Jean-Claude Trichet: Press briefing on the ECB Convergence Report

Opening remarks by Mr Jean-Claude Trichet, President of the European Central Bank, at the press briefing on the ECB Convergence Report, Frankfurt, 20 October 2004.

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Ladies and Gentlemen, welcome to this special press briefing on the publication of the ECB's Convergence Report 2004.

Let me start by saying that only 15 years ago I could not have imagined that we would, in October 2004, be presenting to you a report examining the economic and legal convergence of Sweden and ten countries from central and eastern Europe and the Mediterranean. At that time, most of these countries were still deprived of democracy and economic freedom. The prospect of joining the European Union and eventually adopting a single European currency was out of sight for the most imaginative minds.

But since 1 January 1999 the euro has been a reality, and since 1 May 2004 ten new countries are with us in the European Union. The rules of EU membership say that at least once every two years, or at the request of a Member State not participating in the euro area, a report needs to be prepared by the ECB and by the European Commission. Let me briefly recall the relevant Treaty Articles and the procedure laid down therein.

According to Article 122 of the Treaty establishing the European Community, the two institutions must report to the Council on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of Economic and Monetary Union, in accordance with the procedure laid down in Article 121 (1). Article 121 (1) stipulates that these reports must include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of the Treaty and the Statute of the ESCB. The reports must also examine the achievement of a high degree of sustainable convergence. This is to be done by reference to the fulfilment by each Member State of the criteria on prices, fiscal positions, exchange rates and long-term interest rates.

Thereafter, the Treaty foresees that, after consulting the European Parliament and after discussion in the Council meeting in the composition of the Heads of State or Government, the Council must, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions to adopt the euro on the basis of the criteria set out in Article 121 (1).

The publication of this report, which represents the common view of the General Council of the ECB, is the first step in this procedure, together with today's publication of the Commission's Convergence Report. More generally, it is an important milestone in the process that will ultimately lead to euro area enlargement and the adoption of the euro in those EU countries that still have national currencies. However, let me also use this occasion to stress again that there is no pre-set timetable for the enlargement of the euro area. In order to adopt the euro, non-participating EU Member States have to achieve a high degree of sustainable economic and legal convergence.

Let me now make a few specific remarks about the report you just have received. The Member States examined are the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia and Sweden. Two other Member States, namely Denmark and the United Kingdom, have a special status. Convergence Reports only have to be provided for these two countries if they so request. Since no such request has been made, they are not covered by this year's Convergence Report.

To ensure continuity and equal treatment, the ECB has examined the degree of sustainable economic convergence and compliance with the statutory requirements for the independence of the national central banks and their legal integration into the Eurosystem using the common analytical framework applied in previous ECB and EMI Convergence Reports.

In more detail, the report builds on a number of principles set out in those previous reports. First, the criteria are applied according to the Treaty, in a strict manner, to ensure that only those Member States having economic conditions that are conducive to the maintenance of price stability and the viability of the euro area can participate in it. The convergence must not only be nominal, satisfactory at a specific point in time, but also sustainable. Second, the convergence criteria constitute a coherent and integrated package, and they must all be satisfied. There is no hierarchy of criteria. Third, the criteria have to be met on the basis of current data. Fourth, the application of the criteria should be consistent, transparent and simple.

Given that the economic convergence criteria must be achieved on a sustained basis, the available evidence is first reviewed from a backward-looking perspective, covering, in principle, the past eight years. This helps to better determine the extent to which current achievements are the result of genuine structural adjustments. At the same time, due account must be taken of the fact that backdata for most of the new Member States may be heavily influenced by the transition these countries have been passing through. Thereafter, and to the extent appropriate, a forward-looking perspective is adopted. In this context, particular attention is drawn to the fact that the sustainability of favourable economic developments hinges critically on appropriate and lasting policy responses to existing and future challenges.

Overall, it is emphasised that ensuring the sustainability of economic convergence depends both on the achievement of a sound starting position and on the policies pursued after adoption of the euro.

As regards the examination of legal convergence, the report focuses on two areas: first, it assesses whether national legislation ensures the effective independence of a national central bank. The concept of independence - which is the cornerstone of effective monetary policy decision-making by the Eurosystem/ESCB - is assessed by reference to a number of types of independence, namely: functional, institutional, personal and financial independence. Second, the report highlights the provisions of national legislation that would in the ECB’s opinion prevent or hinder the integration of a national central bank into the Eurosystem.

The Convergence Report 2004 is an important record of the degree to which these countries have achieved progress with economic and legal convergence and flags the priority areas where further efforts are needed before the euro can be adopted.

Let me now give the floor to Mr Issing, who will present to you the main findings of our examination.