Vice-President Jyrki Katainen
Euro changeover conference
25 September 2014, Vilnius

<u>Introduction</u>

Distinguished Guests, Ladies and Gentlemen,

It is a great pleasure to be here in Vilnius today to mark this country's upcoming accession to the euro area, bringing the number of countries in the currency union to 19. Being part of the euro area will strengthen even further Lithuania's position at the heart of Europe. This will be a major event for the country, the euro area and the European Union as a whole.

Three months ago, the Commission concluded that Lithuania successfully meets all the conditions to adopt the euro. Based on this assessment, the EU Council of Ministers decided in July that Lithuania will be ready to adopt the euro on 1 January 2015.

Let us not forget how Lithuania got here. It was no easy task. This extraordinary country undertook – as its Baltic neighbours - significant fiscal and economic adjustments in the midst of a severe economic recession and global financial crisis. Let us remember that in 2009 alone, the authorities pushed through fiscal reforms and consolidation measures worth 8% of GDP, in the context of an unprecedented contraction of GDP of nearly 15% in that same year. Crucially, social cohesion and political stability were maintained throughout these difficult years.

This determination and steadfastness of Lithuanians are now paying off. I would see this as an encouragement for others: Lithuania's GDP has been growing by more than 3% per year since 2011 and the economy is forecast to expand further. The country has robust public finances, including one of the lowest levels public debt levels in the EU. Thanks to these reform efforts, Lithuania will enter the euro area from a strong position.

From 1 January, all three Baltic States will use the euro as a common currency. This will further strengthen economic and trade links between them and the other 18 members of the euro area.

Lithuania's euro adoption also underlines the **vitality of the Economic and Monetary Union**, which remains an attractive community to be a part of. The euro area today coordinates economic policy more effectively, it has a robust financial firewall to safeguard stability and the gradual creation of a banking union.

I have been proposed by the European Commission's President-elect, Jean-Claude Juncker to be Vice-President for Jobs, Growth, Investment and Competitiveness in his new Commission. This is an unprecedented position, which involves working to strengthen the competitiveness of the EU and euro area, to boost investment and help create more jobs in Europe. Subject to approval by the European Parliament, my priority would be to present an ambitious programme for Employment, Growth and Investment within the first three months of the mandate. This means deepening the single market and making the best use of public funds available at EU and national level to stimulate private investment in the real economy. This should allow us to mobilise up to €300 billion in further public and private investment in the real economy over the next three years.

It is evident that businesses, particularly SMEs, are the backbone of the European economy and create over 85% of new jobs in Europe. It is therefore imperative to facilitate investment and competitiveness and without stifling businesses with too prescriptive and detailed red tape.

At the same time, we must **strengthen the currently fragile and protracted economic recovery** in the EU. This means unlocking growth in Europe and making it sustainable is to embrace structural reforms, while maintaining sound fiscal policy to bring down deficits and debt levels in a growth-friendly way to improve confidence and credibility. This means consolidation should be prioritised in areas that can create economic growth and jobs. There is no way around these twin imperatives as the lessons of the crisis have taught us.

Let us also make sure to preserve the **credibility of our rules-based European system of economic governance**. It has been an anchor of confidence and we must do all we can to ensure it is not undermined. I am committed for our European governance rules to remain predictable and fair, ensuring that, everything equal, the same rules apply for all Member States alike, large or small, north or south.

Let me now turn to Lithuania's next challenges.

First, as regards the growth outlook, I would caution against any complacency, particularly against the backdrop of ongoing geo-political tensions across the border.

Second, as Lithuania assured Ministers in the Eurogroup in June, in order to ensure successful participation in the European Monetary Union, it will be essential to continue prudent fiscal policies, use macro-prudential tools to reduce risks and implement ambitious structural reforms, in line with the European Semester's Country Specific Recommendations.

Priorities in this respect include focusing on growth-enhancing expenditure, establishing a growth-oriented tax structure while ensuring tax compliance and further strengthening Lithuania's fiscal framework. Moreover, Lithuania needs to avoid the re-emergence of boom-bust cycles so as to ensure the sustainability of its convergence process.

While I am glad to learn that **unemployment** is on a declining path, it still remains high. There is much that can be done to re-integrate people into the labour market. This can be done, for example, by making active labour market policies more effective, making higher/vocational education and training systems more responsive to labour market needs and promoting life-long learning.

A particular concern remains to protect the most vulnerable in society. We have to tackle poverty and unemployment, particularly amongst young people, swiftly and ambitiously. I believe that efficient social spending and successful active labour market support is essential to bring low-skilled, long-term unemployed and young people back to work.

And third, let me turn to the practical preparations for the changeover. Adopting the euro is a big change for people in their everyday life. Careful preparation of the changeover to the euro is necessary to establish and maintain confidence in the new currency. Many lessons can be learnt from the recent successful changeover experiences of Lithuania's Baltic neighbours, Latvia and Estonia, and from other Member States.

Over the past few months, the Commission has been working closely with the Lithuanian authorities to help with practical preparation for a smooth changeover. Since the start of the year, significant progress has been made. Considering that euro-related price increases are one of the main concerns voiced by Lithuanians, it will be particularly important to subscribe fully to the Memorandum on Good Business Practice.

Thorough technical preparation of the changeover, including communication on its most sensitive aspects, will result in higher public support for the euro. I welcome the commitment of the Lithuanian authorities to work towards addressing changeover risks related to rounding of prices. Experience shows that unjustified price hikes are most noticeable in the service sector, where competition from imports is limited. Decisive action is therefore needed for strong enforcement of competition rules, price monitoring and providing sufficient information to customers.

The latest **Eurobarometer poll** on attitudes towards the single currency shows that public support for euro adoption is rising steadily in Lithuania. Support for euro adoption in Lithuania is higher (46%) than it was in Estonia and in Latvia right before euro adoption. Most Lithuanians are worried about abusive price-setting. Looking back at previous changeovers, there has been no evidence for a significant price increase attributable to euro introduction. The Latvian experience is indeed encouraging in this respect.

Introducing the euro will bring a range of practical benefits to Lithuanian companies and citizens, including the elimination of exchange rate risk and lower transaction costs. As a member of the euro area, Lithuania will participate in decision-making in Eurogroup and ECB on issues that have already affected the country during its twelve-year-old peg to the euro. I am also convinced that the stability-oriented policy framework of the euro area will support Lithuania's economic catching-up process, including by attracting more foreign investment.

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Lithuania has reached a decisive moment in its history. The next task is to prepare for life under the euro, both in terms of successful short-term changeover to euro and longer-term economic performance and competitiveness. I am convinced that our new framework for euro area governance and surveillance, together with our banking union, will make us better equipped to detect and contain risks of emerging imbalances in the future. In effect, Lithuania will be joining a euro area that is very different from what it was just a few years ago.

Euro adoption anchors Lithuania's perception as a stable and well-respected partner at the core of European integration and, also, in view of Lithuania's difficult history and regional tensions, further cements Lithuania's place in the Euro-Atlantic relationship, thus irrevocably strengthening national sovereignty.

Being part of Europe has been - and remains - a central part of Lithuania's national identity: joining the euro area will further strengthen this course.

As notes and coins are seen as important symbols of national identity, the Lithuanian people have decided that the reverse side of the euro coins should reflect the profile of the national symbol Vytis.

This will provide a sense of continuity given that Vytis was first featured on Lithuanian coins in the 14th century and during the first period of Lithuania's independence of 1918-1940. At the same time, Lithuanian euro coins will travel to all corners of Europe and the world, further enhancing Lithuania's international recognition and identity.

Thank you.