

Klaus Liebscher: The challenges facing an “enlarged Europe”

Opening remarks by Mr Klaus Liebscher, Governor of the Austrian National Bank, at the East-West Conference 2003, 2-4 November 2003, Vienna, 4 November 2003.

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Ladies and Gentlemen,

It is a great pleasure for me to welcome you all to Vienna and to our 9th East-West Conference. A special welcome goes to the IMF's Managing Director Horst Köhler, who is going to take over the floor in a few minutes to continue with the opening address. I am very grateful to you, Mr. Köhler that you came to the official opening ceremony of the JVI, which we celebrated yesterday evening, and that you participate again in our East-West-Conference this year. At the very outset, let me also extend my thanks to all the chairpersons, speakers and panelists for their work and their important contributions to our conference. We are glad that we have again attracted a sizeable number of distinguished speakers and key experts from various fields. A warm welcome also goes to President Jean Lemierre and Deputy Director-General Kipkorir Aly Azad Rana.

The East-West Conference looks back at an impressive history. The first OeNB seminar focusing explicitly on the transition economies in Central and Eastern Europe took place in October 1989, not long after the opening of the Iron Curtain. Since 1995 the conference has become established as an annual Vienna-based event. It is designed as an international forum in which leading experts from government and international organizations, central and commercial banks as well as universities and research institutes discuss questions related to the transition process and to EU enlargement.

Previous conferences have dealt with all the major topics relevant for European integration and enlargement: the restructuring of the banking system, financial crises, the convergence progress, regulatory aspects of transition and other structural challenges, the quest for an adequate policy mix and the challenges of transition in general. The range of topics is, however, not just impressive because of its broad coverage, it also reflects the evolution of the transformation process. Some of the earlier conference topics, as for example the regulatory aspects of transition or issues related to institution building, have lost importance over recent years, given the successful completion of the major transition steps in these areas.

On the other hand, we have also seen the focus shift from purely transition-related topics toward a more global perspective and a more horizontal approach to specific topics. The most recent conferences proved especially rewarding owing to the exchange of views and research cooperation among experts from transition and industrialized countries.

In previous years, the Oesterreichische Nationalbank co-organized the conference on several occasions with other institutions, such as the IMF, the Institute of International Economics, the Banca d'Italia or The Vienna Institute for International Economic Studies. This year, as in 2000, the Oesterreichische Nationalbank has the Joint Vienna Institute, the major provider of training in transition issues for central bankers, government officials and private sector representatives from countries in Central and Eastern Europe and from former republics of the Soviet Union, as its co-host. Let me at this point give a special welcome to Ms. Bradley, the Director of the JVI, and thank her for the excellent cooperation.

The Oesterreichische Nationalbank and the Joint Vienna Institute look back at a long history of cooperation and this year's conference bears testimony to our close collaboration. The Austrian authorities have provided the JVI with a new building that meets the technology and accommodation requirements of a modern training facility. This new location which has been in use since May of this year will guarantee continuity in training for the years to come. We are especially pleased that we have the opportunity to combine the official opening with this year's East-West conference so that we can celebrate this festive occasion together. Many of you already joined us yesterday evening for the official opening reception and had a chance to visit the new facilities.

Now, after almost 15 years since the first seminar in the spirit of the East-West Conference, we stand at a point where the most important step of EU enlargement, one major focus of the conference series, is only a few months ahead. In May 2004, ten countries will join the European Union. This enlargement round is not only the most important one to date in terms of scale, diversity and economic

growth potential, but also - as Commissioner Verheugen once put it - the best prepared in the history of the European Union.

The challenges facing Europe in the coming years and decades are manifold, complex and exciting. It is these challenges, tasks and prospects that the East-West conference series is designed to address. We are convinced that the conference has played a significant role in providing a forum for discussion among experts and politicians from Western Europe and the current and future acceding countries, especially in times when the enlargement project that we are facing now still sounded like an overly visionary project.

With the most important wave of enlargement about to become reality, I believe that this is the opportune time to revisit. Consequently, the topic of this year's conference "The economic potential of a larger Europe - Keys to Success" is meant to cover the most important topics of previous East-West conferences. Today and tomorrow we will be discussing issues, such as human capital formation, financial stability, the specification of a suitable policy mix or structural reforms - topics that are key to a successful transition process and therefore also to the provision of a prosperous growth environment within a larger Europe.

On the eve of the upcoming EU enlargement, we will take a look at these increasingly relevant topics from two perspectives. On the one hand, we will investigate the importance of the above-mentioned factors for the success of the past integration process within the European Union as well as for the ongoing transition process in the current group of acceding countries. On the other hand, we will also take a forward-oriented approach and address the challenges ahead. Here, we will, however, not only focus on the South-eastern European countries that are already on the accession track, but also debate the role the European Union and the Eurosystem can play in fostering the cooperation with and in promoting reforms in the countries as summarized under the "Wider Europe" strategy of the European Commission - Russia, the Ukraine, Moldavia, Belarus and the Southern Mediterranean region.

Today's morning is dedicated completely to celebrating the opening of the new Joint Vienna Institute and will revolve around the people and institutions that have played a major role in the success story of the JVI. You will be hearing about the importance of capacity building, human capital formation and central bank cooperation for the effectiveness of development programs as initiated by international institutions. Even though all of these programs each have a special focus, they share the common characteristic that they can only be successful if training courses like the ones offered by the JVI provide the essential sound human capital base.

Deputy Minister Pyatnytskiy from the Ukraine, a prominent graduate of a JVI training course will open the following panel discussion with an introductory statement, giving us a first-hand account of his JVI experience. During the panel discussion distinguished representatives of international training institutes will get the floor to relate their experience with technical cooperation programs: the BIS Financial Stability Institute, The World Bank Institute, the IMF Institute and the OECD. All these institutions boast a track record of training and cooperation initiatives and have played a major role in supporting the acceding countries during the transition process.

While the formal enlargement of the European Union is scheduled for May 2004, an "enlarged Europe" has already become reality for all of us in many respects. Preparations for the final step have been progressing steadily and I can imagine that many representatives from the acceding countries feel as if they were part of the European Union already. To mention just one example: Delegates from the acceding countries have observer status in all ESCB and EU committees and thus closely follow the discussions about the future challenges of economic and monetary policy.

We appreciate the medium-term prospect of a number of new members joining the euro area. Of course, they will have to fulfill the same conditions for EMU accession as earlier members did, which are: European Union membership, participation in ERM II for at least two years without severe tensions and sustainable compliance with the Maastricht criteria. These are sensible and sound milestones on the route to full monetary integration.

As to the single monetary policy, sticking to the primary objective of maintaining price stability remains a key factor for the credibility of both EMU and the euro. By maintaining price stability, monetary policymakers optimally contribute to enhancing the long-term prospects for economic growth and thus also employment in the euro area. Even though the short-term nominal interest rates are at the lowest level in 50 years, inflationary expectations are in line with our definition of price stability. At this juncture, it may, however, be particularly warranted to stress that monetary policy cannot by itself

generate lasting and sustainable growth and employment in the euro area. To stimulate the economy and employment, economic policymakers are called upon to devise adequate structural measures that tackle the fundamental weaknesses and set off pressing adjustments.

Whereas EMU entails a common monetary policy for all of its members, fiscal policy is formulated and executed at the national level. Fiscal policy must be part of a comprehensive and growth-oriented strategy that focuses on improving the structure of public expenditures. Besides, we must continue to credibly meet the provisions of the Stability and Growth Pact, which is crucial for the smooth functioning of EMU. Let me emphasize that in a monetary union we need fiscal policy rules to prevent one country's unsound fiscal policy from negatively impacting on other members of the monetary union. What is more, our complying with the Stability and Growth Pact not only favors other countries but also future generations, which is particularly important in those countries where population aging is a significant phenomenon. Against the grain of some critics of the Stability and Growth Pact, I am strongly convinced that the Pact is sufficiently flexible to support budgetary discipline also in economically difficult times. Without the Stability and Growth Pact, EMU would - in my opinion - suffer from a "design flaw."

Let me conclude with expressing my conviction that the enlargement of the European Union and the economic and monetary integration of the acceding countries will not only strengthen the role of the European Union as a global player in the long term, but also make a sustainable contribution to stability, peace and welfare in Europe.

As this is the last East-West Conference before the upcoming EU enlargement, we wanted to take this opportunity to mark this historical event with a reception welcoming the new members. I hope you will be pleasantly surprised by what we have planned for tonight, but let me, at this stage, only tell you this much: we will all have a chance to learn more about each other's countries, cultures and institutions.

Before I hand over the floor to IMF Managing Director Horst Köhler, let me conclude by welcoming you once again to Vienna and wishing you a fruitful, stimulating and successful conference.