

EMU: Business Risks and Opportunities



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Europe has a new currency

- **The euro was successfully launched in January 1999, following years of cautious preparation**
- **Eleven EU countries participate to Wave 1 of EMU; others will join later**
- **The creation of the single currency is a logical continuation of the European integration process**



€ EMU is a historical event that has no precedent

Eleven countries have given away some of their autonomy to participate:

- **Monetary policy is now set centrally; national competitive devaluations are ruled out**
- **Exchange rate uncertainty within the euro-zone has been eliminated**
- **Price transparency will boost convergence**
- **Major opportunities result for the corporate and financial organisations, but also key challenges that they will have to learn to master**



What has the euro changed?

- **Companies are able to buy and sell in euros**
- **Social security and tax payments can be made in euros**
- **Intra-European currency risk has disappeared**
- **Cross-border management is enormously facilitated and cheaper**
- **Individuals can make electronic and credit card payments in euros**



What is the euro changing?

- Price convergence is boosted
- This puts pressures for further harmonisation
 - of tax rates
 - of the regulatory environment
- Trade is a driving force
 - Intra-EU trade is developing further
 - Euroland could become more inward focused
- EMU has prompted a new wave of M&As
- A wind of change sweeps through financial markets



Opportunities and risks from EMU

**There are “true” and “false”
risks related to EMU**



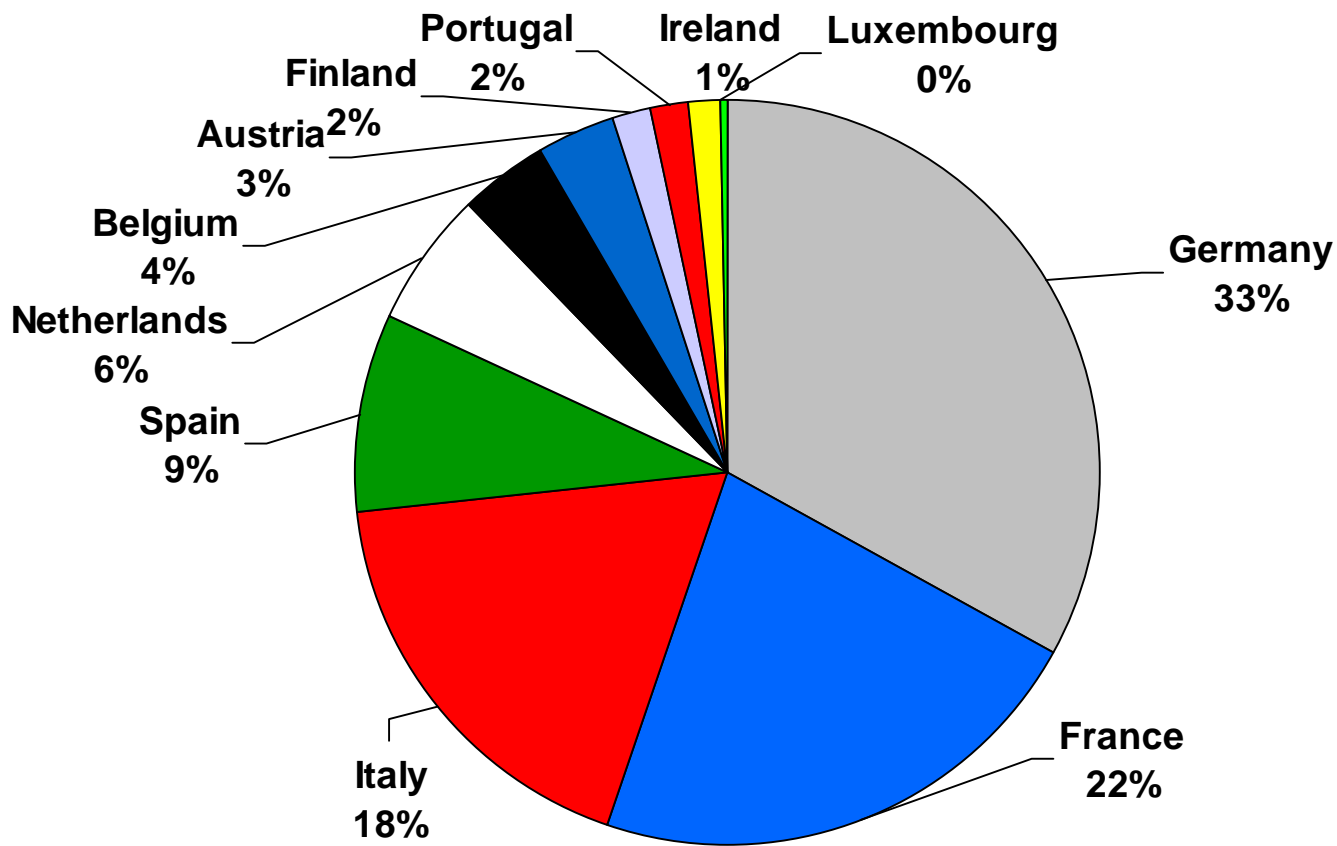
"TRUE" Risks

- **Lack of credibility of the euro can increase external exchange rate volatility:**
 - **UK entry important**
 - **There is a need to improve “communication”**
- **Increased intra-European focus may lead to opportunities being missed elsewhere**
- **One-size fits all monetary policy is not appropriate without increases in market flexibility**



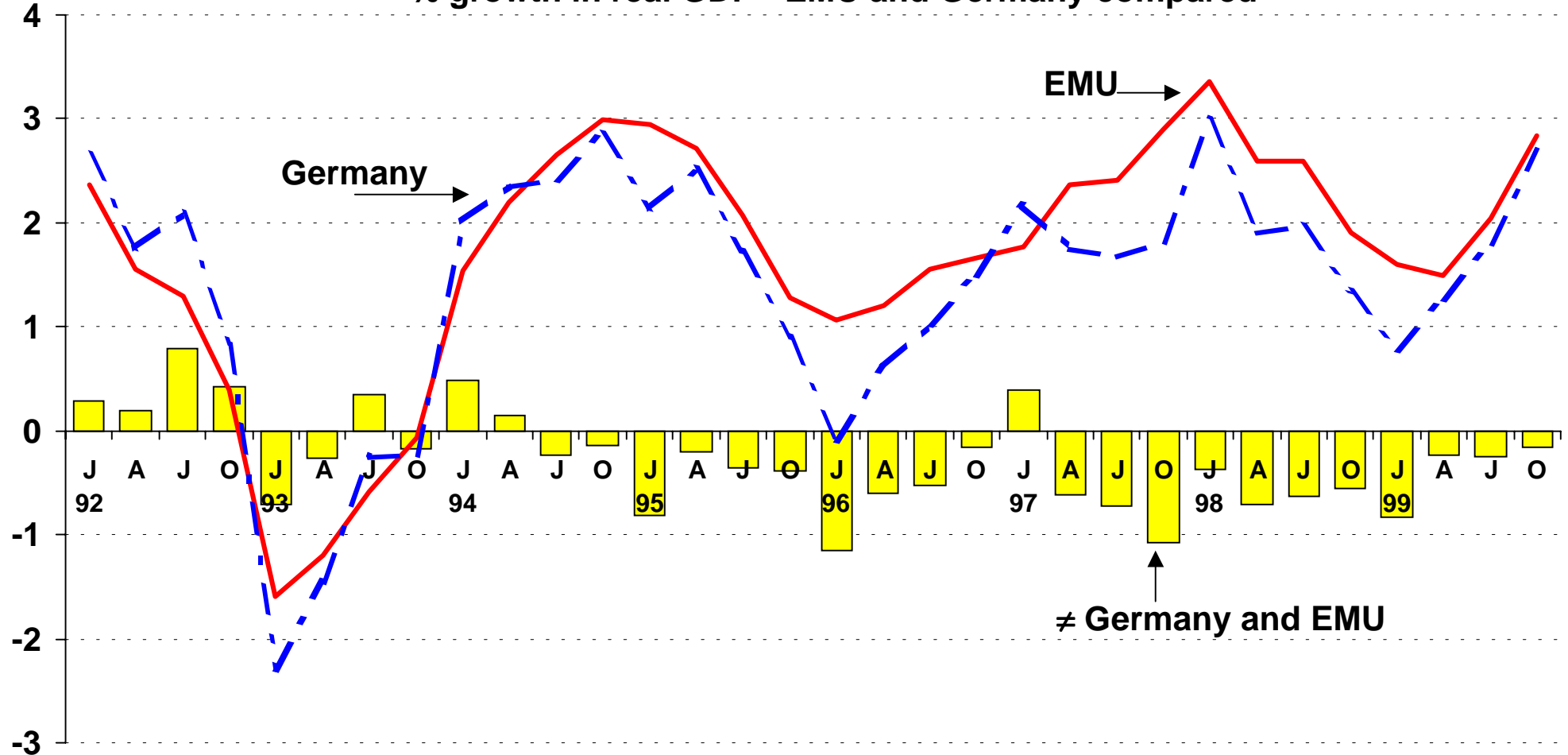
There is more to the euro-zone than Germany

GDP shares of the euro-zone economies, 1998



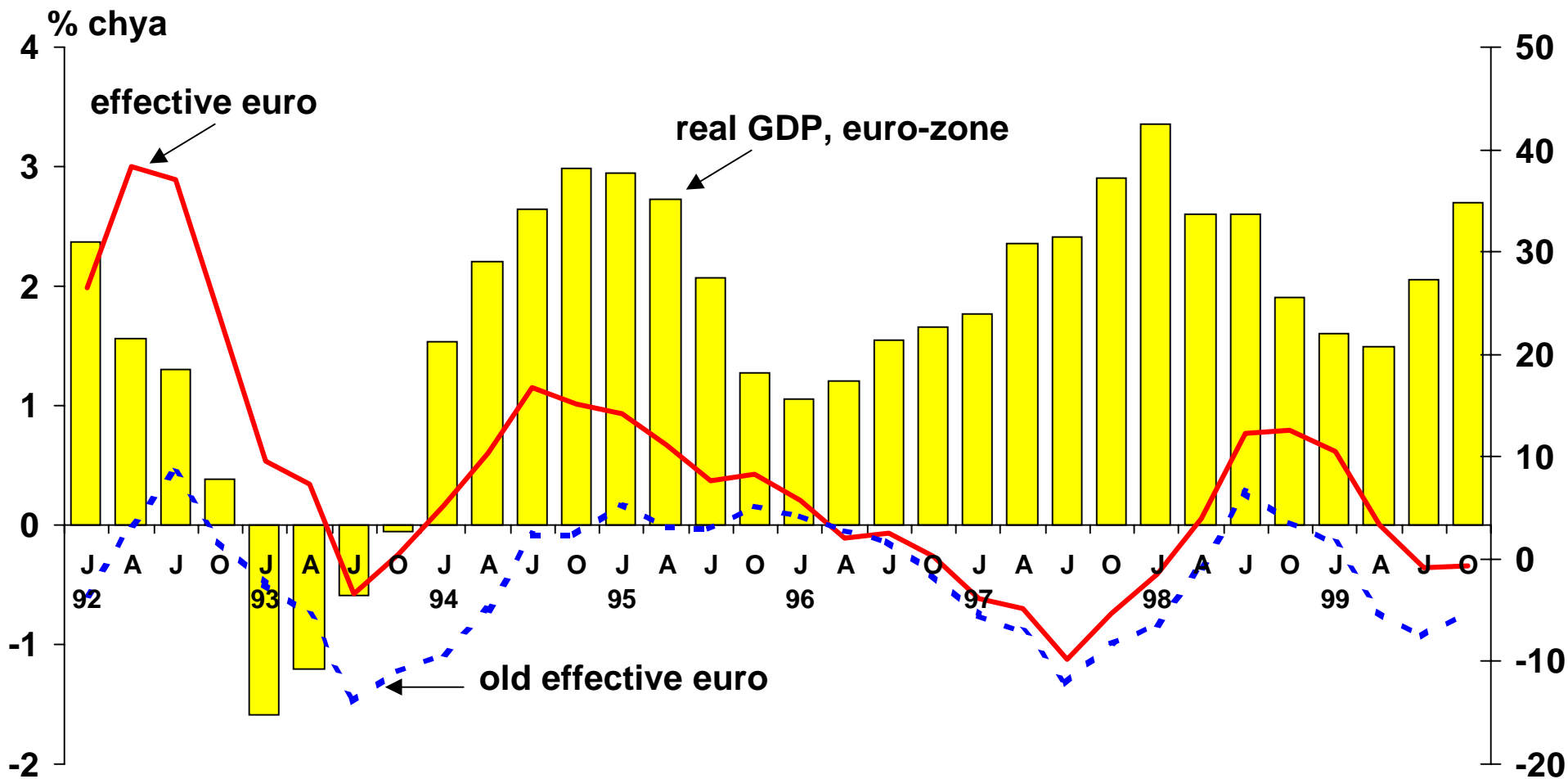
Germany has systematically lagged the euro-zone

% growth in real GDP - EMU and Germany compared





The euro has done its job in supporting a flagging European economy



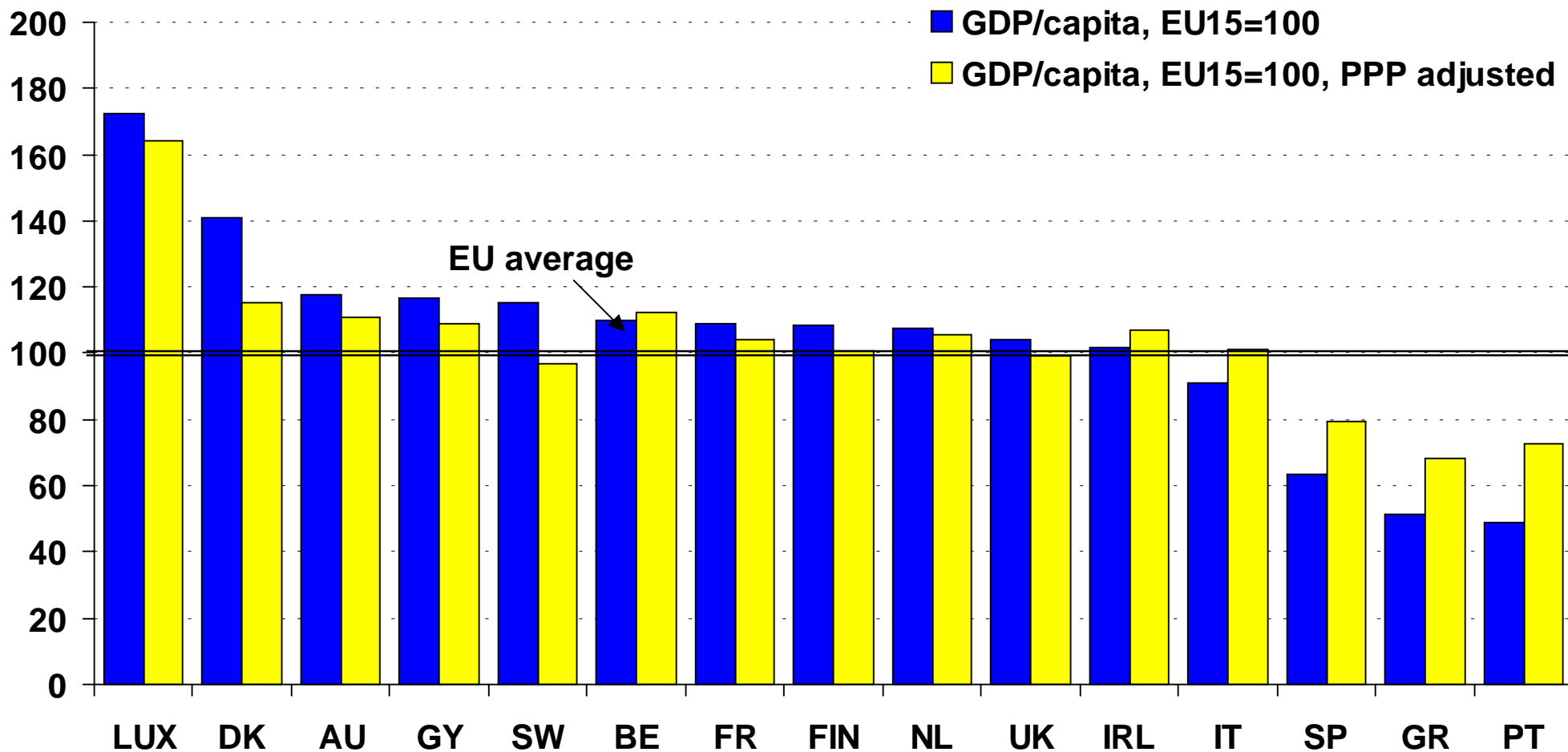


"FALSE" Risks

- EMU leads to growing economic divergences
- Asymmetric shocks threaten sustainability of EMU
 - European integration does not translate into inter-sectoral specialization
- “Monetary unions only work if there is a political union” does not apply to EU



Some growth divergence is necessary to reduce disparities in GDP/capita



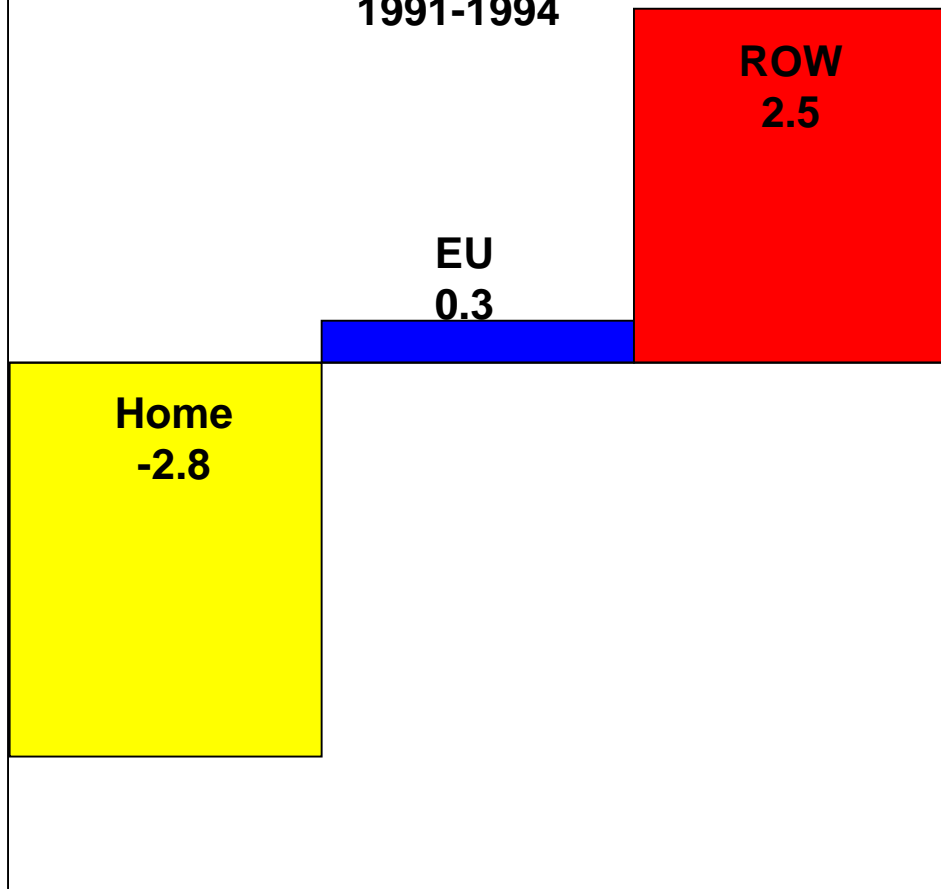


The Internal Market Programme (IMP) has transformed the European economy

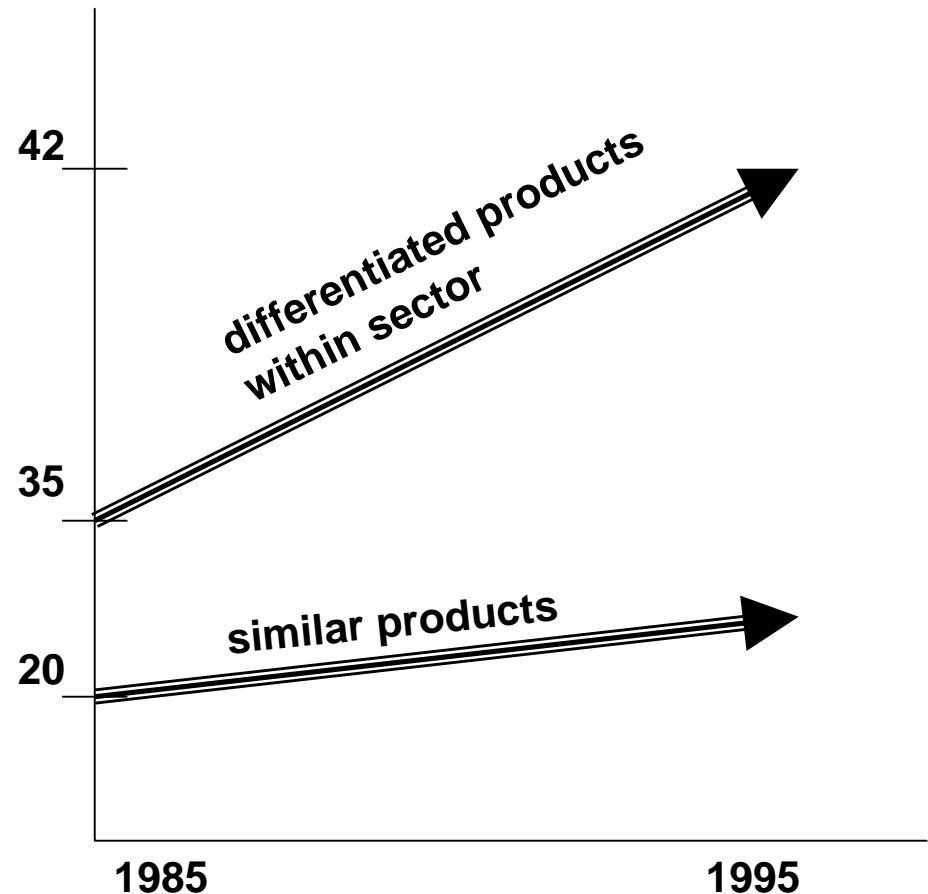
- **Both intra-EU and extra-EU trade were boosted by the IMP**
 - **intra-EU manufacturing exports 7-8% higher**
 - **extra-EU manufacturing exports 1-7% higher**
- **Non-EU producer have increased their market share more than producers**
- **Concentration has increased**
- **Intra-industry trade has increased, reducing vulnerability to external shocks**

€ Impact of the IMP on market shares and trade

**Impact of the IMP on market shares
1991-1994**



Trend in the composition of intra-EU trade



Source: EC Single Market Review Series



Business opportunities from EMU

- **Government policy aims at creating a stable and supportive environment for business**
 - low inflation
 - low and stable real interest rates
 - exchange rates reflecting underlying economic fundamentals
- **Enormous progress on this front has been achieved in the run-up to EMU**
 - IMP set the stage for EMU
 - fiscal consolidation is real
 - price stability achieved
 - deregulation under way
- **Efforts are on-going**

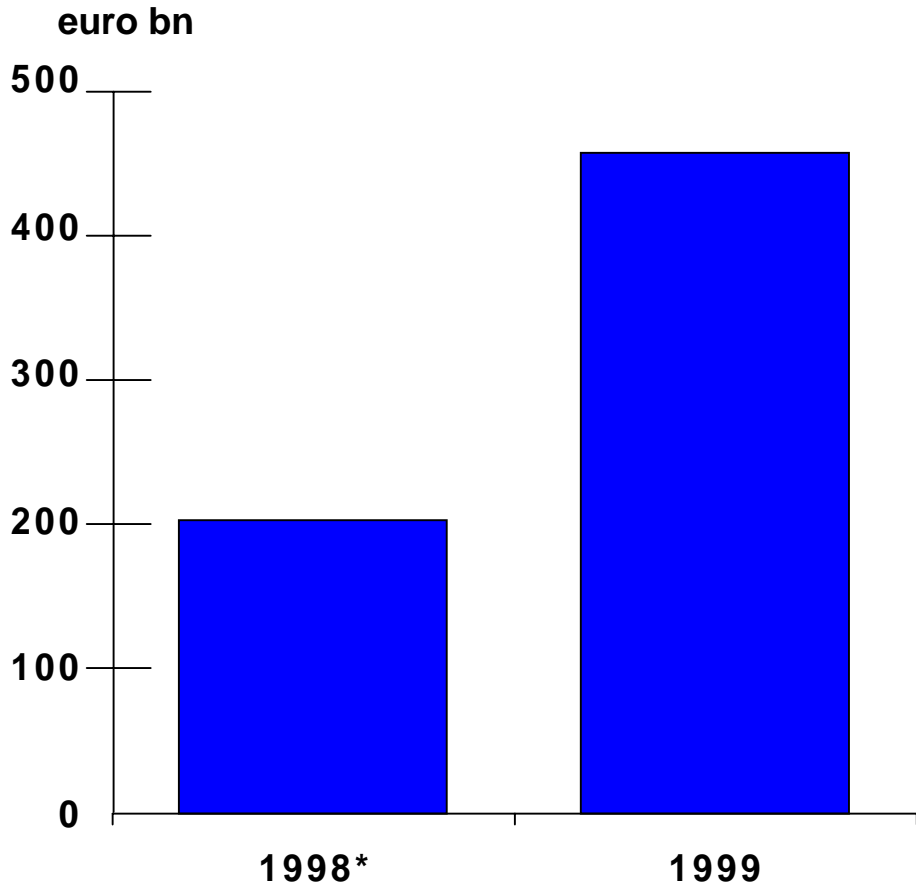


Business opportunities from EMU

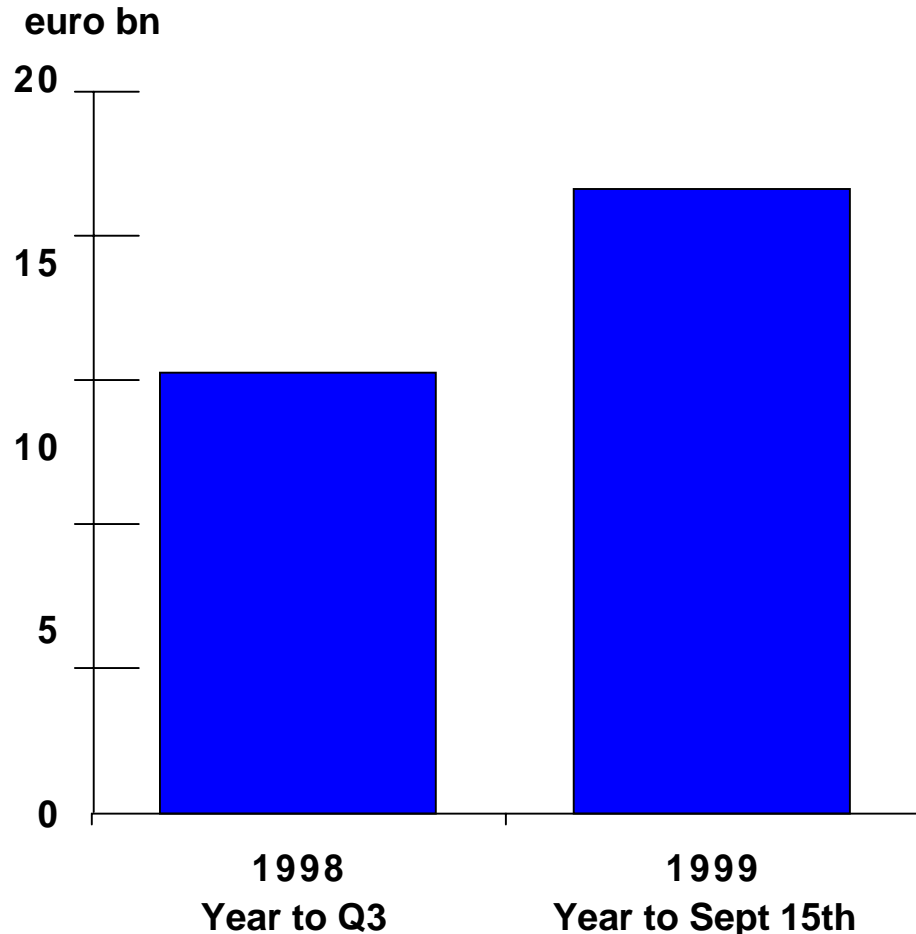
- **Cross-border transactions and operation both easier and cheaper**
- **Market access barriers reduced or eliminated**
- **New markets are opened**
- **Product development facilitated**
- **Regulatory and fiscal environment simplified**
- **More efficient and integrated capital markets reduce cost of, and increase access to, finance**
- **Increased competition**

€ Capital markets have responded enthusiastically to EMU

International bonds issued in euro



Euro area IPOs



*euro area currencies
Source: Capital DATA

Year to Sept 15th

Source: JP Morgan

Year to Q3

Year to Sept 15th



More deregulation is necessary

	Commercial Paper Issuance	Investment in Commercial Paper	Investment in Non-Domestic High-yield Bonds	Direct Investment in Non-Domestic Private Equity	Direct Investment in Non-Domestic CIFs(1)
Austria	Some Regulatory Problems	No Significant Problems	No Significant Problems	No Significant Problems	Significant Regulatory Problems
Belgium	Some Regulatory Problems	Some Regulatory Problems	Some Regulatory Problems	No Significant Problems	Some Regulatory Problems
Finland	Some Regulatory Problems	No Significant Problems	No Significant Problems	No Significant Problems	Some Regulatory Problems
Germany	Some Regulatory Problems	Some Regulatory Problems	No Significant Problems	No Significant Problems	Some Regulatory Problems
Ireland	Some Regulatory Problems	Some Regulatory Problems	Some Regulatory Problems	Some Regulatory Problems	Some Regulatory Problems
Italy	No Significant Problems	No Significant Problems	Significant Regulatory Problems	Significant Regulatory Problems	Significant Regulatory Problems
Netherlands	No Significant Problems	No Significant Problems	No Significant Problems	No Significant Problems	No Significant Problems
Portugal	No Significant Problems	No Significant Problems	Significant Regulatory Problems	No Significant Problems	Significant Regulatory Problems
Spain	No Significant Problems	No Significant Problems	Significant Regulatory Problems	No Significant Problems	Significant Regulatory Problems

 No Significant Problems

 Some Regulatory Problems

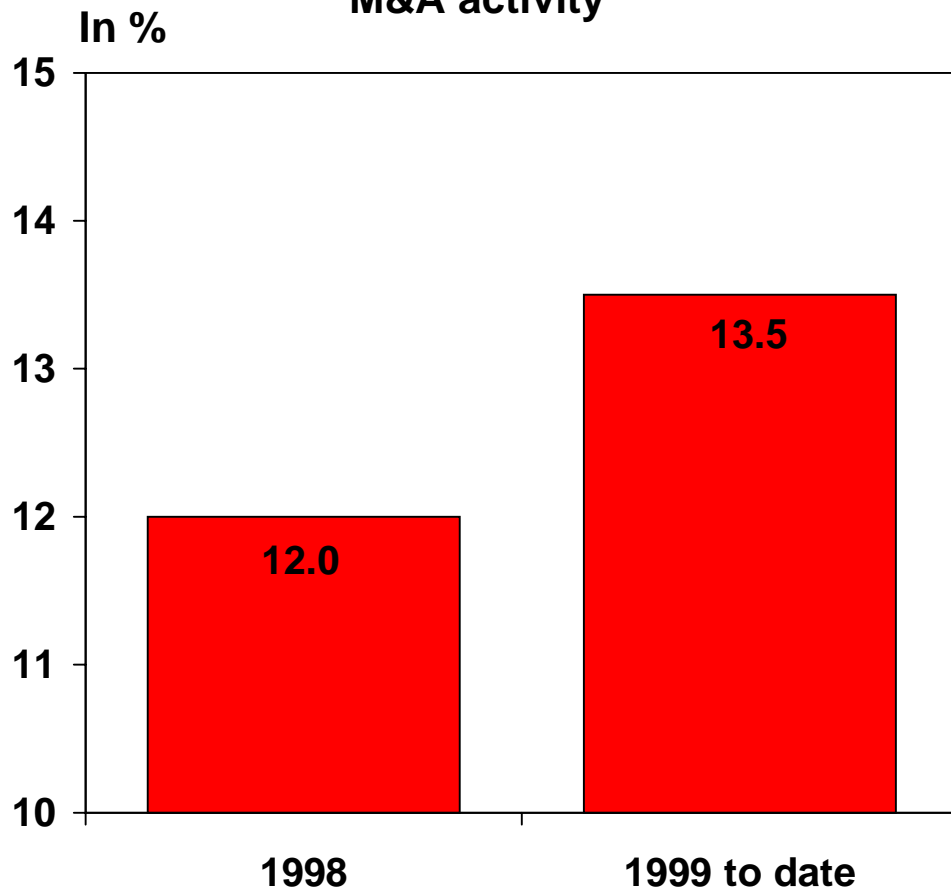
 Significant Regulatory Problems

Source: UNICE
(1) Collective Investment Funds



Some changes raise concerns

Share of intra-EU
M&A activity



- M&A activity has surged
- The share of intra-EU deals remains low; the era of national champions is not over
- Competition policy will have to be vigilant

Source: Thomson Financial Securities Data



EMU Status Report

Costs

- Transition
- Employment reduction through rationalisation

Opportunities:

New markets/new products/higher profits

- Access to new/enlarged markets
- Product development facilitated
- Rationalisation
- Harmonization

Benefits

- Lower costs
- No risk

Risks:

- “External” exchange rate volatility increased
- Extra-EMU opportunities neglected

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