

Twenty Years of East-West Integration – Hopes and Achievements

The year 2009 will enter the history books as a year dominated by the biggest economic crisis since the 1930s. But 2009 will also be remembered as a year in which strong and coordinated policy efforts were undertaken to shield the real economy, financial markets and banking sectors around the globe from the most adverse effects of the global downturn. Coordination and integration have been the words most frequently used to describe political and economic developments over the past decades, and their relevance remains indisputable. Twenty years ago, the fall of the Iron Curtain and the subsequent peaceful disintegration of the Eastern bloc ended the long-lasting division of Europe. Accompanied by hopes for prosperity, peace, security and stronger cooperation across the continent, these developments prepared the ground for the unified Europe in which we live today. They initiated a process of coalescence which finally culminated in the 2004 and 2007 enlargement rounds of the European Union. Cooperation and integration have thus become an integral part of our day-to-day European reality, forming a major component of our European identity.

This special issue of the OeNB's Focus on European Economic Integration is intended to pay tribute to these historic events. It provides a broad overview of the most important topics concerning East-West integration, illustrating their evolution over time from a central bank's perspective. In doing so, it gathers the profound knowledge of international experts who accompanied the Eastern European countries through the transition process and who have cooperated closely with the OeNB over the years. These contributions are supplemented by texts from OeNB experts underlining the strategic research focus adopted by the OeNB in the early 1990s in response to the changing international environment of Austria and its economy.

In 1989, almost overnight, Austria's position shifted from the dead end of what was then called the West right into the center of the "new" Europe. Given its central location but also its strong historical and cultural ties with Central, Eastern and Southeastern Europe (CESEE), it was a natural step for Austria to intensify its bilateral links with the region. Austrian businesses and banks were among the first to identify the economic potential of the CESEE region and to expand activities into these new markets.

This strategy has clearly paid off. As studies have shown, the political and economic integration of Eastern Europe – in connection with Austrian EU membership since 1995 – has caused a growth impulse for the Austrian economy of an additional 0.5% to 1% per year and has resulted in 100,000 to 150,000 additional jobs. Furthermore, the Austrian current account turned positive in 2002, and the degree of internationalization of the Austrian economy increased strongly as foreign direct investment was channeled into the CESEE countries. To a substantial extent, this development was driven by the banking sector. Austrian banks have become key players in CESEE markets, with their market shares amounting to around 50% in Slovakia and Bosnia and Herzegovina and more than 75% in Croatia. Business in the CESEE region accounts for more than 25% of total Austrian banking assets and for more than 40% of the banking sector's pretax profits.

But not only Austria benefited from the integration of Eastern Europe into broader European structures. Economic transition, European integration and EU membership spurred an unprecedented process of social, political and economic modernization and catching-up in the CESEE countries. This is best exemplified by the region's growth performance: From 2001 to 2008, the average growth differential of the CESEE EU Member States vis-à-vis the euro area amounted to around 3 percentage points, thus raising GDP per capita (in purchasing power parities) in CESEE from less than 40% of the Western European (EU-15) average to more than 51% within the same period. By 2008, the Czech Republic and Slovenia had reached income levels observed in some countries of the EU-15.

However, the current economic crisis has hit the CESEE region more severely than expected. Spillover effects from the close economic and financial linkages with Western Europe have in particular put a brake on the swift economic expansion of previous years and, according to recent forecasts, the economic catching-up process will come close to a standstill in 2009. Given the still substantial income gap, the comparatively low wage levels and the generally sound international competitiveness of the region, its medium-term growth potential is still intact. This is why, in the foreseeable future, the CESEE countries are bound to rank again among the fastest-growing economies of Europe.

Against this background, it is of utmost importance to sustain our commitment to the region. At the European level, this has been done by doubling the balance of payments assistance intended to support EU economies outside the euro area. Moreover, Austrian investors in CESEE are generally adhering to their long-term strategic business plans in the region. Steps like these are not only important on purely economic grounds, but also serve to uphold the values of cooperation and integration in an enlarged Europe and to further build upon the hopes articulated 20 years ago. If we remain committed to these values, I am sure that the success story of the past decades will continue well into the future.

Governor
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