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Beyond the Horizon of Lithuanian Presidency: A Central Banker's Perspective

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About the *NBP Biannual EU Presidency Lecture*

The initiative of the NBP Biannual EU Presidency Lecture cycle has been established to provide an opportunity to present the views of the central bank governor of the EU Member State currently holding the Presidency of the Council of the European Union on the Presidency priorities and key economic issues. The lectures are addressed to the participants from Polish financial and economic sector, among others representatives of the diplomatic representations, public administration, private sector, academia, independent research institutions.

The second lecture entitled Beyond the Horizon of Lithuanian Presidency: A Central Banker's Perspective, was presented in Warsaw by Mr Vitas Vasiliauskas, the Chairman of the Bank of Lithuania, on July 3, 2013, during the Lithuanian Presidency.

Vitas Vasiliauskas

The fourteenth Governor of the Bank of Lithuania, Vitas Vasiliauskas, was appointed on 16 April 2011.

Before his appointment as Governor, he was a lawyer, specialized in the financial law, and an associated partner in the law firm "LAWIN Lideika, Petrauskas, Valiūnas ir partneriai" (2004-2011). Prior to this, he worked as a Vice Minister of the Ministry of Finance of the Republic of Lithuania for 3 years (2001–2004) after being promoted from the position of the Director of the Tax Department in the same institution (1998–2001). Mr Vitas Vasiliauskas started his career in public sector as a Lawyer and Head of the Tax Recovery Division of the State Tax Inspectorate (1995–1998).

Mr Vitas Vasiliauskas qualified as a lawyer after completion of law studies at Vilnius University in 1996 and received his Ph.D. in social sciences (law) in 2004. He has remained active in the academic world throughout his entire career and currently is a Lecturer of the Chair of Public Law of Vilnius University Faculty of Law (since 2010). Previously he was a Lecturer of the Chair of Constitutional and Administrative Law of Vilnius University Faculty of Law (2004-2010) and an assistant of the Chair of State and Law Theory and History of Vilnius University Faculty of Law (1997–2004).

The appointment of the Governor of the Bank of Lithuania is made by the President for a five year term.

Beyond the Horizon of Lithuanian Presidency: A Central Banker's Perspective

Vitas Vasiliauskas

Chairman of the Board, Bank of Lithuania

Dear Ladies and Gentlemen,

Thank you very much for the opportunity to address you all here today in the second National Bank of Poland Biannual EU Presidency Lecture. I would particularly like to express my gratitude to Governor Belka for the warm invitation that I was delighted to accept. Dziękuję Marek.

Lithuania and Poland share a common history and have close cultural and economic ties. For over two centuries Rzeczpospolita Obojga Narodów, or the Polish-Lithuanian Commonwealth, was the largest country in Latin-Christian Europe. With a territory reaching almost 1 million square kilometres, it would have comprised a quarter of the current territory of the EU, or would have been equal in size to France and Germany combined. It has been a unique political constellation, with roots of a modern federal state, single currency, and the second oldest written constitution in the world that in many respects was ahead of its time. The Commonwealth shared a number of features that define the European integration of current times, even if the two processes are qualitatively rather different. It made an important contribution to the European cultural, political, and — from a lawyer's perspective — legal heritage.

The Constitution of May 3rd, 1791 renounced the liberum veto right that allowed any member of the Sejm to block legislation. Some interpret that the veto right provided a tool for external forces to constrain decision-making. Or that it has been abused due to internal political short-sightedness, contributing to the weakening of the Commonwealth. Without claiming a precise historical analysis and recognising differences in interpretations, this reminds us that inclusive governance requires a shared vision, commitment to joint objectives, including preparedness to make sacrifices for a greater common good. Drawing a parallel to the current state of affairs, we need to make sure that democratic and inclusive governance — the strength of the EU — remains efficient and we are able to move ahead in dealing with the challenges facing us today. We need to implement our vision of a growing, credible, and open Europe.

Before turning to the Presidency priorities and the prospects for the euro area enlargement, I would like to take stock of our decade old experience of the

EU membership – how we have evolved from an accession country to assume responsibility for driving the EU agenda. I would also like to spend some time to reflect on the challenges faced by the EU, since that determines the need for policy response. When discussing the Presidency priorities I will mostly focus on the reforms that are closest to the mandate of the central bank, though will also briefly touch upon the initiatives that reach beyond our mandate.

I. Towards the Lithuanian Presidency

Next year a group of 10 countries, Lithuania and Poland among them, will mark the 10th anniversary of their EU membership. The dichotomy of old-new Europe did not stick for too long. This group of countries has successfully integrated, proved to be deserving members of the EU, and refuted the pre-accession concerns. Other dichotomies have become more prominent lately – the North-South divide, centre-periphery, euro ins and outs.

The pre-accession doubts on the capacity of the EU to absorb the biggest wave of expansion that included countries with income levels significantly below those of the rest of the EU have dissipated. Since 2004, 5 of the newcomers have introduced the euro; Latvia plans to introduce the euro in 2014 and Lithuania aims for 2015. By the 10th anniversary of our membership, 6 of the member states that had joined the EU in 2004 will have held the Presidency of the Council.

The EU membership has been an important achievement and realisation of our key strategic objectives. The accession process has helped to anchor policy reforms and important progress has been made in strengthening the institutional foundations of our economies. Several years of heady success and post-accession euphoria created a strong belief that convergence forces will takes us to El Dorado without major efforts. During the years of rapid growth we have lost our vigilance and ignored the dark clouds that have started to collect above us, signalling a severe storm and turbulence.

The macroeconomic imbalances were particularly pronounced in the Baltics. The external shock of the global crisis, followed by a liquidity squeeze ruled out the possibility of a soft landing — an uncontrolled tailspin was the eventual outcome. Poland was the only one to avoid recession in 2009, though it did not leave unscratched, due to spillovers coming from the weakening global outlook.

As has been noted by Christine Lagarde, the Managing Director of the IMF, the Baltic countries decided to bite the bullet and implement frontloaded consolidation instead of spreading the pain over many years. In 2009–2010 the consolidation of Lithuania's

public finance amounted to around 12% of GDP. In the depth of the crisis when it was still not clear whether the bottom had been reached, the most comforting news coming from the external observers was that it will take us seven years to return to the pre-crisis level of output, labelling it as seven years of lost growth.

The recession in Lithuania has been deep, but short-lived, lasting 4 quarters only. Since 2010 we have experienced uninterrupted steady growth. The pace of recovery in the Baltics has been strongest in the EU and the projected path to the pre-crisis output has been halved. The economy quickly adjusted due to its high internal flexibility, allowing for rapid improvement in unit labour costs and competitiveness. In its response to the crisis, Poland had additional scope for manoeuvre, given the size of the economy, healthier macroeconomic fundamentals, lower trade and financial openness, and a flexible exchange rate.

The moral of our story rests on the importance of political determination, reform ownership, and the role of public perseverance in implementing large scale adjustment measures. The first best advice is to avoid the uncontrolled tailspin in the future and to accumulate policy space in good times. We will use these very same ingredients – focus on core challenges, determination, and ownership – in driving the Presidency agenda for the next six months.

Allow me now turn to the challenges faced by the broader region.

II. Principle Challenges of the EU

The EU has undergone a major crisis that has not yet been overcome. A recessionary economic outlook, financial stability concerns, and weak public finances are still undermining confidence. Despite important progress to date, we still have not managed to break the vicious circle: where there is no growth until the credit channel is repaired — among other means by cleaning up the balance sheets of banks; the financial sector repair relates to macroeconomic prospects, and there is a reverse causality between the fiscal stance, economic growth, and health of banks. Confidence is the fourth wheel that cannot spin in a different direction. The response requires deep structural shifts in the architecture of the EMU, while not losing sight of the most immediate challenges in the financial sector and the real economy.

Reviving growth is one of the main challenges faced by the EU and the euro area today. Twelve out of 27 EU economies shrank last year, and growth is expected to stay negative in the EU and the euro area this year. Unemployment in the EU is expected to stay at record highs; stress in financial markets could return if policy implementation

weakens; financial sector repair needs to continue. Lack of credible medium-term fiscal plans in the US and Japan could also generate additional external risks.

Growth rates in the EU were lagging behind that of its peers over a prolonged period of time. To put this in perspective, since 1980 growth in the EU and the euro area averaged below 2%, compared to 2.6% in the US. These numbers mask significant differences among the member states, of which some managed to reform their economies, raise productivity, and growth potential, whereas others had lacklustre growth or high output volatility. Over years before the crisis, the real convergence process within the EU and the euro area has been hindered by unaccustomed access to credit, over-reliance on pro-cyclical sectors and domestic demand as well as overly optimistic expectations on fiscal revenues and, therefore, lax fiscal policies. This resulted in widening differences in competitiveness among the EU countries, which were painfully revealed by the crisis. The EU as a whole was losing economic and policy dynamism, the capacity to undertake reforms and respond to building-up pressures.

The second challenge of the EU is how to safeguard financial stability. The cross-border activities of financial institutions in the EU and globally have increased exponentially, banks have become more complex, whereas financial sector oversight remained local, lacked a coordinated approach and clearly established rules-of-engagement. Systemically important financial institutions, or the so-called SIFIs, were — to quote Sir Mervyn King — living internationally and dying nationally. The existing incentive structure encouraged excessive risk-taking as short-term profits turned into hefty bonuses for bank executives and dividends for shareholders, but when trouble arose, tax payers had to step in and losses were often socialised. Resolving cross-border banking groups was and remains difficult due to the lack of clearly established principles for burden sharing. In such an environment early intervention became complicated, and a too-tight relationship between regulators and those being regulated — regulatory capture — could have made things even more complex. Supervisory response tended to prioritise national objectives over broader stability concerns — home bias — that has weakened functioning of the single market in times of stress.

If it had not been clear before, it became strikingly obvious that it is difficult to secure domestic financial stability without having a robust regional and international framework for financial regulation and oversight. The need to overcome political divergence and agree on the new regulatory architecture remains one of the main priorities for the EU today.

Besides growth-related and financial stability concerns, fiscal sustainability is the third challenge. The EU public finances have been contaminated by fiscal illusion and debt overhang that limited the scope for counter-cyclical policy response in times of downturn. Structural deficits were understated and transient revenues from booming non-tradable sectors were often transformed into permanent expenditure increases. Countries with high debt ignored the risks until they were able to refinance at favourable rates. The peer-review process at the EU level appeared to be toothless in practice. Over the decade before the crisis, only about half of the euro area member states complied with the 3% of GDP deficit threshold.

Over the last few years, fiscal consolidation has been widely applied throughout the EU to strengthen sustainability of public finances. There is an intense discussion on the size of fiscal multipliers during the economic crisis and on the appropriate pace of fiscal adjustment. Restoring credibility is equally important, even if it is difficult to account for credibility effects in an economic analysis. One thing is clear — the scope for counter-cyclical response should be built up in good times.

III. Priorities of the Lithuanian Presidency

Confronted with multiple economic and financial challenges, the EU has embarked on an intensive reform agenda that aims to address the roots of the crisis. Important steps have been taken to stabilise the financial sector, and significant progress has been achieved in implementing differentiated fiscal consolidation and structural reforms. This notwithstanding, there is a uniform need to do more, both by following the “own house in order” principle at the national level and by ensuring greater policy coordination at the EU level.

The EU economic governance framework has been revamped, though consistent implementation of the agreed amendments will be essential to ensure material improvement in the quality of fiscal policies. It also remains to be decided how far we should go in strengthening coordination of economic and fiscal policies, as discussed in the Blueprint for a Deep and Genuine EMU. But for the time being the focus has shifted to the financial sector reforms, where progress is most urgently needed to safeguard financial stability and boost economic growth. Financial sector reforms will be the focus of the Lithuanian Presidency in the next six months.

Poland had the rotating EU Presidency in 2011 and from the 1st of July Lithuania has assumed the responsibility for driving forwards the EU policy and legislative agenda. Unlike our Irish colleagues, for whom this has been the seventh experience, Lithuania

holds the EU Presidency for the first time. It was also a first-time experience for Poland when it assumed this responsibility in 2011. Your country made a significant contribution to the strengthening of the economic governance of the EU by securing an agreement on the six legislative initiatives — the so-called six-pack, working towards the deeper internal market as a source of growth, starting consultations on the next Multiannual Financial Framework.

The Lithuanian Presidency is at the end of the European legislative and financial cycle. Elections to the European Parliament will take place in May 2014, coinciding with the end of term of the European Commission in October 2014. This will add pressure on the legislative agenda due to the willingness to bring to conclusion a number of key initiatives that have long been on the table. We also see a necessity by the end of 2013 to agree on 56 legislative acts related to the next Multiannual Financial Framework 2014–2020. Additional pressure would be added by national elections in a number of member states.

The Presidency is a government-driven process. The role of the central bank is essentially that of an advisor and partner to the executive branch. During the Presidency, the Bank of Lithuania will be mostly involved in the area of financial services, where it has designated some of its core experts to the team led by the Ministry of Finance. 27 dossiers in the area of financial services will be on the table. With the objective of contributing to sustainable economic growth, financial stability, and sound public finances in the EU, Lithuania will direct its efforts towards further progress with the Banking Union, other legislative initiatives in the field of financial market reforms, and implementation of agreed economic governance reforms.

Banking Union

The European Council has called for a Banking Union as a comprehensive response to the financial sector difficulties aiming to lower the probability of their reoccurrence in the future. It will constitute one of the four main cornerstones of a deeper EMU.

The final approval of the Single Supervisory Mechanism (SSM) — the first element of the banking union — is within sight and we need to give credit to the Irish Presidency, the European Commission, and other stakeholders who contributed to this major achievement. While a typical legislative process in the EU lasts 1.5 years on average, the political agreement on the SSM was reached within half a year. That is a good example of the EU's ability to deliver broadly supported and prioritised results.

Following the political agreement in April, the main issue at the moment is to ensure the adoption of the SSM legislation as soon as possible, since this will trigger a 12-month countdown for the ECB to assume its new supervisory powers. This will depend on the European Parliament and its interaction with the ECB and the German Bundestag, where the proposal is currently being scrutinised for possible inconsistencies with the German constitution. The European Parliament has postponed its vote on the SSM package until the September plenary.

The SSM compromise strikes a good balance between different interests of the member states and responds to the concerns of a number of countries on the equal treatment of euro ins and outs to the extent possible under the EU Treaty. A large number of provisions in the agreed legislation ensure that the ECB monetary policy and its new supervisory tasks are fully separate. There is also a broad consensus that, besides being inclusive, the new architecture of the European supervisory system will contribute to strengthening the integrity of the single market.

After the formal adoption of the SSM, sound implementation of the new supervisory framework will be key and a challenging task for the ECB and the network of national supervisors. The ECB should be ready to assume its new supervisory tasks in the second half of 2014. It will assume responsibility for supervising around 130 largest banks and effective functioning of the SSM as a whole, while national competent authorities will remain responsible for day-to-day supervision of smaller banks under the ECB guidance. By the start of the new supervisory framework, the ECB will have to carry out a comprehensive balance sheet assessment of banks that will come under its direct supervision and the necessary preparatory work is underway.

The Official Journal of the European Union has recently published the Capital Requirements Directive and Regulation (CRD IV / CRR), which will transpose into EU law the international commitments on bank capital and liquidity requirements (Basel III). Although formally not an element of the Banking Union, the CRD IV/ CRR is closely associated with this process. It will establish a clearer level playing field by further codifying harmonised supervisory practices. It is important that the member states transpose the new rules into national law without delays.

The SSM means transfer of supervisory responsibilities to the European level, whereas the common resolution framework and agreement on deposit guarantees should clarify how the insolvent institutions are to be resolved. Without reaching an agreement on a legally sound and effective resolution framework for banks, strengthened safety net obligations, and necessary backstops, we risk ending up with an incomplete and dysfunctional framework. In this regard, the Lithuanian Presidency attributes the highest priority to advancing the remaining elements of the Banking Union. We underscore the importance of sticking to the agreed process,

avoiding setbacks that question our credibility, and consistently moving towards the established objective of a fully functional Banking Union, with necessary pan-European tools for independent supervision, early intervention, and sound backstops.

We welcome the recent compromise on the Bank Recovery and Resolution Directive (BRRD) reached by the finance ministers during the extraordinary Ecofin meeting last week. The general approach of the Council paves the way for the Lithuanian Presidency to begin negotiations with the European Parliament. The BRRD should establish clear and harmonised rules on how national authorities will deal with failing banks, with a view to safeguarding taxpayers from the need for future bail outs.

The BRRD compromise was reached after lengthy negotiations on the flexibility and scope of the bail-in instrument, i.e. the rules and extent to which claims of creditors could be written down or converted into equity. The current proposal introduces a sophisticated tool-kit for competent authorities to better detect, prevent and manage individual bank crises, whilst preserving enough flexibility — in exceptional cases — to fine-tune resolution recipe to tackle various financial stability concerns. Member states agreed to create ex-ante resolution funds, while maintaining the option to set up adequate national financing arrangements. The minimum risk-and-size based requirements for own funds and eligible liabilities (MREL) to absorb losses were proposed to be set for each individual institution. However, the Commission was given an option to harmonize the cushion based on EBA recommendations in the future.

The member states' agreement on the BRRD should make it easier to move ahead with the postponed discussions on the Deposit Guarantee Schemes Directive (DGSD) aiming at harmonising national deposit insurance frameworks. In view of the strong links between the BRRD and DGSD, the Council is considering to lead joint or parallel negotiations on these proposals with the European Parliament seeking an agreement by end-2013. Until the final agreement on the BRRD is reached and the new harmonised bank recovery and resolution framework is in force, a level playing field among banks in the EU should be ensured by the revised EU State Aid Rules expected to be in place next month.

The BRRD compromise brings the idea of the banking union one step forward and lays the foundation for discussions on resolution coordination mechanisms among different member states — the Single Resolution Mechanism (SRM). The proposal from the Commission on the SRM should come out shortly, specifying further details of the second cornerstone of the Banking Union. The discussions here will primarily be directed towards the design and composition of the resolution body.

Firstly, because of the delegation of national decision-making powers; secondly, due to public backstop measures needed during the transition period; and thirdly, given the possible EU legal framework constrains.

The SRM is closely related to the ESM direct recapitalisation instrument. The Eurogroup has recently agreed on the main principles of direct bank recapitalisation by the ESM and decided to finalise its operational framework as soon as the final agreement on the BRRD and DGSD is reached. The new instrument will provide up to EUR 60 billion for financial institutions in need without creating additional risks to the fiscal position of a sovereign. It should be fully operational by the start of the SSM.

In 2012 the European Commission commissioned a high-level group of eminent experts, chaired by Mr Liikanen, to produce a holistic assessment of the need for structural reforms in the EU banking sector that could be implemented over the medium term. The group presented its findings in September 2012, recommending separation of retail banking from the trading arm within the same banking group, making suggestions regarding recovery and resolution frameworks, capital requirements for banks as well as their corporate governance reforms. The proposals aim at increasing stability and efficiency of the European banking system. Similar initiatives on structural reforms have already been undertaken in several EU member states as well as third countries — the Volcker's rule in the US included in the Dodd-Frank financial sector reform act (July 2010), the Vicker's proposals in the UK (September 2011), processes in Germany, France and a number of other countries.

The Liikanen process provides an opportunity to form a regional approach to the structural banking reforms in the EU and now the European Commission should come up with a legislative initiative in autumn that could be discussed during the Lithuanian Presidency. Given that some member states are already at an advanced phase in implementing structural banking reforms at the national level, forging a harmonised regional approach is likely to be difficult.

Other financial sector priorities

The Banking Union files will dominate the Presidency agenda, with the highest priority being attributed to advancing the remaining elements, but we will also seek measurable progress in the areas of financial markets infrastructure, securities, insurance, and anti-money laundering.

Since the creation of the single market, cross-border financial transactions in the securities market have been constantly increasing. This trend is expected to be

accelerated by the launch of the Target2-Securities project, which will provide a common platform for securities settlement starting from 2015. Given the asymmetry between the growing level of transactions in the single market on the one hand and the regulation of central securities depositories and securities settlement at the national level on the other, it becomes increasingly important to have a harmonised set of rules, which would reduce the riskiness and cost of cross-border transactions.

The Central Securities Depositories Regulation (CSDR) was proposed with the aim of meeting these challenges. It provides a supportive legal framework for the TARGET2-Securities project and harmonises rules on securities settlements and national depositories to enhance safety, transparency and efficiency of the settlements as well as facilitate easier access to depositories for the issuers, investors and depositories themselves. The Irish Presidency made a respectable progress on the CSDR dossier and found a compromise on a number of fundamental issues, but the Lithuanian Presidency's team will have to conclude some still-open questions, such as authorization and definition of links among central securities depositories or authorization of depositories to provide banking services. The Presidency has set an objective to reaching a compromise agreement in the Council and to advance negotiations with the European Parliament by the end of the year.

The Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR) was opened by the Polish Presidency, and member states agreed on their common position only at the very end of the recent Council after four consecutive Presidencies. MiFID/MiFIR aims at providing ground for further deepening of the EU financial markets, enhancing efficiency, and competitiveness. The initiatives will strengthen the supervisory powers, sanctions regime and transparency rules for both equity markets and non-equity markets as well as create a new category for the trading platform — the "Organised Trading Facility (OTF)". The recent general approach reached by the Council required a lot of effort in narrowing down the divergent views among the member states, for instance, on the creation of open access to central counterparties and security traders or pre-trade and post-trade transparency. The discussions in the Parliament are expected to remain tense, but it is planned to bring the dossier to a conclusion within the current parliamentary cycle.

Lithuania welcomes the Irish Presidency for reaching the principal agreement with the European Parliament on Market Abuse Regulation (MAR). It is aimed at tackling insider dealings and market manipulation in securities markets by increasing the supervisory powers of investigation, establishing a harmonized sanctions regime, while at the same time reducing the administrative burden for small and medium-sized issuers.

Over the summer, the Presidency will resume negotiations with the Parliament on the Omnibus II dossier that sets technical standards and a common code of practice for insurance companies. Without this agreement insurance companies would not be subject to stronger Solvency 2 requirements that are scheduled to enter into force in 2014. The impact assessment of the Omnibus II has already been concluded and the Commission should provide further comments later in July. Timely adoption of the Omnibus II dossier is necessary in order to avoid uncertainties about the new regime and possible transitional periods, which would prevent insurance market participants and supervisory authorities from preparing properly and in a timely manner for the implementation of the new solvency regime.

Finally, the issue of combating money laundering, which has been gaining importance in the EU and international agenda, will also receive attention during the Lithuanian Presidency. The deeper EU single market is not only a source of economic growth, but also creates a more favourable environment for money laundering and tax evasion. The Commission's recent initiatives aim to respond to new and emerging money laundering and terrorist financing threats. New legislation will implement recommendations of the Financial Action Task Force and is a priority of the European Council. Lithuania will work on reaching member states' compromise by autumn.

Priorities beyond the remit of the central bank

The Presidency priorities that reach beyond the remit of the central bank include an agreement on legislative acts related to the next EU Multiannual Financial Framework, contribution to deepening the single services market, completing the internal energy market as well as advancing digital agenda. An important theme of the Presidency will be generating employment opportunities, particularly addressing high youth unemployment. All these objectives are in line with the imperative for growth, but it will be impossible to achieve higher EU growth potential without substantial national effort and coordination of our actions.

The pre-crisis economic policy coordination proved to be ineffective and important enhancements of the EU economic governance framework have been made. Now we are in the third yearly cycle of what is called the European Semester. It is launched by publishing the European Commission's Annual Growth Survey and finishes with a follow up on the implementation of the country specific recommendations. The cycle aims to ensure discipline of national fiscal policies, encourage implementation of growth-oriented national reforms, and to prevent accumulation of macroeconomic imbalances.

The recent EU economic governance reforms have particularly overhauled the pre-crisis EU fiscal governance framework. The Stability and Growth Pact (SGP) was enhanced with stronger fiscal monitoring and enforcement, and further strengthened by an agreement on the six-pack. The recently agreed two-pack will introduce additional surveillance and monitoring procedures for the euro area countries. The euro area member states will present their draft national budgets to the European Commission for the ex-ante assessment under the two-pack for the first time this year. Furthermore, the Fiscal Compact (a part of the inter-governmental Treaty on Stability, Coordination and Governance, or TSCG) was agreed with a view of complementing and further enhancing the SGP.

The new framework has set the course towards the long-term sustainability of public finances. The budget deficits in the EU have been declining over the last few years, public debt (as a ratio to GDP) is also expected to take a downward trend after reaching its peak in the near future. The track record of consistent and strict compliance with the new fiscal governance framework is yet to be established and our Presidency hopes to contribute to building up this strength. There is a broad array of new tools to ensure fiscal sustainability in the EU and it is important to apply them consistently.

IV. Euro area enlargement

Finally, I would like to reflect on the prospect for the euro area enlargement. In contrast to the pre-crisis period, the euro area membership is nowadays associated not only with positive gains; though this assessment acknowledges the incompleteness of the EMU and that a single monetary and exchange rate policy cannot compensate for the lack of internal policy prudence. Despite the weaknesses of individual countries, the merits of the single currency still stand. Significant work has been undertaken in strengthening the architecture of the EMU. And the question for the member states that have an obligation to introduce the euro is whether they decide to wait until this architectural overhaul is complete or takes active part in finding the solutions.

Lithuania has demonstrated sufficient internal flexibility to operate under the currency board fixed exchange rate regime that has been in place since 1994. In 2002 we pegged the Litas to the Euro and in 2004 – joined the ERM II. We had proved to be capable to adjust our policies to the necessary extent when needed. The institutional framework and the mental mindset in Lithuania are well aligned with the requirements for common discipline and policy prudence that are of essence for effective functioning of the EMU.

The newly elected Government has reconfirmed 2015 as the euro introduction target. Substantial work was done in preparations for the euro introduction in the past and we are not starting from an empty sheet. Compliance with the Convergence Criteria remains a precondition for the euro area membership. Lithuania aims to join the euro area from a strong basis. Besides being economically prepared, public support to the currency changeover is equally important and the public information campaign will play a paramount role in this regards.

V. Conclusions

A lot has been achieved in strengthening the economic governance of the EU — the six-pack, the two-pack, the Intergovernmental Treaty on Stability, Coordination and Governance. The member states still need to decide how far they should go in enhancing coordination of fiscal and structural policies, as well as further integration as discussed in the Blueprint. For the time being, it is important to ensure consistent implementation of the agreed reforms.

In the past, economic surveillance, based on a soft peer-review process, was not sufficiently effective. It is crucial that the agreed amendments truly strengthen the incentives for sound policy implementation and are not only procedural. We should not expect that next time will be different; we need to make sure that it will. The European Commission should assume a more central role in the process and be determined to apply the rules consistently across the board, avoiding exemptions that create precedents and undermine credibility. The EU response to the crisis has shown that we are good architects of new rules. Now we need to prove that we are good builders too.

The Lithuanian Presidency will closely work with the European Parliament in adopting necessary legislative proposals for the next Multiannual Financial Framework of the EU. Yet, financial sector files will dominate the overall agenda, with the highest priority being attributed to the Banking Union related dossiers. An important step has been made by reaching an agreement on the SSM, but we need to overcome the current difficulties and move ahead with other elements of the Banking Union. The Banking Union cannot function effectively without a sound and efficient bank recovery and resolution framework, harmonised deposit insurance, and necessary backstops. We need to resolve obstacles that prevent securing an agreement on those building blocks. We cannot afford having a “one third” or a “half” of the Banking Union — only a full one. This should be seen as a collective effort of the EU28. Progress on the BRRD, DGS and the SRM will be one of the key benchmarks for measuring the success of the Lithuanian Presidency.

To improve the functioning of the EU securities and insurance markets, it is important that the MiFID/MiFIR and MAR files that have been long on the agenda are concluded as soon as possible, and further real progress is achieved with the CSDR and Omnibus II. We also need to advance the agenda on combating money laundering. The Liikanen group has made an important contribution to discussing the need for structural reforms in the EU financial sector. Given the advanced phase of implementation of similar initiatives at the national level, we need to put efforts in securing a harmonised regional approach.

We start the Presidency by welcoming Croatia as the new member in our family and with the introduction of the euro in Latvia, the enlargement of the euro area will provide a nice finish to this six month period. Accession of new EU members and deepening integration among the current ones serves as a good example that the EU remains open and credible.

Thank you for your attention.

Warsaw, 3 July 2013