The euro’s 8 percent gain against the U.S. dollar in the past six months is posing a fresh threat to the European economy just as it shows signs of escaping the debt crisis, said Jean-Claude Juncker, who leads the group of euro-area finance ministers.

Echoing policy makers from Switzerland to Japan in bemoaning strong exchange rates, Juncker late yesterday called the euro’s value “dangerously high” after the 17-nation currency this week traded above $1.34 against the dollar for the first time since February last year.

The euro has rallied amid growing signs in financial markets that the three-year debt turmoil is fading and after European Central Bank President Mario Draghi last week signaled no immediate plan to ease monetary policy further.

“It was said last year that the euro zone was at risk of breaking and I said last year that this won’t happen,” Juncker, who steps down this month as head of the so-called eurogroup, told an annual gathering of business leaders in Luxembourg. “The euro zone has become more stable after lots of efforts, some from me,” Juncker said, adding that now “the euro foreign-exchange rate is dangerously high.”

The European currency dropped as much as 0.9 percent after Juncker’s comments, the biggest intraday decline since Jan. 3. The euro traded at $1.3281 at 7:42 a.m. London time, down 0.2 percent. It touched an intraday high of $1.3404 on Jan. 14, the strongest since Feb. 29, 2012.

‘Existential Threat’

Juncker’s remarks reflect European Union policy makers’ confidence that they have tamed the fiscal crisis. EU President Herman Van Rompuy said on Jan. 9 that “the worst is behind us, particularly the existential threat to the euro.” The ECB’s Draghi on Jan. 10 cited “positive contagion” in European markets and said “a gradual recovery should start” in the euro-area economy in late 2013.

Harvard University professor Martin Feldstein, long a critic of the euro, said on Jan. 5 that European policy makers should consider a coordinated approach to weaken the euro as a way to rally growth via exports.

“A lower euro would make each of the euro-zone countries more competitive relative to the countries outside the euro zone,” Feldstein said.
The comments by Juncker, who also serves as Luxembourg’s prime minister, come five days after Draghi said he wouldn’t comment on exchange rates and that they were not an ECB policy target. ECB Executive Board member Peter Praet told La Libre Belgique in an interview published today that “the exchange rate of the euro is one variable to be factored in, but isn’t a goal in itself.”

Policy makers from many of the world’s leading economies have entered the new year advocating weaker currencies as an impulse for stronger economic growth with monetary and fiscal policies running out of room. Switzerland is already blocking the franc’s appreciation against the euro, while newly elected Japanese Prime Minister Shinzo Abe’s campaign to spur growth and seek a more aggressive central bank has driven down the yen.

Bank of England Governor Mervyn King said on Nov. 14 that while he never called for changes in exchange rates, sterling’s increase over the previous year was “not a welcome development.” The Bank of Canada said on Dec. 4 that “persistent strength” in its dollar was hobbling exports.

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