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The euro is coming – and then what?

# With euros in the hand through Switzerland

**Soon almost the whole of Europe will be a single monetary area. This means that the currency of the European Monetary Union, the euro, will be a reality – for Switzerland too.**

At the beginning of 1999, European Monetary Union (EMU) will set up shop. Most analysts are expecting a fairly wide EMU. They are at present assuming that all EU states except Denmark, Greece, Sweden and the

*Urs Walter\**

United Kingdom, will take part – even if the criteria of the Maastricht Treaty will have to be fudged for some of them. This will be particularly the case for budget deficits, although interest rates have now converged substantially and have stabilised monetary relationships.

With 372 million inhabitants and an economic output of US\$ 8,600 billion per year, the EMU will be the biggest single market in the world. From July 2002 the euro will be the sole means of payment within it, so that Switzerland will then be isolated not only

## For tourism the euro is coming

In future travellers in many parts of Switzerland will be able to pay with the Euro. "The Euro will be accepted by the tourism branch very quickly and will become a second currency", Rolf-Peter Pfaff, head of Central Switzerland Tourism in Lucerne, is sure of it. Bankers and others operating in tourism are also assuming that, at least in holiday resorts, the Euro will soon become a parallel currency. But for many visitors it does not matter one way or the other: they pay in their own currencies anyway using credit cards.

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politically but also in economic terms. The consequences of this cannot yet be foreseen.

## Facilities certainly...

Thanks to the euro, businesses and travellers will realise economies by dealing in a single currency. Some currency traders will be on the losing end, but all others will save with the euro. For Switzerland, such savings will amount to about Sfr. 5.8 billion, estimates Hans Kaufmann, chief analyst at Bank Julius Bär.

The effects of the giant single market will be even more marked on competition, and consequently on prices. The various currencies we see today serve to disguise huge price differences. For example, a best-selling book may have a printed price of 44 Swiss francs, 44 German marks and 321 Austrian schillings. If the euro were used, the difference in price would leap to the eye. The ratio would be 58 to 44 to 52. This means that the book is a third dearer in Switzerland than in Germany. It will not take long for price convergence to set in, particularly in Switzerland where many people live very close to the frontiers. Those living in Basle, for example, tend to possess three purses for shopping in three countries.

## ...but high additional costs

Consumers will be happy to find that in high-price Switzerland many price bastions will fall. But this will also mean a further blow to a domestic economy which has thus far been protected from the chill winds of world markets. The increased pressure on prices will certainly darken the economic climate at the outset, even though those in favour of trade in goods and services being as liberal as possible see new opportunities for progress in the longer term.

Whether Switzerland emerges as a winner or loser will depend on the strength of the new currency. If the European central bank achieves real independence and

succeeds in following a tight monetary policy, then the Swiss franc and with it all Switzerland will face relatively quiet times ahead. But if the new central bank decides to assist in solving adjustment problems between regions with different economic development levels by printing money, then the Swiss franc will soar. In contrast to the USA, the EU does not cushion the varying economic weight of its member states by fiscal measures and compensation payments.

## Adjustment means extra cost

A weak euro will mean a flight into the Swiss franc. This will drive up its value, which will be poison to exports and tourism. But the creation of a link between the Swiss franc and the euro would also bring high adjustment costs in its train. In particular, it would mean the loss of the present interest rate advantage over Germany of two percentage points. If Swiss interest rates were to rise to the EU level, the high rate of both public and private indebtedness would, according to chief analyst Kaufmann, result in about Sfr. 20 billion in higher interest costs. This would have a negative effect and would be very bad for business.

## Will the Swiss franc remain alive?

Kaufmann draws the conclusion from this that Switzerland could not afford the consequences of such a link to the euro – and certainly not that

of joining EMU. But Peter Buomberger, chief economist at Union Bank of Switzerland, sees a possible scenario. "All the accounting of the big firms and banks would be in euros, with a quick conversion to Swiss francs taking place at the end of the year", he recently said in an interview.

"However, we would still pay our taxes in Swiss francs", he added in consolation.

Stock trading in euros is already under consideration. But Hans Meyer, president of the Swiss National Bank (SNB), does not agree that pressure from the financial markets could lead to the end of the Swiss

franc. "Historically speaking", he says, "domestic currencies have been squeezed out by foreign payment methods only in periods of extreme inflation". Since the SNB intends to maintain monetary stability, the Swiss franc should therefore in his view survive. ■

The single currency in everyday life

# The euro is progressing, so let's open our eyes!

**Switzerland is outside the European Union, and it will not take part in the great adventure of the single currency. But all Swiss people – consumers, tourists, savers and company employees – will be affected by the creation of the euro.**

The single currency will be created in two stages. On January 1, 1999, the euro will not yet exist in the form of banknotes or coins. During a transition period of three years, it will be a 'notional' currency, written down

*Albert Tille\**

in the form of bank accounts and stock market prices, and it will be used as a means of payment only by those companies which so desire.

Consumers will have time to get ready for the new European currency. For three years, they will still pay for their purchases or hotel rooms in lire, marks, or florins. For them, the real change will come with the introduction of banknotes and coins. And for a

further six months, euros will circulate in parallel with the old national currencies – which will then be gradually withdrawn from circulation. That will be the period during which we shall have to get used to the new prices. Comparison will be facilitated by means of double pricing in all businesses in countries using the single currency.

This double pricing may also be used in parts of Switzerland, e.g. in tourist resorts and frontier zones. Every consumer will have to calculate the value of all the goods and services he intends to purchase in the euro zone on the new basis. Conversion tables will certainly be available to help with this task.

## No compulsion, but no prohibition

Apart from paying particular attention when the new currency arrives, consumers and tourists will not have to take masses of precautions. On the contrary, the process will be made as simple as possible for them. They will be able to manage throughout a large part of Europe just by buying euros before they set out. The number of foreign exchange transactions will be reduced greatly, so there will be savings on com-

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mission and losses due to price fluctuations. With a single currency in much of Europe it will be easier to make budgetary comparisons for travel between, for instance, Spain, Italy and France.

There will also be no problems in the field of contracts. The rent of a holiday apartment or the cost of a leasing or futures transaction in a national currency will simply be converted into euros at the official rate. Regulations made in Brussels will guarantee the continuity of all contracts concluded in a national currency. The provisions for rounding off such sums will be the same as those applied when the transfer to the euro takes place. From 1999 to 2002, consumers will be able to conclude a contract either in a national currency or in the euro. The policymakers in Brussels have decided that during the transitional period there will be neither compulsion nor prohibition on using the euro in relations between individuals.

### Risks for exporters

For savers, important changes will occur on January 1, 1999. The value of all securities will be immediately converted into euros, and all inter-bank transactions will take place in euros. But Swiss account-holders will have to continue paying close attention to the exchange rate which is fixed between the Swiss franc and the euro. Most experts expect the Swiss franc to strengthen. The trend will probably become clearer in May 1998, the time fixed for EU finance ministers to determine the value of the euro against all currencies taking part in the first wave. People with savings may well feel they

should consult their bank about how best to manage their money.

Since banks are at the centre of monetary flows, they will have to carry out most of the transformations connected with the transfer to the single currency. In the big banks staff sections with some dozens of members are already at work on this. Every single security will have to be converted, and the banks will need to be ready to reply to innumerable questions from businesses and individuals. Special telephone lines will be opened, and these will become essential information centres. One of the big banks has estimated that the operation will cost it several hundred million francs.

Introduction of the euro will also require much preparation on the part of Swiss companies, in both the manufacturing and service industries. Computer software will have to integrate conversion programmes for the new currency. Finance directors will have to follow the price of the euro with close attention and adjust their investment strategies to limit currency risk. Marketing heads will have to draw up their price lists in euros. They will also have to revise their psychological strategies for prices of current products. This means, for example, that a watch priced at Dm 148.- will have to be given another type of attractive price in euros. A wide range of internal changes of this kind will have to be made by retailers.

But the main challenge will remain the value of the Swiss franc. If the Swiss National Bank is unable to contain any upward trend, companies will be confronted with additional problems in exporting products whose prices will be higher abroad. ■

Harmonisation of money, weighs a

## Stubborn resi

**At no period in history have people greeted the disappearance of old customs. Between 1800 and 1848 Switzerland was experiencing heart-rending similar to that now preceding the introduction of the euro. People were afraid then, and they are afraid now, that with their money they would lose their right to self-determination.**

**W**hen a cloth merchant set off for the market in Lucerne in the first half of the nineteenth century, he needed to take a really thick money pouch with him, because he was going to be faced with all manner of coins and

*Willi Wottreng\**

would always be required to give the right change. He also included in his luggage a gold scales and conversion tables.

It is true that since the Helvetic Republic the Swiss franc existed in principle throughout the territory of the Confederation. At that time it was divided into 10 batz, each with 10 centimes or 4 kreutzers. But since the collapse of the republic, the cantons had fallen back into their old bad habits. They allowed their own mints to make money and produced coins of many different degrees of precious metal content, so that there were about 700 kinds of coin in circulation if you counted the foreign ones.

Francs had different values according to canton, and this meant that every canton had a different exchange rate between its francs and foreign coins. You might come across French pounds, crowns of Bavaria, Baden and Württemberg, Spanish piastres and convention thalers from Austria and Saxony. "This situation very often brought locals and particularly foreign travellers, visitors to our beautiful land, to the very brink of despair", a contemporary wrote in an 1849 essay.

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