Speech by President Juncker at the European Central Bank Forum on Central Banking 2019 celebrating 20 years of the Economic and Monetary Union, 'Building the euro: moments in time, lessons in history'

Sintra, 19 June 2019

Mr President,

And for many of you, dear friends, good friends by the way,

It is my pleasure to be here and I would like to start by thanking Mario Draghi, another good friend, for inviting me here this morning. I am told that it is rare for a politician like me to be invited to speak to this prestigious forum.

I have to say I understand and I respect this policy. It is so unfair to attack central banks when it comes to their independence.

One of the great powers and responsibilities of being a central banker is that you can move markets with a single line in a speech. Every word counts a billion. And this is why I always admire Mario's speeches, which are priceless pieces of art.

It is fair to say that I am better suited to being a politician.

I can say what I think – from time to time I can say what I think – which is what I plan to do today.

So allow me to tell you the story of the euro – my story which is a little bit different from yours. I am privileged to have been part of this adventure from the very start. And it is my personal experience and vision that I would like to share with you today.

As someone who has witnessed every twist and turn of the last thirty years of European politics, I can confirm that the road has not been easy. But I remain astonished by the strength and the relevance of the project.

As every European success story, it is full of crises and lessons learned. Too often we lose sight of how far we have come and the true value of that success.

Today, I want to stop the clock on **six moments in time, six lessons in history** that have shaped the euro and the European Union as we know it.

Lesson 1: The euro is a political project for our grandchildren

Exchange Rate Mechanism Crisis 1992

The first moment in time goes back to the crisis of the European **Exchange Rate Mechanism in 1992.**

This story starts one year earlier when, as a Finance Minister during the Luxembourgish Presidency of the Council, I was in charge of the economic and monetary aspects of the Intergovernmental Conference. This led to the Maastricht Treaty of December 1991, which paved the way for the single currency.

This is a time from which there are only two survivors: the euro and myself. And only one of us is here to stay.

Two years after the fall of the Berlin Wall, the signing of the Maastricht Treaty was a proud European moment.

Together with the launch of the European single market and the recently published Delors Report of 19891, the Maastricht Treaty was about creating a new future for Europe. It was about Europe taking its destiny into its own hands.

But as often in Europe, our collective will was soon put to the test. Under the pressure of the markets, the United Kingdom chose to leave the European Exchange Rate Mechanism in September 1992.

To make the deal at Maastricht possible, I had already proposed – that was in May 1991, Jean-Claude Trichet was there, and others – the British 'opt-out' from the single currency the year before. And now the United Kingdom was leaving the Exchange Rate Mechanism.

In some ways, I believe this parting of ways was perhaps the start of the journey that led to 'Brexit'.

Other countries also faced increased market pressure. In 1993, the Finance Ministers of Germany and the Netherlands also wanted to leave, because they believed their economic fundamentals were by far much stronger than those of France and of others.

For me as a then young Finance Minister of Luxembourg, a country with even better fundamentals, this put me in a very uncomfortable situation. Our currency at that time was the Belgian franc and if those countries left, Luxembourg would be under pressure to follow, putting Belgium in great difficulties.

During these long negotiations, it was – this may surprise you – the British Chancellor of the Exchequer, Kenneth Clarke, who woke us up. He said out loud in the room: 'If you let Germany and the Netherlands go, you will never have the single currency. And personally – did he say –, I would like my grandchildren to be able to pay in euro one day.' The British Chancellor Kenneth Clarke, a real Statesman.

He was right: we had to find a solution and look at the bigger picture. And this is what we did by widening the intervention bands of the Exchange Rate Mechanism from 2.25% to 15%, to make the system less vulnerable to speculation. It was a difficult moment. Jean-Claude Trichet was there, Yves Mersch you were, like Jean-Claude, Director of Treasury. I remember that, because I had to convince Finance Minister Bérégovoy of the merits of the independence of the central bank.

The next day, after this decision, all the newspapers and leading academics wrote that it was the end of the single currency, when in reality it was the rescue of the single currency.

But at this point, I have to make a solemn confession to a room full of central bankers.

While we were working to find a solution, the Luxembourgish government secretly printed 50 billion in a new – and secret – currency: the Luxembourgish franc.

We even put the image of the Grand Duchess Charlotte who died in 1985 on the face of the banknotes in order to hide our intentions as much as possible. Because we said to ourselves: nobody will believe, that we are launching a new currency in Europe with the image of the old Grand Duchess.

Such action would be totally unthinkable, irresponsible, reckless in our currency union. But back then, relying on the currency of another country, in the case of Luxembourg vis-à-vis Belgium, and exposed to the risks of the markets, we had to hedge ourselves against all eventualities. Luckily, the Luxembourgish franc never had to be used and, standing here today decades later, I strongly reject this sort of behaviour!

The little story stayed a well-kept secret between the Grand Duke, the Prime Minister Jacques Santer and myself, until we burned all the notes on the day the euro was introduced on 1 January 1999. That was a major performance by the Luxembourgish army. For once, they had a job to do and they we were burning the money we never used.

Lesson 2: The rules do not need to be stupid

The Stability and Growth Pact crisis 2003

To the second lesson: The rules do not need to be stupid. Because the second moment stems from what I call the Stability and Growth Pact crisis of 2003.

France and Germany contravened the rule that the deficit **should not go beyond 3% of GDP**.[2] Under the pressure of these two countries, the Council of Ministers decided not to adopt the formal corrective remedies proposed by the Commission.[3] The Commission took the decision of the Council to Court and both Council and Commission partly lost.[4] A very European story.

These were early days – more than fifteen years ago – but it clearly showed the risk of the rules being bent for some Member States for political reasons. The legislative framework has been strengthened in the meantime, but interestingly, the Court already confirmed at the time that rules should be applied with some discretion, taking all circumstances into account.

And this is the approach I have taken since I took office as President of the Commission. Yes, the fiscal rules are here to be respected by everyone, however complex they have become. But, at the same time, the rules can and must make both practical and economic sense – this is also what the rules foresee.

This is why, faced with the risk of a sluggish recovery, the European Commission which I have the privilege to preside has made use of the **flexibility that exists within the fiscal rules** to allow European economies the time and space they needed to recover and reform.[5] And when risks of slippage appeared, we took the time to negotiate hard to put the countries back on the sustainable path.

Just think of Spain and Portugal three years ago. Had we been rigid in our approach to the fiscal rules and prematurely applied financial sanctions, these countries would not have had such robust growth and been able to correct their public finances. The credit also goes to the governments of these countries, which chose a credible and cooperative path – for the benefit of their citizens.

I am saying this because we often get a lot of criticism for our job of fiscal surveillance – from both sides of the spectrum, which is a good sign. By the way, it is the Council of Ministers which ultimately decides on fiscal surveillance in the European Union, not the Commission. And I am pleased to report that the Council has followed all the recommendations of the Commission in recent years.

Frankly, when one looks back, the facts speak for themselves: over the last four years, this flexible approach is **estimated to have boosted the European economy by 0.8% and helped create 1.5 million jobs,** while allowing government debt and deficit to fall significantly, in particular within the euro area. I am confident that history will prove us right.

Lesson 3: The euro is a matter of common interest

Greece 2010

There is a third lesson and it is that the euro is a matter of common interest.

The third moment in time, the third lesson, comes from Greece when, in October 2009, the government admitted that official statistics had misrepresented the real debt and deficit figures for years. The Greek government revised the 2009 deficit forecast from 3.7% to 12.7% of GDP. The final figure was above 15%. Similarly, the figure for Greek government debt at the end of 2009 increased from EUR 272 billion to EUR 301.1 billion, with the highest ratio of debt to GDP for any EU country.

This fuelled mistrust and uncertainty at all levels. And it revealed one of the biggest contradictions and absurdities of Europe's Economic and Monetary Union.

The truth is that Eurostat had sent 10 delegations to Athens with a view to improving the reliability of Greek statistics from 2004 to 2010. However, Member States had been resisting tighter EU rules on statistics for years, Prime Ministers, Finance Ministers, governments, arguing that national sovereignty was more important than trustworthy and comparable data.

I have to accept my part of responsibility because I was amongst those who asked the Commission not to pursue in that way. I voted against the proposal of the Commission to give more power and to give more independence to Eurostat. That was a major mistake. Would we have done the right thing, we would never have experienced the Greek crisis as we did.

The actions of these institutions, Eurostat and others, should be accountable and transparent, which also means that they should be anchored in the European Union's decision-making process. This is why I push for intergovernmental solutions inherited from the crisis years to be incorporated into the institutional framework of the European Union over time.

Lesson 4: The euro requires resolve

Mario Draghi's 'whatever it takes'

The fourth moment in time relates to the summer of 2012 and your words, Mario, announcing that the European Central Bank was ready to do 'whatever it takes to preserve the euro'.

You had taken office less than a year before, coming after my good friend Jean-Claude (Trichet). At the time the euro area was at the brink of falling back into recession. Greece, Ireland and Portugal were under enormous stress and under financial programmes. The fragmentation of financial markets threatened the integrity of the euro area and the survival of the euro was at risk.

Your calm and confidence not only pacified the markets, it saved me – the President of the Eurogroup at the time – from many more sleepless nights.

I know I am not supposed to comment on the policy of the European Central Bank but allow me to say how glad I am that you were there. And I can only commend the bold action of the ECB6 and our close relationship in recent years.

In that same speech of July 2012, you were also right to point out that many market actors and commentators underestimated the political capital invested in the euro project. The euro requires resolve and it deserves determined leaders. These are stronger than markets.

Lesson 5: The euro is irreversible

Greece crisis July 2015

The fifth moment, the fifth lesson is the fight to keep Greece in the euro in 2015. Many Leaders have now taken credit for saving Greece on one night in July of that year. I believe there is some artistic licence in some of these memoires. Success has many parents, but failure is always an orphan!

But just as quickly as politicians appear to claim success, so disappear the many pundits – often from across the pond – who predicted Grexit and the end of the euro. Where are they now?

For those of us who were at the centre of the storm for months, the negotiations were long and tense. But we knew the importance of the fight.

A fight to overcome years of prejudices, ideologies and mismanagement. A fight to strike the right balance between solidarity and responsibility and safeguard the future of the European Union as a whole. A fight to make sure that the efforts required made sense – not in an economic textbook but in the lives of the Greek people. A fight to find European solutions to European problems.

Of course, the real efforts and the real courage were shown by the people of Greece. Our job was to support them. This is why the Commission **mobilised up to EUR 35 billion for Greece from various EU funds for investment, which triggered an estimated 2% GDP increase in that country.**

It is also why I personally insisted that the programme goes through a **social impact assessment** and contained a strong **social dimension**. This, for instance, helped us cut the price of medicines and roll out a guaranteed minimum income scheme for the most vulnerable.

The issue was not solved overnight, despite what some think.

Most people have forgotten about the fact that even after the so-called deal, Greece was actually about to default on its debt to the European Central Bank.

Once again, we did what it took and the Commission mobilised a short-term loan worth EUR 7 billion in bridge financing under the European Financial Stabilisation Mechanism to prevent Greece from crashing out of the euro by accident.

Today, it is with pride that I can say that Greece is in its rightful place at the beating heart of Europe and of the euro.

Together, we showed that the euro is irreversible. And we all knew it had to be.

<u>Lesson 6: The euro is a strategic asset in today's world</u>

The Iran nuclear deal and the international role of the euro

There is a final moment, a kind of sixth lesson, and we are still living in that moment. It started back on 18 May last year when the United States announced its decision to withdraw from the Iran nuclear agreement and to reinstate sanctions.

The decision caused far-reaching problems for European companies to continue trading and doing business.

For many Europeans, this was a kind of wake-up call: it showed how isolated and fragile we can be, how reliant we still remain on others. And it showed that it was time for the euro to strengthen its global role.

Time will tell but I believe this could prove to be what we could call our 'Nixon moment'.

We can indeed draw many parallels to 1971 when President Nixon took the U.S. dollar off the gold standard and ended the fixed exchange rate system that had existed since World War II.

This was the moment when Europe decided to move towards its own European Monetary System, the first step towards the single currency which would see the light thirty years later.

Europeans were lucky that they could fall back on the Report drawn up by Pierre Werner in 1970 setting out a plan towards an Economic and Monetary Union.7

His plan was already there but it took a global crisis for it to be used and for Europe to take a leap forward. We should not wait for the next crisis to do what we know we have to do.

For our own sovereignty, we need to think afresh the strategic role that currencies play in today's world. And this is why the Commission has set out a new agenda to strengthen the international role of the euro.8

<u>Applying the lessons</u>

These six moments, these six examples are all examples of crises. But every time we have been challenged, **we have found solutions and even surprised ourselves with what we can achieve.** This is a fitting way to tell the story of European construction.

These moments also have one lesson in common. They show that the euro has never been a purely technical or economic matter. It is first and foremost a political project about people, about history and about unity. It is about lessons learned, and a collective ambition for the future.

This is why, when I took office as President of the Commission five years ago, I had three priorities in mind.9

Firstly, to make sure the euro delivers for Europeans and to boost jobs, growth and investment. This came at a time when Europe was struggling to emerge from its worst crisis since the Second World War, and when populists used the euro as the symbol of 'austerity'. Since then, we have come a long way together.

13.4 million jobs have been created in the European Union since this Commission took office in November 2014 – **9.5 million of those in the euro area**. Employment is now at a record high and unemployment at a record low since the turn of the century.

If these jobs had been destroyed – 14 million there, 9 million here – it would be the fault of the Commission and of the ECB, so let us take our part of the credit for once!

Think of the impact of the monetary policies adopted by our central bank.

Think of the flexibility used within the rules of the Stability and Growth Pact.

Think of the impact of the European plan for investment, the so-called 'Juncker Plan', which has unlocked around **EUR 400 billion of additional investment across Europe**.

But this Plan is no longer called Juncker Plan. They decided to call the Plan Juncker Plan, because they wanted to pre-identify the one who would be responsible for the failure. Now it is a success, and now it is no longer called the Juncker Plan, it is the European Fund for Strategic Investments.

Think of the deepening of the single market in all its forms and the positive impact of the EU's trade policy, with unprecedented deals made with Canada and Japan – against the opinion of the general public, because people do not like trade deals. Under my mandate, we have concluded 15 trade agreements with other parts of the world and I think that this effort has to be pursued.

There is still work to do but our European economies are growing and people across our Union are feeling the difference.

I knew that we needed to complete the Economic and Monetary Union to support our single currency and deliver better for the real economy. The European Central Bank cannot do it all alone.

We have made big strides forward, notably on the European Banking Union, which has helped reduce non-performing loans back to pre-crisis levels and strengthen the capital buffers of euro area banks by more than EUR 234 billion since 2014. Through the launch of a Capital Markets Union, we are also making it easier for businesses to access the financing they need.

We are also making progress towards a dedicated budget line for the euro area. This would come in the form on an instrument of convergence and competitiveness, helping to steer reform and investment. I have been calling for this for a long time and the Commission put the proposal on the table more than one year ago. I expect – and Mario Draghi will attend – Friday's Euro Summit to take this forward and call for a swift conclusion of the legislative work.

All in all, I believe we can now say that Europe's Economic and Monetary Union is more robust than ever before, but there is still a lot more to do. We need a common deposit guarantee to complete our Banking Union, we need simpler fiscal rules and a stabilisation function for the euro area. And we need to build a common Treasury and develop a euro area safe asset over time.

With the help of Mario, we have charted the way forward through what is known as the Five Presidents' Report of June 2015.10 We have come a long way, but there should be no complacency.11

And lastly, I wanted to put more heart and soul back into the European project. More politics. More humanity. I want people to see the euro not just as a currency, but as a way to deliver a fairer society, in line with the values of our social market economy.

This is why I prioritised a strong social agenda, the proclamation of a European Pillar of Social Rights and a relaunch of the social dialogue at all levels. This is why I pushed for fair taxation in the European Union and the combat against tax evasion. This is why we are engaging in a strong fight against money laundering.

All of this has contributed to a **changing tone and a changing narrative on the euro**, to reconciling the citizens of Europe with their currency.

The talk of 'Grexit', implosion and contagion, of the euro as a 'threat' to cohesion has rightly been replaced by a better understanding of the single currency as a source of protection and empowerment, and as a strategic asset for Europeans in this unsettled world.

And the support for the euro has reached an all-time high: 75% of our citizens are now in favour of the single currency. Looking back to where we come from, I am prouder of this than any other statistic or figure.

Dear friends,

The euro is now the second currency in the world. It is the single currency of the European Union. Without the UK, the economies of the euro area represent 85% of the GDP of the European Union. More Member States will join the euro area in the coming years.

Standing on the shoulders of many European statesmen, we have turned an improbable aspiration into a daily reality for hundreds of millions of Europeans.

The coins and banknotes in our pockets are worth far more than the numbers written on them. They are the tangible symbol of a united Europe that promises peace, protection and prosperity.

The only way to honour the legacy of all those who made our success possible is to continue delivering on these promises of our single currency.

It has been my life's work and my great pride to have played a small part in a journey that has a long way to go. And I have been very privileged to travel along with all of you.

Thank you.

1 "Delors Report" on Economic and Monetary Union in the European Community, Committee for the Study of Economic and Monetary Union, 17 April 1989.

2 Article 1 of what is now Protocol 12 to the Union Treaties.

3 Based on what are now Articles 126(8) and 126(9) TFEU.

4 Judgment of 13 July 2004, Commission v Council, C-27/04, EU:C:2004:436.

5 COM (2015) 12. Making the best use of the flexibility within the existing rules of the Stability and Growth Pact.

6 This was recently backed up by General Court of the European Union and the Court of Justice of the European Union, both ruling that the ECB acted in public interest by ensuring the stability of the euro-area as a whole.

See judgment of 23 May 2019, Steinhoff and Others v ECB, T-107/17, EU:T:2019:353.

See judgment of 20 September 2016, Ledra Advertising v Commission and ECB, C-8/15 P and C-10/15 P, EU:C:2016:701.

7 "Werner Report" on the realisation by stages of Economic and Monetary Union, 8 October 1970.

8 COM(2018), 796. Towards a stronger international role of the euro; and SWD(2019)600. Strengthening the international role of the euro.

9 'A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change' – Political Guidelines for the next European Commission, 15.7.2014.

10 'The Five Presidents' Report: Completing Europe's Economic and Monetary Union', by: Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22.06.2015.

The report was preceded by an 'Analytical Note on the Economic and Monetary Union (EMU)' by Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi, discussed at the informal European Council on 12 February 2015.

11 COM(2017) 821. Further steps towards completing Europe's Economic and Monetary Union: a roadmap; and COM(2019)279, Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report.

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