Keynote Speech of Vice-President Valdis Dombrovskis on Five Years with the Euro

Highly esteemed Mr. Prime Minister,

Vice-President of the European Central Bank,

Presidents of the Central Banks,

Ladies and Gentlemen,

Happy New Year everyone! I am very pleased to see you all today to celebrate 5 years of the euro in Latvia. It is also a joint celebration, as the euro itself turns 20. And in fact it's a triple celebration, because we are here, in the House of the Blackheads which celebrates 20 years since its re-opening.

I can think of no more fitting venue than this one. It was first built in the 14th Century, when Riga was part of the Hanseatic League, which was sort of an early Common Market. And like the euro adoption 5 years ago, the reconstruction of this beautiful house was a statement of Latvia's belief in trade and in openness, and in the prosperity which comes with it.

I say 5 years, but really the road to Latvia's adoption of the euro began with our push to join the EU in 2004. This provided a solid policy anchor and helped to set out a major reform agenda. But joining the EU was not a guarantee of prosperity. It also required responsible fiscal and macroeconomic policies. Instead, an inflow of hot money, combined with lax fiscal policy and unrestrained bank lending saw Latvia entering the global financial and economic crisis as one of the most overheated economies in the world.

Upon joining the EU in 2004, the plan was that Latvia would have the euro by 2008. Yet by the end of that year, the economy was in freefall. And the country was in a financial assistance programme.

In this new context, Latvia's euro area membership – which before seemed inevitable – came into question.

Maybe now was not the right time?

Maybe the long-standing goal of euro accession would never be achieved?

One advantage we had was the cluster effect. Investors and partners see the Baltics as a common region. And with Estonia joining the euro, this provided additional impetus for Latvia and later Lithuania to follow suit.

Ultimately, we were able to stay on course, complete the adjustments and meet the convergence criteria.

However, also the political context was difficult. Discussions about Latvia joining the euro took place in the middle of the eurozone crisis. There were many sceptics. Some claimed Latvia was buying the last ticket to the Titanic. And actually the same argument was used a year later in Lithuania. Also in other countries there were voices questioning whether it is a right time to enlarge the euro area, or Latvia’s ability to join, or both. So it took a lot of work to make our case, both domestically and abroad. In this context, I would especially like to mention the role of social partners, who were crucial in building support for euro accession.

Now, five years later, 63% of Latvians believe having the euro is a good thing for Latvia, and around 80% feel it is good for Europe.

With good reason. Over the past five years, the euro has brought Latvian businesses transparent prices, less currency conversion costs and lower interest rates. It has supported exports, as well as investment. At the end of the day, this translates into growth and a better standard of living for Latvian people.

Public support for the euro is not only high in Latvia. From Dublin to Helsinki, Europeans take for granted that their currency is strong. They take for granted that the money in their wallets can be used in many other countries, without any hassle. And they take for granted that the money they save every month will hold its value over time.

And this is a good thing. People should be able to take the strength, convenience and stability of their currency for granted. But that does not mean we – the policymakers – can afford to do the same and relax.

Ladies and gentlemen,

The crisis hit the EU hard. It was a real wake-up call. The EU recognised that reform was needed and acted swiftly. We introduced the European Semester to coordinate fiscal and macroeconomic policies better.

We introduced the Banking Union to make the financial sector stronger in the euro area. We improved our crisis response toolkit. I am thinking in particular of the European Stability Mechanism. And there was support from the European Central Bank. Their policy of Outright Monetary Transactions demonstrated a willingness to do ‘whatever it takes’ to defend the euro.

These efforts clearly paid off. Europe’s economy is now entering its sixth year of uninterrupted growth, with record levels of employment. The euro is stronger than ever before.

But we cannot allow ourselves to become complacent. External risks are mounting, while at the same time important reforms remain incomplete. We need to do more measures to ensure the euro’s journey – which is also our journey – remains on the safe side. And in this context we are at a critical junction.

Take for instance Banking Union. What we have done so far is impressive. Banks are better capitalised. Supervision is stronger. The average level of non-performing loans has come down.

Still, the job is not yet finished. We need a backstop for the Single Resolution Fund, and a European Deposit Insurance Scheme to ensure all depositors in the banking union enjoy the same high level of protection.

We are also working to strengthen our crisis management tools: reinforcing the European Stability Mechanism and proposing a European Investment Stabilisation Function. Alongside this, we want to support Member States in making difficult structural reforms, to help their economies build resilience. This is why we proposed to create the Reform Support Program.

The point is that we have to be prepared for the next economic shocks when they come.

We are also working on a Capital Markets Union. This is about making capital markets deeper and more interconnected, which will improve access to capital markets for European companies, especially SMEs. It will help to put European savings to a productive use.

That benefits everyone, but especially smaller economies like Latvia. Here, in Latvia, we know how pro-cyclical bank financing can be: easy credit pouring in during the boom years and drying out during the crisis – and thus worsening the economic instability. Capital markets could and should play a bigger role in financing companies and have a stabilising effect.

Another goal is to bolster the place of the euro in global economy. In today’s world, we see rising protectionism and unilateralism, even among Europe’s closest allies. A stronger international role of the euro can help protect multilateralism and a rules-based economic order.

Ultimately, it is small trading nations like Latvia who stand the most to gain by keeping trade open, fair and rules-based. Now to move towards conclusions it is clear that we are not ‘there’ yet. And that is because adopting the euro does not mean arriving at a destination. Rather, being part of the euro means being part of a journey.

In the years since Latvia began its path to the euro, important lessons have been learned on what it takes to achieve upwards convergence.

But I believe others can also learn lessons from Latvia. And I am thinking of countries like Bulgaria and Croatia, which are on track for accession.

Latvia’s experience shows that the sooner you do what is necessary, the sooner you can begin to reap the benefits. Another lesson is the importance of cooperation and partnership. As a small economy, Latvia has naturally chosen this direction.

But the hard fact is, the world is becoming more multi-polar. Developing economies are catching up. This means we are strong, only if we travel together. We are united by more than just our common currency. Still the euro is an important part of our economic engine. Like any machine, we must maintain it, in order to continue our journey.

Thank you very much.