REPUBLIC OF SLOVENIA

OFFICE OF THE PRIME MINISTER

ADDRESS

BY THE PRIMER MINISTER OF THE REPUBLIC OF SLOVENIA MR JANEZ JANŠA AT THE INTERNATIONAL CONFERENCE "SLOVAKIA BEFORE ACCESSION TO THE EUROZONE" Bratislava, 4 June 2007

- First Experience after Adoption of Euro in Slovenia -

My dear colleague, Prime Minister of the Slovak Republic, Mr Fico,
Distinguished participants of the international conference,
Excellencies,
Ladies and Gentlemen,

It is a great honour and pleasure for me to address today this international conference. I gladly accepted the invitation of the Prime Minister Fico to speak about Slovenian experience after the introduction of euro. After all, the changeover to the new currency in Slovenia was a smooth affair also because we had a chance to study experience of other countries.

The selection of a country's own currency and the conduct of its exchange-rate policy rank among the most important sovereignty issues of each country. However, with their entry into EU in 2004, the new Member States made a commitment to renounce their own currencies and to run such economic policies as to enable them to enter the Eurozone in reasonable time. Slovenia took this commitment with a strong sense of responsibility. We were well aware that a currency changeover and the related political and economic risks represent a major challenge. As a matter of fact, our country already faced this task sixteen years ago. Of course, the circumstances of that time were entirely different.

The Slovenian tolar was introduced in the times of hyperinflation, high interest rates and great political, economic and even existential uncertainties. The euro was adopted in a far more predictable and stable political and macroeconomic environment. While the introduction of the Slovenian tolar may have been seen by the public as an inevitable mystery tour which later proved to be very successful, the adoption of the euro represented a carefully planned and thoroughly considered step towards the "promised land".

From among the required Maastricht criteria the stability of prices was the most difficult to comply. For this purpose, the Government together with the Bank of Slovenia ran a prudent fiscal and monetary policy. In this way the inflation was reduced to the level required by the Maastricht criteria as soon as November 2005. The key factors of the successful inflation reduction were entry into ERM II, maintenance of exchange rate stability, careful budget spending, appropriate price regulation policy, de-indexation and prudent wage policy. The agreement made with the social partners, which provided for the possibility for the wage growth to lag behind the productivity growth for 1 percentage point, was a precious contribution as well. These measures produced very good results at the end of last year. Public debt was reduced to 27.8% of GDP and budget deficit to 1.4% of GDP. The average inflation rate was 2.5% and long-term interest rates 3.8%. During the two years of staying in the ERM II system, the Slovenian tolar exchange rate did not fluctuate more than 0.15% from the central parity.

It is important that at the end of last year, before the adoption of euro, other economic indicators were also very good, actually the best in the whole history of Slovenia's independence. A 5.2% economic growth was reported and a GDP of almost 84% of the average EU GDP measured in purchasing power parity terms was reached. Employment increased by 1.3% while unemployment as calculated by International Labour Organisation methods was down to 6.0%. Good economic indicators were also reflected in the life of people seeing that last year's gross wages rose by 2.2%. These achievements are also a result of a series of positive structural changes that took place in Slovenia in the past years. Allow me to mention as example the increase of exports in the last decade from 51% to 69% of GDP, and the increase of the private sector in the last fifteen years from 30% to 65% of GDP. These indicators show successful progress of Slovenia in real convergence which is of key importance for further positive perspectives within the European Monetary Union.

Ladies and Gentlemen,

Apart from satisfying the Maastricht criteria, entry into Eurozone also required harmonisation of legislation, practical preparations and the necessary technical adjustments. This part of the preparations was coordinated by an Interministerial Board with the participation of financial system supervisors, professional associations of financial service providers and representatives of consumers' association and some other institutions. The Board proved to be of great benefit. It enabled the participants to coordinate the preparations and the implementation of action plans as well as exchange all relevant information and opinion.

Price control was also one of the key tasks. In order to prevent unjustified price increases, double labeling of prices was in place ten months before the adoption and will remain six months after it. This measure involved certain risks because the exchange rate had not been fixed before the double labeling of prices started. Anyway, the solution proved to be a good one. The exchange rate did not undergo any changes and the double pricing helped to familiarize the people with the new currency.

Very important in the price trend control was also the cooperation with NGOs from the consumer protection field. The publication of the so-called black lists featuring companies with unjustified price increases did not have only a shaming but also a preventive effect. The activities of NGOs further contributed to the raising of consumers' awareness of the actual value of euro coins.

All that had contributed to the fact that the introduction of the euro did not cause considerable price increases. In the conditions of a transparent process there were even cases where market providers sought comparative advantages by rounding prices down. In mid-March Eurostat declared that the introduction of the euro in Slovenia had not caused inflation. Certain price increases were noticeable in the field of services. Nevertheless, the euro-related price increases did not contribute more than 0.3% to the inflation.

Latest public opinion research of Eurobarometer revealed that two thirds of Slovenians are satisfied with the introduction of the euro. 81% of respondents did not encounter any particular problems with the changeover from tolar to euro. Only 2% expressed problems in recalculation. The measure of double labeling of prices was positively evaluated by 81%. 91% were well informed upon the changeover. These results confirm the success of the project of introducing the euro in Slovenia.

It has to be noted that the accession to the Eurozone would not be as successful if the adoption of necessary measures did not enjoy a wide consensus. The introduction of the euro unified Slovenians in a similar way as the independence and the accession to the EU. The consensus on the introduction of the euro was achieved also by social partners in the framework of the social agreement. This indicates that Slovenians were well aware of numerous advantages brought by the euro. Namely, it does not imply only easier travelling throughout the Eurozone. Above all, the euro increases the visibility and reputation of Slovenia on the international stage, increases the competitiveness of our economy and facilitates international trade.

Needless to say, like the other members of the Eurozone, Slovenia also faces demanding tasks in the future. The restrictive macroeconomic framework that requires price stability, sound public finances and low interest rates will have to be observed. In order to meet the required criteria on the long-run, the government initiated the implementation of structural reforms already in 2005. The success of these will chiefly influence the efficiency of economic policies since the monetary policy was transferred to the European Central Bank.

In the context of the reform efforts, Slovenia got a modern, socially sustainable and development-oriented tax system this year. It unburdens economy, increases its competitiveness in the national and foreign markets and encourages the employment of highly educated employees. The investments in the national road network were increased and the priority road and railway connections were determined, which defined the course of development axes in Slovenia. Legislation on regions, which will enable more harmonised regional development, is being prepared. Completion of the negotiations with social partners on new labour legislation will lead to a greater flexibility of the labour market, thus creating conditions for higher employment. Most of these measures will be implemented soon. Therefore, the Slovenian economy within the framework of the European monetary union will have even better conditions for the further real convergence and catching-up with the most developed countries.

Ladies and gentlemen,

I am truly pleased that Slovakia, too, follows a good path of development, which is proven by the great progress made in the last decade. The economic growth of the last few years was extraordinary, surpassing 8% last year. Heavy industry and agriculture increasingly give way to services in the GDP structure. The business environment has been simplified and made friendlier to foreign investors. The unemployment rate is decreasing, the employment rate increasing. Slovakia has recently achieved good results also in the field of inflation reduction. All these achievements and a firm determination of the Government testify that Slovakia is well on its way to fulfil its plans to adopt the euro in 2009.

The issue of future enlargements is certainly also one of the most significant external challenges of the Eurozone. I fully agree with the president of the European Central Bank, Mr Jean-Claude Trichet, who declared to the Financial Times about three weeks ago that he considers the enlargement as a chance for Europe. He said that it is helping the development of the EU and that it is a major contribution to our future growth and prosperity.

Within the Eurozone, the field of non-cash transactions in euros represents a particularly important challenge. Here, a number of existing technical, legal and business barriers among the current national payment systems of the Member States will have to be eliminated. Only then it will be possible to pay from a single account within the Eurozone at any time, from any place and using the uniform payment instruments. The introduction of euro as a single currency will be concluded only after a single area of payments is realised.

Ladies and Gentlemen,

Euro undoubtedly represents a continuation of the European success story which is based on the elimination of different kinds of barriers that used to divide the Europeans. Euro has more than justified the initial expectations during the five years of its circulation. Nowadays, 314 million people in 13 countries keep euros in their purses and wallets. The share of the global foreign exchange reserves in euro has been increasing, euro is the major currency in which to borrow money and the Eurozone is the largest multinational monetary union in the world.

Of course euro is not just an economic and financial project, but also a major political project. Consequently, its long-term success does not depend solely on good economic results, stable prices and healthy public finance. These are of course indispensable preconditions, but they must be followed also by the confidence of people at home and abroad. Thus the true success of euro is not granted once for all, but will require continuous effort through the maintenance of its long-term stability and good standing.

Let me conclude by wishing you the best success for today's conference. I am convinced that the exchanged positions and views will be helpful to the Slovak Government and Slovak Central Bank in their implementation of policies on entering the euro area at the beginning of 2009. I also hope that the conference will encourage the Slovak citizens in their expectation of the new currency.

Thank you for your attention.