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The Euro Kaleidoscope

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by Vladimir Mamakin

Thinking about my experience in Germany reminds me of the events of the whole year and the numerous problems I had to tackle. I am sorry that I am not the master of my own time any more, and I get excited time and again at the memories of so many places I have been.

From the very outset I must apologise for being so fragmented: even now, several months after the programme is over, my reflections are very much reigned by my impressions.

Project

I came to Germany to study the economic and political consequences of the introduction of the Euro. Despite the political rapprochement of Russia and the EU and the importance of the European Union for the economy of Russia, the US dollar still dominates the Russian financial markets. The launch of the Euro in 1999 has had hardly any effect on the distribution of the roles of international currencies in Russia. The intention of Russian and the European Union leaders to expand the bilateral political, economic and cultural relationships were in clear contrast with the fact that the US dollar prevails as the international currency in Russian financial markets. The structure of Russia's external economic relationships poorly matches the currency structure of the Russian foreign exchange market. The international financial transactions of Russian companies and financial institutions denominated in Euro account for only 1.5% of transactions on the Russian currency exchange market, while more than 90% of all international transactions are made in US dollars. Only 5% of the international assets and liabilities of the Russian banking sector are denominated in Euro, whereas more than 80% are denominated in US dollars, and the RUB / USD exchange rate is controlled by the Bank of Russia.

This disproportion has a clear geopolitical implication as well. The US does not depend economically on Russia, but Russia is clearly dependent on the monetary situation in the US. In contrast, the EU is dependent on the economical and political situation in Russia because of its geographical proximity as well as trade and financial ties.

In the past might, this disproportion might have been explained by the fact that, for Russian companies and banks operating abroad, it was easier to settle with other parties in a single currency: the US dollar. The US dollar started to dominate Russian financial markets in 1993-1995, after the extended period of high inflation, failed currency reforms and mismanaged monetary policy eroded confidence in the domestic currency and drove people to a safer instrument. As long as the US dollar was the dominant international currency, it seemed quite natural to use the US dollar as a day-to-day alternative to the domestic currency. It was clear to me that with the launch in 1999 of the single European currency — the Euro — there emerged a new international currency that had the potential to rival the US dollar in Russia. The geographical proximity of the Euro zone and the Russian Federation, as well as trade and financial relationships, made it reasonable to expect that the Euro would also play a significant role in Russian financial markets in the near future. The purpose of my project in Germany was to explore prospects for the Euro as an international currency in Russia and to analyze the challenges of the possible currency switch.

During my German year I was fortunate to become familiar with leading German economic and financial institutions. I spent almost a year at Stiftung Wissenschaft und Politik as a guest researcher, and two weeks at the Deutsche Bundesbank and the Ministry of Finance. I took part in seminars at the European Central Bank, Deutsche Bank, and Dresdner Bank. The reputation of the Bundeskanzler Scholarship cleared the way for me to the World Economy Institute in Kiel, with its large national library on economics. Never before have I been to so many places in such a short time.

Travelling

Probably the greatest impression of my year in Germany was that I could get to any place in the country even though it could be thousands of kilometres away. That was critical because travelling was something I was doing all the time, thanks (partially or totally?) to the Alexander von Humboldt Foundation. Mobility was a feature of our programme. You take your German classes in Bonn, which involves a thorough exploration of the Rhine valley. Then comes the introductory seminar, and you do more than five cities in a month. It is followed by a 'break' for work... On top of that comes the Studienreise, which is a short 'vacation,' two weeks you will recall time and again ... Dresden, München, Dachau, Garmisch-Patenkirchen, Freiburg, Schloss Neuschwanstein, Baden-Baden, Karlsruhe, and Brussels at the end. Glimpses of faces, pictures, and impressions that defy classification.

The German public transport system is a most striking impression in this kaleidoscope. Punctuality reigning unnoticed everywhere – from a village bus to an ICE dashing at 250 kph. You realise it only when you, just like the Germans around you, get irritated about a bus or train being five minutes late. You get used to the public transport schedules for any location being available in the Internet. After twelve months you take it totally for granted, and you cannot conceive of being at a bus station without knowing what time the bus is due.

Another striking thing in the German public transport system is that purchasing a ticket is practically fully automated and that you can never understand the pricing principle. My first experience with the wondrous ticket-selling machine was when my train from Moscow arrived in Cologne. Numerous bags and boxes of books had convinced me to travel by land. Using my knowledge of German at that time, I thought I was fairly successful in buying a ticket to Bonn. It was the ICE. The conductor did not to check our tickets when he saw our heap of luggage. Only some months later did we realise how lucky we had been. The ticket I got from the machine was actually for the tram from Cologne to Bonn.

Language

My experience with the ticket machine prompted me to improve my German. Before the trip, I did not see a great problem in my not knowing German, because from my earlier tourist experiences I knew that most Germans speak English very well. This time, we saw that bad German would be a real problem. A two-month course in Bonn gave us some basic knowledge, but was by no means sufficient for the introductory seminar. The speakers preferred to use their mother tongue, once they saw that those who did not know English could not understand them. As a result, language studies became an on-going process, and we did not part with the dictionary even at the most interesting lectures.

We also realised the importance of good German in our day-to-day life. Normally you do not think about how often you are involved in contractual relationships. It transpired in Germany that opening a bank account, buying a mobile phone, renting a flat, to say nothing of more complicated things, required reading several pages of German in small print. For obvious reasons, Germans prefer communicating in their native tongue, and of course there are numerous statistical reports that are published in German only. Precious time had to be spent on warring with word formation, grammar and other linguistic subtleties that are foreign to economic science. I therefore strongly advise all would-be Alexander von Humboldt Foundation fellows who are not fluent in German to think about it long before coming to Germany.

Accommodations

Limited German skills made it absolutely impossible for us to find accommodations or to understand newspaper and Internet ads on this subject. In addition, at first it was a mystery to me why in some ads they say that the flat has central heating, “Bad” or “EBK” – but only until I saw with my own eyes a flat without a lavatory or kitchen.

My 'remote' search for accommodations in Berlin ended in a SOS I sent to the institute where I was supposed to spend a year. I was lucky because they often work with researchers on a short-term basis and are well connected with realtors. It did not take long for them to find us a reasonable furnished apartment, although it was a long way from work. Thus settled for the time being, my wife and I embarked on a real flat-hunting campaign. That was how we came to understand a thing or two about the German real estate market and some linguistic subtleties. For instance, when a district is called 'quiet and calm,' it means that your apartment will be overlooking a cemetery. If they say the flat has just been renovated, they mean that the debris is still there and the floor and furniture are buried under dust from the renovation. 'Voll möbliert' may mean a flat with two big beds and five dining tables but no wardrobe. You may be offered a fully furnished apartment, but all the furniture may be removed in a month, and so on and so forth. Only after three months of arduous searching, when we got a better feel for German, did we find a flat that proved really fit for living in for a considerable period of time.

“Teuro”

Looking back, it seems that one had to struggle with difficulties only. But for my research the year was very fruitful as well; the experience that I gained is priceless. I gained access to first-hand information, had the opportunity to talk with ordinary people and specialists about all aspects of the introduction of the Euro and possible outcomes of the process of financial integration within Europe. The first reaction to the introduction of the Euro in Germany was simply “teuro.” The amazing thing is that, at the end of our year in Germany, we could convert prices from Euro into DM easily. The most amazing thing is that sometimes we did convert prices to assess whether or not the prices were too high.

This persistent inertia characteristic of money inhibits a rapid market switch in people's minds and behavior. Grumbles and mumbles just confirm this well-known fact. Nevertheless, people were very concerned about the political and financial future of Europe, and nobody told me that the introduction of the Euro was a wrong step in the wrong direction. Statistics I gathered in Germany confirm that the international role of the Euro is growing very fast and that trust in the new currency has been built. In the countries of Eastern Europe, the Euro has already replaced its major rival, the US Dollar, as the dominant international currency. The launch of the Euro was a great success and I am very thankful to the AvH Foundation that I was given a chance to monitor and "participate" in the ongoing historical process.