Mario Draghi: Euro Conference Latvia

Keynote speech by Mr Mario Draghi, President of the European Central Bank, at the Euro Conference Latvia, Riga, 12 September 2013.

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Ladies and gentlemen,

I expect that many of you are familiar with the film Dream Team 1935. One of the most popular films in Latvia last year, it tells the story of the Latvian team that won the first European basketball championship in 1935. The film shows how the players overcame a series of obstacles to win the competition – and the vital contribution of their resolute team spirit.

This story reflects on Latvia and the euro in two ways.

First, it reminds us of Latvia's historic position as part of Europe. Since Riga became a member of the Hanseatic League in 1282, this region has been an essential part of European integration. I am pleased that by joining the euro next year, Latvia is strengthening its place at the heart of Europe.

Second, the story highlights the determination of Latvians to strive for their goals. The crisis in 2008 dealt this country a severe blow. Yet the people here have shown remarkable resolve to overcome their difficulties and meet the criteria for euro entry.

The authorities have protected citizens' wealth and ensured financial stability by maintaining the exchange rate within the agreed band, despite pressure from some outside advisers to devalue. They have undertaken an effective fiscal consolidation. And the nominal wage adjustment that has taken place across the country has, among other factors, helped to close the current account deficit by more than 10 percentage points of GDP since 2008.

It is no wonder that many observers have pointed to Latvia, a country that is outside the euro area, as an example to those that are inside.

I understand that some people here have questions about adopting the euro. Joining the single currency is a decision of great importance for any country. But I would like to reassure those with concerns that there are many good reasons to join the euro area today. In particular, new members of the euro area can benefit from the lessons we have learned since 1999.

There are three lessons that I would like to emphasise here today.

First, we have learned that the euro as a currency works. Second, we have learned the types of policy that lead to prosperity within Monetary Union, and also the ones that do not. And third, we have learned that we need to complete the institutions of our Economic and Monetary Union.

Let me discuss these lessons in a little more detail.

The success of the euro

The euro works – that is, in my view, plain to see.

Since 1999, the euro area has grown to a community of more than 330 million people. It is the world's second largest economy, accounting for around a quarter of global exports and more than 15% of global investment. And the euro has established itself as a strong and stable reserve currency.

In that time, the European Central Bank (ECB) has maintained price stability in line with its mandate, despite the most severe crisis since the 1930s. We have defended our currency against unfounded fears about a break-up of the euro area. All this means that countries that join the euro area today can be confident that its central pillar, its monetary policy, is sound.

I understand that there are some concerns here about the changeover to the euro potentially leading to opportunistic price rises. But the Latvian authorities are taking measures to prevent this. These measures build on the experience from 17 previous euro changeovers. I call on all those involved to remain attentive to these initiatives.

For its part, the ECB will be conducting a communication campaign to ensure that the people of Latvia are well informed about the euro coins and banknotes, in particular the security features of the banknotes.

Ensuring sustainable convergence

The second lesson we have learned is that to prosper within Monetary Union, countries need to ensure sustainable convergence.

Sustainable convergence means more than meeting a set of nominal targets at a certain point in time. It requires real economic, legal and institutional convergence prior to adopting the euro. And crucially, it requires continued efforts once inside monetary union.

The reason that many countries are making painful adjustments today is that once inside the euro area, they allowed themselves to diverge too much.

I know the authorities here are aware of the key challenges of maintaining convergence. These include, first of all, avoiding a renewed boom-bust cycle in Latvia following euro adoption. This implies that the authorities need to continue with sound fiscal policies, and to ensure that labour cost developments remain conducive to competitiveness.

The challenges also include strengthening further the efficiency and effectiveness of institutions in Latvia. And finally they include safeguarding the long-run stability of the banking and wider financial sector.

I am therefore confident that by keeping the right policy orientation, the ingredients are present for Latvia to thrive within the euro area.

Completing Economic and Monetary Union

The third lesson we have learned since 1999 is that we need to complete our economic and monetary union.

We live in a rapidly changing world, where the traditional role of the nation-state is being questioned. In my view, the key to maintaining sovereignty in this world is to share more sovereignty by integrating more deeply.

This point has been understood for some time in monetary policy – and it is particularly relevant for Latvia. By joining the euro area, this country will no longer have a fixed exchange rate, with all the constraints that it entails for monetary policy. It will have a national central bank that participates in decision-making for the entire euro area. Governor Rimšēvičs will be taking part in monetary policy-making for the world's second largest economy.

But the crisis has also strengthened the case for sharing sovereignty in other policy areas.

National governments have experienced the difficulty of managing cross-border capital flows without a common supervisory policy – a problem with which this country is familiar. They have seen how, without a credible framework for fiscal policies, they can lose effective sovereignty to financial markets.

The solution is to complete Economic and Monetary Union – for Monetary Union to be accompanied by a banking union, a fiscal union, an economic union and ultimately a political union. This is a vision for the future and it will require much work to implement. But new members can be encouraged that the process is underway, in particular on banking union.

On this note, I welcome the vote today by the European Parliament on the new European supervisor, the Single Supervisory Mechanism (SSM). The ECB and the Parliament share a common purpose in ensuring proper accountability arrangements for the SSM, and I fully support the draft agreement we have reached. This agreement is testament to the hard work and commitment of the negotiating team from the Parliament's ECON Committee. It also reflects the personal efforts of President Schulz, to whom I would like to express my particular thanks and appreciation.

Let me add here that sharing sovereignty, however, does not mean losing national identity. There are many smaller countries – such as Malta and Luxembourg – that have not changed their individual character within the euro area. At the ECB we have always placed a high value on Europe's cultural diversity: this year, for example, the ECB's Cultural Days are dedicated to Latvia.

Conclusion

Let me conclude.

Joining the euro area is a historic commitment – to the deeper integration of our continent – and to the mutual prosperity of the different countries that share the single currency.

I am confident that Latvia is making this commitment at the right time: when it has done the hard work to be ready for membership – when the responsibilities of membership are clear – and when the process of building a genuine Economic and Monetary Union has begun.

I therefore warmly welcome our 18th member. Welcome Latvia!