

**SPEAKING NOTE**

Commissioner Almunia

**Conference on EMU Governance and euro changeover: Malta on the path to the euro**

Malta, 1<sup>st</sup> October 2007

Ladies and Gentlemen,

I would like to thank the Maltese government and the Central Bank of Malta for inviting me here today. It is an honour to join such distinguished speakers as we approach a very crucial date for this island. In precisely 91 days, you will celebrate the arrival of a new currency, ushering in a brand new chapter in the history of your country. Before I talk about what this means for Malta's economic future, let me first offer my warm congratulations to all of those who have helped bring Malta to this point.

My own country was part of the first wave of European Member States to adopt the euro nearly a decade ago. This was a memorable moment for me and a proud and positive step for Spain, so I can well imagine how the people of Malta must feel as you draw close to currency changeover.

Just 4 years ago, Malta was preparing for EU accession and the possibility of euro adoption seemed only a distant goal. However in July, your commitment to sound economic policies and bold reforms were rewarded with a green light to join the euro area.

Today, practical preparations towards currency changeover are remarkably advanced. Indeed, the National Euro Changeover Committee can only be praised for their excellent work, preparing the ground for what we all hope will be a smooth and successful changeover. This does not mean that the hard work stops

now. There is still plenty to do before January 1<sup>st</sup> 2008 as well as after. I will return to this subject a little later. First, let me talk about what euro adoption will mean for this island.

Some would argue that the history of Malta can be told through the history of its currency – from the coins of the roman conquest, to the British pound sterling and the Maltese Lira that replaced it, not long after Malta declared its independence. Likewise, the arrival of the euro marks a new chapter of Maltese history. This momentous step will bring Malta to the very heart of the European Union. It means that Malta joins a world class currency and a powerful economic area of 320 million citizens with an almost 15% share of world GDP.

For Malta, the economic benefits of the euro will be substantial. Not only is this the smallest of the EU member states, it also has one of the most open economies, with average import and export to GDP ratios of over 80%. In the past, this has made Malta vulnerable to external shocks and volatility. Membership of Economic and Monetary Union will provide a shield against such shocks, and an anchor for macro-economic stability.

The solid credibility brought by the euro should give a healthy boost to Foreign Direct Investment while the disappearance of exchange rate risks and transaction costs can be very beneficial for business. This will be a significant advantage for a country such as Malta, whose intra-EU trade with the euro area exceeds 75%.

Joining the euro area also offers significant political benefits. It will give Malta a greater say in international financial institutions and fora and greater sway within the European Union. Malta will also gain membership of the Eurogroup at a time when this caucus of euro area finance ministers is exerting a growing influence over the direction of EU economic policy.

These are the benefits that Malta can look forward to when it adopts the single currency on 1<sup>st</sup> January 2008. However, we still have 3 months until Euro-day and important efforts are needed to ensure the logistics are in place for an efficient changeover. I encourage all actors to ensure that they are fully prepared for the arrival of the euro and to make certain that consumers are well informed and ready to handle their new currency.

I know there is still widespread apprehension concerning the euro's impact on prices. This is not helped by the fact that the euro has been mistakenly blamed for this summer's high food prices. In fact, rising costs are the result of low harvests in many regions of the world, bad weather in Europe and growing demand from East Asia.

We should take this opportunity to remind ourselves that since the euro's introduction, price increases in the euro area have been marginal compared with previous years, with inflation remaining around 2% on average for the last decade. The communication campaign must continue to dispel myths over price increases, as well as ensure that effective price monitoring mechanisms are in place when the euro arrives.

But currency changeover does not mark the end of the story for Malta. On the contrary, January 1<sup>st</sup> 2008 represents a new beginning as your country embarks on life in the euro area and contends with new challenges brought by membership of monetary union. Today, after nearly a decade since EMU was launched, we are developing a good understanding of how to tackle these challenges.

First, making sure that public finances are sound and sustainable is vital. Malta has already made notable progress to steer public finances on a healthy path in recent years, including during periods of weak economic growth. It is important to keep this momentum in the years ahead, and to use the 'dividend' generated by good economic times to continue budgetary consolidation. Given that the sustainability of Malta's public finances are put at risk by population ageing, fiscal discipline cannot be stressed enough.

Structural reform, the second condition for success in EMU, holds the key to smooth adjustment and competitiveness in the euro area. I know that Malta has already implemented a series of important measures – to reform the pension system, to boost investment in education and Information Technologies and to offer better financial support to SMEs, to name only a few. These reforms appear to be paying off.

However, Malta now needs to quicken the pace of structural reform if it wants to secure competitiveness. Over the last few years, some countries that joined the euro area have seen their competitiveness decline against other euro zone Member States, precisely due to a slow adjustment capacity. Structural reforms that increase the flexibility of product, labour and service markets will prevent a similar fate happening to Malta.

The need to consolidate budgets, implement structural reforms and improve adjustment capacity applies to every country of the euro area, not just Malta. Alongside the economic benefits, membership of EMU also brings the added responsibility of implementing sound economic policies that will ensure the good functioning of monetary union as a whole.

This is why it is so essential that EMU has a strong and effective system of economic governance. Over the last 10 years, economic governance has been reinforced in a number of ways, through revisions to the Stability and Growth Pact, the re-launch of the Lisbon Growth and Jobs Strategy and the election of a permanent President to the Eurogroup. As the euro area steadily enlarges into a 21<sup>st</sup> century that brings new economic challenges, the need for greater governance is clear.

The EU Reform Treaty that is currently being negotiated under the Portuguese Presidency should meet this need. It will give a legitimate voice to the Eurogroup, allowing us to better coordinate economic policies and tackle common challenges in a synchronised way. What is more, greater governance would help us to achieve a more coherent voice for the euro area in international fora. This would strengthen our influence over issues like global financial stability – a highly desirable development given the recent turmoil in financial markets.

Ladies and gentlemen, let me conclude.

As Malta takes the historic step of euro adoption, Europe and EMU are preparing for their own important leaps forward. The Reform Treaty, once agreed and ratified, will pave the way for a stronger EU and euro area in the world. Meanwhile, to coincide with the 10<sup>th</sup> anniversary of EMU in 2008, we will present a new set of policy proposals that aim to develop and strengthen monetary union for the 21<sup>st</sup> century.

As one of the newest members of the euro area, your country will be at the heart of progress. Not only will you benefit from a euro area ideally placed to take advantage of the growing benefits of globalisation, your membership will also

serve to boost the dynamism of the European economy still further. I am confident that, together with Cyprus, your addition will be another great chapter in the success story of European economic integration and I look forward to welcoming you to EMU in January.