

Dinner Speech

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Central Banking after the Crisis

In the following, I would like to focus on two aspects: the need for a strong Europe and the need for budgetary discipline! During this conference, you have heard a lot about the need for new regulation, the fight against speculation and the crisis itself. Concerning regulation, I only want to mention that new rules must be proportionate. As for example, the new capital requirements for banks – Basel III – that are currently elaborated. These new rules could cause a regulatory credit crunch. Therefore, we must take care of reasonable regulation, a regulation serving traditional banking business and enterprises.

We Need a Strong Europe

We presently have to manage a crisis of credibility of our currency and our economic policies! You are well informed about the past weeks, so that I can focus on some important aspects concerning the lessons learned. What we have learned from the international crisis is that we need a stronger Europe and greater joint efforts.

The years 2010 and 2011 are important years in terms of economic and budget policy for the economies of Europe, as we must set our course today in order to achieve success in the future. At the end of the day, a common economic area with a common currency requires a common economic government in order to meet the challenges we are facing. I am convinced that we will have to further increase our joint efforts and regulations in Europe in the future. The challenges raised by the situation in Greece have shown us that speculators are looking for weak spots that allow them to speculate against the euro and individual countries. The present troubles in the euro area stem – first and foremost – from unsustainable debt. That is the

problem we must solve. Some states did not use the good economic times to reduce their debt, while the stability pact was not used to address this.

Austrian Budgetary Policies

We know that only sound government finances are the best protection against speculation. Although, Austria's position is relatively good compared to other EU Member States, we must take countermeasures now, in order to curb our deficit. The crisis has not only increased our expenditures, it has also reduced our income, which is why the 2010 deficit is rising to 4.7%. If we do not react, it will increase again in 2011 and remain permanently at around 5% of GDP. Therefore, we are taking great pains to economise and our Federal



Budgetary Framework Act has laid the foundation for a sustainable budget policy. The federal budgetary framework establishes clear limits and provides a clear path for budget consolidation until 2014. Ministry budgets must remain within this framework: there is no alternative. This ensures that Austrian budget policy will be sustainable while at the same time providing incentives for economical management of each ministry. Sound government finances form the foundation for economic growth and jobs. If we do not manage

our finances as proper as possible, we would really act unsocially!

So let me underline my main contribution to the European Council's Task Force work: The crisis in Greece and the spillovers to other Member States have unveiled severe weaknesses in policy coordination within the European Union, and in particular among euro area Member States. I agree with the basic diagnosis that the



current set of rules has failed to create the necessary discipline, be it because they are insufficient or insufficiently followed. Sticking to the status quo would foster imbalances, create new tensions and dampen growth and employment, thereby putting at risk the European integration process as a whole.

First of all budgetary discipline must work! Even countries with robust public finances are negatively affected by excessive deficits and debt ratios in other Member States. Therefore, Austria calls for more transparency and monitoring as well as improved budgetary planning. The preventive arm of the Stability and Growth Pact must be strengthened. The Austrian government firmly believes that we need multi-year budgetary frameworks such as Austria's Financial Framework Law offers.

Eurostat should be given more rights, including direct access to national budgets. Eurostat should give early warnings to Member States about emerging fiscal problems. The lack of reliable statistical data has been disastrous in the current crisis, and credible action will need to be taken to regain confidence.

As for the corrective arm of the Pact, there is no doubt that effective sanctions should be put in place and implemented if and when necessary; however, they should be triggered in gradual steps and early on in the process. The Task Force should carefully explore any available option.

Secondly, competitiveness divergences and macroeconomic imbalances are a big risk for strong hikes in the business cycle and crises, leading to a loss of potential growth and jobs. Austria supports a more formal procedure to examine competitiveness divergences among euro area Member States, building on the current peer review process. Regular reviews and the possibility of issuing warnings should lead to an early detection of nascent problems and a discussion on necessary counter-measures. The Austrian government believes that all relevant players must be included in this exercise. In particular, wage negotiation processes would form a natural starting point to avoid misalignment of wages and productivity growth. It is extremely important that the work of the European Systemic Risk Board is taken into account.

Finally, crisis management mechanism must work perfectly! The temporary European Stability Financing Mechanism put in place by the EU Ministers of Finance on 9 May fulfills the main criteria for a robust permanent mechanism. This instrument shall only serve as an „instrument of last re-

sort“ after having exploited all other possibilities. Incentives structures should be designed accordingly. The design of the conditionality must ensure a swift return to macro-financial stability. The financial terms must give strong incentives for a return to market financing as early as possible.

Financial Transaction Tax

We also give support – in principle – to the financial transaction tax, which is now being discussed in detail. The solo efforts that some have demanded make no sense. A financial transaction tax in particular requires international action, not individual solutions. Expressed in clearer terms, this means that I am committed to a strong

and competitive financial centre in Austria.

The Oesterreichische Nationalbank

Finally, I may say some words concerning the finalized complete purchase of the Oesterreichische Nationalbank. After decades of discussion, I could manage in a transparent and consequent manner to complete the ownership of the Oesterreichische Nationalbank. Let me confirm that I am very much interested in an independent central bank. Therefore, I will make some steps that should enhance this status. But I am also dedicated to a central bank with clear tasks and a clear focus!

Thank you for your attention!