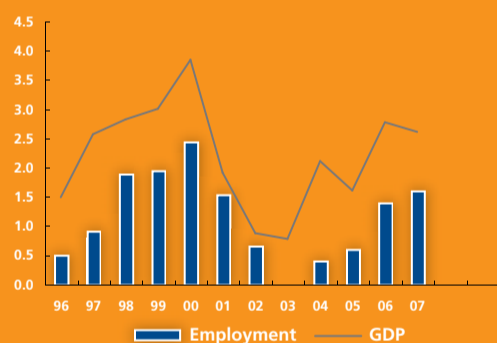
“The ten years since the introduction of the euro represent a significant leap of progress for Europe and has brought benefits to the world,” he noted. The future status of the euro as an international currency will depend on the relative size and stability of the euro-area economy.

The ECB does not see the euro’s role as a global currency as an explicit goal in itself, Papademos

Unemployment at a historical low

A record 16 million jobs have been created in the euro area during the first decade of EMU. Employment has risen by almost 15% since the launch of the single currency while unemployment has fallen to about 7% of the labour force, the lowest rate in more than 15 years. Boosted by strong economic activity in 2007, employment grew by 1.6% in 2007 in the euro area and 1.7% in the EU. Importantly, job growth outpaced that of other mature economies, including that of the United States.

Growth of GDP and employment, euro area (%)



Source: European Commission

Panel discussion: Up to expectations?

“Europe was, and is, predominantly a political project,” former German Minister of Finance, Theo Waigel, told the audience in his introductory remarks to the panel discussion. “Europe must not be narrowed down to merchandise trade, currency and exchange rates,” he continued.

As an active participant in designing and launching the euro area, Theo Waigel judges the results of EU policies so far as somewhat mixed: on the plus side, human rights legislation and EMU have been implemented successfully, but Europe still awaits a common foreign and security policy. However, he believes that in the long run the euro could develop into an equal competitor to the dollar.

believes so as the ECB is acting as a strong and independent central bank, and surveillance and economic coordination in the Eurogroup is getting stronger. Malcolm Knight supported this view and highlighted the importance of euro-area-wide financial regulation and supervision, while Dutch Deputy Prime Minister Wouter Bos also pointed out that the US is a somewhat heterogeneous entity composed of over 50 diverse states.

for the price increases brought about by the euro. Commissioner Almunia rebutted this claim, pointing to clear statistical evidence that price increases owing to the euro introduction were minimal and not out of line with price rises outside of the euro area. In general, the euro has clearly fostered price stability. He stressed that real wage increases should follow productivity gains over the medium term.

But can this really happen while the euro is the only currency not backed by a single state, asked a member of the audience. Joaquín Almunia

Another participant asked whether it is necessary to compensate workers

“Should the Eurogroup have an institutional status?” was another question from the audience. In his reply, Jean-Claude Juncker said that it is important not to divide the EU into two camps. At the time, the UK, Denmark and Sweden, which have not joined the euro area, were not keen on a formal role for the Eurogroup that might devalue the importance of the ECOFIN Council. Commissioner Almunia supported this analysis and pointed to the recent enlargements which, at least for the near future, mean several Member States will remain outside of the euro area.



profile | Mario Monti

Ambitious for Europe



Italian economist and politician Mario Monti is no stranger to the Brussels circuit. He was first European Commissioner for the Internal Market, Financial Services and Taxation from 1995 to 1999 and later for Competition between 1999 and 2004. In this position he gained the ‘Super-Mario’ nickname as Europe’s ‘neatly-tailored’ anti-trust czar who tamed Microsoft and General Electric. He was also effective in imposing on the governments of EU Member States, including the largest ones, the need to respect rules limiting state aids. Mario Monti is currently President of his alma mater in Italy – Bocconi University in Milan. Since leaving the Commission he has continued to influence European policy through the Brussels-based think-tank, Bruegel, of which he is chairman. Mario Monti has long been an advocate of European integration based on a competitive single market, conviction that will come through in his contribution to the Brussels Economic Forum.

Professor Mario Monti will speak on Friday morning in session 3 on ‘EMU@10: an ambitious agenda for stronger growth’.



"Ten years ago I claimed the euro would be as stable as the Deutschmark – I was right!"

Theo Waigel, former Federal Minister of Finance, Germany

From the sessions | From local sub-prime to global slowdown

Sub-prime goes big time? Or not?



"I raise my glass to ten years of EMU and the euro; but, has it really been tested?" is how Stephen S. Roach, Chairman of Morgan Stanley Asia, kicked off his contribution to the Thursday afternoon session.

To illustrate his doubts, Stephen Roach recalled the bubble-prone behaviour of his home country, the US, where initially turmoil that was perceived as minor by commentators, later went big time – a 'virulent contagion'

as he described it, that went on to infect markets worldwide. This will be the upcoming test of the euro, he claimed, as the current turmoil spreads. "We have just witnessed the biggest consumption binge in

history", he explained, referring to the US credit and property boom, "and we are now looking at several years of Japanese-like behaviour with sluggish and anaemic growth."

The EU has no special dispensation from this crisis he insisted. For all the talk of India and China, they have only one-sixth of US consumption. The only block capable of taking up the slack and supporting world growth is the EU. "Will this happen?" he asked. "I don't think so," was his answer. That EU growth is primarily export-driven means that the euro-area economy cannot be immune to a US recession.

Stephen Roach then went on to talk about the next cycle, which he believes will be heavily influenced by the current debate on globalisation. "The US and the EU are not enamoured of globalisation," he said, referring to many anti-Chinese, protectionist proposals put before the US congress in recent years. "There is a risk of a major backlash against globalisation," he continued, "and this move to 'localisation' and

protectionism poses a major threat not only to growth, but also to economic stability."

The crisis is over, it was always overrated!

This is the alternate view expressed by Adam Posen, Deputy Director and Senior Fellow of the Peterson Institute for International Relations. "If you must choose between fear and complacency", he advised, "choose complacency."

Posen looked at recent events as a stress test for the euro. The good outcome of the stress test is the clear and incisive action by the ECB to react to a liquidity crisis – not cutting interest rates but rather injecting liquidity into the markets. In addition, a further positive point is that the euro has appreciated a lot without any excessive political pressure on the ECB to react from euro-area governments.

However, coherent representation of the euro on the international scene is a real problem, he believes.

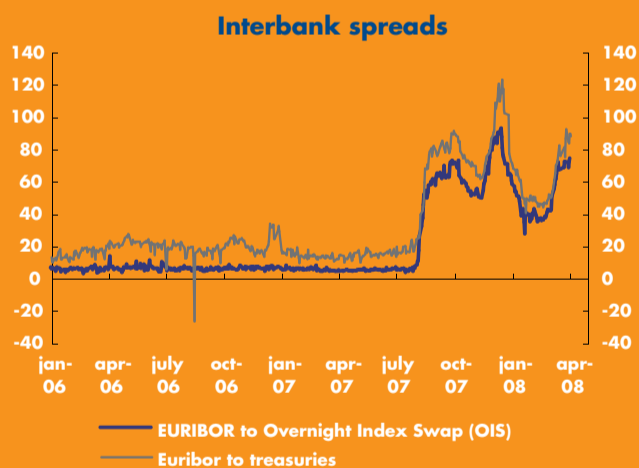
The euro is overvalued against the dollar because the Asian currencies have not adjusted, he explained. This means that the euro and the Canadian dollar are taking up all the slack. This would not be the case if the euro area had added a clear, strong and united voice to that of the US when they were discussing this problem with the Chinese in recent years, he feels.

Adam Posen then went on to highlight the need to improve cross-border consolidation of the euro-area banking system, pointing to German semi-public banks as symptomatic of the problem.

Finally, he explained that one reason the euro has not been widely adopted as an international currency outside of its immediate neighbourhood is simply because the euro area does not have an active foreign policy. Pegs to the US Dollar tend to follow US military bases, he said, which indicates that sound economics is not sufficient. "Without a common foreign policy, this is as good as it gets," he said, "The easy part is over." ■

Bank attitudes to credit risk in the euro area

While a significant retrenchment of credit to the private sector has not materialised so far, survey evidence suggests that the banks' attitude to credit risk has changed in the euro area, which is also confirmed by interbank spreads.



Source: European Commission and IMF

profile | Guy Verhofstadt

A rainbow politician

Flemish Liberal Guy Verhofstadt was Belgian Prime Minister for over eight years, between 1999 and early 2008. Mr Verhofstadt, who comes from one of the EU's founding Member States, has always been a committed European and has published on the subject of European unification, including inventing the term "États Unis d'Europe". He led a broad 'rainbow' coalition (liberal, socialist and green) for his first term in office and a 'purple' coalition (liberal-socialist) for his second term. During the 2007 post-election crisis in Belgium, he continued as caretaker premier and managed to forge an interim coalition which eventually led to a permanent government in March 2008 under his successor Christian Democrat Yves Leterme.

Guy Verhofstadt will deliver his keynote address on the need to develop a true socio-economic governance in the euro area today.



On the ECFIN bookshelf

The European Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN) publishes a wealth of reports, studies, and analyses on EU economic matters. Examples of these publications are available free of charge from the stand outside the conference room. They can also be downloaded from the DG ECFIN website. They include:

European Economy series: containing major reports and communications from the Commission to the Council and the European Parliament on the economic situation and development. The recent *Spring Economic Forecasts* and the report *EMU@10: successes and challenges after ten years of Economic and Monetary*

Union published on 7 May are part of this series.

European Economy, Economic Papers: This series aims to increase awareness of the analytical work done on EU economic issues and to seek comments and suggestions for further analyses from the wider community of EU economists. This year, there is a special production of papers focusing on ten years of Economic and Monetary Union.

European Economy, Occasional Papers: Written by the staff of DG ECFIN and experts working with them, this series aims to increase awareness of the policy-related work done and covers a wide spectrum of subjects.

European Economy Research Letter: Issued three times a year,

the Research Letter reports on the results of economic analysis and research undertaken by DG ECFIN, and updates about future research priorities and activities, including seminars, conferences and other events. Available electronically from our website, you can subscribe to our email alert service via our homepage for timely information on new releases.

European Economy News: For a wider public interested in European economic issues and the work of

DG ECFIN there is also a quarterly magazine. Subscription is free of charge and you may use the form available from the DG ECFIN stand to ensure your own copy arrives regularly.

The EMU@10 website: On this website you can find a broad collection of academic papers and other research resources concerning ten years of Economic and Monetary Union. ■

Publications website: www.ec.europa.eu/economy_finance/publications

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