

## Ewald Nowotny: Boosting EU competitiveness – the role of the CESEE countries

Opening remarks by Prof Dr Ewald Nowotny, Governor of the Central Bank of the Republic of Austria, at the Conference on European Economic Integration (CEEI) 2015, Warsaw, 15 October 2015.

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Dear President Belka,

Ladies and gentlemen,

- Let me express a very warm welcome to this joint event also on behalf of the co-organizer, the Oesterreichische Nationalbank. Cooperating on a joint project is always a great opportunity to learn from each other, to establish contacts with new people and to view one and the same topic from different angles. The impressive conference program that we have on the agenda today and tomorrow is excellent proof of the benefits of such joint ventures.
- But changing the setting of a well-established conference series may also be somewhat risky. I am therefore very glad to see that many of the traditional participants in the OeNB's Conference on European Integration have joined us here in Warsaw.
- I would like to thank President Belka and the conference team at the Polish central bank for their tireless efforts in making this event happen and for their great hospitality.
- Both conference series, the OeNB's Conference on European Economic Integration and the NBP's Conference on the Future of the European Economy share a common focus on the path of future integration in Europe.
- Since its very beginning, the European integration process has been a dual process of both deepening and enlargement. What started out as just a small community of no more than six countries with a very narrow cooperation focus aimed to prevent any future wars in Europe has now reached a stage where the European Union counts 28 members and where monetary union and banking union have become a reality for a subset of 19 countries.
- Even more importantly, we have found a way to deal with the fact that EU Member States proceed with integration at different speeds. In particular the euro area countries have further deepened their integration, for example via the Single Supervisory Mechanism (SSM), which later may attract additional members. This paves the way for progress even in view of diverging opinions while respecting the different political and economic conditions of the member countries.
- I fully agree with my friend Marek that the two biggest challenges that the EU and especially EMU have to tackle today are anemic growth and uncertainties relating to the future of EMU and also of the EU.
- The growth perspectives are directly related to the ECB's mandate, which has price stability as a prime goal. The ECB – and many other central banks – define price stability as an inflation rate of below, but close to, 2 %. For 2015 our inflation forecast for the euro area is 0.1%, for 2016 it is 1.1%. So we will clearly miss our target. A main cause for this is the dramatic fall in the price of oil and raw materials, which central banks clearly cannot influence. But core inflation rates are also clearly below our target. It is obvious that under such a constellation we need stronger economic growth, which should help reduce unemployment and bring us closer to

our goal of price stability. ECB is using the monetary policy instruments available – but it is quite obvious that in the current macroeconomic situation additional sets of instruments are necessary. These include structural measures – and here we are at the heart of the conference topic: competitiveness. But let us not forget that economic growth depends not only on the supply side, but also on the demand side and the institutional settings of an economy.

- With respect to the uncertainties regarding the future of EMU and the EU, the severe crisis we experienced has reminded policymakers of the pitfalls of an incomplete monetary union. President Belka already mentioned the “Five Presidents’ Report”, which highlights four pillars: an economic union that promotes convergence and social cohesion, a financial union that integrates banking and capital market regulation, a fiscal union that supports the soundness of public finances and a political union that strengthens democratic accountability and legitimacy.
- Suddenly many good ideas are on the table to push the European integration process further. But these different approaches will need to be developed in more detail and will have to pass the reality check. In this crucial moment with discussions still ongoing, it is up to research to come up with feasible approaches.
- The OeNB, for example, hosted another conference just a couple of weeks ago with the aim of stimulating academic debate on ways to proceed with integration. Throughout the event, which was entitled “Toward a Genuine Economic and Monetary Union,” a broad consensus emerged about the need for a fiscal and economic policy framework that combines risk reduction and risk sharing. In other words: a genuine EMU needs more discipline and solidarity.
- And here I am coming back to today’s conference topic – “Boosting EU competitiveness.” I see the ongoing integration process as a central precondition for ensuring competitiveness in the long term. While competitiveness is largely a challenge for national policies, European policies can and need to deliver their important contributions to this overall aim.
- At the euro area level, this will require steps to complete monetary union. Diverging economic developments and unbalanced growth models as well as the lack of correcting and equilibrating mechanisms were the origin of the current crisis and seriously threatened Europe’s competitive position.
- At the EU level, the policy challenge will be to encourage trade within the EU and with the rest of the world with the aim that countries benefit from the division of tasks and from economies of scale, while at the same time shielding European exporters from the repercussions of international crises. This requires a high degree of regional and sectoral diversification of exports. The recent automobile scandal is a cautionary tale of how quickly the benefits of trade integration may turn into adverse contagious effects.
- I am very much looking forward to the contributions to these issues by our speakers from central banks, international institutions and academia and to the interesting discussions I am sure we will have in this inspiring setting.