Mario Draghi: Keynote speech at the Euro Conference – Lithuania

Keynote speech by Mr Mario Draghi, President of the European Central Bank, at the Euro Conference – Lithuania, Vilnius, 25 September 2014.

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Summary

The euro area benefits from Lithuania's accession in at least two ways: first, Lithuania has shown that adjustment is not only necessary, but also possible – even without currency devaluation; second, Lithuania's decision to join the euro area demonstrates that our common currency is attractive.

Lithuania itself will – amongst others – benefit from having a say in the monetary policy-making of the world's second largest economy. Initial scepticism among some Lithuanians regarding the introduction of the euro is already transforming into increasing support now that people become more informed about their new currency and the changeover modalities. Joining the euro area does not only follow from economic considerations: it is a binding commitment to European values.

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Dear Prime Minister Butkevičius,

Dear Vice President Katainen,

Dear Finance Minister Šadžius,

Dear Chairman Vasiliauskas,

Excellencies,

Ladies and gentlemen,

You might be aware of the timer above the door of Lietuvos bankas, Lithuania's central bank, which is counting down to the euro changeover – less than 100 days *[98 days]* remain until Lithuania adopts the euro. Lietuvos bankas installed the countdown clock two months ago, when the Council of the European Union gave the green light for the adoption of the euro, but I am sure that many of us have been anticipating this day for much longer. And we have probably asked ourselves: what does Lithuania's accession mean for the euro area and what does the euro changeover mean for Lithuania? In my remarks today I will elaborate on both of these aspects.

How does the euro area benefit from Lithuania's membership?

With Lithuania introducing the euro, all three Baltic countries will soon be part of the currency union. This is a great asset for the euro area, not least because it demonstrates the euro area's attractiveness.

Not that long ago the Baltic countries were in the midst of a deep recession. In 2009 Lithuania's GDP declined by roughly 15%. Today, Lithuania is one of the fastest growing countries in Europe. Last year its GDP grew by 3.3%, whereas the euro area's GDP shrank by 0.4%. Quite remarkably, Lithuania managed to reboot its economy without any external support.

The Baltic countries have demonstrated that adjustment is possible – even without currency devaluation. While Lithuania's government deficit stood at 9.4% in 2009, last year it had fallen to 2.1% and is expected to decline further.

Beyond the economic aspects, the Baltic success story also shows that adjustment is politically feasible. Despite major fiscal consolidation, there was hardly any public protest against the government measures.

So how was this possible? In my view, we can draw an important lesson from the Baltic experience: governments not only acted boldly, but also immediately. They used the momentum of the crisis to implement the necessary consolidation and thus managed to convince the public of the need for these measures.

Besides being politically astute, this swift and bold action was key in strengthening investors' trust. It enabled the Baltic countries to recover quickly from recession. The Baltic case shows that – while consolidation might weigh temporarily on economic growth in the short term – it is the basis for sustainable growth in the longer run.

Beyond showing commitment to making its own economy fit for the euro area, Lithuania has also contributed to making the currency union as a whole more stable – even before becoming part of it: the priorities set last year under its EU presidency included more steps towards banking union and a further deepening of Economic and Monetary Union.

To resume, the euro area benefits from Lithuania's accession in at least two ways: first, Lithuania has shown that adjustment is not only necessary, but also possible – even without currency devaluation; second, Lithuania's decision to join the euro area demonstrates that our common currency is attractive, despite difficulties in some euro area member countries.

How will Lithuania benefit from becoming part of the euro area?

But does the Lithuanian public agree that Lithuania will benefit from membership of the euro area? Or is the introduction of the euro just a project of the political elites? I am aware that some Lithuanians would rather stick with the litas. According to survey data, only half of the population favours the introduction of the euro.

We certainly need to take such scepticism seriously. Europe cannot simply be a project that is imposed by the elites without the backing of the general public.

Recent experience shows, however, that initial scepticism might well turn into support, once people become more informed about their new currency and the changeover modalities. Prior to their respective accessions, it seemed that citizens in the other Baltic countries were not really in the mood for the euro either. However, information campaigns and the reality of the new currency resulted in growing support – a trend that we are already observing in Lithuania. According to the latest survey data, support for the single currency increased by 18 percentage points from late last year to mid-2014 in Lithuania. In Latvia, it even increased by 30 percentage points (to 68%) over the same period.[1] And, even though public support for the European project as such has been on the decline across Member States during the crisis, if anything, citizens in euro area countries have persistently demonstrated solid support for the common currency.

In essence, those that are sceptical about the new currency have two concerns: first, they are worried that the changeover might lead to price increases; second, they are afraid that their country might lose part of its identity.

Compared with other EU Member States that are not yet part of the euro area, these concerns are especially high in Lithuania. Three-quarters of survey respondents in Lithuania believe that introducing the euro will lead to increased prices.[2] I am confident we can demonstrate that such worries are unwarranted. First, the ECB will be the competent

1 http://ec.europa.eu/public_opinion/archives/eb/eb81/eb81_en.htm.

2 http://ec.europa.eu/public_opinion/flash/fl_400_en.pdf.

monetary policy authority once Lithuania is part of the euro area. And I can assure you that we take our price stability mandate very seriously and will continue to do so. Second, the Lithuanian authorities can draw on the experience from 18 previous euro changeovers in designing measures to prevent unjustified price increases. I trust they will make sure that the new banknotes and coins will have the same purchasing power as the litas.

What about the other main concern, a loss of national identity?

Designed by Antanas Žukauskas, the new coins resemble the litas coins, showing *Vytis* ("the Chaser"), which is an adaption of the country's coat of arms. But Lithuania will not just bring a national *symbol* to the euro area. In joining the euro area, Lithuania will effectively re-gain part of the sovereignty it gave up earlier.

Lithuania's Minister for Finance, Rimantas Šadžius, allegedly said, "We already have the euro, it just has a different name". What he was referring to was the fact that the litas has been pegged to the euro since 2002. But even before then, Lithuania's monetary policy was constrained by a fixed exchange rate: from 1994 to 2002 the litas was pegged to the US dollar.

The Chairman of the Board of Lietuvos bankas, Vitas Vasiliauskas, has already participated twice as an observer in the monetary policy meetings of the ECB's Governing Council. As of January next year, he will participate actively in the monetary policy-making of the world's second largest economy. This shows that, in an era in which nation states are closely interlinked, sharing sovereignty means gaining sovereignty. If we explain this properly, I am sure we can convince those worried about losing part of their national identity that, rather than losing something, they will gain from closer integration.

There are, of course, many more ways in which Lithuania can benefit from being part of the euro area. To name but one, international investors usually perceive the Baltic countries as belonging to the same economic area. With Latvia and Estonia already using the euro, Lithuania would have a clear competitive disadvantage when it comes to attracting investment from abroad if it delayed adopting the euro. Furthermore, belonging to the common currency area may provide stability for the country in the current geopolitical environment. I appreciate that the Lithuanian government approved a public information and communication strategy on the euro adoption. And I trust that it will do its best to implement this strategy such that "LAISVĖ, VIENYBĖ, GEROVĖ" (freedom, unity, well-being) will not just be inscribed in the edge of the new two euro coins, but become reality.

Conclusion

The way in which Lithuania has striven to become part of the euro area shows that our common currency is attractive – despite the difficulties experienced in some member countries. But joining the euro area does not only follow from economic considerations: it is a binding commitment to European values. I am happy to see that Lithuania is ready to make this commitment – welcome Lithuania!