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Exzellenzen,
meine Damen und Herren,

zunächst wollte ich mich bei den Organisatoren des Europa-Forums Wachau bedanken für die Einladung und für die Möglichkeit, die lettische Perspektive über die heutigen europäischen Entwicklungen zu geben.

Well, I will continue in English, since my German is not as fluent as to discuss all the complexities of current European developments. But since I was intending to concentrate more on the issues of European development, I was already addressed by the commissioner Hahn, I'll probably start with some recent developments in Latvia and, indeed, the last couple of weeks were very intensive for us, for our development. During the last couple of weeks we had received an invitation to join OECD, well to start accession to the organizations to the OECD and it was possible with a strong European and not least Austrian support that we managed to get there and, yes, in the last few weeks we also received a very positive convergence report from the European Commission and ECB, where the European Commission came to the conclusion that Latvia meets all accession criteria and is ready to join Eurozone as January 1st, 2014.

And indeed we often received those questions, so, why join, why join now, we know, that there are many countries which are saying, yes, we are very confident in Euro, but we are somehow confident a little bit from the distance.

We are also very confident in Euro and are also demonstrating it by joining Eurozone, because if you look at the current Eurozone crises it's not really Euro as a currency-crises. If you look at the Euro as a currency, Euro is doing just fine. It's closer to its historical maximum than to its historical minimums, if anyone is worried about Euro, maybe it is a bit too strong.

With quantitative easing in US and as it is seen in Japan major economies are watching each other and looking what's happening with exchange rates. Euro shares as a global reserve currency stay stable, so what we are really seeing, we are seeing financial and economical crises in certain Eurozone countries. The main reasons are inappropriate macro-economical and fiscal policies before the crises and those are exactly the issues which need to be addressed and by the way there are also quite a few countries outside Eurozone which have their own crises including Latvia without having the Euro, so, Euro maybe is not a problem here to be blamed.

But now I will come back to this part of the speech on the European developments on setting of priorities, because really if you look at the current European developments, we see many problems with deficit and debt, lack of growth and lack of competitiveness, lack of jobs and discontent of many Europeans. So really we have many problems which need to be addressed and in this sense it is very important to set the right priorities. In this address I would like to concentrate on three issues or on three categories:

1. European citizens, including political leadership, commitment to the European project;
2. Economic issues, economic strength;
3. Power of values shared by 500 million Europeans.

Well, those issues are somewhat interlinked, but I will try to deal with them one by one.

First, as regards citizen's attitude:

It's a growing concern in Europe that people are starting to feel alienated from the European projects talking about democratic deficits etc. If we look at the policy response of the EU, so far it was mainly being dealing with the issues of economic governance of the EMU and also in EU as a whole. The policy response was not so much demonstrating how it is concentrating on the issues, which are really important for people on the issues of jobs and growth. By this I mean short-term growth or a brighter outlook.

Since we are having some quotes I also have my quote in the speech: It was Bill Clinton's 1992 presidential campaign, which has gone down to the history with the slogan „it's the economy, stupid". Initially it was meant as on internal purposes, but this message was so powerful that it became the central message of the campaign and certainly there are times when economic concerns are overshadowing all other concerns and this seems to be the time now in Europe.

This leads me to the question of reforming the European economy, making it more competitive is certainly the core issue for Europe's long-term strength. So it is necessary to reform and to invest in competitiveness now, so that we can have better positions in 5 or 10 years.

But the problem is that the current situation dictates that it is not only enough to do the right thing and to go into the right direction, because, by the time we will arrive there, probably we will be in quite a different political environment, the one which does not prefer further European integration or maybe does not even want a European Union at all. So we are running huge risks.

We must increase our pace, turn our focus and deliver as soon as possible. I am sure that creating new jobs and fixing the economy would do a lot more to address the discontents of the EU citizens than, maybe, proposals of the new treaty would.

Implementation of the European initiatives to create jobs and to promote growth is an excellent signal to foster favourable view of the EU. To give you one example – youth guarantee programme now is a very good example of a pan-European initiative which is being specifically adopting and addressing an urgent problem that is present in many European member states, EU-member states including Latvia.

If we manage to address these problems effectively, much of the rest would sort out itself: public discontent would drop, support for the European project would grow, backing for further reforms to strengthen competitiveness also would rise, and Eurosceptics would lose their firepower.

One of the important basis of legislation we are dealing right now it's banking union. These are exactly the problems. The fragility of the banking system alongside with a lack of competitiveness has been the heart of the current Eurozone problems. Fragile banks hurt by fragile sovereigns, which are in turn were hurt by fragile banks, you know this situation, this vicious circle, that we have not managed to fully escape it yet. European Central Bank did manage to stabilise the markets for sovereign debt. However, the banks' weak balance sheets are still preventing them from lending to the real economy and this is again preventing economy from recovery.

This February Bruegel institute published a policy contribution, which sought an answer to the question concerning the necessity of banking union: Can Europe recover without credit? The findings were that, although there are quite a few precedents of rather strong credit-less recoveries, it is unlikely to happen for it in the Eurozone due to two reasons:

1. The fact that it is a high income economy where such recoveries are much more rare, and
2. All such recoveries included currency devaluation which in the current circumstance does not seem likely to happen.

So, really, this leads to a conclusion, that EU is unlikely to resume healthy growth unless we make credit available again.

This leads me to the second issue. It's the strength of European economy. Here we have a dual problem. First aspect is that we are in a recession or at least many EU countries are in a recession. There is both public and private debt overhang and big deficits in some countries. The second aspect is that the crisis has exposed as a weakness that Europe has been developing over the last decade or even more – its lack of competitiveness both globally and internally. There are big differences in terms of member state competitiveness, which cause instability.

A lot has been discussed about debts and deficits already, so I will not talk on this for too long, but I will just address two points.

First, there is no question that economic recovery will not be possible without fiscal sustainability. For this we need to bring down budget deficits. But just bringing down budget deficits will not return EU to growth by itself, because it is a much better way to bring down budget deficits through growth – it is much easier to spend less of increasing revenues than to spend less of decreasing revenues, and this is something which we need to address is how to return Europe to growth and I will come to this point later.

But the second point on debt is that we had been reaching the moment when we fundamentally changed our attitude to debt. If you look at the public debt levels in EU as a whole it is just below 90 % of GDP, in Eurozone it is somewhat about 90 % of GDP, in US it is about 100 % of GDP, in Japan it is well over 200 % of GDP, so what we see that advanced economies had been accumulating public debt through decades and for one reason or another financial markets decided to worry first about Europe, even though Europe among advanced economies has least public debt, but I think there are other reasons mainly to do with competitiveness, but it means that really we will have to think that we cannot live on debt and increasing deficits forever.

This is sometimes shown as some kind of a major change of everything, everything will change. If you look at the facts around, typical European economy is probably re-distributing around 50 % of the GDP through budgets. And then if we are to move from the 3 % of deficit allowed by Maastricht criteria to 0 % deficit, well, you will not be able to spend 50 % of GDP through the budget, you will be able to spend 47 %. Is it such a tragedy? Probably not!

I like the example of Estonia and Latvia, because we started from a very similar starting position in early 90ties. What Estonians did already in early 90ties, they set a balanced budget law, saying basically that budget must be balanced! Of course, it can be discussed but more or less they were following it throughout last twenty-something years. So as a result the public debt now is only 10 % of GDP. Our public debt now in Latvia is around 40 % of GDP, and then we can ask, ok, so what exactly have we achieved with those extra 30 % of GDP which we had accumulated in a public debt.

GDP per capita is higher in Estonia, average wage is higher in Estonia, average pension in higher in Estonia, but we have higher interest payments, which we have to pay on our debt.

This certainly leads to the point that living on the debt and living on the deficit in a long term is just not paying off.

This is a very good example. You can see on two countries starting from similar positions pursuing different policies and somehow we did not achieve all those Keynsian effects of more spending leading to the more economic growth and then somehow more prosperity. Financial stability apparently is invaliding those purely Keynsian effects.

Then I am coming back to the question of competitiveness, because bringing down budget deficits sorting out our fiscal situation it is a prerequisite but it is not a cure in itself.

The really substantial issue is Europe's competitiveness as it was put by the World Economic Forum, „high levels of prosperity in Europe cannot be sustained over time without high levels of competitiveness".

When we are speaking about the measures of competitiveness at national level, I think that all countries hit by the crisis have done a remarkable amount of reforms. We are seeing how large current account misbalances are being levelled out, meaning that those countries have managed to raise their competitiveness and this investment is paying off.

But to put things into perspective, I would like to make the following point: if we look at the aggregate EU competitiveness performance according to global competiveness index again by the World Economic Forum and compare it to the performance of the US, we clearly see pronounced gaps in certain areas, notably innovation and labour market efficiency. Also, similar areas and gaps emerge if we compare more competitive countries within the EU with the less competitive countries within the EU. Innovation is an area that the whole of EU is behind the US, while in areas like institutions, labour market efficiency, and goods market efficiency some of the EU countries are very good performers, while others are lagging behind. The implication of this comparison is that lots can be done if member states would simply learn from each other and implement best practices. So this as an area where actually better coordination at the EU level would be very beneficial.

But second is the competitiveness of the EU as a whole. There I would like to mention that all the necessary ingredients to deal with the competitiveness have been in place for a long time, but somehow we have failed to implement some of the crucial initiatives. I would like to briefly touch upon some of the most important ones.

Competitive companies develop in competitive environments. The single market is the way we create competitive environment in the EU. Undoubtedly, we have reached a high level of market integration already and it has brought huge benefits to the European economy. However, creating a competitive environment is an on-going process and I believe there are still many opportunities how to expand it.

Therefore, I would like to emphasize some issues like full implementation of the Services directive like introducing or moving towards digital single market, because this is an area where we are really lacking behind as a single market. To use some estimates of the European Commission that full implementation of Services directive would add 2.6 % of GDP to the EU and 15 % increase in digital retail would provide another gain of 1.7 % of GDP.

Since there are issues where we can do many things while harmonising regulations and bringing down market barriers, technical market barriers, which could increase our competitiveness I already was mentioning issue of more focussing on innovation actually spending more on innovation and ensuring better transfer from the academia to the real economy.

This again is one of the areas where we are lacking behind, already it was mentioned in labour market efficiency. All those components are in place, none of those components is some kind of a miracle cure but if you see that you have another 2.6 % there, 1.something % here, another percent there, you actually see that you can return Europe to the economic growth again and to address current problems much more efficient.

Finally I would touch up on the final point, which are European values. It is known that any economy's influence in the world is not determined only by the size of it, but also by the ideas it promotes, by values that it seeks to protect and also by the amount they share with the rest of the world – in terms of aid, cooperation and advocating for a common cause. No doubt, EU is currently at the forefront in the world of many of those aspects.

The risks, though, are associated with our lack of competitiveness, which I already touched upon and also by lack of consensus within the EU. There is no point for the EU bodies to implement policy that member states are not fully behind with. And this goes both ways – member states must realize their role as a part of EU and hence must bear the responsibility associated that comes along with it. This means they have to be able to overcome personal tantrum for the good of the EU.

On the other hand, for the EU bodies, it means that they must constantly check their agenda against the concerns of EU citizens and it must be able to determine priorities according to this.

Thus, I am convinced that if we are addressing the economy and our long term competiveness issues immediately, it would go a long way to solidify member states around the EU values. But for this to happen, the awareness that we are in the same boat, to put it simply, is absolutely crucial.

Thank you for your attention.