The euro gets physical

Peter Widmer

Peter Widmer has had a long and successful career as an investment banker with Zurich-based Julius Baer, one of the largest private banks in the world, has given him front line knowledge of the euro and its global impacts. He founded Baer's investment management business and was responsible for all institutional investment activities outside of Switzerland. He chaired the boards of Julius Baer Investment Management, Inc. (New York, London), Julius Baer Investments Limited (London) and Julius Baer Kapitalanlage AG (Frankfurt).

After three years as a virtual currency, the euro will debut in a physical form on Jan. 1, 2002 and replace the national currencies of participating European Union countries: Finland, Portugal, Netherlands, Austria, Luxembourg, Italy, Ireland, France, Spain, Greece, Germany and Belgium. (The UK, Denmark and Sweden are members of the EU but are not yet participating in the euro.)

"The introduction of the physical euro will be smooth and could well lead to better acceptance and a more stable rate," said Peter Widmer, in his address to the Global Executive Forum.

Discussing the euro against the backdrop of the U.S. and European economies, Widmer noted that Europe will perform better than the U.S. in 2002, achieving 2.0 percent growth against 0.6 percent for the U.S.

Nine interest rate cuts in the U.S. have brought the cost of money down to zero, Widmer said. However, "internationally, the dollar is still too strong and may put a crimp in the demand for U.S. goods, a demand badly needed to stimulate the economy." Nevertheless, "aggressive monetary and fiscal stimulation policies will have the desired result of economic recovery." Look for a rebound on the horizon about the second half of 2002, he said, adding that he expects the U.S. stock market "to recover substantially over the next 12 months."

EU Expansion

The biggest task ahead for the EU is the planned expansion into central and eastern Europe, said Widmer. "By the year 2004, assuming that the main criteria are met, 12 candidates with a total GDP of E400 billion will join. The new members will add only 5 percent to the GDP of the existing 15 EU members, but one-third, or 100 million, to the total population. The EU now accounts for two-thirds of the foreign trade coming out of the expansion area.

The 12 candidates Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic and Slovenia will join the European Union in 2004 but will hold off on joining the euro. "These countries have had good economic growth, on average going from zero growth in 1999 to plus 5 percent last year, with estimates of 3-4.5 percent in 2001, and 4 percent in 2002. Inflation is somewhere around 6-7 percent, with a wide range from country to country."

Widmer stressed that this economic performance does not automatically reduce unemployment as technology has greatly improved productivity. "Hungary's labor force is now 40 percent smaller than it was under the communist regime." What happens to the displaced workers? "They are either pensioned off early or remain unemployed. People over 45 probably have no place in the labor force."

The unemployment rate in central Europe is still very high, at 13 percent versus 8 percent in the EU. Poland, Bulgaria and Slovak Republic remain at 20 percent or more. "But the good news is that privatization of state-owned enterprises is progressing rapidly. Poland's economy is now only 30 percent state owned, compared to 70 percent in Turkey," said Widmer.
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"In assessing the outlook for central and eastern Europe, one has to take into account the economic recovery and level of stability achieved in Russia under President Putin. Politically, since Sept. 11 there has been a clear move by Putin toward the West."

bin Laden's money

The al-Qaeda network is known to have established bank accounts around the world. Does Switzerland, which offers a high degree of privacy, attract and protect these kinds of accounts?

"Switzerland has the toughest restrictions and regulations of any industrialized nation, and there is just no room for criminal accounts of any kind," said Widmer.

"Having said that, neither Mr. bin Laden nor his cronies will open accounts under their own name. So terrorist money, if it goes to the West, will be very hard to recognize because it comes through reputable banks, large banks, and through the clearing system of the free world. It travels under company names, and so forth.

"The U.S. has published a list of accounts with suspected or known terrorist ties; these are probably the easy ones to find. That's not where the big money is. This kind of money is very, very difficult to trace."