

## **Discours**

### **Jean-Claude Juncker, Discours à l'occasion de l'"Euro conference" prononcé devant les gouverneurs des Banques centrales des pays membres de la zone euro, Ljubljana, Slovénie**

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*- Seul le discours prononcé fait foi -*

Since securing its independence in dramatic fashion in the summer of 1991, Slovenia has accomplished a remarkable journey.

On 1<sup>st</sup> May 2004, Slovenia became a member of the European Union and since 1<sup>st</sup> January, Slovenia is also a member of the euro area.

Slovenia has accomplished an impressive process of nominal and real convergence: After a severe recession in the early 1990s, Slovenia has experienced a prolonged period of fairly sustained economic growth. In 2006, the GDP growth rate was well above 4% and it is expected to remain above 4% over the medium term. As a result, living standards in Slovenia have rapidly converged towards and are approaching the levels prevailing elsewhere in the European Union and the euro area. Despite rapid economic growth, consumer price inflation declined from around 9% in 2000 and 2001 to around 2.5% in 2005 and 2006. The public deficit also declined, from around 4% of GDP in 2000 and 2001 to an estimated 1.6% of GDP in 2006. Public debt was low from the beginning and currently remains at below 30% of GDP.

This process of convergence has exerted strains on the Slovenian people which they have bravely accepted in exchange for the promise of a better and brighter future as a member of the European Union and the euro area. For this, they deserve our deep reverence.

However, as one journey comes to an end, a new journey commences and new challenges lie ahead.

Slovenia has achieved a high degree of nominal and real convergence. However, economic growth needs to be sustained, notably in order to reduce unemployment which remains too high (ranging from 6.5% to 10% depending on the definition). The performance in terms of inflation must also be sustained and the public deficit should decline further in order for Slovenia to rapidly achieve its medium-term budgetary objective of -1% of GDP in structural terms.

Furthermore, Slovenia's entry into the euro area provides the opportunity to recall to Slovenia and to the other members of the euro area that membership of the euro area entails significant benefits, but that it also entails added responsibilities.

If a country abolishes its national currency and adopts the euro as its currency – as Slovenia has just done in an impeccably organised and rapid way – this country relinquishes the ability to conduct a national monetary and exchange rate policy. This implies that in the case of an adverse economic shock, other policy instruments or adjustment mechanisms must be set in motion. Mind you, there are limits to what monetary policy can do for you, as epitomized by Milton Friedman's guiding principle for the implementation of monetary policy: "avoid big mistakes". Furthermore, in a monetary union, decisions taken at the national level may have spillover effects on the economies of the other members of the monetary union and consequently may entail consequences for the monetary policy formulated for the euro area as a whole. Of

course, the spillover effects potentially generated by Slovenia will be small, but the larger the economy, the larger the spillover effects.

For these reasons, the Resolution of the European Council of 13 December 1997 on economic policy coordination in stage 3 of EMU calls upon euro area member states to enhance both the surveillance and the coordination of economic policies among euro area member states.

This enhanced surveillance and coordination of economic policies should take place at the Eurogroup. As President of the Eurogroup, I would like to take advantage of today's festivities to recall these first principles of monetary union not only to Slovenia, but to all the member states of the euro area.

Enhanced surveillance and coordination of economic policies is crucial in order to ensure that the process of nominal and real convergence in the euro area is not stopped or even reversed and as such, it is key to ensure the cohesion of the euro area.

At this very precise point in time when Slovenia is joining the euro area and the Eurogroup, the latter has arrived at an important juncture. Significant challenges lie ahead for the euro area and thus the Eurogroup.

We must continue to carefully monitor macroeconomic developments in the euro area and in the rest of the world. In the face of rising global imbalances, political instability and volatile oil prices, the euro provides to a large extent a shield to our economies. However, we must stay alert and engaged in consultations with our international partners to ensure that erratic developments elsewhere have no negative repercussions for the euro area.

As growth has accelerated in the euro area, the ECB has gradually withdrawn monetary accommodation. In parallel, the Eurogroup must ensure that past mistakes are not repeated, meaning in concrete terms that pro-cyclical fiscal policies are avoided in the current upswing. Stepping up fiscal consolidation in order to rapidly achieve the medium-term objective is crucial given the volatility of the short- and medium-term economic outlook and the medium- to long-term pressures on public finances stemming from demographic ageing.

However, the area in which the Eurogroup needs to make most progress is in the area of coordination of structural policies. After member states have given up the right to operate a national monetary and exchange rate policy, the frictionless functioning of adjustment mechanisms in EMU requires that labour, product and services markets are working efficiently and relatively free from structural rigidities. This does not imply that the timing or the content of structural reform packages should be decided at the level of the Eurogroup. However, the Eurogroup should set common objectives for the euro area as a whole and monitor progress towards these objectives. In line with the principle of subsidiarity, member states should remain free to determine their own path leading to the common goal.

The creation of the single currency was arguably one of the most courageous decisions of our generation. Men and women with strong convictions made this project happen against all odds. In order to perpetuate this monumental achievement, we owe it to the founding fathers and the future generations that we do not lack the courage of our convictions.