The euro: The next stage

Peter Widmer

Peter Widmer's 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). Widmer disputes the fact that he is now retired. "I'm not retired, I just don't work anymore!"

After making an impressive debut as a virtual currency on Jan. 1, 1999, the euro has been on a roller coaster ride, trying to hold its own against the dollar. "It's fulfilling the hopes of its supporters and confirming the doubts of its critics," said Peter Widmer, who provided the Global Executive Forum with an update on the euro's integration into the European economy.

"Internally, the euro is doing what it was meant to do," said Widmer. "It has been successful in spurring changes in the economy, unifying and deepening capital markets, providing cheaper funding, encouraging corporate competitiveness, and stimulating national tax reforms."

Externally, the euro has not done as well, he said. Critics point to a lack of popular acceptance, a one-size-fits-all approach, the absence of the UK, Denmark and Sweden, and the euro's external weakness.

"One thing is clear: So far, the euro has not been the big challenge to the dollar that many had expected. This could be due more to the strength of the U.S. economy, which everybody underestimated, and the resultant strength of the dollar than to the weakness of the euro."

The euro's relative weakness, however, has served to boost European growth. "The biggest problem of the European Monetary Union is not the external value of the euro, although that's always in the papers, but the inability so far to create a really full economic union within the European Union."

Real Money

The next stage in the euro's progression is scheduled to occur on Jan 1, 2002, when it will debut in a physical form that will replace the national currencies of participating European Union countries and change the way people transact business. "It again marks a logistic operation of staggering proportions, absolutely staggering," said Widmer.

- Fourteen-and-one-half billion euro bank notes worth 650 billion euros, and 56 billion euro coins will be produced and distributed by Jan 1, 2002.
- All parking meters, phone boxes, vending machines, etc., will have to be adjusted to accept this new currency.
- Banks and retailers will be front loaded with money on Sept. 1, 2001. This creates serious security issues, as the notes and coins already exist.

Widmer recalled a remark he had made at the Feb '99 Forum: "Until people have euros in their pockets, the acceptance will be lagging." While that's still true, consumer confidence also will be a factor in the success of the changeover. "If people feel good about the economy, they will accept the euro. The goal of the European Central Bank will be to make sure that at the end of this year, consumer confidence remains high."

He is optimistic about the euro's position on international monetary exchanges. "We assume that the euro is going to be more stable in the future, at the current exchange rate of 90-95. Parity to the dollar basically
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depends on how things develop in the U.S. If things there turn really bad, then you might see parity, but this would be the high end of the range.

What does all this mean to businesses in the U.S.? "As long as you have higher interest rates in the United States than in Europe, I would hedge some of your euro exposure," Widmer told members of the Forum.

In years to come, the European Union "will continue to grow and stabilize as it expands its membership," said Widmer. "But in typical European fashion, it will be a bumpy ride. Nevertheless, the physical introduction of the euro will go relatively smoothly and it will be old news by this time next year."

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Euro Area: Facts and Figures

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<th>1999</th>
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<tr>
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<td>$bn</td>
<td>-6(-331)</td>
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Official reserves, Dec '00 = $397bn ($65bn)
(covers European Central Bank + euro-11 central banks)
Figures in brackets refer to the US

Julius Baer February 2001

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Euro timeline

- Internal exchange rates fixed May 1, 1998.
- Jan 1, 1999, euro became currency of participating EU countries.
- The national currencies to remain legal tender until Feb. 28, 2002, at the latest.
- Jan. 1, 2002 euro bank notes and coins will become legal tender.
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Current EU members

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- Netherlands
- Portugal
- Spain
- Sweden
- U.K.

Candidates for accession

- Bulgaria
- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Romania
- Slovak Republic
- Slovenia

Note: Turkey has special status but is not yet a candidate.