

Jean-Claude Trichet: Thoughts on the euro area enlargement

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the Celebration "Welcome to the Euro", Ljubljana, 15 January 2007.

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Ladies and Gentlemen,

It is a great pleasure to be here with you today and celebrate the adoption of the euro in Slovenia and, following the inclusion of Greece in 2001, the second enlargement of the euro area since the introduction of the euro in then 11 EU Member States on 1 January 1999.

1 January 2007 is a major landmark in the long and challenging economic and monetary integration process that brought Slovenia into the euro area. The preparations to euro adoption demanded a lot of effort as well as political determination and commitment to pursue stability-oriented economic policies in Slovenia. Thanks to these policies, Slovenia has made significant progress with regard to both nominal and real convergence in recent years and in 2006 managed to fulfil all economic and legal convergence criteria. At the same time, it has enjoyed high economic growth that made it possible to narrow the income gap vis-à-vis the euro area in terms of PPP from somewhat above 60% of the euro area average in 1995 to close to 80% now. Let me congratulate the Slovenian people on these remarkable achievements and let me warmly welcome you to the euro area.

1 January 2007 marks the beginning of a new economic era for Slovenia. It does not, however, mark the end of economic challenges and the economic integration processes of your country into the rest of the euro area and the European Union. In fact, like all other members of the euro area, Slovenia has to make further efforts to intensify its economic integration within the euro area and I am confident it will do so. I will particularly stress that fiscal and structural policies become now even more important given that there is no longer the possibility to resort to independent domestic monetary or exchange rate policy.

On this joyful occasion, I would like to share with you some thoughts on the euro area enlargement.

Contrary to occasional comments made, the current euro area enlargement clearly demonstrates that the euro area is not a closed club. Instead its doors are open to any new EU Member State that fulfils the necessary preconditions. Let me recall that all countries that joined the European Union in 2004 and 2007 became members of the Economic and Monetary Union with a derogation. This means that they are not only entitled but expected to adopt the euro once they fulfil the convergence criteria. It is no one's intention in the euro area and certainly not in the ECB to bar the euro adoption in EU Member States outside the euro area. What is fundamental – and we stick to that position - is the fulfilment of the convergence criteria as specified in the EU Treaty. We examine the sustainability of the convergence process on the basis of a coherent analytical framework specified in our Convergence Reports. This framework has been used consistently across time and for all examined countries and we will continue to use this framework for the analysis in the future.

The notion of sustainability implies for us that the convergence criteria must be fulfilled on a lasting basis and not only at the time of the convergence examination. A lack of sustainability would result in serious economic problems for the newcomer with maintaining economic and financial stability. In addition economic problems in an individual euro area country might also have negative consequences for the entire euro area. Thus, a thorough and rigorous approach to fulfilling the convergence criteria on a sustainable basis is in the interest of all current and prospective euro area members.

Looking to the euro area since its inception of 1 January 1999, one is impressed by its success. Not only the success of the single currency itself which has gained the same level of monetary stability and confidence that was the privilege only of the best previous national currencies. Not only the fact that inflation over the last eight years has been in the euro area significantly lower than in the eight years before the euro. Price stability is a necessary condition for growth and job creation. So it is not surprising that growth has been higher in the euro area since January 1999 than in the eight years before and that in the same period of eight years job creation has been significantly higher: 12 million jobs created since 1 January 1999 compared to less than 3 million during the eight years before. But this does not mean that the euro area should not strive to do even much better, taking into account in particular the present level of unemployment and the low level of yearly labour productivity increases.

More flexibility of all markets is of the essence. We must continue to strive for the full liberalisation of the markets of goods and services, for further significant progress in financial integration and for flexibility in the labour markets including free movement of workers. This free movement of workers within the monetary union is not only important for its proper functioning but it also symbolises the depth of the economic integration achieved between euro area countries. Thus, let me repeat here my earlier calls that the remaining labour mobility restrictions for Slovenian citizens in the euro area countries should be eliminated. Such barriers do simply not belong to a single currency area.

Ladies and gentlemen, let me again congratulate Slovenia for its successful integration with the euro area and the adoption of the euro. Looking at the track record of sound economic policies in the past I am confident that the newest member of the euro area “family” will continue with responsible economic domestic policies, securing further stable and robust economic growth and pursuing efficiently the catching-up process. Let me also reconfirm my hope that all euro area Member States will do their best to further strengthen the economic integration in the euro area. This will have positive effects on economic growth and job creation for all 317 million people in the euro area today. Finally, let me encourage all the new Member States to pursue sound and consistent economic policies in order to achieve lasting real and nominal convergence. Further progress in this field will hopefully allow us to welcome again new members to the euro area.

Thank you very much for your attention.