

## Klaus Liebscher: Conference on European Economic Integration (CEEI)

Opening remarks by Dr Klaus Liebscher, Governor of the Austrian National Bank, at the Conference on European Economic Integration (CEEI), Vienna, 29 November 2004.

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Ladies and Gentlemen,

It is a great pleasure for me to welcome you all to Vienna and to our Conference on European Economic Integration (CEEI). I am very happy to welcome, in particular, the President of the European Central Bank, Monsieur Jean-Claude Trichet, who is going to take the floor in a few minutes to deliver the keynote speech, and the President of the Deutsche Bundesbank, Prof. Weber, who will hold this evening's dinner speech. Jean-Claude, Axel - a very warm welcome to both of you!

I also would like to welcome all fellow governors who followed our invitation - let me thank you for your highly valuable contributions to this conference.

It is also a privilege for me that the Special Coordinator of the Stability Pact for South Eastern Europe, Mr. Erhard Busek, will give an introductory statement later this morning.

We are also very glad that we have again attracted many distinguished speakers and renowned experts from academia, from national as well as international institutions, and from the banking sector.

Ladies and Gentlemen,

About one year ago, I was welcoming you here to our last "East-West Conference". We had come together to debate "The economic potential of a larger Europe - Keys to success" and thus revisited the most important topics of previous East-West conferences, such as human capital formation, financial stability, and the specification of a suitable policy mix or structural reforms. I am very proud to be able to say that the Oesterreichische Nationalbank has been following the transition process very closely from the very beginnings.

Already in 1989, the **Oesterreichische Nationalbank** started to build up an international platform - comprising seminars, workshops and conferences - to discuss questions that are related to the transition process and to the European integration. By 1995, the East-West Conference was established as an annual event of the OeNB in Vienna that highlighted numerous aspects of mutual interest year after year. In the setting of the 2003 East-West Conference, finally, we pre-celebrated the historic event of the EU's enlargement towards the East - truly a major milestone in the European integration process.

And just one month ago the process of European integration was taken one step further yet again: On 28 October 2004, the Heads of State of the 25 member states and the three accession countries - Bulgaria, Croatia and Romania - signed the Treaty establishing a Constitution for Europe, which now needs to be ratified by each EU country. As a result of this process of integration in the second half of the 20th century and up to today, the European Union has reached a high degree of stability and prosperity. One may safely assume that in the first half of the last century people would not have dared to dream of this period of peaceful convergence across Europe.

Despite the successes, one has to acknowledge that much remains to be done for strengthening and advancing European integration. To single out just some of these major challenges, in March 2000, the EU Council of Heads of State and Government agreed on a new strategic goal, the so-called **Lisbon strategy**, for the European Union with regard to the next decade - let me quote - "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion."

However, there is a lack of clear and decisive progress in achieving these objectives, as recently pointed out by a report written on behalf of the European Commission. The subdued pace of economic recovery in the euro area puts the spotlight on its structural inefficiencies with frictions both in the labour and in the product market. The EU single market has to be fully implemented in order to enhance productivity and employment, and overall, economic growth and prosperity. The future European Commission, the European Council and the governments of the individual member states should now clearly embrace the Lisbon strategy and speed up their structural reforms in order to strengthen their international competitiveness, foster economic growth and support employment.

The EU, the Economic and Monetary Union (EMU) and the euro are Europe's strategic responses to global competition and associated challenges it poses. EMU represents a key step in completing the Single European Market. Today, the euro area has already established itself as a stable monetary anchor in the global economy. However, it is essential not to rest on our laurels.

It has to be acknowledged that we have to work hard to keep and assure the success of EMU in the future. Several governments of euro area member states have repeatedly had difficulties to fulfil their responsibilities and obligations with regard to **fiscal rules**. For the stability of the euro and the credibility of the monetary union, it is essential to comply with the fiscal rules set by the Stability and Growth Pact (SGP), which provides a clear, transparent and simple framework.

Today's discussion about making the SGP rules more flexible as a short-term remedy to the fiscal problems occurring in some Member States is counterproductive and at odds with the Maastrichtconsensus. In my mind, the SGP works as it is. The problem has been in its implementation. It is not the Pact itself which has disadvantages or which has failed. It is the missing will of several governments to fulfil their responsibilities and obligations - they failed. Thus, should the rules be made exceedingly complex and contingent on too many exceptional economic circumstances, this will clearly weak the SGP in its implementation and credibility.

Therefore, I would like to stress that a return onto a path of long-term sustainable public finances is necessary in order to foster the public trust in this pillar of the EMU stability architecture and to cushion possible effects of the Lisbon structural reform agenda as well as to moderate the challenges of ageing societies in Europe.

Where and how does **Central and Eastern Europe** enter this picture? The deepening of the European Union came along with the widening of the European Union. Since the fall of the Iron Curtain 15 years ago, the Central and Eastern European countries have made impressive and successful, and often painful, experiences of transition to market economies; efforts there have been crowned by their accession to the EU. Membership includes the commitment to the eventual adoption of the euro.

The creation of the euro area was based on the sustainable fulfilment of the Maastrichtconvergence criteria, and they will be applied to future euro area entrants in the same way. These criteria form a coherent package based on a set of economic indicators that is neither negotiable nor subject to change. From a legal perspective, this ensures continuity and equal treatment, from an economic perspective, the logic of lasting convergence has not changed and is all the more important when countries are at different stages of economic development.

As was pointed out in the last **Convergence Report of the ECB**, new Member States still have some way to go and nominal and real convergence with the Euro area differs considerably in some of the new Member States. Therefore, reform efforts and implementation of sound policies, especially in the fiscal field, are still required on the way to monetary union.

In this light, a weakening of the Stability and Growth Pact would certainly send a wrong signal to any new EU country.

I have no doubts that the success of European integration in the past will continue into the future. As mentioned before, the Oesterreichische Nationalbank (OeNB) very closely tracks and analyzes the process of European integration of Central and Eastern European countries. To keep the interested public informed about economic topics pertaining to this region, we hosted the "East-West Conference" year after year and published a "Focus on Transition" twice a year. Since the process of European integration has permanently closed the divide that used to run across Europe and since the new Central and Eastern European EU Member States have successfully completed most transition steps - and therefore can no longer be labelled transition economies - we had good reasons to update the names of two of our most important products. Our conference and our publication are complimentary products. Therefore we decided to choose a common name.

This year's conference is the first to take place under the new name: "**Conference on European Economic Integration (CEEI)**", a name which reflects the growing-together of Europe. In parallel, we relaunched the "Focus on Transition" as "**Focus on European Economic Integration**". The first issue was published recently. Hand in hand with the renaming we also have renewed the structure and content of our products, an effort that was greatly aided by the results of a reader survey conducted this year. We will continue to investigate economic topics relevant to the new Central and Eastern European EU countries, such as the adoption of the euro. Furthermore, we used the opportunity to extend our geographical focus to the region of South East Europe.

This year's "Conference on European Economic Integration" entitled "South Eastern EUROPEAN Challenges and Prospects" is dedicated especially to this part of Europe; which comprises, as we understand it, the countries Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro. Since the eight Central and Eastern European countries joined the EU, the EU integration process has clearly shifted South East. Apart from Romania, Bulgaria and Croatia, which are next candidates for accession, all other South Eastern European countries now have an accession perspective, as recently stated by the European Commission. The Stability Pact for South Eastern Europe has been assisting the difficult catching-up process of this region. We will hear more on this pact later today. For completeness, let me shortly mention the case of **Turkey**. Last month, the European Commission recommended to start accession negotiations with Turkey. Based on the report and recommendation from the European Commission, the European Council is expected to make a decision on December 17.

Ladies and Gentlemen,

Let me perhaps shortly illustrate why the OeNB has such a pronounced interest in the countries of Central and Eastern Europe, and more and more in the region of South East Europe.

With the enlargement, Austria moved closer to the geographic centre of the European Union. EU integration comes along with economic integration. Economic and financial relations between Austria and the Central and Eastern European countries have substantially deepened since the end of the Cold War.

Central and Eastern European countries have developed into one of the prime destinations of Austria's foreign direct investments. Austria is the main foreign investor in Slovenia and the third largest in the Czech Republic and in Slovakia. Austrian companies situated in the EU's new Central European member states employ more than 220,000 persons. At the same time, Austrian companies are doing more and more business in South Eastern Europe.

Austrian banks, in particular, play a major role in the banking sector in this part of Europe. In Albania, the Austrian share of total banking assets reaches an impressive 51%; in Bosnia and Herzegovina almost 50%; in Croatia the share amounts to around 40%. Due to strong involvement of Austrian commercial banks in South Eastern Europe and its impact on the financial stability of the Austrian banking sector, it is essential for the Oesterreichische Nationalbank to monitor and analyze this region more closely. At the same time, we aim at providing a better understanding of this region, which for some people, even for some experts from Central and Eastern Europe, is still "terra incognita". So far, not much research has been devoted to this region. However, South Eastern Europe promises not only to be the major focus of European integration dynamics in the coming years but it is already among the fastest growing regions on the continent.

We very much hope that the programme we have put together for our Conference on European Economic Integration will offer new insights into, and a better understanding of this region whose political and economic perspectives are most heterogeneous.

This morning will start with a presentation by the President of the European Central Bank, Jean-Claude Trichet. We are looking forward to your profound and inspiring keynote speech, Jean-Claude, and greatly appreciate your participation in our conference.

After that, our idea for the first session was to give an overview of both the political and the economic situation in South Eastern Europe. With the introductory statement of Erhard Busek we can expect to get some first-hand knowledge about the Stability Pact for South Eastern Europe.

The afternoon of our first conference day is dedicated to issues of monetary and exchange rate policy.

Today's conference will be concluded by President Weber, who will give a dinner speech on the changes in the focus of European economic integration.

Between the two sessions, the winners of the OeNB's Olga Radzyner Award will be announced. This award was established to commemorate Olga Radzyner, the former Head of the Foreign Research Division of the Oesterreichische Nationalbank, who died in a tragic flight accident in August 1999. The Olga Radzyner Award is bestowed on young economists from Central and Eastern Europe for excellent research focused on monetary and finance issues in economics.

The second day starts with a session on FDI and trade as pivotal elements for catching up and improving competitiveness in South East Europe, followed by a session on serious regional challenges: high joblessness, poverty and brain drain. To highlight the foothold of Austrian banks in

this region, the last session will be dedicated to banking in South Eastern Europe and the leading role of Austrian commercial banks.

Ladies and Gentlemen,

We hope that this conference will make an important contribution to setting the stage for future interest in, research into and public awareness of this focus of emerging Europe.

Let me now pass on to our distinguished key-note speaker, President Trichet.

Jean-Claude, the floor is yours!