

Jean-Claude Trichet: The successful entry of Malta into the euro area

Keynote address by Mr Jean-Claude Trichet, President of the European Central Bank, at the Euro Celebrations, Valletta, 12 January 2008.

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Mr President,
Prime Ministers,
Excellencies,
Ladies and Gentlemen,
Dear Governors and fellow Governors,

It is a great pleasure to talk to you here, in Valletta, at this conference celebrating the adoption of the euro. Let me first and foremost congratulate all parties involved in the successful cash changeover twelve days ago. Not only did Malta perform exceptionally well in its convergence process to the euro area, but also the cash changeover was exemplary so far. I should like to stress that by recognising at an early stage the necessity to reach a high degree of sustainable convergence, and by working towards this objective, the Central Bank of Malta in particular has contributed greatly to the success we are celebrating today.

1. Successful economic achievements of Malta towards the euro adoption¹

The adoption of the euro that we are celebrating is the result of the successful macroeconomic policies that the authorities of Malta have pursued in the last years. Malta has made significant progress in nominal convergence over recent years, owing to well-managed monetary and exchange rate policies and a range of structural reforms. HICP inflation in Malta has been relatively stable. Both short-term and long-term interest rates have followed a declining trend in recent years to levels that are now in line with those of the euro area as a whole. This reflects market confidence in the macroeconomic and fiscal developments in Malta.

Malta has progressed on a sustainable convergence path without experiencing major imbalances: Price and cost competitiveness developments have been favourable since 2004, although the Maltese current account position has shown some weaknesses in recent years.

Another element of Malta's successful convergence experience was its participation in the Exchange Rate Mechanism II (ERM II). The lira-euro exchange rate remained at its central rate for the entire period of ERM II participation that started in May 2005. The EU Council decided that the central rate should also become the final conversion rate of the lira to the euro.

Now, twelve days after the successful introduction of the new currency, I would like to stress that, in the short term, the conversion of prices into euros should not be used as an opportunity to raise prices in an unjustified manner. This is especially important in a situation where food and energy prices are already exerting upward pressures on inflation.

2. Co-operation between the Central Bank of Malta and the ECB

The ECB has very much appreciated the fruitful cooperation with the Central Bank of Malta in the preparations for Malta's entry in the euro area, be it at the technical level or through the

¹ I should like to thank Fabrice Orlandi and Olivier Radelet for their input into this speech, as well as Martin Bijsterbosch, Hans-Joachim Klöckers and Nick Vidalis for their helpful comments.

participation of Governor Bonello in the General Council since May 2004, and more recently, as an observer in the Governing Council since last July. Practical preparations of the cash changeover were remarkably well organised and the euro campaign organised by the Maltese authorities has very well prepared the Maltese population to allow a smooth changeover.

3. How to ensure the sustainability of convergence once the euro has been adopted

For the proper functioning of the single monetary policy in the euro area all participating countries are required to exhibit a high degree of convergence and, importantly, to do this on a sustainable basis. For all enlargement decisions for the euro area, we refer to clearly defined convergence criteria and apply them in a strict manner. Sustainability is key in this respect. Once the euro is adopted, there is no return. Sustainability has been key in our past convergence assessments and will remain so in the future.

The entry of Malta in the euro area implies that the benefits of the Single Market will be further enhanced by the single currency. The euro offers a credible framework for price stability in an environment characterised by the absence of exchange rate uncertainty within the euro area. Malta will also benefit from the stability oriented policy of the ECB, which will help anchor inflation expectations. Furthermore, as Malta is a small open economy, adopting the euro provides protection against international financial disturbances, which often have a disproportional effect on smaller economies.

I should underline, however, that these benefits do not come automatically. They depend to an important degree on the economic policies pursued by euro area countries themselves. For Malta, it is particularly important to continue on a sustainable and credible path of fiscal consolidation and to improve its fiscal performance by tangibly reducing its high debt ratio. It will be important, in both the public and the private sector, to maintain moderate labour costs developments that take into account labour productivity growth, labour market conditions and developments in competitor countries. It is particularly crucial for the competitiveness of the Maltese economy that the current one-off shocks to inflation do not lead to second round effect in prices and wage settings. Attention must also focus on overcoming the structural constraints on economic growth and job creation, notably by fostering labour participation. The strengthening of competition in product markets and improvements in the functioning of the labour market are key elements in this regard.

Ladies and gentlemen, let me again congratulate you for all the achievements of the process of euro adoption and give my warmest welcome to the new member in the family of the Eurosystem. Welcome Malta!