Navigating the road to Europe

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In 2003 the Oesterreichische Nationalbank (OeNB) hosted its last ‘East–West Conference’. At the time, 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 for structural reforms. I am very proud to be able to say that the OeNB has been following the transition process very closely from the very beginning. 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 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. Finally, in the setting of the 2003 East–West Conference, we pre-celebrated the historic event of the enlargement of the European Union (EU) towards the East in May 2004 – truly a major milestone in the European integration process. 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 one of these major challenges, the so-called Lisbon strategy, there is a lack of clear and decisive progress in achieving the objectives, as recently pointed out by a report written on behalf of the European Commission (European Commission, 2004). 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, above all, economic growth and prosperity. The new 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 challenges that globalization poses. The 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 Maastricht consensus. 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 weaken the SGP in its implementation and credibility. Therefore, I would like to stress that a return to a path of long-term sustainable public finances is necessary in order to foster 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 do Central and Eastern Europe and South-East 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 in 1989, 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 Maastricht convergence 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 Convergence Report 2004 by the European Central Bank, 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.

As mentioned before, the OeNB very closely tracks and analyses 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 of the 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 complementary products. Therefore we decided to choose a common name.

The conference in 2004, on which this book is based, was 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, the OeNB relaunched the ‘Focus on Transition’ as ‘Focus on European Economic Integration’. 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.

The 2004 ‘Conference on European Economic Integration’ entitled ‘South Eastern EUROPEAN Challenges and Prospects’ was 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 the next candidates for accession, all other South-East 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. For the sake of completeness, let me briefly mention the case of Turkey.

Let me perhaps briefly 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 recent enlargement round, 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-East 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 per cent; in Bosnia and Herzegovina almost 50 per cent; in Croatia the share amounts to around 40 per cent. Due to strong involvement of Austrian commercial banks in South-East Europe and its impact on the financial stability of the Austrian banking sector, it is essential for the OeNB to monitor and analyse 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-East 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 contributions we have put together for this book will offer new insights into, and a better understanding of this region, whose political and economic perspectives are most heterogeneous. I hope that this book will make an important contribution to setting the stage for future interest in, research into and public awareness of this focus of emerging Europe.
REFERENCES