

**Commissioner Olli Rehn**  
**Euro changeover conference**

Tallinn, Estonia

20 Sept 2010

Daamid ja Härrad,

Mul on suur rõõm olla täna Tallinnas, peatselt euroalaga liituva riigi pealinnas.

Ladies and Gentlemen,

It is a great pleasure for me to be today here in Tallinn, the capital of the next euro area member state.

The dedication and hard work of Estonia was recognised by all in the European Union on 13 July, when the ECOFIN Council decided that Estonia is ready to adopt the euro in January 2011.

The adoption of euro by Estonia is a major event for Estonia, the Euro area, and the European Union as a whole.

For Estonia, it is the result of the impressive efforts and unwavering determination of the Estonian authorities and Estonian people, whom I would like to strongly commend today. Thanks to your efforts, vigorously pursued in the middle of the deepest global economic crisis of recent history, Estonia will enter the euro area with a robust fiscal stance and by far the lowest public debt level in the EU. Its economy is very flexible, and it has shown its ability to operate and adjust under a fixed exchange rate for close to two decades. This all bodes well for the future participation of Estonia in the euro area.

For the euro area, the decision to welcome Estonia into the euro area is a demonstration of the vitality of the Economic and Monetary Union, and of the validity of its underlying principles.

It also sends a strong signal to the Member States more broadly. It underpins the role of the euro as a medium-term policy anchor, and confirms that sustained policy efforts and a long-standing record of stability-oriented policies generate concrete results.

At the same time, it is clear that the euro adoption entails major economic challenges for any country. Requirements for successful participation are demanding. Estonia can build on its strong track record, and look with confidence towards a smooth performance within the Euro area. It will require continued strong and pre-emptive policies to underpin competitiveness and productivity. It will also require vigilance to contain the risk of resurging macroeconomic imbalances as growth resumes.

I believe that the Estonian authorities' clear commitment to such policies, as well as the new enhanced surveillance framework in the euro area, will ensure that Estonia's future within the Euro area will be a success.

The major challenge for Estonia will be to avoid the re-emergence of a boom-and-bust cycle similar to what occurred in the last 5 years. The prolonged growth above economic potential in the first half of the decade was partly caused by a unique combination of factors which is not likely to occur again in the observable future. These factors included economic transition and restructuring of the past two decades, rapid financial deepening, and accession to the EU, which opened new markets and contributed to the modernisation of the regulatory environment.

But they also led to the emergence of over-optimistic expectations among economic agents and an unsustainable, credit-driven domestic demand boom, coupled with excessive wage and price increases and a high current account deficit.

Ladies and Gentlemen,

What can Estonia do to ensure a more balanced growth in the future? In my view, there are two main factors for a more sustainable growth.

First, it will be important to keep unemployment on a declining path, and to ensure that skills evolve in line with the needs of the Estonian economy. Active labour market policies and educational systems that respond to the labour market needs are vital in raising productivity.

Second, Estonia has adopted a successful culture of fiscal prudence and sustainable public finances. I am convinced that a preservation of this culture will make Estonia's euro adoption truly beneficial for its citizens and for the Euro area as a whole. I also believe Estonia has useful experience to share in this respect with other Member States.

Especially, I count on Estonia to be an active and vocal member of the Eurogroup in the group's peer reviews of the euro-area member states' economic and fiscal policies. That is the basic idea of how the EMU functions: it is based on collegial decision-making, which calls for each and every euro-area member state to carry its responsibility on the development and direction of the euro-area as a whole.

Thus, it is not only the right but also an obligation of Estonia to help export its fiscal prudence, and endorse sound macro-economic policies in the whole of the euro-area, in all of its member states, large and small. I trust you will use your influence for the common good of Europe.

Ladies and Gentlemen,

Everyone in Estonia will be affected by the adoption of the Euro. It is self-evident that the practical changeover to the euro needs to be prepared carefully. It will require hard work of thousands of people in banks and businesses and in the various parts of public administration.

The Commission works closely with the Estonian authorities to prepare a smooth transition to the euro. Efforts are being made to ensure that all citizens and all areas of the country are well prepared for the changeover, that all businesses are well informed and that the banks are ready for the workload during the two first weeks of January when kroon banknotes and coins will be replaced by euro cash.

We are also working to address fears of price rises. The retail sector can help to avoid misperceptions by joining the recently-launched fair-pricing initiative by pledging to respect the rules of the changeover.

Ladies and Gentlemen,

Allow me now to 'zoom out' on the way ahead for the euro, and to briefly cast an eye over the challenges that await us at the European level.

Let me begin by referring to the Commission's fresh economic outlook. Our main conclusion is that Europe's economic recovery has gained momentum. Apart from the solid export performance, domestic demand has contributed to the upward revision of our growth forecast to 1.8% this year for the EU. Employment is starting to recover. Thus, we now have solid ground under our feet. But there is no room for complacency.

First, short-term growth prospects are very uncertain: Growth in the US has been slowing down. Financial markets are still fragile in Europe. Second, on current policies, Europe's longer-term growth potential remains very modest: on average below 1½% over the next decade.

It should be clear to all of us that we are not out of the woods yet. The still necessary restoration of confidence requires work in all fronts. It calls for the completion of the ongoing repair of the banking and financial sector and for a determined intensification of the fiscal consolidation, as well as for the front-loading of growth-enhancing structural reforms.

In parallel with the crisis management and financial repair, we must continue with the fundamental reform of economic governance in Europe. The strategic elements of reinforced economic governance were outlined in the Commission's Communication in May and the concrete roadmap was presented in our Communication in June. The Task Force chaired by President Herman van Rompuy has given very important endorsement of better economic governance.

As the first product of the reform, the first European Economic Semester, which will enhance policy coordination and preventive budgetary surveillance, will be launched in January 2011. Next, the Commission will adopt on 29 September a package of legislative proposals transforming the policy initiatives into concrete legal instruments.

The aim of the legislative proposals we are about to make is to reinforce the economic pillar of the Economic and Monetary Union, and to create foundations for sustainable growth and job creation. We shall propose a set of legal instruments covering three main subjects:

First, we propose to reinforce Member States' compliance with the Stability and Growth Pact (SGP) and to deepen fiscal policy coordination. Debt developments should be better watched and excessive debt addressed more seriously than in the past. Fiscal responsibility will be encouraged by setting minimum requirements for national fiscal frameworks to make sure they are in line with EU Treaty obligations.

Second, we want to broaden economic surveillance to prevent and correct macroeconomic imbalances and divergences in competitiveness. This proposal is designed to tackle intra-EU and especially intra-euro-area imbalances in a preventive and effective way. We will create a scoreboard of economic and financial indicators and carry out in-depth country analyses. When necessary, country-specific recommendations will be addressed. Euro area members who show insufficient compliance with their respective recommendations could also face sanctions.

Finally, we need clear rules. They must be credible and effectively enforced. In my view the application of our forthcoming rigorous rules should not be more complicated than in a football game: the players cannot start discussing the rules of the game with the referee every time they commit a foul. Sanctions should be the normal, semi-automatic consequence, if a country breaks rules and puts its partners at risk.

Therefore, the third and essential element of our proposals aims at strengthening of the enforcement mechanisms. Effective, timely and fairly applied enforcement mechanisms are crucial for the functioning of the economic surveillance framework. This requires the introduction of a wider range of sanctions and incentives, which would be applied gradually, and at an earlier stage of the surveillance process.

The application of the enforcement mechanisms would be decided by reverse majority voting, whereby the proposals by the Commission should be considered adopted unless the Council rejects them by a qualified majority within a certain deadline. This reversal of the burden of the proof will finally give true teeth to the enforcement of the Pact.

Ladies and Gentlemen,

Let me conclude. Our reform agenda is substantial and necessary, both in Estonia and in the European Union as a whole.

Estonia has reached a major goal, and prepares now for life within the Euro area. This requires efforts in terms of longer-term economic performance and a successful short-term changeover to the new currency. Sometimes the task will be challenging. But given the determination and the policy discipline shown by the Estonian people and authorities, I am sure the euro changeover will be a success story.

In a similar spirit and – I trust – supported by Estonia and inspired by her example, I am also convinced that we will be able to jointly establish a reinforced framework for economic governance in the European Union.

By pursuing these reforms we will ensure a more stable and prosperous future for all our citizens.

I wish you an interesting and productive conference, addressing the key policy issues for Estonia and the European Union at this historic juncture.

Thank you for your attention.