Michael C Bonello: The adaption of the euro

Welcome address by Mr Michael C Bonello, Governor of the Central Bank of Malta, , during the concert held to mark Malta's membership to the euro area on Saturday, Valletta, 12 January 2008.

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You have joined us here today to mark a major milestone in our country's economic history. During more than two millennia the Maltese people have used many different currencies in circumstances most often reflective of Malta's status as a dependency of some larger and more powerful nation. The adoption of the euro, however, is a change of currency with a difference. This time it has taken place because Malta, out of its own choice, has joined fourteen other sovereign Member States of the EU in an economic and monetary union designed to complement the Single Market, a venture that could rightly be described as an epoch-making development in the history of our continent.

For Malta, as for the other new members of the euro area, the euro offers the prospect of enhancing the economy's potential to grow faster. The elimination of exchange rate risk and currency conversion costs should result in increased trade, while the low interest rate and inflation environment of the euro area should make for reduced business costs and greater macroeconomic stability. Combined with the fiscal discipline associated with monetary union, this should translate into higher credit ratings and improved investment prospects.

The significance of having as our own the world's second most important currency is not lost upon a central banker. For, beyond its proven economic benefits, the euro signifies the virtual elimination of the potential risk of an exchange rate crisis to which the currencies of small, open economies are exposed on a daily basis in a world characterized by the free movement of capital. We have now traded in this vulnerability for the greater security and credibility afforded by a major international currency.

The euro has indeed been a success story in many respects. The disciplines of Economic and Monetary Union (EMU) were intended to promote the creation of a macroeconomic environment in which countries could thrive in an increasingly competitive market place. The euro area's track record in terms of price stability, trade expansion and employment creation suggest that these expectations have been largely fulfilled.

The Central Bank of Malta is, therefore, proud to have become a member of the Eurosystem. From an institution charged with the preservation of price stability in Malta and with safeguarding the integrity of our national currency, the Bank now shares responsibility with the other members of the Eurosystem for shaping monetary policy in the best interest of 320 million people in fifteen countries. This is a task which my colleagues at the Bank and I approach with confidence and enthusiasm.

From a national perspective, the challenge now is to maximize the benefits of participation in monetary union by making further progress on the path of reform. Three conditions in particular need to be met: fiscal policy must remain supportive of macroeconomic stability; wage increases must be justified by productivity gains; and our product and labour markets must become more flexible and competitive.

The new phase in Malta's economic history which was ushered in on 1 January, therefore, promises to be a challenging one, but it should also be an exciting time. For a country with a population of 400,000, having a major reserve unit as its domestic currency is indeed a significant advantage. We thus have good reason to feel reassured now that we are about to reinforce our integration in Europe with full economic and monetary union. For, while the EU has for fifty years brought peace and stability to the peoples of Europe, the Single Market and EMU have created a congenial environment in which economies can grow and people prosper. On another, but no less important level, the euro is also a symbol of a common identity and of shared values and, therefore, a potential instrument for bringing peoples closer together.