Andres Sutt: Macroeconomic co-ordination and fiscal policy in the expanding Eurozone

Statement by Mr Andres Sutt, Deputy Governor of Eesti Pank (Bank of Estonia), at the conference “thinking EUconomy - Wirtschaftspolitik europäisch denken”, Berlin, 3 May 2006.

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The enlargement of the European Union with the clear message that all countries without an opt-out clause will, in the future, be also members of the EMU, is a most welcome and forward-looking approach in view of an ongoing globalisation and integration processes in the world. Eventually, the adoption of the single currency by all Member States provides clear benefits for the Union as a whole. From the macroeconomic point of view it would support further economic integration and higher growth rates by fostering trade and investments. Therefore, euro area enlargement will provide tangible benefits for all European citizens over time.

The main policy challenge for both the current and prospective euro area members is to ensure that the best use is made of the monetary stability provided by the framework of the European System of Central Banks (ESCB). From the perspective of the new Member States, the issue at stake is how to maintain the economic structure supportive for sustained growth and rapid real convergence. Strong fiscal stance is instrumental in this regard. Convergence Programs of the new Member States should include ambitious Medium Term Objectives to ensure that not only the Maastricht criteria are met, but most importantly, the emergence of excessive deficit situations is avoided and the risks of taking recourse to exchange rate adjustments after joining the ERM2 (and, eventually, the euro area) are minimized. The well functioning single market for all goods and services, including infrastructure networks, as well as pursuing the National Reform Programmes in the context of the reinforced Lisbon agenda is the other pillar for the success of the euro area and for the new Member States in particular.

Estonia has been a de facto member of the euro area since the inception of its independent currency in 1992. Fixing the local currency to D-mark, and later to the euro meant that the monetary policy decisions were not made in Estonia. Estonia's currency board regime implies prudent fiscal stance that has been largely adhered to since 1992, resulting in our general government having accumulated a relatively large net asset position of around 10 percent of GDP. A solid budgetary position and early deregulation of product and capital markets implies that Estonia has been well placed to absorb both positive and negative shocks during the last 15 years. Deregulation and reform in preparation of the EU membership has allowed us to fully integrate our economic and financial systems with the Single Market. However, that kind of approach requires, in today's conjuncture, forward-looking structural reforms in almost all EU member states, e.g. in the product, services and labour markets, healthcare and social insurance systems etc.

For Estonia the adoption of the euro is the only logical step and the overarching policy priority. In this context, we would like to emphasize that it is in the interest of the whole European Union that the Euro Area enlargement takes place in accordance with the clear set of well known rules while the criteria are applied, in line with the Treaty provisions, on an equal and economically meaningful manner. The countries joining should have a proven track record to fare well under the common monetary policy. This being the case, the Euro Area membership would fasten the catch-up process in these countries and strengthen the countries' ownership in the EU-wide macroeconomic co-operation at large.

Macroeconomic stability and economic flexibility are prerequisites for the new Member States to ensure that investment in physical and human capital is sustained and outlays for research and development further increased. Higher growth and stronger policy coordination on the EU level will also strengthen the social dimension of enlargement.