

## Marian Jusko: Approaching the euro

Speech by Mr Marian Jusko, Governor of the National Bank of Slovakia, at the Conference "Challenges of EU Accession", Prague, 1 April 2003.

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Ladies and Gentlemen,

I welcome the opportunity to address you tonight and I would like to thank the CNB for including me into this panel, where I can speak and discuss the most challenging and demanding topic, which is the EMU accession.

We all, central bankers, know that the main role will not be played by us, but crucial will be the decision and actual steps of national governments.

Let me present the views and approach of the National Bank of Slovakia, which, however, cannot be considered as the official statement of the Slovak Republic. Nowadays, there is the joint strategy of the central bank and the government under preparation, which will be approved by the Slovak Government in the second quarter and which will also be a part of our PEP (pre-accession economic programme). The intention here is to officially announce the term of our preparedness for examination, which also serves as the yardstick and anchor for all our current and future decisions.

The general approach of the NBS, which can be slightly (in terms of its schedule) modified by our government, is the earliest possible approach towards the euro adoption and EMU membership. At the same time, we prefer the shortest possible membership in the ERM II mechanism.

The main idea behind the formulation of the earliest possible strategy of EMU accession is our belief that Slovakia may enter the EMU earlier, but must not become a member of the eurozone later than other associated countries. This is based on our latest experience, when we were treated as an outsider in the second wave of the EU, OECD and NATO enlargement, with a long lasting effect on FDI inflows, costs of debt service and the overall macroeconomic development.

I do not want to bother you with all these well-known and clear reasons for entering the EMU, which are, above all, the savings on transaction costs and a decline in the exchange rate volatility and exchange rate risk. This is extremely important for Slovakia with its high level of openness. The share of exports and imports of goods and services in GDP increased to 156.5% in 2001 from 117.3% in 1993, while 60% of exports and 50% of imports were related to EU countries in 2001. After including the CEC5, these shares would increase to 89% for exports and 71% for imports. Considering the large share of the Slovak foreign trade in GDP and the territorial structure of the foreign trade, the probable positive impact of the increased openness due to the EMU membership (an estimated increase of 1.6 percentage points) on the GDP per capita growth may oscillate around 1%.

We are also aware of disadvantages which could be connected with the EMU membership. Among frequently mentioned disadvantages of the euro adoption belong the ongoing process of catching up with EU levels, the insufficiently synchronised business cycles and the loss of the exchange rate stabiliser. Along with this, we get the common monetary policy which is doubtful to fit to all, especially to a country with structural changes still ahead.

With regard to the above mentioned possibly problematic areas, in our view, the real and nominal convergence can be seen as complementary to each other, and should be pursued in parallel. Over the short period of time, a contradiction between the real and nominal convergence has become evident where GDP growth could slow down. However, at the same time, conditions for more dynamic and, mainly, sustainable growth will be created. Under these conditions Slovakia has a potential for the GDP growth of around 4-5% in the medium term.

Regarding the independent monetary policy and the automatic stabiliser of the exchange rate, let me ask the question: Is it possible, in such a small and open country, that they would work freely and independently?

I can openly say that we do not see any serious problem in meeting all Maastricht criteria in the medium-term horizon. However, what could negatively effect fulfilment of fiscal criteria and slightly postpone the process of integration is the treatment of the pension reform expenditures, which is now also in question in many associated as well as member countries.

In the end, let me stress that there is a strong incentive and first steps have already been carried out in the area of structural reforms, particularly those related to the pension, health-care and social benefits policies, and decentralisation. The price distortions are expected to narrow in 2004. The plan of the Ministry of Finance is to lower the fiscal deficit from around 6% in 2002 to 5% in 2003 and to 3,4% in 2004, so that Slovakia could be ready for the examination in 2005 or 2006.

Thank you for your attention.