

THE TRANSITION TO MONETARY UNION

G R E E C E - E U R O P E

The FEIR meeting on
The Transition to Monetary Union
Greece - Europe
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*The Latsis Group of Companies has always been sensitive, in the spirit of its founder, to matters which concern the promotion of Greece on the international stage, and faithful to the tradition which sees the role of flourishing banking organizations as extending beyond the purely economic field. Thus, wishing to play an active and substantive role in the wider world of culture and learning, it has inaugurated the **Eurobank Forum**, which will concentrate on issues involving the sciences, the arts, the economy and politics.*

*The **Eurobank Forum** - named after the Bank which supports its operation - will provide a platform to guest personalities of international standing, for them to give expression to their views ordeal with matters of concern in a variety of areas of thought and of society.*

These events - talks to be given at regular intervals each year, frequently accompanied by other related activities - will give the Greek public the opportunity to keep up to date with and play apart in everything that has to do with the crucial issues of our time ~ and this is precisely the purpose of the various publications which will be made available.

*The **Eurobank Forum**, with the undoubted prestige enjoyed by its speakers and the regularity of the events which it will hold, will be in a position to develop a multiplicity of activities and to serve as an important precedent with prestige and appeal at the European level, thus vindicating the expectations of those who have inspired its creation.*

UNIT I

GREECE PREPARES

OPENING ADDRESS

The FEIR relies on private enterprise. However, it is inevitable, given the nature of its work and activities, that it should take an active part in public affairs. Over the twenty years in which it has been

DIMITRIOS MARINOPOULOS

President of the FEIR

engaged in applied scientific research into, and analysis of, the vital problems of the Greek economy and Greek industry, it has established its voice as a responsible and objective one.

The main activities of the FEIR are as follows: First, it conducts basic research on economic topics. Second, it produces studies of branches of industry with financing from the Hellenic Industrial Development Bank, the National Bank for Industrial Development Investments, the Ionian Bank, the Commercial Bank and other banks. Third, it publishes a monthly survey of developments in the economy. Production of the survey began many years ago and we possess a certain amount of retrospective data. If we compare the projections made by the survey over the last 15 years with the actual economic magnitudes, we will see that there is complete harmony between them. The monthly survey is subsidised by the European Union, of whose team of researchers the FEIR is the only Greek member. Fourth, it publishes a four-monthly situation report on the economy. We have been developing this activity over the last eighteen months and I think that it has been well received in general, although there was no shortage of what one might call 'reaction'. The report is published in English as well as Greek. Fifth - and most recent, starting this year - is the debate we are conducting under the general title 'Dialogue on the Economy'. The FEIR is holding these meetings because we believe that integration of the European Union, progress in the direction of a single currency, and the optimal utilisation of the potential afforded by the help available from the Community organs is the only road forward for Greece to take. The way forward is a hard one, but it is Greece's last chance to modernise its structures and behaviour in such a way as to bring Greek society closer to the Western European models.

The FEIR thus sees its duty as being to contribute, in the form of these meetings, to maximising the scope of the debate and dialogue. In other words, it is our objective that this should not only be a forum for in-depth analysis and study, but that it should also promote the informing of public opinion about the great challenges facing our economy. Only a public opinion which is aware of the alternatives

and the constraints, of the benefits and the costs, is capable of supporting the right solutions.

We held our first meeting last July, under the title 'The Difficult Path towards Convergence'. It was funded by the Commercial Bank, and the Proceedings have now been published; please collect your copy during the coffee break.

Today's meeting is the second in the series, and it is entitled 'The Transition to Monetary Union: Greece - Europe'. We are organising it with the collaboration of the Association for the Monetary Union of Europe, as part of the Eurobank Forum. The whole of today's meeting has been funded by Eurobank, which has been of the greatest help to us. Our warmest thanks.

The FEIR is already working on the next meeting in the series, to be held in March on the topic of 'Harmonisation of the Finance System'.

Today's meeting will be co-ordinated by Professor G. Provopoulos, General Manager of the FEIR. The conclusions will be presented by Mr T. Alexopoulos. The proceedings of the meeting will be published in a special volume. The guests at this evening's dinner will be addressed by the Prime Minister of Greece, who has done us the honour of agreeing to speak to the meeting.

THE PROSPECTS OF EMU AND THE CHALLENGE FOR BANKS AND ENTERPRISES

Mr Chairman, Ladies and Gentlemen, allow me to begin by noting a very careful choice made today: that of placing the speakers beneath the Victory of Samothrace. The Victory of Samothrace comes

BERTRAND DE MAIGRET
General Manager of the AMUE

from a tetradrachm, a Greek coin of the Mediterranean, and it is our hope that one day in its history the ECU will enjoy the same respect and affection as the tetradrachm once did.

I represent the AMUE, an association of large enterprises, banks and professional organisations from the 14 countries which have ratified their accession to the European Union. Since I am here to represent enterprises and banks, I shall begin by stating that a single currency is, for us, something quite natural and something which will have to be available in a single market. The Single Market will reach completion with stability in transactions and currencies and with a single currency.

The reasons for which we advocate this point of view are both macroeconomic and microeconomic. First of all, it is clear that a single market of the extent of that which lies before us with the recent accession of Austria, Sweden and Finland will involve economies of scale. However, if it is divided into different monetary zones, it will be difficult to organise investments in such a way as to cover all the capacity for sales. We are talking of a market in which there will be competition, but healthy, stable competition - in other words, we are talking of a market in which there will be the transparency necessary for us to forecast our investments and their yields. The creation of an economic zone with a gross national product of the same magnitude as that of the United States will give the currency we hope will come into existence added power as the economic expression of Europe.

The markets have begun to advance in the direction of this idea, given that over the last twelve years the proportion of international costing performed in dollars has fallen from 55% to 42%, while that of the European currencies guilders and marks has increased from 20% to 25%, as we hope the ECU will do when it becomes the single currency.

Of all the enterprises in Europe, 92% employ fewer than ten people, and not all of them make use of information technology equipment. A large consultancy firm in Britain found that the abolition of the various currencies and of parity costs would mean that businesses would enjoy an overall reduction of the order of 1% in the cost of their international transactions. This is not a matter to be

disregarded. The target is clear: the single currency. However, this will require a strong monetary policy. And as you know, it was the need for such a policy that led us to the criteria for convergence, criteria which we must now be sure will be satisfied.

Our viewing of this convergence as essential is a relatively recent development, since until 1992 we believed that the political will to create Europe would suffice to keep parities steady. The market showed us that things were not like that, however, as we noted the differences between the European economies in terms of inflation and competitiveness. A further important role was played by monetary crises.

The criteria we adopted were of two kinds: first of all, criteria associated with inflation and related magnitudes, which have to be reduced to the level of the countries which perform best, and secondly the criterion of healthy management and the reduction of public spending and borrowing.

On the one hand, these criteria will ensure that inflation percentages under a single currency will keep pace with each other, and so we will not have higher inflation rates in one country than others - a risk which has to be avoided. On the other hand, the criteria will ensure that the balances which a country needs to be competitive are maintained. Price stability favours business activity, because it facilitates savings and the financing of investments. A reduction in public deficits will reduce the need for countries to resort to the finance markets, while a reduction in inflation will contribute to economic development by bringing down interest rates.

The criteria for convergence should certainly not be seen as the fruit of some bureaucratic vision, as is often said, but as something which will lead to good management and improve the future of wage-earners and the other citizens of all Europe.

The years 1997 and 1999 will be milestones on the way to Economic and Monetary Union. Consequently, we will have to prepare ourselves appropriately and in good time. Various possibilities will have to be examined: let us assume, for example, that it will be possible for us to have fixed currency parities in January 1999. One might think that in those circumstances the European Central Bank and the national central banks would intervene in the markets with ECU. If they intervene in the markets with ECU, then the banking networks will be encouraged to do the same thing, and the transition from the national currency to the ECU as the currency normally used by the banks could thus take place during that period.

In this phase, it may be that the ECU is the currency used in documentation, while the real currency is the national currency. After that phase, we may enter into another in which the ECU and the national currency will have a compulsory parity. After a few months to get accustomed to this, we shall be at the end of the process of setting up EMU with the replacement of the national currencies by the ECU.

We in the organisation which I represent are, of course, interested in the various techniques by which enterprises will be preparing themselves for this new environment, because the setting will be changing for all of us and for the banks above all. The working party which we set up in 1993 and 1994 and whose report will be at your disposal - at the end of this first session, I think - reached certain conclusions.

One first and simple conclusion is that preparation for the single currency should not take place in a secret or secretive manner. My second comment is more technical: the earlier the banks prepare, the less their adjustment will cost, and at this point a choice will have to be made between an investment whose purpose or results are not yet clear and expenditure at the last moment, which will be of a very considerable level. This brings me to my third observation connected with the adjustment of banks and enterprises, which concerns the level of software.

A large bank like Société Générale in France or Barclays Bank will have anywhere between twenty and fifty thousand management software codes. If all those software codes have to be keyed in at the last moment to calculate prices and values in the national currencies and ECU, hundreds of thousands of working hours will be needed, at a cost we can all imagine. This will mean astronomical sums - perhaps as much as fifty billion for a large bank.

One last comment on the banks: the analyses we have carried out of a large number of businesses show that 3/4 of them will be seeking assistance from the banks for adjustment. Only 1/4 will be turning to consultants or various specialised accountants. If 3/4 of these firms will be turning to the banks, then the banks must be ready to supply them with answers in good time, since otherwise the firms will not only fail to penetrate new markets but will lose the markets they have.

Economic and Monetary Union has entered the lives and projections of companies. That, however, is happening in every country. A broad debate on the subject began recently, and the question arises of how fast Europe ought to advance.

BERTRAND DE MAIGRET

That was the thinking behind the creation, in 1987, of the Association for the Monetary Union of Europe. We set up the Association on the initiative of Messrs Smith and D'Estaing, and I would like to take this opportunity of greeting President Ortoli, who will be addressing you shortly. After presiding over the European Commission, he was the apostle of efforts to integrate Europe and contributed to the formation of our Association, of which he is Deputy President.

In this country, we are fortunate to have as Director and Representative, respectively, Messrs Theodoros Papalexopoulos and Ioannis Latsis, whose roles in the economic and monetary sector are well known to you.

Our Association conducts studies because it has long ceased to believe that monetary studies ought to be carried out only by the finance ministries and the central banks. These studies safeguard our credibility and we are attempting to multiply our activities, which is why we take part, every year, in the organisation of approximately one hundred conferences throughout Europe.

I believe that we, the citizens of Europe, should be the first to become aware that convergence assures us of a better future and to support the effort that the statesmen decided to undertake when they signed the Treaty on European Union. We believe that enterprises should make use of organisations such as our own to support this effort, which is in the national and European interest.

In my youth, I was nurtured on Greek culture. Unfortunately, I never learned to speak the beautiful language, but two phrases have stuck in my mind, perhaps because they were engraved in gold upon marble. "Know thyself was the first, and "become what you are" was the second. I believe that Greece has now embarked on the dynamics of Europe and that the country is able to reconcile the prosperity of its people with respect for its history.

THE EUROPEAN UNION AND THE GREEK ENTERPRISE

Good evening, ladies and gentlemen. I shall attempt to convey to you some of the things which Greek enterprises believe about monetary union and its importance for the future of Greece.

IOANNIS BOUTARIS

Managing Director of

I. Boutaris & Son SA

Europe is on the move. Major institutional changes which support the programme for European unification are underway or are being prepared. The processes of European integration have been a source of concern and preventive planning on the part of all those active in the markets. The advance towards unification is, of necessity, an indirect and evolutionary process. General visions and concepts shape the behaviour of entrepreneurs, state officials and unions, and that behaviour, in its turn, influences both the form of the vision and the time over which it is implemented by means of strategic intervention.

It is by means of similar processes that the incorporation of the Greek economy into its European counterpart is proceeding. Incorporation involves the following main areas: membership of the European Single Market, which began to operate in 1993, and membership of the Economic and Monetary Union, to which we look forward.

The undertaking of the Single Market has long since gone beyond the stage of vision and plans. Today it is a reality. The few details which remain before complete integration will soon have been settled. The internal borders have been abolished. The movement of persons, goods, services and capital is free. Greek enterprises are now facing open international competition not only in markets around the world - into which the traditional extroversion of the Greek has led them - but also in their own country.

On their part, Greek enterprises in all sectors of the economy (industry, commerce, other services) are advancing boldly to make the adjustments required of them. They are restructuring their production and their administrative and financing functions. They are reorientating themselves and, where necessary, arranging the forms of co-operation, amalgamations, expansions and regroupings required. In other words, they are reacting to realisation of the basic advantage of the internal market - which is the increase in productivity and general prosperity by means of the rational distribution and use of the available factors of production - and jointly influencing it. My next point has to be

emphasised: if the Greek enterprises had not displayed adaptability (to a greater or lesser extent) to the new conditions and had not trusted in their own abilities in the face of the great challenge, the state of the Greek economy would be much worse today (especially in terms of productivity) after so many years of major macro-economic imbalances and extensive structural distortion.

Europe is also far advanced where transition to the new currency is concerned. Greek enterprises look forward with optimism to the single currency and the country's membership of the Monetary Union - if for no other reason than that the positive effects of the single market and general prosperity will never fully be realised if the cost and foreign exchange risks involved in the existence of a multiplicity of currencies cannot be eliminated.

It may be difficult to produce a complete estimate of the total cost - that is, the cost for all enterprises - of unexpected fluctuations in foreign exchange parities. However, we can be certain that such a cost does exist, and that it is a major competitive disadvantage for Greek enterprises as against their competitors from other parts of the world. Here I am referring not only to short-term fluctuations in parities. I am referring above all to the fact that the medium-term course followed by nominal parities often entails an actual relationship of exchange of market forces which not only does not reflect but frequently moves in a direction opposite to that of the comparative productivity of the ' individual economies.

What are changing, then, are the indices of relative competitiveness and the comparative advantages which arise from monetary phenomena and not from changes in comparative productivity. Thus mechanisms are being reversed and the benefits of free international trade are being cancelled. It would be difficult for a single internal market to survive if, for example, parities between the European currencies followed a course similar to the recent development of the yen / dollar parity, or if we had frequent repetitions of the foreign exchange experiences of Europe of the last two years.

The indications are today that monetary union, whether it takes place in 1997 or 1999, will be carried out in phases. That is to say, first of all the irrevocable fixed parities will be determined and later a single currency will replace the individual national currencies. From the point of view of enterprises, this would seem to be the most prudent approach, since it minimises the probability of undesirable tremors caused by abrupt monetary change from one day to the next. It also provides time margins for the adjustment of the infinite number of technical details in customs and methods of

transactions and in the new relations between the state, central banks, credit institutions, enterprises, and the public.

On the other hand, the introduction of the single currency should not be delayed longer than is absolutely unavoidable, because enterprises are already bearing the greater part of the total cost of adjustment to the needs and priorities of EMU as of now, and they will have to bear it for as long as the stage of preparation continues. Furthermore, the majority of the advantages of monetary reform will only be available when the single currency has been fully established. Moreover, even with the fixing of parities, foreign exchange risks are not going to disappear altogether. This is because the extent to which parities will be irrevocably fixed or not will not be determined by any decisions and wishes of the administration, but in the end by market forces and expectations.

In the case of Greek enterprises, to put it briefly, it is tremendously important that the single currency should be introduced as soon as possible. This presupposes two things: first, strong political will, to be formulated clearly and to be confirmed constantly and by action; and, second, economic policies which will be seen by the market as incontrovertible progress in the field of nominal and actual convergence.

Faced with this great challenge, Greek enterprises and Greek industry have adopted from the very beginning one attitude only: our country must follow closely progress towards the single currency, even if this requires greater efforts and more difficult adjustments than is, perhaps, the case in other countries. And we must play our part in the final stage of Economic and Monetary Union from its very inception, because if we do not do this, it is certain that, apart from the deleterious results for the economy, we shall find ourselves isolated as a nation.

The advantages of EMU may be much greater for relatively small economies, particularly those which start out with the public finance and structural characteristics which have been a feature of the Greek economy over the last 15 years. In the case of this country, for example, participation in EMU means, among many other things, a process of updating of structures and behaviours which will bring our society closer to European models. It is the only step of real modernisation which will allow our economy to make a new start and will arrest its decline.

The effective functioning of a single currency presupposes conditions of macro-economic balance, monetary stability, prudent handling of public finance, and a flexible structuring of the

markets. If all these features are in place in good time in this country, they will mean for Greek enterprises increased productivity and competitiveness, with competition on equal terms with its European partners in matters, for instance, of real interest rates, sufficiency of financing capital and, generally, opportunities for modernisation and development.

The criteria of Maastricht add nothing which we ought not to be doing ourselves: that is, ridding ourselves of the economic errors and burdens of the past, reducing the public sector deficits and debts, and bring inflation to heel. But nothing can get off to the right start if, above all, the way in which we approach reality, our mentality, and our attitude towards competition do not change. The mentality which still prevails among large groups in our society was shaped in a situation of marked dependence on the state. It is to the state that various groups in the population turn to have their problems solved, always pressing for some sort of special treatment.

This attitude of mind is useless in a system of free competition, and when, what is more, the state is not in a position to respond to these calls upon it. Competition demands initiative and the undertaking of responsibilities and risks. And this is something which concerns all of us: social groups, individuals and enterprises. The ultimate aim is the substantive incorporation of the Greek economy into that of Europe and approximation to the givens of the European situation, but while we retain, of course, our values, our national identity and our individual characteristics. It is on those principles, anyway, that European Integration has been built.

An important intermediate point in this long process is nominal convergence. Without nominal convergence, real convergence cannot be achieved, and it is only with real convergence that we shall be able to achieve: first, constant improvement of the competitiveness of the economy, which is a precondition for steering a self-sufficient course into the future; second, the constant creation of new opportunities for employment, which will not be based upon excessive borrowing, but on more rapid development; third, a reduction in the scope of the state and an improvement in its effectiveness; fourth, approximation of functional and organisational structures to those prevailing in the other countries of the European Union.

These, Ladies and Gentlemen, are the conditions which will permit a reduction in the differences in living standards between Greece and other countries of the Union. It is precisely these conditions, which, however, will be satisfied in the future, that Greek enterprises have set their sights on: at

present they are bearing their own, significant, share of the difficulties and cost of the adjustments required. They accepted their own burden, their own responsibility a long time ago, because they know that when the final undertaking has been successfully carried through, the benefits will be many times greater than the cost.

Thus, the possibility of Greece not being able to go ahead in time with the implementation of the rules of EMU and, consequently, not being able to improve the competitiveness of domestic production is deeply disturbing for Greek enterprises. The revised Convergence Programme of the Greek economy serves, of course, as a good basis from which to embark on a new endeavour. And, naturally, its commitment to the aim of Convergence is very positive. The question is, however, whether this programme is adequate and whether the time factor will be accorded the importance which it should. Time is pressing. The time scale of Maastricht is clear. In Europe, certain signs of pessimism about the creation of monetary union which appeared on the horizon during the last two years have now given place to a recrudescence of optimism. The relative stabilisation of the European parities after the foreign exchange crises which occurred, the return of most of the currencies to, or, at least, very close to narrow margins of fluctuation, the gradual, non-inflationary relaxation of monetary policy in most countries, and, above all, the impending significant recovery of economic activity in Europe have given rise to a climate of optimism and an atmosphere of relative calm which permits a sober assessment of certain undesirable phenomena of the recent past and more methodical preparation of the future.

It is my view, then, that the vision of the single currency is far from having been postponed. And I also believe that it would be tragic if in this country we did not all contribute by even' possible means to avoiding a situation where Greece participates at a different speed from that of the nucleus of EMU. Such a situation would have the most unfavourable consequences for Greek enterprises, for the prospects of real convergence, for Greek citizens and working people, and for our national interests. This is because the single currency is the culmination of Economic Union, which in its turn forms a consubstantial and indivisible dyad with the political union of Europe. Greece's participation from the start in Monetary Union is the only way for us to play a full part on equal terms in European integration, co-operation and solidarity.

Our participation in Monetary Union requires, however, over and beyond convergence of

economic indices, profound changes in the structure of the Greek economy itself, by means of decisive interventions, in order to overcome the problems which today are a brake on development. By way of indication, I would point to the constant deterioration of the infrastructure, the proliferation of the state, employment and unemployment, and our educational system.

As to the infrastructure, to begin with, I would stress that the role of any policy which improved the infrastructure through investments in areas which strongly influence the productive potential of the economy, that is, from the point of view of supply, would be of particular importance, because even the modest rate of increase of 3.5% of GNP provided for by the Convergence Programme for 1999 would, at today's yield on capital in the economy as a whole, presuppose investments which would exceed 30% of GNP, while at present they represent less than 20%. There is, then, an imperative need for effectiveness to be increased by means of better infrastructures.

The contribution to this endeavour of the Community Support Framework could be important and its effectiveness must be ensured at all costs. That is to say, public investments must actually contribute to boosting the competitiveness of the whole of the economy and 'prestige' and 'window-dressing' projects of dubious yield should not be selected at a time when there are enormous needs in telecommunications, up-to-date ports, industrial zones, and elsewhere. What takes precedence is the effective yield of the projects and the effects on the competitiveness of the Greek economy.

What is also of great importance is the manner of financing of the investment programmes of the public infrastructure enterprises. If financing is by an increase in their tariffs, the burden is borne by the private sector and the cost of production of private enterprises is increased. If, again, financing is by borrowing within the country, a drop in real interest rates is delayed, again to the detriment of private investments. Finally, partial registration on the Stock Exchange does not solve the problem of management, quality of services and cost of public services. What is needed, therefore, is for detailed analyses of cost and effectiveness to be carried out before infrastructure investments are undertaken.

What is also needed is that public procurement procedures should be transparent and that certain infrastructure and public utility services, such as, for example, postal services, telecommunications, energy, public transport, banks, the construction of major projects, and even some health and education services, should be commissioned from the private sector. In general terms, the nucleus of activities which will remain in the public sector must be made more effective,

with greater use of sub-contracting, the introduction of market mechanisms, and competition from the private sector. Public commodities must be supplied on private economy criteria for their production. And while there is so much to be done, and done quickly, in the area of infrastructures, in 1994, the first year of the implementation of the Convergence Programme, public investments again fell victim to the inability to achieve public finance targets in line with the initial projections- as has happened repeatedly in the past. It is now a permanent structural problem that in public finance, the necessary additional corrective interventions are undertaken at the expense of the public investments programme. For this reason, it is now an absolute necessity that the smooth carrying out of the investments budget of the moment should be ensured by a special statutory regulation which would render mandatory the correction of the regular budget when the realisation of the revenues or current expenditure show deviations from the initial budget, because it should not be forgotten that European co-funding of projects is not automatic, but parallel with the national share of financing.

I come now to the field of privatisations, where there continues to be a very damaging gap between positions adopted and intentions, on the one hand, and the result of government policy, on the other. I hope that the example of the Telecommunications Organisation (OTE) does not herald the fate which awaits all the other cases. In the medium term, only the aggressive and flexible implementation of an extensive and ambitious privatisation programme will contribute substantively to lightening the public finance burden.

However, far beyond the state's immediate cash-flow problem, the most important contribution which privatisations can make lies elsewhere. They serve as the surest message of the determination and objective ability of the agent of economic policy to take the necessary action to improve the structure and boost the flexibility of the mechanisms of the market. They are, that is to say, the criterion par excellence of the micro-economic credibility of an effective convergence programme.

It is, consequently, essential that the Government should go ahead, as soon as possible, with the closing down of the Organisation for the Revitalisation of Enterprises (Greek initials: OAE). It is equally essential that those enterprises which continue to belong to the state should redouble their efforts to hold down their operational cost, to control their borrowing and to reinforce their efficiency. However, above all, the concept of privatisation should be put on its correct basis, which throughout the world today extends far beyond the mere 'de-nationalisation' of enterprises in the

industrial sector and of ailing businesses. At long last, Greece also must divide tasks between the private and public sectors on the criterion of competitiveness and effectiveness in the carrying out of those tasks.

Throughout Europe, *the problem of unemployment* has now become the greatest challenge for those responsible for economic and social policy, and will perhaps remain so for some years to come. This is rightly so, because the current levels of unemployment, in Europe and in this country as well, are from every point of view unacceptable. The fact that they could threaten the monetary integration of Europe is perhaps the least of the problems. The crucial point is that such levels of unemployment could disrupt the fabric of society. *We have to realise that unemployment today constitutes the most obvious symptom of the ineffectiveness of our economies.* And we must therefore take action accordingly.

The present state of affairs is disturbing for two reasons. First, because the usual macro-economic recipes for dealing with the so-called 'employment cycle' have proved in one way or another ineffective, if not positively harmful. Today's percentages of the unemployed are the result chiefly of structural factors and will be reduced only by measures which are also of a structural nature and which will correct defects and inadequacies in the labour market. And second, and this is perhaps more important, the implementation of structural measures requires considerable time to yield the desired positive results.

More particularly in the case of Greece, a serious source of concern is the fact that in the Revised Convergence Programme for the Greek economy there are no clear references to the great problem of employment. Moreover, the rates of economic development projected in the Programme for the whole period up to 1999 are much lower than a rate of increase of GNP of 4 - 4.5% per annum, which is the minimum capable of achieving a reduction in the numbers of the unemployed.

In other words, even if the programme were fully implemented, with today's structural characteristics of the labour market, adequate rates of increase in productive and dynamic employment, that is, employment which does not rely on subsidies, state interventions or the parasitical activities of the unofficial economy, cannot be expected. The longer the radical structural changes which are required in this country in the labour market and the fuller utilisation of the support provided by Community organs for this purpose are delayed, the greater will be the dangers

of macro-economic policy being again led into the temptation of seeking excessive public finance or monetary boosts to economic activity on the demand side.

This, however, would mean that the hard lessons of the last 15 years have already been forgotten. During that period, an expansionist macro-economic policy, though not creating any opportunity for new productive employment, led to enormous deficits and to a public debt the burden of which will not allow us to get off the ground in any area. We urgently need economic policies which will increase production on the supply side.

On the other hand, any delay on the part of this country in introducing innovations in the labour market, as those have been promoted in the other countries of the Union, would mean that the degree of flexibility of our economy will remain inferior to that of the others, with permanently inhibiting consequences for the competitiveness of Greek enterprises and fewer opportunities for productive employment. The prospect of our full integration into the world of the single currency would recede even further, with further unwelcome consequences brought about by the cost of non-participation. This cost would be borne chiefly by Greek working people.

And I come, last of all, Ladies and Gentlemen, to *the question of education*, which I personally believe to be the issue of the greatest importance for our future. This is because it is certain that no structural intervention in the labour market can replace the role and importance for medium-term prospects for employment of the raising of the quality of the human resources through the improvement of education and training, as well as of in-service training. In this area, as in others, the problem should not be approached as a question of shortage of resources, but as a question of effective use of the resources which exist.

Unfortunately, up to the present, training and re-training and the policy of re-integrating the unemployed into the labour market have been the object of exploitation and of special manipulations for the creation of client relationships. A great deal of money has been spent - on creating a new category of workers, a new specialisation: *the trainee*. On the other hand, an easy solution has been found for the reduction of the cost of production and the automatic creation of free working capital in enterprises and organisations which, when subsidised, never provide the specialisation which they promise in their proposals, the natural result being a sequence of negative results for our economy.

The curriculums at all levels of education must be more closely linked with the needs of

enterprises and industry and the relevant courses and the basic skills required should be taught. What is also needed is more - two-way - exchanges of personnel between educational institutions and enterprises. Specialist and effective vocational guidance services at all levels of education and constant training and specialised practical familiarisation with new methods and innovations are also required.

None of this is, however, enough. In today's world it has been shown that specialisation is simply a tool to work with. What is needed is more global knowledge, a raising of the cultural level, and the ability to adapt more easily to the constantly changing conditions and opportunities of productive employment; what is needed, that is, is *comprehensive education*.

Our basic aim, briefly put, must be the provision of substantive education and knowledge to the younger generations of working people, whose own toil and disposition will shape the conditions for genuine union and will transform the vision of European Union into reality for Greece too. The sum of approximately a trillion drachmas which is provided for in the Second Community Support Framework for education or training must not be squandered in serving other ends and policies.

Through co-ordination between the Ministry of Labour, the Confederation of Greek Industries and the educational institutions, we must at long last break out of the cycle of graft and superficiality and breathe life into projects and programmes for the revitalisation of the new generation of working people. We must all recover the morale and optimism which are lacking so that we can really serve as a fulcrum for the prospect of the Europe of the year 2000.

The demands of competition within the framework of the single European market dictate the shifting of emphases and new priorities in the process of re-structuring and in industrial policy. The new economic challenges put the leading edge of competition not only with the cost of production of goods and services, but with innovation in design, marketing, and business strategies with long-term horizons.

Thus the new guidelines both for industrial and for regional policy must focus on the support of regional structures, organisations and agencies, on the strengthening of integrated and cohesive regional programmes which have as their aim the creation of a favourable economic climate, support for credible, solid entrepreneurial agencies, and the building up of networks among units of production. All this calls for concentration of resources in order to achieve clearly predetermined aims, and that in its turn presupposes support for integrated action and investment plans. These are

the strategies by which our economy will be able to overcome the problems and to leave the crisis behind it for good.

As I said at the beginning of my talk, in spite of the difficulties, the private sector of the economy for its part has already detached itself from the crisis, it is active and is expanding. And I am convinced that if the problems which have accumulated as a result of the proliferation of the state are dealt with conscientiously, if nominal convergence goes ahead, and if we manage to participate in Monetary Union from the very beginning, the Greek economy, with the private sector as the fulcrum, is capable of beginning, soon, to develop at rates much faster than those in other European countries, thus narrowing by rapid steps the gap which separates us.

GREECE PREPARES : PROGRAMME AND TARGETS

Ladies and Gentlemen, my dear friends, I am glad to have this opportunity, very soon, just a few days, after the meeting of the Helleno-American Chamber, of saying a few words on general lines about the

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progress of our national economy and the nature of our economic policy. It does perhaps serve a useful purpose to repeat the same facts a number of times, because, unfortunately, Greek governments have to cope with an unwelcome international climate, in spite of the significant progress made in 1994. And, what is more, they have to cope with the mass media as a whole, which, unfortunately, always play up any piece of bad news and miss out the good news. I see that M. Ortoli is smiling; what his smile perhaps suggests is that it is not only in Athens that these things happen, but in Paris as well. However, in an economy which is passing through a difficult and critical phase, there can be no doubt that we need the support of a wide range of social and other factors in order to be able to forge ahead.

The efforts which we are making in the sphere of the national economy are efforts involving the whole nation, efforts which overlap the ruling party, the other political parties, even most of the classes in society. They extend to the whole nation, which includes the mass media, whose contribution, in their own way, has its own usefulness in promoting our national economic policy.

I will begin, then, with an observation which I think is beyond dispute: that the year 1994 has been a solid basis, a good starting-point in our efforts. It has been a sound basis for one very simple reason: that Greece for the first time in many years - I would not like to say how many - has achieved its targets.

I hasten to point out here and to make it clear that the targets which the PASOK government set last year at this time were not particularly hard; they were modest aims, and there were many political explanations for that specific option.

After three years of very serious social upheaval, the PASOK government chose a moderate course for advance, relying on a broad range of support in society, and I believe that that was a wise choice of Prime Minister Andreas Papandreu and the then Minister of the National Economy, the late George Yennimatas. In any event, these were the targets which were set; but it was realised that

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in early 1994 there was a very negative domestic and international climate of opinion about the possibility of achieving these aims.

We can remember the comments of the world Press, of international economic organisations, of various groups at home, who called upon us to take additional measures and talked about deviations of a thousand and more billion drachmas in the public sector deficit. We can remember the negative climate which existed during the first half of the current year. And we come now, my dear friends, in November of this year, with the tabling of the budget for 1995, to do our accounts, and we see that we are ending this year with some very good results.

The public sector deficit shows a zero discrepancy: it will be exactly as budgeted for and will be recorded in the text of the budget in a few days when it is tabled in Parliament, on 30 November. Inflation stands at 10.8%, which was the target of the convergence programme. The battle of the drachma has been won - contrary to all the forecasts of most authoritative international commentators. We are, perhaps, the only European country in recent years to succeed in winning this battle in a situation of the free movement of capital and with minimal cost, if we bear in mind that bank interest rates fell in one month from the outbreak of the crisis to levels lower than those which held good before it began. Our foreign exchange reserves, in spite of the downward trend of interest rates, doubled within a few months - they now stand at 14 billion dollars, and the balance of payments is following a positive course.

These figures are indisputably and undoubtedly very encouraging and cannot be disputed by any sensible and objective observer, because these are the data, which, anyway, only Greece produces; there are no other agencies to produce national accounting figures - we alone produce them. All this then is given and beyond dispute, and I would not wish to maintain that we have solved, or have even gone a long way along the road to solving, the Greek economic problem: the problem goes very deep, the problem is very serious and cannot be solved in a year or two years, or, obviously, in a few months. Hard efforts are going to be needed, and it will take time. I estimate that two or three years will be the time needed for this economy to utilise to the full its development potential and to approach rates of four and five per cent, which it can reach if the human resources are fully utilised and if the resources

which the country possesses, and domestic and international resources and the possibilities of technology are fully exploited.

However, 1994 has been the year when we put our house in order. This is important. We have achieved our aims, we have strengthened our credibility inside and outside Greece, and we have laid the foundations, just the foundations, on which to build as of 1995. And 1995, of course, will also be a year no less critical than the one we are in now; it will be, in effect, the first year of the convergence programme.

Here it must be noted that there has been substantive progress in ensuring healthier public finance, with a reduction of the deficit by approximately two per cent of GNP. Inflation should, in effect, fall - and as I have said on other occasions, this is the primary aim of our economic policy - from 10.4% to 1% by the end of next year. The favourable developments in the balance of payments should continue. Of course, a strict foreign exchange policy - the foundation of our economic policy - must be followed, to the extent that this contributes to the holding down of inflationary pressures and to our anti-inflation policy more generally, but in addition, my friends, it has another very salutary feature: it exerts strong pressure on the cost of production and on the modernisation of Greek enterprises.

The certainty which now exists in the market that the Government will not give in and will keep the drachma hard will have a very salutary effect on the productivity and competitiveness of Greek enterprises, since the issue of competitiveness is not resolved by easy answers of a foreign exchange type. Competitiveness is improved by hard toil on the part of businessmen, working people, by the improvement of the way in which work is organised, by better technology, and by new investments. This is the real answer to the question of productivity and competitiveness, and this is the road which has been chosen by the successful countries of Europe, and more generally on a world scale.

Those countries which have resorted to easy solutions are countries which have recycled recession. The countries which have stable development - Germany, Japan - have chosen the strict the difficult path in the matter of foreign exchange policy.

Of course, the major issue as concerns the progress made by our economic policy is, in effect political. And a political issue naturally has an economic reflex. Let me put it another way: it is matter of the combination of nominal with actual convergence. It is certain, my dear friends, that re;

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convergence, the speeding-up of development in our country, presupposes to a large degree stabilisation, because we know of no example of a country which with very high rates of inflation and vast deficits has achieved high rates of development on a stable basis.

Thus, to say that stabilisation comes first and development follows is a theoretical construct. But this construct does not function, and will never function, in Greece.

And it will never function in Greece for a series of reasons which are bound up with the fact that our country is not a rich one, that it has acute social problems, that there is the anxiety of a whole people, and particularly of the working-man and the pensioner, who wants, and is entitled, to live a better life. And, in addition, because of the mistakes of the political leadership over so many years, political and social tolerance has been exhausted by the recycled stabilisation of recent decades. This is stabilisation which starts out but never finishes. There is thus a lack of credibility, because we have frequently promised the end of the stabilisation process and the beginning of recovery and these promises have not been fulfilled. Consequently, in order for this specific stabilisation effort to succeed, it must go hand-in-hand with - it cannot go before - it must go hand-in-hand with development and real convergence.

You will ask: aren't you attempting the impossible? My answer must be 'no'. The objective is attainable by an amalgam of policies and circumstances, which I will now explain. First of all, stabilisation is a par excellence development policy. We talk about the private sector, we talk about private investments. What determines private investments? The rate of inflation, the level of interest rates, a climate of confidence - that is to say, the stability of the economy. As stabilisation progresses, private investments recover, because interest rates fall, the cost of money falls, a climate of confidence is established and the entrepreneur is ready to risk his money, to invest, and to be creative. Therefore, stabilisation itself functions on its own in favour of development. This is something very fundamental which, unfortunately, few in this country have realised.

Stabilisation itself is a par excellence development policy, and the fact that after three years - I would say the years of New Democracy - when industrial production fell at the rate of 2 and 3% a year, in 1994 under our government there was a recovery of industry at a rate of 2%, and more marked recovery is expected in the coming year. This is of the greatest importance, and an indication of the developmental character of current economic policy.

Another factor which is extremely important, of course, is the Second Delors Package. We have this opportunity, which we must under no circumstances miss, of utilising an important flow of international, European resources, in order to create the infrastructure which we lack. Public projects, small, medium-size, major, are going ahead more intensively, and 1995 will be effectively the first year of full exploitation of this important possibility, which functions in the economy again in a double manner. First of all, it strengthens demand, because all this is money for working people, for companies, and, naturally, it improves competitiveness, because it is well known that the crucial factor for the creation of a competitive economic structure consists precisely of these infrastructures in communications, transport, energy, and so forth.

A third feature which goes to make up the development dimension of our policy and gives rise to precisely those conditions which permit the combination of stabilisation with development is made up of all the structural measures which we follow and which we take.

These include our industrial policy in the field of research and technology, and they include an important policy on education and training, to which, of course, the Community Fund contributes, but, as I have the impression that Mr Boutaris, who spoke before me, dealt with this at greater length, I will not pursue this. However, the issue of the improvement of the quality of the human resources is of crucial importance if the competitiveness of the Greek economy is to be reinforced. Then there is the development law on private investments. This does not affect so much the volume of investments as their composition, and it improves the competitiveness of enterprises which benefit from the application of these criteria, because, as you will know, large-scale investments will be supported - a very important fact. Development policy also includes a series of other measures, such as the modernisation of the Stock Exchange, support for institutions, new institutions, and a series of statutory interventions, also of great importance.

Finally, there is, of course, the policy of privatisation and conversion into shares - privatisation where the industrial sector is concerned, with complete transfer of enterprises under state control into private hands, because the state cannot be an entrepreneur in the current state of entrepreneurial activity, and conversion into shares of public enterprises, of the Telecommunications Organisation (OTE) and the Public Oil Enterprise (DEP) for 1995, through which we hope to raise capital for the modernisation of these enterprises, but above all to expose

them to the pressure of competition in the domestic and international market.

This is the only antidote to the party political involvement of their managements, because only when a management, over and above its good intentions, is faced with the price of the share of an enterprise on the Stock Exchange, can it resist pressures of whatever kind and avoid deviating from a correct entrepreneurial strategy.

So we come to a fourth, important, feature, after the first, which is stabilisation, the second, public investments, and the third, structural policy. The fourth feature of our development policy is the favourable conjunction of circumstances which we are exploiting by policy measures: the opening up of the Balkans and Eastern Europe.

The Greek world, and I say this for the benefit of our foreign guests, not for us Greeks, has always had a broader hinterland, an economic hinterland, a political hinterland, a cultural hinterland. This is now being recovered with the opening up of the markets and the building up of democracy in these countries, which provide an extensive field for action for the Greek businessman, for him to export, to invest, to develop. It is my belief that this feature is giving a new dynamism to our development policy.

In conclusion, I will come to a political comment of broader application. I have explained the reasons why we are able in these circumstances to combine stabilisation with development. This is a basic political condition for the acceptance of the stabilisation policy, for the implementation more generally of our economic policy. If stabilisation is combined with recession, it is my belief that nothing will go forward. There will be justifiable reactions in society, if not explosions. On the other hand, the linking of stabilisation with development is the first and fundamental political condition for the effective implementation of this policy.

Our government is seeking through the ensuring of the appropriate and necessary social balances, through exhausting all the resources of the economy to provide social justice, through the active pursuit of development policy to fulfil this basic political condition, the combination of stabilisation with development.

But not even this is enough. Something else is needed: dialogue. If you look at the policies which have succeeded in Greece, I think that broadly speaking you could say that policies have been successful when governments have done the utmost in the direction of social dialogue, when they have

taken into account the positions and interests of groups in society who are affected or who will benefit from the pursuit of a policy, and have truly worked on the basis of consensus.

By way of contrast, if you look at those policies which have been a failure, you will see that they are those policies which have been pushed through by arrogant governments which have overlooked social dialogue, who have not taken into account society and the feeling of society, and have come into conflict with just - or less just - social interests and have thus been unable to go ahead.

Thus importance attaches to the issue of dialogue and consensus, which is par excellence of a social nature, but which may also have a political character at those points where the political parties coincide, and I believe that we are on the road towards more general convergence, at least over some points of policy, given that all the parties, or most of them, at least, accept the programme of convergence with Europe, accept the orientation towards Europe, and accept the basic principles of a sound economic policy.

It is my belief that this consensus is the second fundamental political condition for the successful exercise of economic policy. And I am happy to announce - and for me today has been a happy day - that today I signed - and here I remember the late George Yennimatas - the decision on the setting up of the Economic and Social Committee. This is an important organ, on the model of similar institutions operating in the European Union, which brings together the representatives of all the social agencies and productive classes, and I am glad that the employees and industry have sent distinguished representatives, some of whom I see present here, who will advise the government, whatever government, on all issues of social and economic policy.

I would like to think that this body will not function as a platform for trade union demands, but will operate as a forum for the search for meeting-points, points of identity and coincidence of view among opposing interests, which, however, when they pull together and orientate themselves toward common aims, are in a position to exert the strongest pressure on governments - not only social pressure, but also political pressure - and to guide them and to help them in carrying out effectively correct economic policy.

It is with these words, my dear friends, that I would like to conclude, with the expression of total optimism which I feel that, in spite of all the difficulties, if we advance as we are now advancing, and at faster and more effective rates, Greece will win the wager of a United Europe.

UNIT II

THE PROSPECTS

FOR EUROPE

THE ROLE OF THE EUROPEAN MONETARY SYSTEM LAND THE PROGRAMME OF THE BANK OF GREECE

I would like, first of all, to thank you for inviting me to speak at today's meeting, and, second, to congratulate the Association for the Monetary Union of Europe and the FEIR on their organisation

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of it. The process of European monetary union is of particular importance for the future of our continent and of our country. This process will not only radically affect the finance markets, the banking system and monetary policy in the European Union, but will have important economic and political effects, which have not been sufficiently understood. Gatherings such as today's contribute to an understanding of the developments and problems and to preparation for our country to play its part effectively and in good time.

The subject on which I have been asked to speak is of rather a technical nature and is, perhaps, a little wearisome for those who have only a more general interest in monetary union. I hope there will be no diminution of the cordial atmosphere which was created in the course of the preceding unit. Before focusing on matters connected with the European Monetary Institute (EMI) and the Bank of Greece, I will begin with some observations on the prospects for European monetary union.

Almost three years have now passed since the Treaty on the European Union was approved at Maastricht, and 11 months from the setting up of the European Monetary Institute and the beginning of the so-called second stage of monetary union. This second stage, which is of a transitional and preparatory character, will last two to four more years, depending on whether the transition to full monetary union has been achieved in January 1997 or, at the latest, by January 1999, as stipulated by the Treaty. Consequently, within four years at the most, monetary union must have become a reality.

Developments in the previous, the first, stage of union, which lasted some two years, were not particularly encouraging for progress towards European monetary union. The first stage was marked by the prolonged upheaval of the European Monetary System, which started in the summer of 1992, culminated in September of the same year with the withdrawal of two important currencies (the British and the Italian) from the foreign exchange mechanisms of the EMS, and, after a difficult period, ended in August 1993 in the widening of the fluctuation margins of the currencies participating in the foreign exchange parities mechanisms to $\pm 15\%$ from $\pm 2.25\%$.

Many observers of monetary and economic developments have interpreted this widening of the margins as the effective collapse of the European Monetary System and have concluded that the

process which leads to European monetary union has gone off the rails. Nevertheless, the pessimistic prophecies about the future of monetary union have not come true. The foreign exchange upheavals of 1992 -1993 did not finally block progress towards union. What they did was to draw attention to the potential vulnerability of systems of quasi-stable foreign exchange parities and, consequently, the importance and necessity for Europe of irrevocable stable parities, which are safeguarded in the best possible way by the adoption of a single currency. At the same time, the foreign exchange crisis underlined the necessity of intensifying efforts to achieve real convergence of the economies of countries which are candidates for monetary union. Without convergences of the economies, the stability of the foreign exchange parities has proved temporary and fragile. Finally, by widening the fluctuation margins, the foreign exchange markets were freed from profiteering pressures connected with technical characteristics of the system which provided an opportunity for 'one-way bets'.

The fact is that the widening of the fluctuation margins of the EMS in August 1993 was followed by a period of relative stability of foreign exchange parities in the European Union. The majority of the countries of Europe continued to implement an anti-inflation monetary policy and did not take advantage of the flexibility allowed by the widened fluctuation margins. This had a favourable effect on the foreign exchange markets, with the result that the foreign exchange parities of the currencies in the EMS remained relatively stable and near their central parities.

Consequently, the prospects for monetary union in Europe are gradually becoming more encouraging, without this meaning that we will not encounter difficulties either at the European level or in this country in the run-up to monetary union.

The European Monetary Institute

The setting up of the European Monetary Institute (EMI) in January 1994 gave a new boost to the process of monetary unification. The general purpose of the EMI is to contribute to the creation of the conditions necessary for transition to full monetary union. This general aim is expressed through three more specific objectives:

The first is to support the co-ordination of the monetary policy of the member-states in such a way as to achieve stability of the general level of prices, that is, to ensure zero or very low inflation.

The second is the carrying out of the preparatory work required for the setting up and functioning of the System of European Central Banks, the implementation of a single monetary policy and the adoption of a single currency. A third objective is supervision of the development of the European Currency Unit (ECU).

Consequently, the aims and the duties of the EMI are chiefly of a co-ordinatory and preparatory nature. In addition, the Institute has other advisory, functional and technical duties. In order to achieve its aims and carry out its duties, the EMI collaborates closely with the central banks of the member-states.

The new monetary organ of the European Union, which has its headquarters in Frankfurt, is a tangible and visible feature of the Maastricht Treaty. While in a certain sense it could be regarded as a successor of the Committee of Governors of the central banks of the European Union, the most accurate description would be to say that the EMI is the forerunner of the future European Central Bank. The legal standing of the EMI is based on the Treaty, while it is financed by the national central banks-and not by the governments of the member-states.

I shall now give a summary account of the organisational and administrative structure of the EMI, from which certain conclusions about its work can be derived. Its supreme administrative organ is its Council, which consists of its President, currently Professor Alexandre Lamfalussy, and the governors of the central banks of the member-states. The permanent staff of the Institute, approximately a hundred at the end of 1994, is drawn chiefly from the central banks, and is divided into three directorates: the Economic, Monetary and Statistical Directorate, the General Secretariat, the Personnel Directorate, and Informatics Directorate.

The work of the EMI also relies on three sub-committees of the Council and five working-parties, which have as their members representatives of the national central banks. The three subcommittees are concerned with the basic issues of monetary and foreign exchange policy and matters to do with the preventive supervision of the banks. The work of the sub-committees involves both the exercise and co-ordination of the policy of the member-states and the relevant preparatory work for the transition to monetary union. By way of contrast, the tasks of the working-parties are chiefly technical and preparatory in the fields of payments systems, statistics, the printing and distribution of the future European currency, accounting, and informatics.

This brief description of the organisational structure of the EMI demonstrates the wide scope of the Institute's activities in connection with its two basic aims: the co-ordination of monetary policy and the shaping of suitable monetary conditions and technical requirements for the transition to full monetary union. Furthermore, the organisational structure of the EMI stresses close collaboration between the Institute and the national central banks.

One feature of the EMI which underscores its character as forerunner of the European Central Bank is its independence. As the Treaty expressly states (Article 8 of the Articles of Association of the EMI), the Council of the EMI is not permitted to seek or accept guidance from Community organs or from governments of the member-states. Conversely, the Community organs and the governments undertake the obligation not to seek to influence the Council of the EMI in the carrying out of its duties. This regulation is of importance not only because it stresses the significance which the Treaty attaches to the independence of the monetary authorities, but also because the Council of the EMI will take decisions and express views on crucial matters which concern and will influence the participation of the member-states in monetary union.

In the next part of my address I shall deal more specifically with the role of the EMI in the co-ordination of monetary policy and the process of economic convergence, and with the way in which the EMI and the Bank of Greece are advancing the shaping of suitable monetary conditions for the transition to monetary union. I shall then give a brief description of the preparatory work of the EMI in connection with the creation of the necessary material and technical infrastructure for the implementation of the single monetary policy and related activities at the Bank of Greece. In conclusion, I shall share a few thoughts with you on the broader effects of monetary union.

Monetary Policy, Economic Convergence and the Role of the EMI

In the area of monetary policy and the process of convergence of the economies of the member-states in the second stage of monetary union, the EMI has various specific duties. A basic aim, as has already been explained, is the more effective co-ordination of the monetary policy of the member-states with a view to ensuring stability of prices. The point which should be stressed is that the co-ordination of policy pursued is in a clearly defined direction: monetary stability, that is, a rate of

inflation which does not exceed 2%. Co-ordination is achieved through the monthly evaluation of economic developments and monetary policy by the Council of the EMI, which is based on reports on the exercise of policy and the functioning of the European Monetary System. In its annual reports, the EMI will give its opinion on the monetary conditions in the member-states. It may also formulate recommendations to the national monetary authorities as to the orientation and exercise of monetary policy. In this way it seeks to contribute to the pursuit of an anti-inflation policy in the member-states. However, in the stage of transition to monetary union, the basic responsibility for the exercise of monetary policy rests with the national central banks. The Bank of Greece has repeatedly stressed the importance of monetary stability, which is a primary aim of monetary policy. Recently, I had the opportunity of explaining in detail the reasons why monetary stability must be a priority for a central bank, regardless of the mandates of the Treaty. In order to achieve the de-escalation of inflation, the Bank of Greece will continue its anti-inflation policy of a limited slide of the drachma and, at the same time, will make the further holding down of monetary and credit expansion an objective. Thus, the Bank's policy on interest rates is determined chiefly by the ultimate aim of further de-escalation of inflation and the intermediate objectives of holding down of monetary expansion and limited slide of the drachma. According to the data available, the intermediate aims of monetary policy in 1994 as to the rate of increase of money supply and the rate of slide of the drachma will be achieved, in spite of the pressures on the foreign exchange market during the period of monetary upheaval last May.

However, the effectiveness with which monetary policy can achieve monetary stability depends on the cohesion and co-ordination of all the media of economic policy. This holds good both at national and at a European level. More specifically, if monetary and foreign exchange policy are not accompanied by an appropriate public finance policy, side-effects are produced in the economy and the effectiveness with which the central banks can achieve monetary stability in the long term is impaired. This is precisely the reason why the Maastricht Treaty sets certain economic criteria which a country must fulfil if it is to be allowed to take part in monetary union. For this purpose, the Treaty stipulates certain procedures for the monitoring of the public finance adjustment and the economic convergence of member-states.

In these procedures, the EMI and the Bank of Greece play complementary roles in connection with the broader framework of 'multilateral supervision' of the economies of the member-states by

the Council of Ministers, in collaboration with the European Commission. This supervision is based, as you will know, on four criteria for convergence, which concern inflation, long-term nominal interest rates, the stability of the foreign exchange parity, and the state of public finance in the member-states.

The desirability of the specific criteria lies in the necessity for convergence of inflation rates among the countries which will make up the monetary union, so that accumulated losses of competitiveness which would have destabilising effects on their economies are avoided. Consequently, the basic criterion is convergence of inflation rates. The development of long-term interest rates and of the foreign exchange parity, because they are influenced by expectations in connection with inflation, provide supplementary information on the course followed by inflation. The policy of the Bank of Greece, which is orientated towards convergence of rates of inflation and the progressive stabilisation of the foreign exchange parity of the drachma, seeks to contribute directly to the satisfaction of these two criteria.

In the case of the public finance criteria, their importance is associated with the ensuring of monetary stability in the long term. Since a condition for stability is the avoidance of excessive public finance deficits, the Treaty provides for the implementation of a new procedure for the monitoring of public finance magnitudes in the member-states, with a view to holding down these deficits. In addition, the Treaty prohibits, as of the beginning of the current year, the monetary financing of the state by the central bank and privileged access of the state to the credit system. The abolition of the financing of the state by the Bank of Greece as of January 1994 is a statutory regulation which contributes to the restraint of inflationary pressures exerted by public finance deficits. The EMI monitors systematically, in its quarterly reports, the extent to which central banks are conforming with the Treaty and not providing the public sector with finance facilities. Public finance deficits, however, have monetary effects not only when they are financed by the central bank, but also when they are financed by other credit institutions or by foreign borrowing. The Bank of Greece, by means of interventions in the market, seeks to neutralise the monetary consequences of this way of meeting the deficits, so that the creation of liquidity is held down at levels consistent with the reduction of inflation.

For the purposes of assessing progress towards the achievement of economic and monetary convergence, the Treaty stipulates that the member-states will introduce 'long-term programmes' with

a view to ensuring the on-going convergence which is necessary for the achievement of economic and monetary union. Greece is already implementing such a convergence programme. The EMI will play an important role in assessing the convergence procedure, since it is obliged to submit each year to the Council of Ministers a report which will deal with the economic convergence of the member-states, but also with the adjustment of the media of monetary policy and of the statutory framework for the operation of the central banks.

Finally, in the context of its advisory duties, the EMI will draw up a final report to the European Council in 1996 in which it will give its judgement on whether each country satisfies the criteria for convergence. By means of this report, the EMI will influence the decision taken on the participation of this country in monetary union, and it can be predicted that the EMI's assessment will be strict, given that the central banks take the view that the credibility of the anti-inflation policy of the future European Central Bank demands strict observance of the convergence criteria.

Preparatory work on the transition to monetary union

The responsibility of the EMI and the national central banks for preparation for monetary union is not restricted to the exercise of anti-inflation policy and the promotion of economic convergence. According to the Treaty, at the latest by the end of 1996 and regardless of when the beginning of the third stage becomes possible, the EMI must determine the regulatory, organisational and material and technical framework required for the functioning of the European Central Bank and for the mapping out and pursuit of the single monetary policy.

This preparatory work more specifically includes: 1. Preparation of the means and procedures for the implementation of the single monetary policy; 2. The harmonisation of the means of collecting and processing statistics; 3. The rules for the apportioning of jobs between the European Central Bank and the national central banks; 4. The promotion of the effective operation of the cross-border payments systems; 5. Technical preparation for the printing of the new ECU banknotes.

This preparatory work calls for tremendous efforts. The sub-committees, the working-parties and the staff of the EMI are working intensively and are systematically carrying out the preparatory work in accordance with a masterplan, which defines and co-ordinates the individual jobs and lays

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down a time-scale for the completion of the work by the end of 1996.

Time does not permit even a general description of all the preparatory activities of the EMI in this connection and the corresponding jobs done by the Bank of Greece. I would, however, like to deal briefly with three individual matters:

The first concerns the preparation for the exercise of the single monetary policy, which presupposes a single statutory and functional framework. This framework will include harmonised systems of compulsory blockings and mechanisms for the financing of the credit institutions by the central bank, and the mechanism for intervention in the market by the European Central Bank in collaboration with the national central bank. The Bank of Greece itself is also preparing for the future implementation of the common monetary policy, regardless of the extent to which Greece finally succeeds in joining the monetary union in 1996. The development and effective functioning of a secondary market in interest-bearing bills and bonds will make it possible for the Bank of Greece to extend the means of its intervention in the market and reinforce the effectiveness of monetary policy. The conversion of state securities into non-tangible form will be an important step for the development of the markets and the creation of an effective framework for open-market operations. The operation of a new dealing room has meant the technological updating of the mechanisms for the exercise of monetary and foreign exchange policy.

The system of compulsory blockings on the deposits of banks and the mechanisms for the financing of the banks by the Bank of Greece will be reformed in the direction of harmonisation with the system and mechanisms which will be adopted by the European System of Central Banks. Compulsory blockings on the deposits of the banks, particularly on deposits in foreign exchange, will gradually be reduced in the coming two to four years. The reduction in the blockings is being made deliberately in order that the competitiveness of the Greek banking institutions will not be unfavourably affected. However, abrupt changes in the compulsory blockings are not feasible in the immediate future, since they may render difficult the exercise of an anti-inflation monetary policy. Moreover, the mechanisms for financing the credit institutions which have already been established will be improved, so that they can be employed more actively and effectively in the exercise of monetary policy. The Lombard financing mechanism with state securities as a pledge was widely used during the monetary crisis of last May. The mechanism of financing by rediscount of promissory notes

and commercial bills will be reformed in 1995 with a view to its activation. The adjustment of interest rates to these two finance mechanisms (Lombard and rediscount) which has taken place in recent months has had as its purpose precisely the reinforcement of the role of these mechanisms in the exercise of monetary policy.

Another basic sector which requires significant preparatory work is the creation of a cross-border system of payments within the framework of monetary union. This system will furnish the technical background which will ensure that the effects of the monetary policy decisions will be passed on directly to all those participating in the united money market. The EMI is preparing the structures which will make it possible for the European System of Central Banks to promote the effective and secure carrying out of cross-border payments following the creation of monetary union. The preparation in question is concerned chiefly with the linking of national systems of high-value payments, in such a way as to replace the present pattern which governs payments between the member-states of the European Union and is based on a network of correspondent banks. The present system is not adequate for the handling of inter-bank high-value payments or those which will result from intervention operations of the European System of Central Banks.

It has already been decided that high-value payments will be carried out by gross settlement in real time, because in this way the risks which the participant credit institutions and the whole system are likely to face are reduced. The monetary union system of payments will be based on the infrastructure and systems of settlements of the national central banks. Consequently, if the system is to operate effectively, a certain degree of approximation of the national systems and a shared infrastructure for their linkage will be required for cross-border payments to be carried out. The planning and implementation of this new system will require efforts over a number of years. The Bank of Greece will promote the development of a system of payments in this country in a way compatible with the specifications of the future European system.

If the cross-border system of payments is an essential feature of the substructure for the exercise of the single monetary policy, the issuing of a single currency in the form of banknotes is, perhaps, the most visible characteristic of monetary union. The EMI has been tasked with the supervision of the technical preparation of the European banknotes which will replace the national paper money. It is estimated by the experts that the printing and issuing of the new banknotes will take three to four

years from the date of the taking of the final decision as to their characteristics. The appropriate working-party of the EMI has already produced a detailed study and its Council has taken decisions in connection with the series, the number and the nominal value of the banknotes. It has been decided that seven banknotes from 5 ECU to 500 ECU on a scale 1:2:5 will be issued, while within 1995 final decisions will be taken on the size and security features of the banknotes. In addition, work on the choice of subjects on which the design of each series will be based has already started.

As far as the appearance of the European banknotes is concerned, the options have been reduced to two alternatives: the issuing of identical banknotes by all the central banks of the countries which participate in the monetary union or the issuing of banknotes one side of which will be common to all while the other will have some small-scale national feature. The final decision on the appearance of the ECU banknotes is expected to be taken by the end of 1995. In accordance with the principle of subsidiarity, the European banknotes will be issued by the national central banks, provided that these satisfy the necessary criteria as to quality and production cost. The Bank of Greece will go ahead in 1995 with the upgrading of its technological equipment, so that it fulfils all the conditions for the issuing of the European banknotes.

Conclusions

My opening forecast that my address would be of a rather technical character has been fulfilled. I would like to conclude with certain conclusions and observations of general interest.

The first conclusion which emerges from the sketch of the activities of the EMI and of the national central banks is that the process of monetary union has been set in motion and is being vigorously promoted. Both the new monetary institution of the European Union and the central banks of the member-states are contributing by means of their policy to the creation of the conditions necessary for transition to the final stage of monetary union. There may be some uncertainty as to the exact date of commencement of the third stage, whether, that is, it will be 1997 or 1999, but there should be no doubt that monetary union will become a reality before the end of the century. The more likely date is 1999, since it is estimated that the majority of the countries of the European Union will not satisfy the convergence criteria, particularly those concerned with public finance, in the next

two years. This makes things easier for Greece, since it would not have been able to participate in 1997. But for it to be feasible for it to join in 1999, constant, persistent and co-ordinated efforts will be needed in all fields of economic policy. Monetary policy is clearly orientated towards monetary stability. The Bank of Greece, as I have said, is seeking to shape the necessary monetary conditions, but also to ensure the appropriate material and technical infrastructure for the country to take part in this historic process. It is obvious, however, that the monetary authorities cannot achieve the necessary convergence in all areas of the economy on their own.

Another observation which is of particular importance is that the creation of the monetary union will inevitably lead to a European Union of two tiers. The Maastricht Treaty is clear: only those countries which fulfil the convergence criteria and certain other conditions will participate in economic and monetary union. The effects of this development will not be confined to the monetary sphere. The adoption of a single currency and a single monetary policy will impose restrictions on the economic and public finance policy of the states which join the monetary union. Finally, in order for monetary union to work effectively, greater co-ordination and centralisation in the exercise of economic policy will be needed. In order to achieve this co-ordination, reinforcement of the political collaboration between the member states, including collaboration in the fields of foreign relations and security, will be called for.

The Maastricht Treaty does not provide, in my opinion, for the required degree of co-ordination and cohesion of economic and more general policy for the effective functioning of monetary union. It is, however, very likely that the new Inter-governmental Conference, which will be convened in 1996, will promote closer economic and political collaboration. It is not beyond the bounds of possibility that this collaboration will apply more to the countries which have achieved economic convergence and have joined the monetary union. The general conclusion which emerges is that the countries which do not participate in monetary union run the risk of remaining on the sidelines of more general developments in Europe. It is, then, essential that every effort should be made to achieve the more healthy state of public finance and the structural adjustments which are required, in parallel with the pursuit of an anti-inflation policy by the Bank of Greece, so as to render possible the timely participation of this country in monetary union in 1999. The undertaking is a difficult one, but I believe that it is still feasible.

THE ROLE OF THE COMMERCIAL BANKS IN MONETARY UNION

I too, in my turn, Ladies and Gentlemen, would like to express my thanks for the opportunity which I have been given to address your gathering. And I would like to congratulate the organising committee

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on a faultlessly organised conference. I shall deal with the role which the commercial banks are called upon to play in the carrying out of the process which the preceding speaker described so aptly.

The European Union is today going through one of the most critical phases in its history. It is called upon to choose and promote the methods which will permit it to acquire the necessary depth and the appropriate breadth. *Depth*, so that relationships of union, co-operation and solidarity between today's member-states are integrated. *Broadening*, so that those countries which embrace the ideals and cultivate the features of the European cultural heritage can be formally incorporated into a United Europe.

Economic and monetary union is the fulcrum for an undertaking which is ambitious and of the greatest historic importance: the political union of Europe. It is with prospects of this kind that the member-states will accept a single currency and will renounce their basic sovereign right to issue money and to pursue an independent national monetary policy.

The position of the Greek banks on our country's options remains united: *Greece must follow developments in Europe*. It must prepare itself systematically and, above all, in good time participate *from the beginning* in the final stage of monetary union. This is a national duty, in view of the alterations which are taking place on the international scene and particularly in our geographical ' region. Naturally it is also the answer not only for our competitive survival, but also for the development of the Greek banks, even for those which today are facing a comparatively greater cost of adjustment because of the burden which they have inherited from whole decades of interventionism and involvement of the state in their banking functions.

By the very nature of their functions, the credit institutions are at the centre of any process concerned with the reform of the credit and monetary system. Indeed, the banks of the Community have been at the epicentre in recent years of the process leading to Community finance integration, as that had been planned in accordance with Community directives on the creation of a single banking market, a single money and capital market. At a more advanced level today, the banks also make up

an integral part of the procedure which leads to the monetary union of Europe and the adoption, within a reasonable period of time, of a single currency. Finance integration, as an important item in the internal market programme, has already become a reality. From January 1993, the Community credit institutions have been acting within what is now a single territory of Europe, in conditions of freedom of establishment and unrestricted provision of cross-border finance services.

With the safeguarding, in principle at least, of these freedoms and the complete abolition of restrictions on the movement of capital, a new landscape has begun to form in banking in Europe. In this new environment, direct competition in prices and quality of services is the rule. Thus we can see the banks adjusting themselves to the constantly changing conditions of the broader finance market through the forming of strategic alliances, through mergers and acquisitions, through collaboration or expansion, with a view to utilising the margins afforded by economies of scale and economies of range.

At the same time, there has been an important qualitative change in the role of the central banks and other administrative authorities which carry out banking supervision. The emphasis is now on ensuring the stability of the single banking system by pre-audits which aim at cutting down the finance, functional and systemic risks which constantly increasing competition entails.

With the institutional changes which have come about, the integration of the finance sector has already been advanced to a significant degree. But the process of monetary union is much more demanding in its preconditions than finance unification. It is for that reason that, although it got under way in 1992, it was chosen to complete this unification in three stages.

From a purely technical point of view, most of the formal conditions for the operation of a monetary union have been fulfilled or are at an advanced stage on the road to fulfilment. As an example I would cite the possibility of full convertibility of currencies, the abolition of the restrictions on cross-border movement of capital, and the integration of the finance markets. The point at which delay is observable is in progress towards fulfilment of the substantive conditions for monetary union. I am, of course, referring here to the major issue of the convergence of economies and the need for the basic criteria stipulated in the Maastricht Treaty to be met as soon as possible.

I would like, however, at this point to return to Greece and to deal for a little while with the steps which have been taken and the progress which has been achieved as a result of the de-restriction of

the finance system. I believe that it could be maintained that since the end of the last decade the de-restriction of the system and the abolition of administrative restraints has been unprecedented in its extent, relatively rapid, and comprehensive.

In response to the need to adjust the Greek banking system to Community and international specifications, both the state and the Bank of Greece have gone ahead with the shaping of an up-to-date statutory framework, its chief characteristics being: the gradual de-restriction of the movement of capital, the abolition of compulsory investments in state securities, the complete de-restriction of interest rates on deposits and loans, the abolition of subsidisation of interest rates, the development of consumer credit, the expansion of the range of finance services.

All these items go to make up irrefutable evidence of the direction in which our banking system is moving. Whether or not in conformity with Community legislation, the Greek banking market has been enriched with new tools and institutions, such as leasing and factoring, which contribute to the effectiveness of the banking system and increase the transparency of transactions, the stability of the market and the protection of depositors.

These basic reforms have, moreover, been carried out in conditions of macro-economic instability and uncertainty, caused by extended recession, the constant enlargement of the public debt, persistently high interest rates and a foreign exchange policy which carries disproportionate weight in the whole stabilisation effort, because it is not consistent with the improvement in public finance which, from the point of view of speed and extent, is called for.

These conditions have given rise to serious inflexibility in the handling of the banks' assets, have contributed to keeping real interest rates high, and have distorted the structure of nominal interest rates, with all the negative feedback effects which this involves. Consequently, they do not favour the substantive deepening of the money and capital markets, nor the creation and development of organised markets for finance derivatives. Such a development of markets would produce stabilising effects on the creation of the primary markets.

In spite of this, the developments in our banking system have been and continue to be in the right direction, a fact which justifies every optimism about the prospects of this branch of the economy. The increase in the number of Greek and foreign banks operating in Greece, the development of composite finance groups, the provision of a constantly enriched range of finance

THE COMMERCIAL BANKS IN MONETARY UNION

services, and the trend, now becoming apparent, towards the internationalisation of Greek banks constitute the most tangible indications that the domestic banking market is now in the orbit of international developments, and is constantly adjusting itself to contemporary conditions in the international finance system. Banking, as a whole, is perhaps one of the few branches of the economy which is showing clear progress in what is, in other respects, a static or slow-moving economy. It is certainly a typical example of what can be achieved with the de-restriction of the markets.

When the Maastricht Treaty was signed, the completion of monetary reform by stages was the only realistic approach. However, the subsequent creation of some uncertainties in the course of the second stage of EMU was inevitable. The markets developed expectations that in the course of this transitional stage on the way towards the irrevocable determination of stable parities, the slide of the currencies of the weaker economies would be unavoidable. Consequently, we are going through a stage not only of adjustment of the economies and preparation for the new institutions, but probably also of monetary upheavals. When in August 1993 the European Council ECOFIN decided on the widening to 15% of the margins of permissible fluctuation of bilateral central parities, it became clear that progress towards monetary union would be quite a lot more complex than was anticipated when the Treaty was signed.

The good news is, however, that following the widening of the permitted fluctuation margins, the individual currencies retained an adequate stability between themselves. This demonstrates the shared desire that the transitional stage should not be extended beyond the period which is absolutely necessary for the required preparations to be carried out correctly.

On the other hand, however, there is the message which for certain countries is perhaps not so welcome, but which must be borne in mind seriously: that if convergence is not achieved, Europe is in danger of being led to a 'multi-tiered' monetary union.

It is my personal belief that such a development would be a historic misfortune for the whole of Europe, and even more so for countries which would occupy a place in the outer circle because of the weaknesses, as described by the previous speaker, of their internal economic policy. Our country must reject any idea of 'variable geometry', and, at the same time, must pursue participation in the monetary nucleus from the very beginning. It is precisely for this reason that it is a matter of pressing importance for us as a nation to achieve convergence as rapidly as possible.

YANNIS KOSTOPOULOS

Equally important is the lesson to be learnt from the repeated crises of the foreign exchange mechanism of the European Monetary System in connection with the mixture of economic policy which must be implemented by those member-countries which wish to go on to the third stage of economic and monetary union. In the transitional stage which we are passing through at present, there are two factors which are critical for foreign exchange stability: first, non-inflationary development, and, second, healthy public finance.

In the case of Greece more particularly, this means that the faithful implementation of the Convergence Programme is not by itself enough. In addition, the Programme must be improved and strengthened at those points where it shows weaknesses. I shall not say more about this, because I am in agreement with the conclusions of the special meeting held by the FEIR last July.

What, then, is the position of the Greek banks in the face of the prospect of economic and monetary union?

As is the case with most of the sectors and branches of the Greek economy, for the banks too the road will not be easy. But, I would remind you that the road which we have come along during the last decade has not been easy either, as we have advanced towards gradual finance de-restriction, from the time when the banks were in handcuffs - not to say straitjackets - to the present day, when there are no restrictions.

During that time, the Greek banks had to cope with a host of difficulties and objective adversities. In spite of this, they have adjusted and are adjusting with what I would venture to call enviable success. Up to the present they have shown extroversion, adaptability to international trends and developments, and a high level of flexibility in the assimilation of innovations. Far beyond the performance of a modern mediatory function within the national frontiers, the Greek banks are developing their forms of collaboration abroad, thus effectively linking the domestic with the international capital pool. And, of course, they are only at the beginning.

These signs, I believe, inspire positive expectations for the future, as we are already into the second stage of economic and monetary union. Of course, we have no illusions. This transitional stage and the final realisation of monetary unification will have important effects for the Greek banks and will require further difficult adjustments. These effects as a whole and their full cost have yet to be evaluated. Nevertheless, the following can be already be pointed out:

First, the creation of monetary union with a system of a single currency will inevitably entail significant cost for the banks. This cost will arise, *inter alia*, from the need to convert the information and operational systems so that they are compatible with the new currency to be introduced in the Union. Furthermore, there will be a need for the education and training of the staff in the new-conditions of operation of the monetary system

The public and the clients will also have to be briefed on the new terms which will govern their contracts and their day-to-day transactions with the banks. As an initial estimate in this connection, the European banks, as a whole, believe that the cost of these adjustments will be very high, and that the assistance of the Community organs will be required in order to deal with them.

Second, because of monetary union, the volume of transactions in certain finance services will be considerably reduced, while the volume of others will increase.

Third, a change in demand for certain services is expected, not only at national, but also at Community level. It is estimated, for example, that demand for cross-border services will increase significantly. This is because, if for no other reason, monetary unification will take place in a period in which the abolition of internal frontiers, freedom of the provision of services, and the movement of people, products and capital will have been established. This requires the development of important networks at Community level for the effective provision of services.

As things stand at present, all the indications are that the bringing into mandatory circulation of the single currency will not coincide with the beginning of monetary union. Most experts, and I agree with them, have reached the conclusion that an immediate transition to a common currency would not constitute a realistic approach. This is because the sudden - 'overnight' - introduction of the new currency could lead to administrative chaos and discourage the markets - and public opinion, and that is perhaps even more important. Consequently, for smooth transition to absolute monetary union to be achieved, it is inevitable that for a certain period of time the national currencies should continue to circulate as a lawful means of payment, in parallel with the ECU, which will circulate as legal tender, and not as the accounting unit which it is today.

This procedure is, I believe, the most prudent. It will permit banks, enterprises and governments to prepare the introduction of the single currency with attention to details. And the details are endless, from the adjustment, for example, of the ATMs which all of us use every day to the regulation

of swaps which have been concluded in two national currencies which will have been replaced by the single currency.

Even though unavoidable, the co-existence of the national with the single currency must last for as short a time as possible, because if there is a delay in the exclusive use of the ECU, there is no guarantee that the markets will not attempt to put to the test the irrevocable stability of the parities. And let us not forget that the success of the transition from the national to the single currency will be judged, in the end, not by the nature of any administrative decisions, but by market forces.

If Greece does not join the monetary union, the drachma will be regarded by the markets as a 'weak currency'. By way of contrast, the ECU, because of the way in which it was devised, will be, and will be seen to be, a strong currency. It will follow from this that the preferences and behaviour not only of foreign, but also of Greek investors will be influenced accordingly. It is certain, in this instance, that Greek investors will hesitate to invest in securities expressed in the domestic currency and will turn towards securities and credit instruments expressed in the ECU.

Moreover, many enterprises, particularly those which have dealings abroad, will turn increasingly to the ECU as an international means of payments, instead of the drachma or other currencies. This means that the banks of the countries which do not participate in monetary union will be, in the nature of things, forced to provide services in ECUs, over and above those which they will be providing in the national currency, to an extent, moreover, which will progressively increase, as the preferences of clients turn increasingly towards the ECU.

The need to provide services in two currencies at one and the same time will involve a serious disadvantage in competition for the banks of those countries which operate outside the monetary nucleus. Because:

First, the sources of their capital will continue to be, chiefly, in the domestic currency. That is to say, these banks will not have a financing base in ECUs as their competitors abroad will have, and the latter will then be established in this country to an even greater extent than they are today. Second, the cost of providing services in ECU will be greater for banks on the periphery, since the constraint of the 'double currency' will limit the scale of production of services in ECUs. Third, in contrast with the banks belonging to the monetary nucleus, the banks belonging to the outer circle will not be able to enjoy the economies of scale which the single currencies entail. They will thus have greater

difficulty in completing the difficult adjustments required by monetary unification. Thus, even when this country is later included in the monetary union, Greek banks will find themselves starting out from a position of disadvantage.

These, Ladies and Gentlemen, are very grave reasons why we maintain that our country must be incorporated at all costs into the monetary nucleus of Europe, as quickly as possible. The banks are called upon to play a leading role in the change-over to the common currency. If they are successful, this will act as a catalyst for the whole range of adjustments which are required in the economy as a whole in all the individual areas and from all the actors involved.

For that reason, not only where banking matters are concerned, but throughout the range of issues to do with the correct and timely preparation of the country for full participation in economic and monetary union, the Greek banks are seeking to promote every form of collaboration, because only close co-operation and co-ordination with the national authorities, with the consumers, with enterprises will minimise the cost and maximise the benefits arising from the difficult and time-consuming adjustments which must be made.

I am certain that for the Greek banks, in spite of the burden of cost which they in the short term will shoulder, the long-term benefit will be enormous. This is because it is not only a question of their necessary development and expansion. The question which arises is first and foremost a matter of survival in a competitive and constantly changing world. It is precisely for this reason that it would be criminal for Greece not to be able to keep in step with the other countries of the economic and monetary union. In such a case, the Greek banks, and Greek enterprises more generally, would be gravely disadvantaged in competition.

The banks are in a position, on their part, to do what is necessary effectively to bear the burden and the responsibility which is theirs. But their efforts on their own are not enough. They need a stable environment in which to act. And they need the appropriate assurance that, while they will bear the cost of adjustment, they may count on the benefits which will result from the full participation of the country in a single currency. What is needed, that is, above all, is adequate and timely macro-economic and structural adjustment, so that nominal and real convergence is achieved in the time that remains. This golden opportunity for the Greek economy and the Greek nation generally must not be lost.

THE ROLE AND OBJECTIVES OF THE PARLIAMENT IN DEEPENING AND BROADENING THE EUROPEAN UNION

The question of monetary union is closely bound up with the further deepening of the European Union. Nevertheless, what has happened up to now does not give a clear picture. In monetary matters

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we already have a good, if not perfect, plan to achieve monetary union before the end of the century, 1,500 years after the collapse of the monetary union which, in the form of the Roman Empire, had been achieved in Western Europe. At that time the East, then under Greek

influence, showed greater stability than the West. When we achieve the aim of monetary union, at least in a certain number of member-states, the integration which is our aim in this field will have reached its maximum. Unfortunately, however, this progress is not accompanied by similar developments in all the other areas. Even the term 'economic union' is not a rendering of reality, given that there is no binding procedure for the co-ordination of economic policy in all the other fields over and above monetary policy. Economic policy, apart from monetary policy, is theoretically subject to the multilateral supervision of the ECOFIN Council on the basis of general guidelines which have been agreed by the European Council. The fact that the fathers of the Maastricht Treaty chose the term 'general guidelines' is significant, because in the technical language of Community law this means decisions which are not binding.

There is a special procedure which deals with one side of public finance policy in member-states: the procedure for the monitoring of excessive public finance deficits. The Council of Ministers is supposed to decide on the existence or otherwise of excessive deficits in a member-state from the third stage of economic and monetary union, in this third phase, the ECOFIN Council can decide upon sanctions against member-states which have excessive deficits. The strange thing is that these sanctions will worsen the public finance position of the states to which they are applied. Other measures which give rise to a neutral public finance effect, for example, deprivation of voting rights of these states, were not incorporated into the Maastricht Treaty and, as you will know, the ECOFIN Council has already implemented for the first time the procedure for excessive deficits, with the result

today that ten of the twelve members are unable to enter the third phase of economic and monetary union. There is another term in the Maastricht Treaty which is in greater conflict with reality than the term 'economic union': I am referring more specifically to the term 'political union'. The conflicts in Yugoslavia, and not only these, have shown that whatever rules exist on the implementation of a common foreign policy either do not work or are not used. And as to defence policy, full members of NATO, members of NATO who do not participate in the military wing of NATO and one neutral country are today members of the Community. And there is no prospect of this situation changing.

There is an important factor which explains this lack of symmetry: the Inter-governmental Conference which led to the Maastricht Treaty was convened and organised by personnel of the foreign ministries of the member-states and I would remind you that it started out exclusively and only as a conference on monetary union and only later became an inter-governmental conference on political union. And the reason for that was that the diplomats believed that monetary union can function as a catalyst for political union.

These experiences led us to ask what we must do. In 1996 there will be an inter-governmental conference which will concern itself with problems which have already been raised by the Maastricht Treaty. The purposes of this conference must be broadened to include a complete review of political and economic union. The European Union needs binding rules and procedures in order to arrive at a foreign and defence policy, especially in the public finance sector. It is very doubtful whether monetary union, even if achieved, can function correctly or even in a rudimentary fashion if there is no co-ordinated economic, and particularly public finance, policy. The same applies to full political union. More particularly in this area, we must point out that there is no precedence for monetary union which does not also include political union. When in the 19th century the nation states were formed, including my own, things followed the reverse order, and in the case of the United States, 140 years of life as a nation were needed for a central bank to be set up, charged with the duty of issuing the national currency.

There are many reasons for us to believe that a monetary union can stand on its own. Money means trust and cohesion. In earlier times, you had to trust the issuer of the currency to pay you the

precious metal. Today you have to trust that throughout the region of the monetary union your money is acceptable as a means of exchange. This aspect of national cohesion is supposed to be concentrated at a European level and we cannot imagine that other aspects of it, such as common foreign and defence policy, can be decentralised to a national level. Such an asymmetric system can create tensions and place monetary union in danger. Thus a member-state could be involved in war while the others remained mere onlookers. The country which is our host today was recently threatened with war in a conflict with a neighbour. I have no doubt that Greece will continue to conform with the prohibition on the financing of deficits by the central bank and will continue to follow the common monetary policy. Other countries, however, may not be so disciplined.

There is also the counter-argument that precisely because there is no real political power at a European level, the independence of the European system of central banks in the exercise of monetary policy can be better safeguarded. This at first glance would appear to be true. A central bank, however, does not operate in a political vacuum. It is true that the independence of the central bank is a basic condition for monetary stability. It is not, however, the sole one. A basic constituent of a successful monetary policy is the convergence of views in society and in the body politic on the need for stability. Furthermore, a central bank also needs associates in the public finance sector. Only a European public finance authority can contribute to the establishment of the 'right mixture' of public finance and monetary policy. The hope is that states of affairs such as those that prevail at present in the public finance sector, where public deficits in 1993 reached the highest levels yet recorded, will not be repeated in future.

The role of the European Parliament is, I would hope, a double one. We shall be submitting our own proposals before and during the inter-government conference. We shall be taking part in the 'committee of wise men' which will begin to prepare for the conference as of 1995, and after the completion of the conference we must decide whether we are satisfied with its results, and only if we are shall we endorse the new treaty. It is too early to quote the precise proposals which the European Parliament will submit. Some points, however, can already be stated: the expansion of the Parliament into the process of decision-making at a European level where economic and political union are concerned; the speedier promotion of political and economic union; the obtaining of a new treaty on the effective functioning of the European Union with more than 15 or 16 members.

The form which the European Union will take in the future is not at the moment clear and may go in any direction. Nevertheless, one fact is absolutely clear: at least for a certain period the Union will take the form of two concentric circles of variable geography. As my political views are somewhat of the centre, I have attempted by that expression to harmonise differing concepts which in essence are a rendering of the same thing. There are two member-states who expressly will not take part in the third stage of monetary union. The first is Denmark, which has adopted the option of abstaining; that is to say, it will participate in the third stage on condition that it has not declared to the Council that it does not wish to do so. Denmark declared the exact opposite before the referendum on the ratification of the Maastricht Treaty. On the other hand, the United Kingdom has adopted an option of participation. If the British government does not declare to the Council that it wishes to take part in the third stage, it will not participate. And the United Kingdom has not yet declared to the Council its wishes to participate. Inevitably, all the member-states will not satisfy the Maastricht criteria for convergence by 1996, which is the most likely date for the taking of a decision on the third stage. Although the situation in the area of convergence is satisfactory, with the exception of public finance, the criteria of inflation and foreign exchange parities have not been satisfied by all the member-states and this is unlikely to happen before 1996; but even if the public finance situation improves with economic recovery, again only some member-states are likely to enter the third stage; not all. Greece, for example, will not take part if we accept the Greek convergence programme which was recently submitted to the ECOFIN. I imagine that things will be similar in other fields. And this trend already exists both in the strategic field and in connection with the Shengen Agreement. Even in the Community Protocol there are examples of two tiers, included in the Maastricht Treaty.

We should, however, make one thing clear: the criteria for convergence should not be relaxed. The inter-governmental conference of 1996, according to the Treaty, will examine only those articles of the Treaty as to which there is provision for revision. There is no provision for revision of the criteria for convergence. But, as I have said, it is likely that the aims of the conference will be broadened. I personally would like to record my opposition to the relaxation of the conditions for economic and monetary union, particularly for monetary union, because I believe that any demands for the adoption of more flexible criteria for convergence will fuel reactions and other demands, with the result that we will lose everything and gain very little, or nothing at all. It is obvious that

Germany, because of its size and economic importance must be a member of the monetary union; otherwise there will be no monetary union because it will have no meaning. In Germany there is broad consensus on the need for monetary stability. This point of economic policy has never seriously been questioned. At the same time, however, there is a large majority of the population which is opposed to European monetary union.

The criteria for convergence of the Maastricht Treaty are nominal rather than real. And this is because it has been estimated that there can be a monetary union of regions with different levels of *per capita* income. In Canada, for example, geographical distribution is more uneven than it is in the European Union. The nominal criteria for convergence are necessary for two serious reasons: each member-state must prove that it is committed to the aim of monetary stability and capable of ensuring it; the member-state must have rid itself of the basic causes of inflation.

Without the inflation criterion, there is a real danger of the third stage leading to a European currency more vulnerable to inflation than the more stable European currencies. And if a member-state has not coped with the causes of inflation before entering the third stage, that member, which has above average inflation, will be exposed to a monetary policy which may prove particularly harsh for it, resulting in catastrophic consequences for the economy, as cost rises; scope for a rise in prices will be limited and, consequently, economic activity will be restricted, given that this state will not be able to improve its competitiveness in the face of the rest with a devaluation of its currency.

There is a formulation in the Maastricht Treaty which, although it is not described as a criterion for convergence, in fact is. The member-states are obliged "to ensure, at the latest by the date of establishment of the European Bank, that their national legislation, including the articles of association of the central bank, is compatible with the treaty and articles of association of the European Bank". This means, in other words, that the member-states must ensure the independence of their central banks. The European Parliament has already taken a decision urging member-states to proceed to this reform as soon as possible. The central banks are already to a certain degree autonomous in six European states, from north to south: Denmark, Germany, the Netherlands, Belgium, France, and Spain. Unfortunately, the procedure leading to the full autonomy of the Bank of Greece which was set in motion by the previous Greek government has not been completed, and I learn from the Press that the last Governor of the Bank of Greece

resigned because of disagreements with the government.

The conclusion to be drawn from what I have already said about monetary union is this: *there will be no monetary union beginning on 1 January 1999*. There is no German government which would consent to anything of the kind in view of the national elections in Germany in 1998. A similar situation may exist in France, where national elections will be held in the first half of the year. The year 1996, however, is in between two German national elections, a year after presidential elections in France and two years before parliamentary elections. Thus, in that year, 1996, these two states belonging to the European nucleus will have the political will to embark on economic and monetary union. The data on inflation in the majority of member-states are favourable and are likely to remain so. These states have not used their option of deviating from the limits of their foreign exchange parities and have been coordinated with German monetary policy. Unfortunately, state deficits in the European Union have on average reached historic levels. We are, however, in the middle of an economic recovery and in the majority of states either a reduction of expenditure is required or is not required at all, or, where it is, is a small reduction of three per cent, in order to satisfy the Maastricht criterion. The picture does not change if we add the four countries which are going to join the Community. If there is strict public finance discipline, which is needed anyway, the two most important criteria for convergence can be approached in 1996. Moreover, it is probable that the criteria of foreign exchange parities and of interest rates will be satisfied, on condition that ■ the 'normal' limits of fluctuation of parities are set at $\pm 15\%$. This interpretation is perhaps the only one possible, given that these are the only limits of fluctuation which exist. Thus, in 1996 there will be both the political will and the necessary conformity with the criteria of convergence. This year will be a window on the opportunity for us to take the decision to go ahead to the third stage as of 1 January 1997.

As I said earlier, from that date, the European Union will be more like a collection of concentric circles. The inner circle, however, will constantly expand, taking in the outer ones until there is only one, because no member-state can be excluded from the third stage if it fulfils the Maastricht criteria.

Although it is not possible to predict the exact date, there are grounds for expecting that the European Union will expand. Given the fact that from next year there will be 16 members, we may estimate that in the medium term there will be ten new members, and 20 in the longer-term

perspective. There are already serious doubts as to whether a European Union of 16 members can operate effectively. And an even larger Union could cease to function altogether. The problems are many: unanimity is required in many fields, particularly in that of taxation. The real difficulties are encountered at much lower levels, in the day-to-day technical operation of the European Union. One example which is often quoted is the translation of documents, which today is into nine languages and from next year will be into 12. More languages mean greater translation cost, as, for example, for the translation of a Greek document into Finnish. The same is true of interpreters, with more being required at any meeting - and just think about the meetings themselves. Now when we have 12 members, if each talks for five minutes, we need an hour and we will need even more time to debate even simple issues at the meetings of the Council, of working-parties, at the Commission and other Community organs, not to mention the European Parliament.

In spite of this, the European Parliament is in principle in favour of expansion. If, however, we want to be realistic, an expanded Community can function only if it works in concentric circles, it shapes its institutions and its structure appropriately.

The more members the European Union has, the more difficult it will be to make substantive progress in the deepening of integration. A new appropriate structure might mean that, for example, not all member-states are represented on the European Commission. Thus, for example, if Iceland, Malta, and Liechtenstein accede to the Union, together with Luxembourg they will have fewer than a million inhabitants. We could imagine a structure in which countries with 30 million inhabitants, of which at the moment there are five, have their own commissioner and the other member-states fill the remaining five places on an alternating basis. Similar arrangements could be found for the Council. In the European Parliament, of course, each member state must be represented democratically in proportion to its population, but the total number of MEPs could be reduced to make possible the more effective operation of the Parliament.

THE ROLE OF A UNITED EUROPE

I have been asked to speak to you about the role of a united Europe. This subject goes beyond the bounds of monetary union. It takes us back to the sources, to the roots, to the question 'Why?'. Why the European Union? What is its use?

FRANÇOIS XAVIER ORTOLI
*Deputy Chairman of the Board of
Directors of the AMUE*

To many the question will perhaps seem artificial. We all think that we know why we want to build a united Europe. But I would remind you of the old joke: everybody knows that tigers do not attack man. But do the tigers know? Anyway,

sometimes tigers do attack man. And we all know the cause of this phenomenon. When, however, we say 'we must create a Europe', do we all really know the real significance of Europe? Do we really want it to be a factor in the great, the world game?

Looking at things in Europe today, I sometimes have the impression that this is not happening, that the ultimate aim escapes us, the vision escapes us, the teachings of the none-too-distant past escape us. There is no other explanation why we are not more vigorous, more energetic, more resolute. Why, to put it briefly, have we not yet managed to activate the absolute and whole-hearted participation of its citizens in the building of Europe?

And yet, Ladies and Gentlemen, we must not delay. We must not allow even the slightest probability of a Europe of earlier times making a re-appearance. The citizens of Europe should not feel themselves to be citizens of a Union which entails only cost, which is a perhaps necessary and unavoidable obligation. Its citizens should look forward to the great opportunities for general prosperity, which is what the Union really has to offer. United Europe is and must remain a 'voluntary' power, a strong entity, competitive, built up by strength of will and solidarity.

We must be creative, innovative, filled with youthful enthusiasm. Otherwise we shall merely end up in a bureaucratic Europe, a Europe which will give its citizens the picture of a gathering of bored and weary ministers who, having negotiated for hours on end about the prices of carrots and potatoes regard themselves as exhausted but vindicated. This, Ladies and Gentlemen, is not - it cannot and should not be - a Europe which is of interest to its citizens. This is not the way in which the possibility of geopolitical conflicts in the wider Europe can be in the long term avoided. And it is

certainly not the way in which we shall be able to make the best of the opportunities of economic and political union.

With the end of the Cold War, with the collapse of Marxism, the political cards are being re-dealt. The principles of democracy prevail and are being extended. The countries of former socialism in practice have today embraced the culture of democracy, recognise the irreplaceable role of the market, and have accepted the difficult challenge of their adjustment. We must, as 'builders of Europe', found the great Europe on faith, if I may be permitted to use the word, and on the obligation to have right, sound and stable rules of competition and to recognise in practical terms the real role of the world-wide division of labour. Even Latin America, for example, has now realised that neither Brazil nor Argentina will ever be able to be the first countries of the Third World, but are partners of the First World. The same is true of Asia. And everyone realises that this creates opportunities and is anything but a forewarning of crisis.

The Prime Minister of Singapore once said to me: "You're strange people, you Europeans. You are always talking about a crisis. We don't have the same word for 'crisis' and 'luck'". This dictum is very much in keeping with my combative mentality and I certainly completely accept the formulation and the idea. Yes, Europe is faced with crisis and exceptional luck simultaneously. Storm and sunshine must be equally welcome. Europe is far from being finished, as some people think.

I am totally optimistic about Europe, because I was present at its birth and because I believe that it has not lost its secret. The river continues to flow and we continue to be in control of and to rule over our problems. In the south of Europe, the Mediterranean region has lost nothing of its age-old vigour and creativity, nor of that brilliance which nurtured contemporary thought world-wide. And, a little further to the north, the firm establishment of peace has provided an additional reason for Europe's existence and a new role for it. If all this seems to you commonplace, I hasten to apologise. But it is precisely these thoughts that make me speak of power - economic, political, competitive power.

This power must be the main aim of Europe. This is because Europe represents a large and powerful market, in a world of battle where negotiating strength is dependent upon economic power and influence. And this strength increases as we pass from our isolated economic and other policies to common policies and action, from relationships of dependence to relationships of participation and

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solidarity, from the zone of the mark to the zone of the ECU. The multiplicity of the actors taking part, their differing characteristics and the resultant which constitutes their common objective provide the best guarantees of an equilibrium which may not yet be perfect, but which at least gives a better distribution of benefits among the partners. It is precisely this which gives strength to the voice and discourse of Europe on the international scene and makes us, all of us Europeans together, interlocutors who carry great weight. We must confront the empires of the dollar and the yen with the ECU as a front-line power.

Monetary union, then, in spite of the advantages which it entails for those who join it, is not an end in itself, but a condition for a politically strong Europe. Any alliance of countries which ensures internal stability is politically strong. Stability beyond Europe, that is, at a world level, is not for the present a reasonable expectation. Consequently, stability within Europe is a comparative advantage and potentially a most effective weapon. We have all seen recently, unfortunately, what happened when the European Monetary System was destabilised. We know what devaluations we saw and what situations in the individual member-states - and not only economic situations. And we have seen what happened when the yen was revalued and how our relations with Japan changed. For this reason, I regard it as of primary importance that we should return to the equilibrium or, if you will, the 'silence', of money, to its stability in relation to the natural situation.

This stability and predictability of money, in conjunction with economic justice and equality of responsibilities and opportunities, the correct structuring of parities and a standing commitment to the single market constitute the basis for a Europe which will declare its single identity and will go ahead with opening up to the West and the East, in conditions and by methods which will preclude hegemonies of any kind and will promote solidarity and peace.

In order to prepare for the future, we must not see it as black. The future is dark only for those who do not wish to bring light to it. For that reason we must see in good time not only what is likely, but what is attainable. And what is attainable, first of all, is the reinforcement of competitiveness, which is an absolute necessity dictated by external mandates. It is possible for us, all together, to boost competitiveness, because we have the great good fortune as a group of states to have a sufficiently common policy and economic philosophy. A basic constituent of our philosophy is stability, but not with the meaning of stagnation, but of a basis on which we will build greater social

equality and justice and more rapid economic and cultural development.

This is, Ladies and Gentlemen, the basic reason why we set out by deciding, all together, to follow the difficult road of reducing public finance deficits and of concerning ourselves with getting rid of macro-economic imbalances, the creation of wealth, the restoration of flexible markets, the removal of structural anomalies, and the promotion of a competitive market mechanism. A blind liberalism, without control, without vision, without a common field of action, does not suit us. We have, all together, common ground to exploit. Hence our actions must have as their aim better productivity, a better cost structure, better competitiveness. The new organisation of international trade makes it incumbent on Europe to organise itself in ways which will permit it successfully to withstand unilateral action from without, to have the same power as its Opponents', to gain superiority in the fair game of competition.

We cannot speak of transformations in Europe without also looking at the world dimension. And this world dimension will prevent Europe from moving ahead as long as it remains divided. We live in an environment of variable geography. And we must, as Europeans, press forward in basic fields such as defence and foreign policy. The answers in these fields are not easy. But they would be even more difficult without monetary union, which, for that reason, we must not see as the conclusion of a process, but as a condition for the successful conclusion of others.

But even if there were not the prospect of monetary union, with Europe or without Europe, we must combat inflation and foreign debt, in order to contribute to the new givens of world competition, which go far beyond the dimensions of economic competition.

When Europe started out on its reconstruction after the Second World War, the heroes of war were succeeded by the heroes of peace, those who realised that, instead of talking about ruins, we ought to be talking about foundations and work sites. I am one of those, if I may be allowed to boast, meaning that I belong to the generation which, returning from the fields of battle in 1945 and 1946, saw themselves as builders, men of the work site and the building site, On the way, we were taught how to recognise and respect the opposing interests which one has to deal with in any ambitious building project.

However, we also learnt that the building project goes ahead when there is a mechanism which with realism translates into actuality what the visionaries have suggested and what the politicians have

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said and laid down in theory. Among the builders, perhaps more than among the visionaries or politicians, the necessary moves can often only be undertaken by heroes. The visionary lays down the desired objective and the politician reconciles it with the feasible. But it is the builder who by his truly heroic contribution brings into line what happens with what has been laid down. Heroic judgement, that is, the way in which the hero assesses things, consists in making a fine distinction between the exceptional and the unattainable.

It is my personal belief that we are in the sphere of the exceptional and I do not believe that we are in the world of the unattainable. And those are the last words which I wish to address today to Greece, which is today my generous host, and which is the country of heroes.

REVIEW AND CONCLUSIONS

Ladies and Gentlemen, my dear friends, I shall try to be brief in summing up the conclusions of our conference today. Permit me to say that the basic question which arises today is not whether we

THEODOROS PAPALEXOPOULOS

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should advance towards a single European currency, but how. The question of whether we should was decided a long time ago, because: a European economy - a single and effective one - presupposes stable, fixed parities, and, therefore, in essence, a

single currency; a single currency means predictability, and, therefore, the boosting of confidence, and, therefore, the boosting of investments, development, and employment; a single currency means reduction of cost and an improvement of competitiveness; the Maastricht Treaty has been ratified by the 12 countries of the European Union.

As was established by various opinion polls a few years ago, the economic agencies of the EC recognised by an overwhelming majority the need for a single currency. In the countries with a weak economy, this majority was particularly large, which is entirely understandable, since the single currency presupposes, and also entails, macro-economic self-discipline and prudent public finance management.

These assessments have also been expressed with clarity at today's gathering by all the speakers. Particular emphasis has been placed on the fact that for Greek enterprises "it is of tremendous importance that a single currency should be introduced as soon as possible" and that this country must "at all costs join the monetary nucleus of Europe".

Thus, since it has been decided that a substantive SINGLE MARKET has no meaning without a SINGLE CURRENCY, the question which arises today is in what way and within what time frame the ECU will be adopted. The question "in what way" is interesting and of the greatest importance, since the undertaking of the adoption of the ECU and the abolition of the national currencies as lawful means of payment, will concern all the finance and economic actors of a united Europe, but also the general public. Therefore, extensive preparation will be required, and this will depend directly on the way in which the ECU is adopted. Anyway, as we have heard today, the cost of the whole undertaking

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will be great. Thus, banks and other enterprises generally will not undertake the effort and the expense until they are convinced that the relevant decisions of the European Union are final and irrevocable.

However, the time frame of the operation is equally important, because if its completion is long delayed, there is a danger of the markets' confidence in the ECU being weakened and/or lost. Let us not forget the European monetary crisis of 1992-1993, which proved that the European Monetary System is in need of substantive improvement. And also let us bear in mind the words of Jacques Delors: "If Europe is injured again by competitive devaluations, then the Single Market will not be able to survive" - because it is not possible for us to have stability of prices and at the same time monetary instability.

On the other hand, it is not conceivable for the whole operation of the ECU to be undertaken before adequate convergence of the economies of the European Union is achieved. Here, then, other difficulties begin to arise, because, obviously, the criteria for convergence, in accordance with the Maastricht Treaty, will not be satisfied simultaneously in all the member-countries of the European Union. Thus we are led to make differentiations as to the time of adoption of the ECU in the various countries. The strongest economies are setting their sights on a nucleus of economic and monetary union as soon as the Maastricht conditions are achieved by an adequate number of countries and, as is only reasonable, they do not accept the view that they should wait for the 'slowest ship in the convoy' beyond 1 January 1999.

For their part, however, the countries with a weaker economy are concerned, equally reasonably, that the terms for their later inclusion in the economic and monetary union may then be amended and that in time new terms may be dictated by the countries of the original nucleus.

The procedures which lead to a Europe of many tiers may endanger the cohesion and future of the European edifice. As has been stressed at our conference today, "such a development would be a historic misfortune for Europe and even more so for the countries belonging to the outer circle". This conclusion dictates the only possible option which these countries, with Greece among them, have: to seek their participation in the monetary nucleus from the beginning, that is, in all probability from 1 January 1999, a difficult objective, but an attainable one. And this means working for the

convergence of their economies as quickly as possible, full speed ahead. This, anyway, is the declared common position of government, opposition, the Bank of Greece and the business world, as emerged at the FEIR conference.

It will thus be understood that the whole question is also a political one. At the inter-government conference of 1996, at which it is expected that the terms of the Maastricht Treaty will be reexamined, the golden mean must be found and patterns adopted which are not rigid and absolute, but flexible, in order to give the smaller economies the necessary scope for adjustment. I shall not dwell on the issue of the convergence of the Greek economy with the European Union, because this was not the main subject of our meeting today. Suffice it to note that the beginning of convergence has not yet taken place, in the sense of the narrowing of the gap which separates our macro-economic results from those of our other partners in the European Union.

However, as has also been pointed out at the conference, there has been some stabilisation of the Greek economy, and the worsening of the situation which was, perhaps, in many quarters expected has been averted. Thus, it is hoped that in 1995 further improvement will be achieved, since we are persisting, with self-discipline and conscientiousness, in the economic policy which has been mapped out, as the Prime Minister confirmed recently, provided that the beginning of the major development projects is not further delayed - not of 'prestige' projects, but of projects with a yield, projects which will contribute to the improvement of the competitiveness of our economy.

At the conference today we have concluded unanimously that the progress of the European Union in the future will be helped decisively by the introduction of the SINGLE CURRENCY, and that this SINGLE CURRENCY, over and above its serious positive effects on the economy, will be a factor which will smooth the way towards political union, a common foreign policy, and closer cooperation between the countries of the Union in other fields.

However, Western Europe cannot hope to live in peace and prosperity with poverty, social insecurity and political instability on its borders with the countries of the former Soviet bloc.

For that reason, the European Union, with the European Parliament in the vanguard, has taken up a clear position in favour of the expansion of the European Union, in parallel with the strengthening of its own institutions.

Thus, various initiatives have been taken, special programmes have been instituted, and

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individual agreements have been signed with many of these new democracies. Economic progress, however, is slow, because it must keep pace with political, institutional and social adjustments.

The introduction of the single currency could contribute to the creation of an environment of economic co-operation and development in the whole continent. And this must be a supreme objective, because it is the only way that European security can be guaranteed.

Certainly, with expansion to include 28 or 30 countries, the European Union will be forced to bring about significant changes in its current structure and organisation. In this, realism, in parallel with the spirit of Maastricht and with the will not only for economic and monetary, but also for political union, should prevail. Realism is needed, because we are attempting in the midst of unprecedented geopolitical upheavals to build: a wider Europe with economic, political and institutional, as well as monetary, stability; a Europe that is economically and politically strong which its rivals will respect and take seriously; a Europe which, however, must learn to manage interdependence on the scale not only of our continent, but on that of our planet.

All the observations and proposals which have been made at today's conference have converged on the conclusion that the advance of our monetary union and the introduction of a SINGLE CURRENCY will be developments of historic significance for the future of the European Union.

At the same time, the reservations, difficulties and problems which are likely to arise have been stressed. However, the benefits which will result are many times greater than any probable cost. And certainly, the cost of non-convergence and, by extension, of retaining the national currencies, would be incomparably greater. For that reason, we must deal with the problems in good time in order to open the way for the introduction of the SINGLE CURRENCY.

This endeavour will be decisively aided by the briefing of public opinion in all the countries of the Union, the vast majority of which is ignorant of the issue and, being unable to balance this against the great benefits which will result, is perhaps not ready to accept the cost of adjustment. It is precisely this informing of opinion that has been the objective of today's gathering. We hope that it will be the starting - point for a more general public debate in our country also, and thus the signing today by the Minister of the National Economy of the document establishing the Economic and Social Committee takes on symbolic value.

GREETING FROM THE PRIME MINISTER ANDREAS G. PAPANDREOU

Ladies and Gentlemen, I am particularly glad to have the opportunity, today, to put before you, even if in a few words, some thoughts on the process of the unification of Europe.

It is no accident that this gathering has been organised by agencies which represent the business world of the European Union and which actively support progress towards monetary union. The more stable the economic environment is, the sounder will be the competitive basis of Europe. And there can be no doubt that the more economically dynamic and competitive Europe becomes, the more scope there will be for an increase in investments, for fuller employment, and for an improvement in the standard of living of the European citizen. It was for this reason, anyway, that the creation of the European financial world was supported by almost all the European governments. The will of Greece to participate actively and constructively in the monetary and economic union of Europe has already been demonstrated.

The year 1994 was marked not only by Greece's successful presidency of the European Union, but by ambitious efforts in the adjustment of the Greek economy, which have borne fruit. We have already taken important steps in public finance adjustment, without deviations from the objectives which had been set. We have advanced rapidly towards the de-restriction of the movement of capital and we coped successfully with the foreign exchange crisis in May. The drachma today behaves, in effect, as though it had participated fully in the European Monetary System. Inflation has been brought down to 11% and it is expected that it will be at 7% at the end of 1995, according to the revised convergence programme approved by the European Commission. These developments also permit the gradual reduction of interest rates, while providing scope for the stabilisation of the debt / GNP ratio as of next year.

With these rates of adjustment, the Greek economy is attempting to satisfy almost all the criteria for nominal convergence of the Maastricht Treaty from 1998. It is our belief that it will be ready to take its place on equal terms in the third stage of economic and monetary union from 1999, which is the most likely year for the beginning of this stage. At the same time, the significant quickening of the pace of investments which has been prompted by the implementation of the Community Support Framework is creating the conditions for warming up of the economy, for fuller employment, and for

real convergence of the economy. Given the adjustment which is going on in all the countries of Europe, thoughts and proposals on a multiple-tier Europe are, in my view, harmful for Europe itself.

The whole dynamics of European unification and the advantages of the single European space will be cancelled out if we contract the vision of Europe and the field of the European competitive basis to an agreement of two, three or five states. The unification of Europe should, on the contrary, utilise the 'polymorphism' and 'differ entness' of its member-states. For precisely that reason, we must be especially careful in the interpretation which we give to the criteria of the Maastricht Treaty.

In this context, I regard as very positive the thinking which has been developed in the organs of the Community on a realistic interpretation of the criteria. The second point which I would like to stress concerns a more general political issue. In the Maastricht Treaty, there is an asymmetry. The prerogative of issuing banknotes is transferred from the national governments to a European Central Bank, which is not controlled democratically or by the governments, or by the national parliaments or by the European Parliament. But by what criteria will total liquidity be distributed in the various regions or states, which because of differing conditions will have a differing demand for liquidity? The European Central Bank, like the national central banks, will have as its exclusive aim the maintenance of monetary stability. How will the necessary 'anti-cyclical' public finance policy be effected at a European level when the Community budget remains minimal?

Answers to these questions will bring to the forefront, sooner or later, the need to strengthen representational democratic institutions at a European level, and of the expansion and enrichment of the European public finance and development instruments. The need for the creation of a single European social space will also make itself felt. In other words, if we wish to go ahead successfully to monetary union, we are compelled to give an open answer to the basic question: how do we wish to build the European economy and society of the future? These are some of the issues with which we should concern ourselves at the inter-government conference of 1996.

I personally believe that in order to arrive at a common currency, we must be prepared to work hard in order to forge a shared European approach to basic political issues.

This is the challenge before us. it is this to which we must respond.

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