DONATO MENICHELLA CENTRE

Conference on the euro

Speech by Vincenzo Desario
Director General of the Bank of Italy

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SUMMARY

1. Introduction

The replacement of the lira with the euro is imminent. The complexity of the changeover has been illustrated by the previous speakers, who have offered a clear and detailed analysis of the obligations and operational aspects connected with the currency switch in cash transactions, giving an account of the constraints within which everyone working on this vast operation is moving.

They have also reminded us that the introduction of the euro is not only a technical and operational problem: it lends visibility to the construction of a European identity; it represents the terminus of a process that has involved significant changes, that is generating opportunities and challenges, that is linked to globalization and the technological innovation with which Italy and Europe must continue to engage.

Money affects every aspect of social life. It has a symbolic and psychological component that flanks the economic and financial one. It has always been the tangible expression of the sovereignty of the State.

From 1 January 2002, euro banknotes and coins will circulate. There is not yet a European state, but the money will be issued by a federal monetary authority, in which all participating countries are represented.

This is an extraordinary event and an extremely innovative one at the political and institutional level. For the twelve member countries, it marks a fundamental stage in the process of European integration that began at the end of the 1940s.

Being Europeans, in addition to being Italians or French or Germans, is based on a further symbol: the EURO, our money.

The construction of the institutional edifice around the European system of central banks has been orderly and silent, going almost unnoticed by the public at large. It has been guided by the common conviction that economic and monetary union will bring about a more dynamic and efficient economy, and that the relinquishment of independent national monetary and exchange rate policy will be compensated both by the advantages of a stronger orientation towards monetary stability for the Union as a whole and by the gains in efficiency permitted by a wider European economic area.

However, monetary stability and a more open and competitive economic area cannot be guaranteed once and for all merely by participation in the monetary union; complementary initiatives and unremitting government action are also required. Greater competitiveness for European firms demands a stepped-up drive to liberalize the markets for goods and factors, structural reforms, and the determined reorganization of public spending.

The spirit in which the Bank of Italy is working to remove all obstacles to the changeover can be summarized in the words employed by the Governor in his Concluding Remarks last May, when he underlined that “we are organizing the transition to the new currency in accordance with principles of functionality and security”. Functionality and security are two keywords in the unadorned language of central banking: they convey, at this challenging time, the action of the Bank of Italy to ensure that the euro banknotes and coins will be introduced in an orderly manner, creating only limited inconvenience for citizens, and in conditions of maximum reliability for the new currency.

2. The journey so far

After the second world war, thanks to some men of vision, the goal of unifying a core group of European countries became widely accepted as a way of preventing the resurgence of new, ruinous conflicts. Cooperation among the European states appeared to be indispensable to accelerate reconstruction and sustain economic growth.

Even the idea of political union in Europe was broached, but differences between the various governments on the advisability of such an ambitious project led to a gradual approach towards unity via a process of economic integration.

In the decades that followed, the European movement gathered strength.

The 1950s and 1960s were characterized by economic growth and commercial integration. The 1970s with their strong economic turbulence, saw the beginnings of monetary integration, but its progress was fitful, marked by stops and starts at irregular intervals. The objective of a stable European monetary order was pursued, but in less ambitious forms than full monetary union.

In the second half of the 1980s, the process of European integration received new impetus. In 1986, with the signature of the Single European Act, the Member States of the European Economic Community began to abolish controls on the movement of capital and non-tariff barriers to trade, and started to create a fully integrated banking and financial market.

In June 1988, the European Council in Hannover, convinced that there could be no genuine single market without monetary union, entrusted the Delors Committee to draw up proposals for European economic and monetary union, with a view to relaunching the process of political unification.

The stages of the project's implementation, as indicated by the Committee, were included in the 1992 Maastricht Treaty.

From that moment, the necessary legislative reforms were enacted to ensure institutional independence for the national central banks. The monetary funding of the public sector deficit was banned and monetary coordination was strengthened by creating the European Monetary Institute, precursor to the European Central Bank.

On 1 January 1999, eleven countries adopted the euro as the single currency, irrevocably fixing the conversion rates for the national currencies between one another and against the euro. The common monetary policy was entrusted to the Eurosystem, comprising the European Central Bank and the national central banks of the member countries. A twelfth country, Greece, joined the group at the beginning of this year.

The euro went into immediate use as book-entry money and has been adopted for banking and financial transactions. In little more than three months' time, it will begin to circulate materially throughout the Union. It will be the currency of an area that is home to more than 300 million people, which produces 16 per cent of total world output and 19 per cent of global exports, and where banking assets exceed €17 trillion, almost three times the area's GDP.

3. The European money

The introduction of the single currency in Europe is the most important change in the international monetary order since Bretton Woods. The common European currency provides greater stability within the international monetary system.

The participating countries have already reaped many benefits, some of which are the results of compliance with the requirements of the Maastricht Treaty.

Even greater advantages will accrue as the system adapts to the new dimension of the markets, as the productive system continues to reorganize and modernize, promoting institutional and legal innovations, more efficient government action, and further initiatives to correct any imbalances in the Union's political and institutional arrangements.

The introduction of the euro notes and coins is a necessary step within a carefully arranged strategy. The replacement of twelve distinct means of payment with the euro will eliminate inefficiency and needless costs for both firms and households. The potential of the common currency will fully unfold.

What we have observed in the markets and in the behaviour of economic agents only indicates the direction of the change: once the irreversibility of the process is realized, which only the physical availability of the new money can render unequivocal, these changes will be consolidated and gain strength. All citizens will participate in achieving the advantages of the large market which will truly become a single market, with their own choices in spending, saving, and initiatives in the field of labour and enterprise.

The common monetary policy has provided a solid monetary anchor for three years now. Strains that in other moments would have had destabilizing effects for some countries have been resolved without serious repercussions. Surveys and financial indicators reveal great confidence in the ability of the Eurosystem to maintain price stability, its primary objective, for the future as well.

By eliminating conversion costs between the currencies of the participating countries and removing the uncertainty connected with exchange rate fluctuations, the use of the euro is already producing positive effects on investment and trade.

In the financial markets, the stabilization of the expectations for inflation and the disappearance of the devaluation risk premium have allowed interest rates to converge on the level of the more “virtuous” countries. The main beneficiaries have been the countries that in the past were subject to a greater risk of inflation and devaluation and where the burden of the public debt was greatest.

Within the area, the price system has become more transparent, producing more efficient allocation of resources and heightening competition.

The single currency offers greater opportunities to all the economic agents who participate in the circulation of savings and the formation of productive capital. It facilitates access to the bond and equity markets, which have become deeper, more liquid and more efficient, allowing very large-scale merger and acquisition activity and the privatization and restructuring of the great industrial groups of Europe. Investors and savers will have a broader range of financial products and services at their disposal.

The Eurobond market has registered a pronounced increase in issues by the private sector, gaining importance among the sources of funding for companies in the area. In the last two years, issues by Italian companies alone amounted to €92 billion, about six times the total sum for the previous two-year period.

The greater competition resulting from integration has accelerated the reorganization of the banking system; in Italy, this has been done in a measured way, balancing market impulses and the active encouragement of the Authorities.

The broader range of funding options and the sharper competition among credit institutions, together with the stabilizing effects of the single monetary policy, have significantly lowered the cost of credit for enterprises and households.

The improved efficiency of the capital markets, the reduced uncertainty in savings and investment decisions, and the propensity of enterprises to make the entire euro area their market of reference are developments that are still under way: they are part of a learning process that will accelerate as of 1 January 2002.

Although the advantages connected with the introduction of the euro have already touched large areas of the population, awareness has not yet spread through society as a whole. With the forthcoming physical introduction of the common currency, every single consumer, every single tourist in the euro area will gain a better awareness of the new opportunities.

The benefits of the single currency, nevertheless, will not flow automatically from participation in the euro. To truly seize all the opportunities offered by the use of a common currency, it is indispensable that the conduct of economic agents and the economic policies of the participating countries be compatible with stability on a permanent basis. In particular, the flexibility of the labour market must be increased; the adjustment of the public finances must be consolidated, pursuing budgetary balance or surplus in the medium term, as provided by the Stability and Growth Pact; public spending must be reorganized and curbed to allow a reduction in the tax burden, stimulating an expansion of the productive base and reducing unemployment.

4. Changeover

Putting euro banknotes and coins into circulation, replacing the main unit of account in the twelve countries of the area, is a delicate operation.

As with any change that affects consolidated habits, the material changeover to the euro may, in emotional terms, give rise to uncertainty, doubt, and various fears, particularly for the elderly and people who have not had occasion to travel, to handle foreign currencies, and to come to terms with differences and innovation.

Certainly, the imminent use of the euro for everyday transactions presents some difficulties in terms of adaptation and of confidence. The cent will return and with it the problems of rounding. There will be a break in our “memory of prices” which will have to be reconstructed, i.e. the consumer’s ability to tell immediately and almost instinctively whether something is cheap or not and to assess its value for money.

These are real problems but they should not be overrated. The gradual nature of the transition, the work of the Authorities and the expected contribution of the banking and postal systems, employers and trade associations, in particular in the retail sector, will help citizens to overcome any uncertainties and difficulties and will build confidence in the new money.

The actual introduction of the new money concludes a long period of preparation, during which all foreseeable problems have been analyzed. Special initiatives have been undertaken to help consumers understand and check prices in euros, such as the "Eurologo" project, under which the participating retailers, who will display a specific logo, have agreed to adopt dual pricing in euros and in lire and to continue to do so at least until the end of next February and not to raise prices, by correctly and exactly applying regulations regarding the conversion rate and rounding.

The national and community institutions have, on several occasions, reminded the trade and employers' associations of the principle of price neutrality in the introduction of the euro, which must on no account represent an opportunity to raise prices. The Economic and Finance Ministers of the euro area have agreed to ensure that this principle be respected and to make any roundings in favour of the consumer when converting public rates and administered prices. The Euro Committee and the Provincial Committees for the Euro, responsible for coordinating the changeover for the public administration, firms and the financial system, have organized training and information campaigns on the substitution process, at national and local levels. Schools, by distributing the materials provided by the authorities and stimulating the curiosity of their pupils, are helping to prepare every household.

It is important to make it clear that the changeover is not inflationary per se. The fears in this regard are excessive. There is no automatic relationship between rounding and higher prices. Depending on the conversion rate in each country and the original price in the national currency, the desire to make the euro price psychologically attractive to the consumer will generate rounding down in some cases and up in others. The balance between demand and supply and competition in the markets should ensure that neither direction prevails over the other.

Apart from minor temporary effects, which cannot be entirely excluded, the possibility of comparing prices expressed in the same currency in all the countries of the area will increase market transparency and competition, putting downward pressure on prices. Above all, the monetary policy of the Eurosystem will continue to guarantee stable purchasing power for the new currency whose entry into circulation is the seal on a process that has created a culture of stability amongst the economic agents, governments and the social partners in the member countries.

The conversion of lira banknotes and coins into euro notes and coins need not cause anxiety or worry. We have provided for the greatest possible supply of coins and notes and made arrangements for their extensive distribution. And, even after dual circulation has ended, the old lira notes and coins will be convertible at branches of the Bank of Italy for ten years and at commercial banks and the post office on a schedule shortly to be announced.

The success of the operation which we are preparing will consist above all in gaining the citizens' trust in today's and tomorrow's Europe, the European System of Central Banks and in the new banknotes themselves which, with their advanced technological features, are among the most secure in the world.

It is nevertheless necessary that citizens make their own contribution, being vigilant, especially until they become familiar with the new money. The banknotes have been designed so that by touch, viewing them against the light, and tilting them, anyone can check their authenticity.

5. Conclusions

We are on the verge of a delicate passage but there is no reason for alarm.

Citizens can look forward with confidence to the euro, to the sense of civilization it represents, to the economic advantages it will bring, and to the prospect of greater wellbeing that the new money opens up.

The European System of Central Banks will continue to pursue price stability which is essential to sustained growth in output and employment and the reaffirmation of Europe's place in international trade.

The Ministry of the Economy and Finance, the Bank of Italy and the other institutions in the payments system, each for its own part, will continue their activities in the general interest, with the highest level of commitment, mobilizing the technical and human resources at their disposal.

The States that have demonstrated ability and merit to achieve this extraordinary stage of European integration, must now consolidate this accomplishment and respond to the desires of European citizens for greater economic and social wellbeing, and better employment prospects.

As the Governor reminded us in his Concluding Remarks in May 1998, “Adoption of the single European currency sets a lasting seal on monetary stability. It can be a source of growth, employment and sound public finances if economic policies and the behaviour of the two sides of industry are compatible”.