Conference on European Economic Integration 2018: How to finance cohesion in Europe?

Compiled by Antje Hildebrandt[1]

This year's Conference on European Economic Integration (CEEI) hosted by the Oesterreichische Nationalbank (OeNB) took place in Vienna on November 26 and 27, 2018.[2] More than 300 participants from around 25 countries joined high-ranking representatives of central banks, international organizations and academia in discussing how cohesion in Europe can best be financed. EU funding can help EU Member States align their economic performance and thus stand united. "After all, cohesion and convergence form the cornerstone of European integration," *Ewald Nowotny*, Governor of the OeNB, emphasized in his opening remarks. Governor Nowotny offered good news and bad news: business cycles have become more similar in the euro area countries, but the gap in income levels has widened following the global financial crisis. Hence, in his view, the EU's regional policies need an overhaul to become more effective. They should notably target skills, innovation and vulnerable regions and seek synergies with private investment flows. The governor of the OeNB also recalled that 2018 marked two notable anniversaries: 100 years ago, the successor states of the Austro-Hungarian Monarchy were established, and ten years ago, Lehman Brothers collapsed. Sounding a warning, Governor Ewald Nowotny stressed how cumbersome the process of economic and political integration has been and yet, how easy it is to undo its achievements.

In his welcome address, *Hartwig Löger*, Austria's Minister of Finance, pointed to the winds of protectionism currently blowing through the world economy and coming from the west (the U.S.A. under president Trump), but also – in a subtler form – from the east (China with its state interventionism and subsidies). Given these challenges, Europe is vulnerable and needs to remain steadfast in defending a rules-based world order. As regards China's Belt & Road Initiative, Europe should actively take part in this development and make sure that no one-way system emerges. It is well known that Austrian banks have established strong links to some CESEE economies participating in the above endeavor. Minister Löger also briefly referred to the most recent change in the Austrian supervisory framework. He emphasized that there is no room for any doubt regarding central bank independence in Austria; at the same time, the authorities are confident that they have found an efficient institutional solution.

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[2] *The conference proceedings will be published by Edward Elgar Publishing Ltd. in 2019. Presentations and papers, information about the speakers and the conference program are available at www.oenb.at/en/Monetary-Policy/Central--Eastern-and-Southeastern-Europe--CESEE-/Conference-on-European-Economic-Integration-CEEI.html.*

Keynote lecture by Benoît Cœuré: "The role of the European Union in fostering convergence"

Benoît Cœuré, Member of the Executive Board of the European Central Bank, emphasized in the first keynote lecture of the conference that living standards in the CESEE region have improved significantly in the past 30 years, but convergence in Europe has considerably stalled since 2008, when the global financial crisis broke out. Interestingly, countries with lower relative incomes have not experienced a more pronounced convergence toward EU average income levels compared to richer countries in the region. Not having a perspective of reasonable income convergence in due time could compromise benefits of EU membership, and policy makers should thus be urged to explore new ways to accelerate convergence. According to Cœuré, slowing convergence can be traced back, first, to a significant reduction in the contribution of total factor productivity to GDP growth in CESEE, resulting among others from the retrenchment of technology-enhancing FDI flows since the crisis. Second, CESEE countries have lost significant ground in global value chains, and this trend may persist due to increased global uncertainties and narrowed wage differentials for unskilled labor. As a result, the growth model of the CESEE region must be reconsidered, not least because of pending challenges related to digitalization and automatization. Cœuré stressed that, to foster convergence, it is also necessary that the EU supports this process. The EU should strengthen the Single Market by improving enforcement and broadening it to include new sectors, such as building a digital single market. Given that CESEE countries are still modest innovators, the adoption of new digital technologies could speed up convergence. Furthermore, the capital markets union should be deepened to strengthen the role of capital markets – to better complement banking systems that are probably already too large – in providing the necessary financing. While CESEE countries could tap EU funds to a stronger extent by improving the quality of their institutions, also the EU could help raise the impact of EU funds by making allocation rules as simple and transparent as possible.

The role of monetary policy in catching-up

Panel 1 was chaired by OeNB Governor *Ewald Nowotny* and dealt with the role of monetary policy in catching-up. In his introductory remarks, Nowotny pointed to the wide range of monetary policy regimes in CESEE. In this panel, he had the pleasure to welcome three central bank governors from Southeastern European countries.

Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of Macedonia, shared her views on the catching-up process in CESEE and on the Macedonian experience in particular. She highlighted different paths of convergence in the CESEE region, comparing the performances of the Baltic countries with that of the Balkan countries. Angelovska Bezhoska then recalled some characteristics of the catching-up process before the 2008/2009 crisis and the post-crisis developments. In contrast to some CESEE countries, Macedonia, having received lesser capital inflows, managed to avoid a boom and bust cycle. In her view, FDI can have an important impact on small open economies. She highlighted that convergence continued after the crisis, but at a slower pace. Monetary policy has been accommodative in recent years, but buffers need to be rebuilt at the current stage. The normalization of monetary policy in advanced economies may pose challenges to CESEE economies.

Moreover, she noted that lower potential growth in the CESEE region reflected lower growth of all determinants of production. Angelovska Bezhoska attributed lower growth of total factor productivity after the crisis to slower structural reforms and the absence of pre-crisis headwinds. Monetary policy needs to ensure stability and it cannot be a substitute for structural, institutional and fiscal reforms.

Mugur Isărescu, Governor of the National Bank of Romania, started his speech by emphasizing the importance of both nominal and real convergence for euro area accession. While the nominal convergence criteria are deeply rooted in the minds of policy makers, the Maastricht Treaty also explicitly stipulates that "a high degree of sustainable convergence" is needed. The fact that real convergence is critical for success has also been proven by practical experience with euro adoption. Isărescu also pointed out Romania's significant progress in real convergence so far that is reflected in a rise in GDP per capita as a percentage of the euro area average (based on PPS) from 31.7% in 2005 to 58.6% in 2017. With regard to the optimal timing of euro adoption, in his view, one should consider that, in contrast to the EU, the euro area is not a convergence club, as its current members did not necessarily increase their convergence level after adopting the euro. Fast convergence has its advocates, but it is important to maintain equilibrium and have continuous convergence. Hence, a coherent macroeconomic policy mix would be vital, in which there is no room for procyclicality. Yet, when conducting counter-cyclical monetary policy in a catching-up economy, one should be aware that an increase in interest rates may attract more capital inflows. In this context, Isărescu highlighted that capital flows can sometimes be quite volatile and difficult to predict. He characterized Romania's monetary policy regime as a "light" version of inflation targeting with a managed float that had been working fairly well in this catching-up economy.

Dimitar Radev, Governor of the Bulgarian National Bank, focused on Bulgaria's experiences with the currency board and on his country's path toward euro adoption. Having been in place for over 21 years, this currency board arrangement has never been compromised. The logical exit would be the adoption of the euro. Radev highlighted Bulgaria's sound fiscal policies as reflected by a track record of balanced budgets and low public debt-to-GDP ratios. Yet, as to real convergence, Bulgaria still has a long way to go. Hence, nominal convergence has to translate into real convergence, whose drivers are long-term and of a structural nature. Then, Radev shared some thoughts on Bulgaria's roadmap toward simultaneously joining ERM II and banking union – uncharted territory connected with some risks. The Bulgarian authorities have adopted a comprehensive plan that will address governance issues and institutions. Regarding banking union, the next steps will involve a comprehensive assessment containing an asset quality review, the results of which will be made public in July 2019.

Questions to the panel touched mainly upon capital flows and possible central bank reactions and issues related to euro adoption. The implications of different types of capital flows (short-term versus long-term, portfolio versus FDI) were discussed. With regard to euro adoption, also the political dimension became subject of the debate. On the one hand, it seems to be mainly a political decision of individual EU countries when to join the euro area. On the other hand, political support in the euro area for extending the common currency area appears to be limited at the current juncture.

Cohesion within and between countries

Session 1 dedicated to "Cohesion within and between countries" was chaired by OeNB Executive Director *Peter Mooslechner*. In his opening statement, Mooslechner pointed out that cohesion and convergence are dependent on each other and both must be seen from a geographical and from an integrative perspective. Apart from referring to a lack of cohesion as one of the reasons for the breakup of the Austro-Hungarian empire exactly 100 years ago, he also mentioned the danger of growing income differences and the uneven distribution of wealth in European societies today, which could fuel populistic tendencies. Assessing the success of cohesion measures is therefore very important.

Isabel Schnabel, Professor of Financial Economics at the University of Bonn and Member of the German Council of Economic Experts, pointed to a fragility in the euro area, which is characterized not only by strong growth, but also by heterogeneity and high uncertainty (e.g. Brexit, difficult budget negotiations between Italy and the European Commission). In her view, the recent economic upswing has not been used sufficiently to reduce high public debt levels in some EU Member States, which leaves little policy space regarding future crises or recessions. Even though there has been significant progress in the form of new or improved institutions and regulations since the beginning of the crisis, the European banking sector remains weak, and exposures to domestic sovereigns are still too high, according to Schnabel. She further pointed to weakened financial integration and insufficient risk sharing in the euro area. Professor Schnabel considers the sovereign-bank nexus to be a root cause, which might be broken by five measures: (1) a credible resolution regime, (2) a European Deposit Insurance Scheme (EDIS), which has to be designed in an incentive-compatible way, (3) ending regulatory privileges for sovereign exposures, which would necessitate some sort of "safe asset," (4) an integrated European banking market (banking union), and (5) well-developed European capital markets for better access to funding, especially for young and innovative firms. Schnabel concluded her presentation with the finding that resolving financial issues is key to stabilizing the euro area and that reform is more urgent than ever, given the difficult political constellation in today's Europe.

Athanasios Orphanides, Professor of the Practice of Global Economics and Management at the MIT Sloan School of Management, emphasized that trust and goodwill are a precondition for cohesion among states. In this respect, the EU has not done well over the last ten years as evidenced by the migration crisis and Brexit, which are clear signs of a dysfunction and a profound demonstration of failure of the EU. Orphanides criticized that the EU lacked centralized crisis management. Absent a common government, the national interests of EU Member States dominate. In his view, a loose confederation of states that has no strong common institutions protecting the common good remains weak. Giving a historical example, he mentioned the "Delian League" of Hellenic city states in the 5th century BC, which came into trouble when Athens increasingly gained influence by controlling the currency, which led to tensions and rebellions. He further criticized the policy of the ECB as being too tight and thus supportive of "lowflation." The latter resulted in higher unemployment and higher sovereign debt levels, thus conflicting with the secondary objective of the ECB. He concluded by highlighting the unanimity principle in the EU, which poses an obstacle to reforms toward completing the banking union and eliminating the current fragility, especially in times when trust and goodwill are in very short supply.

The role of the EU budget

The EU budget has always been subject to a lot of debate according to OeNB Director *Doris Ritzberger-Grünwald*, who chaired the second session. Currently, most funds are directed at agriculture and cohesion, but as new areas have gained importance, the question arises how spending will have to be re-directed and if the EU needs genuine new resources.

Michael Erhart, Head of Unit at the European Commission, confirmed a shift in focus away from numbers toward rules-based issues. The EU envisages spending more on migration and borders, youth, research, innovation and digitalization, climate, security and external action in the future. Given the success of the European Fund for Strategic Investment (EFSI), a new proposal – called "InvestEU" – builds on EFSI to mobilize private funds by using budgetary guarantees. Erhart also called for a stronger link with the European Semester such that a streamlined and coordinated structure would reduce overlaps and administrative costs, improve access to funding and represent a European investment stabilization function when individual Member States are in a crisis. Finally, he emphasized the importance of sound financial management and the rule of law. Here, the new mechanism could lead to a suspension, reduction or restriction of access to funding for a Member State not compliant with European law. This would protect the EU budget against general deficiencies in rule of law in certain Member States.

According to *Margit Schratzenstaller-Altzinger*, Deputy Director of the Austrian Institute of Economic Research (WIFO), the long-term challenges for the EU budget are regional disparities, demographics, inequality, migration, climate change and enlargement. The Multiannual Financial Framework 2014–2020 has contributed little to the overarching goals in these areas, as the common agricultural policy (CAP) and cohesion (in the form of traditional infrastructure) dominated, and even these priorities were not targeted well. Hence, the new Multiannual Financial Framework should be based on economic, social and environmental sustainability. More precisely, she recommended to reduce traditional CAP payments, to "green" the first pillar (direct payments to farmers) and shift more funds to the second pillar (rural development). Cohesion funds should be shifted from richer to poorer Member States and coupled with sustainable cross-border infrastructure in line with a decarbonization strategy. She further advocated transforming the system of own resources into sustainability-oriented tax-based own resources, i.e. taxes which can only effectively be implemented at the EU level, such as a carbon-based flight ticket tax, wealth tax, financial transaction tax and a common consolidated corporate tax base (CCCTB). While the current proposal by the European Commission from May 2018 is realistic, politically feasible and going in the right direction, more fundamental changes are necessary.

Sándor Richter, Economist at wiiw, also found that new priorities have been emerging, but as long as Member States keep focusing on their net financial position (NFP), it will be difficult to agree on a new system of own resources. He also called for improving ownership with respect to EU funding, citing recent research that finds a higher probability of corruption and often higher prices in EU-funded projects compared to national projects. He proposed to reduce the share of EU funds in favor of other financial instruments and referred to EFSI as a successful role model. With less funding available for cohesion policy in the future, no new own resources and high corruption in EU funding, he strongly pleaded for financial

instruments-based funding wherever feasible, while reserving grants primarily for the non-profit sector.

Stéphane Saurel, Senior Policy Adviser at the European Investment Bank (EIB), stressed the importance of crowding in additional investment by guarantees, equity, risk sharing, loans, and the like. He presented three main building blocks of interest for the EIB: InvestEU, NDICI (Neighbourhood, Development and International Cooperation Instrument) and cohesion (complementing the European Structural and Investment Funds – ESIFs). InvestEU builds on a single framework rulebook with better incentives, has less overlap with other EU instruments and allows for a reduction of steering committees across EU financial instruments. At the same time, it is key to avoid the duplication of banking functions (such as risk assessment), additional layers of approval and a geographical imbalance. NDICI is a future tool for providing support outside the EU, which encompasses various current mandates. Finally, using EU budget-funded ESIFs as a source for financial instruments could become even more relevant due to proposed lower co-financing rates. In this context, Saurel recalled that the EU budget and the EIB are the two major financing tools at the EU level to finance investment. As negotiations on the next EU budget are only to start and time is short, the EIB could help square the circle.

The general discussion focused on questions related to the additionality principle of EU funds; with a view to guaranteeing compliance with this principle, it was suggested to pay greater attention to the quality of investment, to correct market failures and increase the threshold for obtaining financing. Further, the rather positive assessment of the ESIFs shared by the panelists was put into question.

Financing the transition to a low-carbon economy

In his dinner speech rounding out the first day of the CEEI, *Frank Elderson*, Executive Director of De Nederlandsche Bank (DNB) and Head of the recently created and steadily growing Central Banks and Supervisors Network for Greening the Financial System (NGFS), talked about mobilizing financial resources needed for financing the energy transition. Elderson started out by reminding the audience of last year's hot summer, which – apart from being good for Dutch wine – was a clear sign of climate change. In 2015, 200 countries and the EU committed in Paris to phase out the emission of greenhouse gasses. The transition to a low-carbon economy requires tremendous amounts of investment. The EU needs EUR 180 billion per year to meet its climate targets for 2030 – a huge sum, but only slightly more than 1% of its combined GDP. Elderson said that the bulk of the sum must come from the private sector; however, many green projects lack scale, short-term returns and manageable risk. So, the Dutch government, banks, originators of green investment projects and other stakeholders are preparing a national climate accord to make these projects bankable. Governments have an important role, Elderson said, e.g. in helping kick-start specific projects via guarantees which lower funding costs. More importantly, governments should create long-term legislation that provides a clear transition path, on which households and firms could build their investment decisions. The longer we wait, the more abrupt the transition and the higher ensuing economic costs and risks to financial stability will be, Elderson explained. A CO_2 tax would tackle the emission problem at the root and even work at the national level without major negative consequences for the economy, as DNB research found out.

Legislators could also help transform the financial infrastructure, just as the European Commission's Action Plan on Financing Sustainable Growth did, aiming for instance for a unified EU classification system of sustainable economic activities. Supervisors and central banks could also contribute to the greening of finance. Elderson mentioned three examples: First, they could undertake economic research and give advice, urging the government to follow a credible transition path. Second, they should supervise the disclosure of financially relevant physical and transitional climate risks. Third, they could help stakeholders come together and create platforms for sustainable finance as the DNB has done nationally and the NGFS internationally. Tackling climate-related risks squares well with central banks' mandates, but Elderson had to acknowledge (in response to a question from the floor) that the financial sector cannot be greener than the economy.

Keynote lecture by Jeffrey D. Sachs: "Strengthening economic convergence in Europe"

The second conference day was opened by OeNB Executive Director *Kurt Pribil*, who introduced the first speaker of the morning, *Jeffrey D. Sachs*, Professor at Columbia University, calling him one the most influential economists in the world.

Sachs started his (live streamed) keynote lecture on "Strengthening economic convergence in Europe" by recalling his experience as a consultant to Poland in 1989, just at the onset of its transition process, which the government dubbed its "return to Europe." There were high hopes for narrowing the income gap via a mechanism for convergence, and for a while this hope was probably fulfilled, he said. However, with the global financial crisis, the engine of convergence weakened, as the rate of unconditional convergence diminished by one-third in the period 2008–2017 compared to 1995–2008. The frustration with economics not delivering promised results gave rise to populism. Rising anti-Brussels sentiment was putting the European project at risk. Sachs expressed his surprise at the strength of EU enemies in Eastern Europe but also his hope that this phenomenon will be only transitory if convergence can be speeded up again. Sachs underlined the importance of EU-wide institutions given weak fiscal mechanisms, a small EU budget and insufficient public investments. In his view, the EU was not united enough to provide the regional public goods needed. He listed four areas to mobilize spending:

1. EU-wide infrastructure, especially to decarbonize the energy system by mid-century; both a single European grid and a European energy system would require a bigger central budget and not just EIB finance.
2. EU-wide research and development, as the levels of research were inadequate to compete with the other two R&D hubs, i.e. the U.S.A. and China. For instance, Europe could be in the global lead for zero carbon transport. Here, the convergence agenda comes into play given a huge North-South and West-East divide in technological innovation.
3. Harmonization of corporate income taxation to end the current race to the bottom, as the fastest growing EU countries are tax heavens (Ireland, Luxembourg, the Netherlands, Cyprus).
4. More vigorous coordination with the EU's neighborhood to exit the current spiral of sanctions, U.S.-led conflicts, forced migration and instability. Sachs advocated a partnership with China on Eurasia-wide investment in grids and transport to the direct benefit of Southern European countries.

In the Q&A session, Sachs dismissed the view that fiscal redistribution was not compatible with EMU, pointing to the U.S. transfer system. For him, often evoked inner-European cultural differences are dwarfed by existing commonalities. Regional cooperation is a need, not a choice, concluded Jeffrey D. Sachs.

Industrial policy and investment

OeNB Executive Director Kurt Pribil bridged immediately to Session 3 entitled "Industrial policy and investment." In his introductory remarks, he mentioned that industrial policy, which used to be kind of a taboo term in economic policy debates in previous decades, has been rehabilitated since the crisis.

The presentation by *Ralph De Haas*, Director of Research at the European Bank for Reconstruction and Development (EBRD), was largely based on the findings of the new EBRD Transition Report 2018–2019. De Haas highlighted two structural trends in emerging Europe, namely early de-industrialization and early ageing. To address these trends, he argued, better-skilled and healthier workers are needed on the one hand, and other workers such as migrants and/or robots on the other. Elaborating on this key hypothesis, De Haas provided some evidence about industrial sector peaks happening at earlier stages when countries are still relatively poor. In a similar vein, emerging Europe is not only faced with de-industrialization and technology hollowing out middle-income jobs, but it is also growing old before it has become rich. As a result, skills shortages, particularly in ICT, increasingly hamper firms' day-to-day business. One reason for that is that labor force participation among older workers is comparatively low, especially due to low health self-assessments. Hence, the lack of skills and shrinking labor force boost the rise of robots in emerging markets. According to the EBRD, automation has so far only led to a small drop in employment in CESEE countries. A significant impact is, however, to be expected in primary sectors, where up to 80% of employees are at risk of robotization.

Michael Peneder from the Austrian Institute of Economic Research (WIFO) started out by highlighting that manufacturing drives technological change and carries indirect trade of services. Moreover, productivity growth and wages are typically above average in the manufacturing sector. Peneder went on to argue that a homogeneous de- or re-industrialization pattern is observable neither globally nor in Europe. While some countries, such as Brazil, Russia, the U.S.A. or the U.K., have seen a strong de-industrialization trend, the share of industry in GDP has been rising in other countries (e.g. China, the Czech Republic and Bulgaria) or remains broadly unchanged (e.g. Romania and India). The main cause of de-industrialization is the declining share of manufacturing in domestic final expenditures. Here, Peneder sketched out a rather paradoxical situation with respect to industrial policy. The latter typically generates a further productivity push to manufacturing. As a result, relative prices in manufacturing decline even faster, thus reducing the share of manufacturing in nominal income. In other words, industrial policy accelerates global de-industrialization. Nonetheless, according to Peneder, industrial policy is not only necessary when countries do not want to fall behind among global competitors, but it is also worth the effort provided it is based on a sound rationale and choice of instruments. Hence, dynamic industrial policy should target the system's ability to evolve through (1) innovation, (2) investment and (3) competition and regulation.

Tomáš Slačík from the OeNB concluded the session by presenting joint work with colleagues from the European Investment Bank (EIB) on structural investment needs in CESEE and the use of EU funds. He set the stage by showing that while it is quite a challenging task to determine the investment gap in quantitative terms, there is tangible evidence suggesting significant structural and qualitative investment needs. Using a large set of structural indicators, he shed some light on the qualitative investment gaps and their evolution in CESEE during the last EU budget period. His analysis suggests that convergence of the quality of capital toward the EU average has been negligible. Subsequently, he contrasted the identified structural investment needs with the flows of the European Structural and Investment Funds (ESIFs) in the 2007–2013 EU budget period. It turned out that, contrary to expectations, higher ESIF amounts were not positively correlated neither with the largest structural needs nor with more significant improvements in capital quality. Slačík's findings thus may suggest the policy conclusion that the link between allocated resources and structural reforms should be strengthened – which is exactly what the European Commission envisages for the next Multiannual Financial Framework.

Improving host countries' investment environment

Helene Schuberth, Head of Division at the OeNB chaired session 4 that dealt with the question how the environment of host countries can be improved. *Linda van Gelder*, country director for the Western Balkan region at the World Bank, argued that the Western Balkans face many challenges to secure faster, more inclusive, and sustainable growth. Boosting economic growth and creating more integrated and inclusive societies largely depends on a country's investment environment. She pointed out three areas which are decisive for improving the investment climate: (1) macroeconomic stability, (2) the creation of markets by deepening economic integration and, increasingly important for the Western Balkans, (3) investment in human capital. The Western Balkans are characterized by very low employment ratios, with many people migrating in search of better job opportunities. In this regard, polices need to prioritize investment in education even if it only pays off in the future. The second presenter in this session was *Irmfried Schwimann*, Deputy Director-General at the European Commission. She focused on the EU Investment Plan, EFSI, and public procurement. EFSI has enabled financing of investments in key sectors and regions, and Schwimann emphasized that the cooperation with National Promotional Banks is one of the most effective EFSI tools. Furthermore, the Investment Advisory Hub operated by the EIB provides essential advisory and technical services that are important for the realization of good projects. Schwimann moreover pointed out the importance of transparent public procurement to create a stronger business environment and to boost investments. Finally, *Andrew Watt*, Deputy Director at the Macroeconomic Policy Institute, made a case for considering additional factors to explain weak investment growth. In his presentation, he referred – among other factors – to the impact of the crisis, the role of expected demand in driving private investment, fiscal constraints and possible perverse effects of some liberalization polices. Watt proposed various measures to tackle the problem of low investment activity. Transnational strategic investments, for instance, are needed to make use of economies of scale and to deal with the climate change. Furthermore, economic governance reforms and the EU Investment Plan would be conducive to investment growth.

Corporate investment across Europe

Panel 2 on corporate investment across EU borders was chaired by OeNB Vice-Governor *Andreas Ittner*, with *Andrea Diamanti* (UniCredit S.p.A.), *Franz Hiesinger* (Mayr-Melnhof Karton AG), *Birgit Reiter-Braunwieser* (Austrian Business Agency) and *Lukas Stühlinger* (oekostrom AG) as panelists. According to Diamanti, corporate bond and equity markets as well as the investor base were still underdeveloped in most of the CESEE region. There was overall agreement in the discussion that banks' local know-how was very valuable when expanding to new markets. Moreover, access to finance for cross-border investments is not an issue, according to the panelists, even though new regulations, particularly in the field of Anti-Money Laundering (AML) have added to the complexity of obtaining finance. Regarding the attractiveness of the region, Hiesinger pointed out that CESEE continued to be an attractive market due to its comparative stability, but also to labor costs, which were still considerably below the euro area averages. He emphasized that, within the Mayr-Melnhof Group, he does not observe differences in productivity that could explain the wage differences. Stühlinger added that, in the renewable energy segment, investment security and legal certainty are particularly important and that these two preconditions are still not fully guaranteed in CESEE. Both Hiesinger and Stühlinger agreed that political uncertainty and turbulence factor into investment decisions but are only two of many factors. Reiter-Braunwieser noted that, in the past years, the Austrian Business Agency has seen a pickup in cross-border investments from CESEE to Austria – mostly in the form of sales offices and service companies, yet also including highly competitive "local heroes," e.g. in the ICT sector.