

to confuse the impact of a *customs union*, which the EU has been for several decades, and which entails significant trade and investment effects, with that of a *currency union* (EMU), which is primarily about monetary policy and exchange rates. The implication is that the expected impetus to investment and growth directly attributable to EMU may be exaggerated.

- A successful EMU will likely accelerate the harmonization of national securities market and banking regulation in Europe as the idea of "one capital market" takes hold. The sharp contrast between the UK approach (which more closely resembles the North American model) and that on the continent will become even more apparent.

FOR INTERNATIONAL FINANCIAL MARKETS:

- The implications should be positive, assuming prudent management by the new European Central Bank (ECB). Deeper and more liquid European financial markets should stimulate competition and efficiency, to Europe's benefit. When the new euro money markets demonstrate their stability and liquidity, the euro will probably find a place in official reserve portfolios of non-EU countries without major impacts on global money or exchange markets. Product innovation may increase in European capital markets when they mature as it has in North America, improving market efficiency.
- Potential volatility and turbulence in financial markets could occur at certain points in the EMU implementation process. The point at which participants are chosen (early 1998), the choice of the "irrevocably fixed" exchange rates, and the long transition period from 1999 to the final introduction of currency notes (2002) could give rise to problems. Given that financial markets have already partly converged on the expectation of EMU, any postponement or revision in the process will result in the rapid unwinding and adjustment of financial market expectations with associated market volatility.
- Further down the road, the EMU could have long-term implications for the management of monetary issues in the international financial system, including the G-7 and the IMF.

FOR CANADA:

- No initial direct impacts are apparent. However, Canada is likely to be seen even more as a part of the North American market in a tri-polar financial world (North America - EU - Japan), at least until other major regions of the globe emerge.