

# Oxford Student Union debate – Opening remarks by Vice-President Dombrovskis: “The euro is stronger than ever.”

“This house would say YES to Europe”. That was the wording of a motion before this house, 43 years ago, in 1975.

That debate is still considered one of the most famous ever held in this beautiful debating chamber. It was live on BBC1. And the nation watched as the audience voted overwhelmingly YES to Europe, with 493 ayes to 92 noes. It must have been rather crowded here, with almost 600 people in this venue! Only two days later, the UK voted by 2/3 majority to remain in the European Union, or as it was known then, the European Community.

Today I am here – on behalf of the European Commission – to defend the motion that the euro is stronger than ever.

I will argue there is heavy evidence to support this case. But I want to be even more ambitious. Today, I also want to convince you that the euro is – in fact – a success story for Europe. I will focus on three points:

- First, that Europeans are better off with the euro as their currency.
- Second, that this is true also in times of crisis.
- And finally I will demonstrate that the euro is today stronger than ever before.

To address the first point, allow me to rewind a bit, and take you back to 2009. This was a time when my own country, Latvia, was going through a major crisis. It had just been hit by the global financial crisis, and there were domestic factors which led to it affecting us particularly hard. It was also the year when I became Prime Minister of Latvia. Some media were referring to this as “the worst job in Europe”...

We had to work hard to fix our economy and bring our deficit under control. But during that whole time, the goal of joining the euro was also helping to concentrate our minds. And within 5 years, on 1st January 2014, Latvia adopted the euro.

The reasons we wanted to join the euro area are true for Latvia as they are for all members of the currency union. They are about the benefits for people, businesses and countries from replacing 19 different currencies with one.

- 1) For example, the euro has removed the cost of converting currencies, which makes it easier to do business across borders.
- 2) It has helped to reach lower interest rates and more stable prices.
- 3) In addition, the euro plays an important role as an international

currency, as the world's 2nd reserve currency after the US dollar. In fact, 60 countries link or peg their currencies to the euro in one way or another, including also EU Members States like Denmark and Bulgaria.

4) Finally, the euro has made travelling around Europe much easier.

With all these benefits, it is not a coincidence that so many European countries have adopted the euro, and that several others are interested in doing so. And it is not surprising that most Europeans support the euro. A recent EU-wide poll found that more than 70% of Europeans consider the euro to be a good thing for the European Union. And this is actually higher than before the crisis.

This brings me to my second point. European countries – small and big – are better off with the euro. Even in times of crises. In fact, I would argue, ESPECIALLY in times of crises.

Of course, not everyone agrees on this. Some people claim that individual Member States would have been better off without the euro. That being outside the currency union would have allowed them to devalue their currency to make their exports cheaper, or print money to inflate away debt.

But the people who support this theory tend to forget three important things:

First, countries hit by debt crises usually have their loans priced in other currencies, like euro or US dollars. Devaluation would only make servicing those loans more expensive.

Second, printing money is an extremely short-term solution. It does not solve the underlying problems in our economy, like a lack of productivity in the private sector, or a government that is living above its means.

But the main problem with devaluation is that it also increases inflation. Most people probably associate high inflation with countries like Venezuela, or Zimbabwe. But even here in Europe, in the 1980s, several countries saw inflation rates of around 15 percent, 20 percent, or even exceeding that. Because not only does devaluation lower the price of exports, it also increases the price of imports. In a single market with cross-border supply chains, this simply leads to inflation.

Ladies and Gentlemen,

It is because we had the euro that we avoided the pitfall of competitive devaluation during the crisis.

This problem had plagued Europe for decades, since the 1970s, after the collapse of the Bretton Woods system of fixed exchange rates. Thanks to the euro, we replaced competitive devaluation and inflation with stable prices and predictable conditions for business.

It is also because we had the euro that countries which had relied on unsustainable economic models realised the need for structural reforms. In countries like Ireland, Spain, Portugal and the Baltic States we have seen

great results of such reforms. For example, Ireland has grown by over four percent for the last four years. Others should follow in its footsteps.

And finally, it is because we had the euro that we sat down to find common solutions to the common problems we were facing. This is why – despite the still painful legacy of the crisis – Europe’s economy has emerged stronger than before.

We are now in the sixth consecutive year of economic growth. And in Europe, more people have a job today than ever before.

But I am not just here to talk about the European economy. I am here to prove that the euro ITSELF is stronger than ever. So this brings me to my third point.

I admit that the euro was born in less than ideal conditions. And like many things in Europe, we had to achieve big goals by taking gradual steps. In the beginning, we did not have the political backing to put in place the tools to fully support the euro.

For example, when the euro was introduced, those who wanted to join had to fulfil certain convergence criteria. Already in 1989, one of the founding fathers of the euro, Jacques Delors, explained why this is so important. And I quote: *“Monetary union without a sufficient degree of convergence of economic policies is unlikely to be durable. It could, in fact, be damaging to the European Community.”*

Despite his warning, the economic and fiscal policy coordination that followed was relatively weak. This meant that certain imbalances built up within the euro area during the good economic times, known as “the great moderation”. And when the crisis hit, we did not have effective means to prevent markets from turning on vulnerable Member States.

It was the Eurozone crisis that created the political support to finally address these weaknesses and to strengthen the euro. So let me go over the four most important ways we have done this.

1) First, we have introduced the European Semester. This means that we have reinforced the fiscal and macroeconomic policy-coordination at EU level. By coordinating more closely, we can detect problems early and stop them before they escalate. Because in a currency union, problems that happen to one country can easily spill over to another.

2) Second, we have created the European Stability Mechanism. It has half a trillion euro of fire power to support Member States if they lose access to markets.

3) Third, we must remember that the crisis started as a financial crisis. This is why we set up the Banking Union. It ensures EU-level supervision for the largest banks, and a common framework for managing bank crises. With it, we have introduced the principle of bail-in instead of bail-out. This means that banks creditors and shareholders are first in line to pay for the banking sector’s mistakes, not taxpayers.

4) In addition, the European Central Bank now has powerful monetary policy tools, such as Outright Monetary Transactions. And THIS is what Mario Draghi, the president of the European Central Bank, referred to in his famous announcement to do '*whatever it takes*' to preserve the euro.

Because of all these steps and more, the euro is stronger today than ever before. And if the euro is not stronger than ever today, then when exactly was it stronger?

Ladies and Gentlemen,

In 1975, when this house debated whether or not to say YES to Europe, the single currency was only a distant dream. But in only a few months, the euro will be celebrating its 20<sup>th</sup> anniversary.

Of course, the euro is a baby compared to the Pound Sterling, which originated more than 12.5 centuries ago. Or compared to the US dollar, which is over 200 years old.

But despite its young age, the euro is already a successful and strong currency. And I am confident that it will grow even stronger over the next 20 years and beyond. Thank you very much, and I look forward to answering all your questions!