

75th Anniversary East Jour Fixe on “Ten Years After the 2004 EU Enlargement: Achievements and Next Steps”

Compiled by
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The 75th East Jour Fixe of the OeNB, scheduled for April 24 and 25, 2014, was designed to assess the 10th anniversary of the 2004 EU enlargement round, in which the EU added 10 new members, eight of which were from Central, Eastern and Southeastern Europe (CESEE). At the same time, the year 2014 marks an anniversary for another two other epoch-making historical events, which both had important political implications for the CESEE region: In 2014, we commemorate the start of World War I 100 years ago, and the fall of the iron curtain 25 years ago.



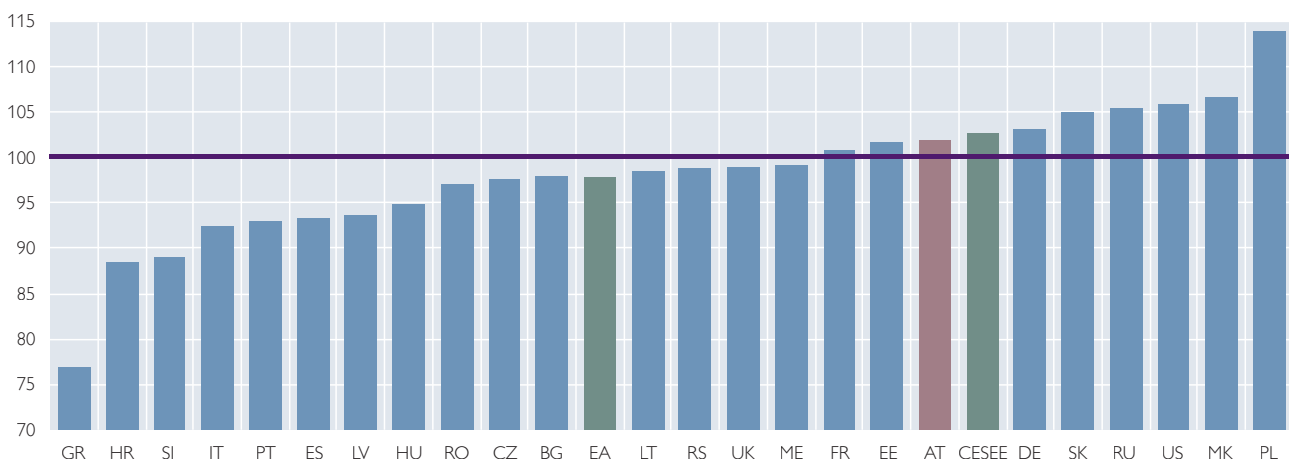
The 75th Anniversary East Jour Fixe was part of a two-day conference organized jointly with the Austrian Federal Ministry for Europe, Integration and Foreign Affairs, the Austrian Federation of Industries (IV), the Institute for Human Sciences (IWM) and The Vienna Institute for International Economic Studies (wiiw).² More than 300 participants had registered for the event.

All the participating institutions have a longstanding dedication to and interest in the CESEE region. Their different responsibilities, interests and approaches made it possible to cover a broad range of topics, and to investigate past achievements

Chart 1

Economic Output: 2013 vs. 2008

2008 = 100



Source: IMF, Eurostat.

¹ Oesterreichische Nationalbank, Foreign Research Division. Compiled on the basis of notes taken by Andreas Breitenfellner, Markus Eller, Krisztina Jäger-Gyovai, Isabella Moder and Anita Roitner.

² For the detailed program of the conference, see www.oenb.at/en/Calendar/Archive/2014/Conference-24-04-2014.html; for a video documentation of all sessions, see <http://wiiw.ac.at/ten-years-after-the-2004-eu-enlargement-achievements-and-next-steps-e-211.html>.

and lessons learned not only from an economic, but also from a historical and political science perspective.

In his opening remarks, *OeNB Governor Ewald Nowotny* emphasized that the single biggest enlargement round of EU in history was a win-win success story for the ten acceding countries and for the EU, especially for Austria, which has strong trade and investment links to the region. At the same time, he cautioned that the past decades have also shown that as the catching-up process is neither automatic nor irreversible, countries must be well prepared for entry to ensure that membership benefits are sustainable. The past crisis, which developed from an economic and financial crisis toward a debt crisis, is almost over in monetary terms, but has left Europe with the challenge of huge unemployment. Many countries have yet to reattain their 2008 GDP levels. This is also true for several CESEE countries, even though the region remains the fastest growing in Europe.

First Conference Day: The Prospects for European Integration

The first conference day (organized by the wiiw) started with a very topical panel discussion on the frictions in Eastern Europe (*"Overcoming New Chasms in the EU's Neighborhood"*). The highly controversial contributions diverged especially in the assessment of the appropriate EU approach to the Ukraine-Russia conflict. While some speakers called for a clear EU entry perspective for Ukraine, which would support its independence and would allow the country to loosen its ties to Russia, others considered exactly this approach as dangerous and as a menace to Russia that would exacerbate the crisis further. The classical transition model of the CESEE region is not going to work in Ukraine, given its high energy and economic dependence from Russia. All speakers agreed that we were observing a major turning point in the attitude of Russia toward the West. The EU was ill-prepared to respond to these new frictions, especially given the lack of a common foreign policy.

The second session focused on the Western Balkans (*"Towards Stability in the Western Balkans"*). The speakers agreed that the goal of reaching stability in the region was only half met. EU membership offers market access, but not an automatic guarantee of security or of a stable democracy. Economic development is conditional on domestic policies, institution building and a commitment for change in the countries themselves. The example of Croatia shows that conditions may actually deteriorate immediately after EU accession, given that opening borders toward the EU implies closing of borders toward non-EU countries due to internal market regulations. The EU perspective is important for the small countries in the Western Balkans, but Europe currently lacks a uniform approach toward assessing the readiness of countries.

The next panel discussed the intellectual failures that led to complacency in the EU before the crisis (*"The Economic Crisis and How to Resuscitate Convergence in Europe"*). The results of these failures were – as was argued – unsustainable (debt) growth, a lack of stabilization functions and rebalancing mechanisms in the euro area, and a nonintegrated governance of integrated financial markets. The crisis response was labeled late and weak, with the effect that the EU was more divided after the crisis than before, both politically and economically, leaving a lost decade and a wasted generation. While the euro area has diverged since the crisis, the "new" Member States have managed to converge in per capita terms toward

the EU average, although the lower pace of catching-up could signal a “middle income trap.” The panel agreed that the EU needed a new grand bargain, initiated by a convention and enshrined in a new treaty, that opens the way for two-speed integration using enhanced cooperation to cope with unavoidable heterogeneity.

Evening Panel: Returning to Europe

The first day of the conference concluded in Palais Niederösterreich with a high-level panel discussion (“*Returning to Europe: Ten Years of EU Integration in Central Eastern Europe – Achievements, Lessons Learned, Challenges Ahead*”). In his introductory statement, Foreign Minister Sebastian Kurz stressed the need to develop the European project further and pointed to the vital role of Austria as a partner for the Western Balkans. Georg Kapsch, President of the IV, valued Eastern enlargement as the most successful project of the EU in the last 20 years, benefiting the acceding countries and Austria and its businesses. The panelists agreed that the EU is still the most attractive “club of countries” worldwide, in spite of growing euroscepticism and a certain enlargement fatigue. The loss of euphoria is to a large extent the result of unrealistic promises ahead of EU accession. While some speakers expressed doubts whether the success story of the last decade could be continued in the future, others emphasized the still strong growth prospects in the region. Best conditions for prosperous development would include low indebtedness, a highly educated labor force and a high degree of flexibility.

75th Anniversary East Jour Fixe

The second conference day started with the 75th Anniversary East Jour Fixe. Chief economists, heads of research and other high-level central bank representatives of ten CESEE countries discussed economic, monetary and financial strategies and challenges in two panel rounds. In her introductory statement, *Doris Ritzberger-Grünwald*, Director of the OeNB’s Economic Analysis and Research Department sketched out the major policy alignment discussions over the last decade, such as “real versus nominal convergence criteria” or “waiting versus training room ERM II.” Her summary assessment was that from today’s perspective we would decide several issues differently. She also emphasized the longstanding technical cooperation of the OeNB, which evolved from informal seminars into the broad-scale training program provided by the Joint Vienna Institute (JVI), as well as the intense collaboration with the central banks in the CESEE region. While the OeNB’s interest in the region originated from historical and regional ties, it is now linked to Austrian banks’ CESEE activities.

Against the backdrop of different macroeconomic adjustment experiences during the crisis, the first panel round discussed “*Exchange Rate Strategies and Competitiveness*.” Konstantins Benkovskis, Head of the Monetary Research and Forecasting Division at Latvijas Banka, reported policy simulations by Latvijas Banka that show that a fixed exchange rate was clearly the superior setting in Latvia in order to guarantee price stability and reduce output volatility. Mariella Nenova-Amar, Director of Economic Research and Forecasting at the Bulgarian National Bank, added that a fixed exchange rate regime in the form of a currency board arrangement (CBA) needed to be backed by other economic policy areas in order to function properly. In Bulgaria, for instance, the CBA has been supported by budgetary surpluses that were accumulated during the precrisis boom years and could be used during

the crisis. Prudent banking supervision has been equally important. Aurelijus Dabušinskas, Director of the Economics Department at Lietuvos bankas, endorsed this view but also stressed that euroization of lending was an unavoidable consequence of a CBA, having caused foreign currency risk premia to shoot up quite strongly during past crisis situations in Lithuania and other hard currency peg countries. Martin Šuster, Director of the Research Department at Národná banka Slovenska, elaborated on Slovakia's mixed experience of being part of the euro area during the crisis. While the country had clearly benefited from the sheltering function of the euro in 2008–2009, it later had to contribute to the costs for the stabilization of euro area periphery. Lubos Komarek, Director of the External Economic Relations Division at Česká národní banka and the panel's single representative of a country with a flexible exchange rate regime, pointed out that the flexible exchange rate had largely helped to stabilize the Czech economy. During the 2009 crisis, for instance, the depreciation of the koruna helped to ease monetary conditions. More recently, when the ČNB was confronted with the zero lower bound constraint, it proved to be advantageous to resort to an additional monetary instrument in the form of flexible exchange rates. Šuster noted in this context that the recent foreign currency interventions of the ČNB implied substantial cross-country spillovers for Slovakia and called for a higher degree of policy coordination.

The second central bank panel (*"Challenges for Financial Stability"*) was chaired by Helene Schuberth, Head of the Foreign Research Division of the OeNB, who emphasized that macroprudential policies were becoming the third leg of policy, next to monetary and fiscal policy. The first panelist, Ryszard Kokoszczyński, Deputy Director General of Research of Narodowy Bank Polski, accented the early and strict macroprudential and microprudential measures introduced in Poland before and during the crisis that supported the confidence of foreign investors. On the question of whether Poland would enter the Single Supervisory Mechanism (SSM), he noted the lack of symmetry between the responsibilities and benefits within the SSM and the high number of unresolved technical issues. István Kónya, Head of Research of Magyar Nemzeti Bank, stressed that Hungary had been particularly affected by the financial crisis. He summarized the past successful and less successful measures to reduce risks and the high stock of households' foreign currency loans. Banks practically stopped offering foreign currency loans to households 2010. A major progress was the consolidation of microprudential and macroprudential regulatory activities under central bank responsibility. Florian Neagu, Head of the Macroprudential Risk Division of Banca Națională a României, reported that the debt-to-income cap and loan-to-value ratio were the most effective monetary and macroprudential measures against the real estate bubble in Romania. His four lessons from the crisis are: (1) without good coordination across countries, the effectiveness of domestic measures is low; (2) focus on the debtor perspective, not on the creditor perspective, to investigate credit growth; (3) macroprudential measures work better than classical monetary policy tools; (4) study the linkage between business and credit cycles. Karsten Staehr, Research Supervisor at Eesti Pank, noted that the house price and credit boom in Estonia was caused mainly by foreign capital inflows. In his view, the fixed exchange rate regime was associated with fewer costs in the recent crisis, given that the latter was a symmetric shock to the euro area. Interestingly, competitiveness seems to have no effect on the current account balance in Estonia. The last speaker, Tatjana

Suler Stavt, Assistant Director in the Financial Stability Department of Banka Slovenije, gave a short summary of Slovenia’s way into the European Union.

The 75th East Jour Fixe finished with a statement by *Gertrude Tumpel-Gugerell*, former Member of the Executive Board of the ECB and former Vice Governor of the OeNB. She recalled the expectations a decade ago, when two continents moved nearer to each other, that European integration would bring stability, growth and employment in the CESEE region. These hopes were not fully met, given a lack of proper institutions and regulations. The small countries in CESEE recovered relatively quickly from the crisis, helped by relatively low levels of public debt and the lack of a bank-sovereign feedback loop. But financial fragmentation would continue to weigh on growth as investors become more selective. Tumpel-Gugerell wound up by presenting the vision that at the next ten-year anniversary, the distinction between “old” and “new” EU members would have ceased to exist.

The ten central bank representatives of the CESEE countries resumed their meeting in the afternoon, discussing with Doris Ritzberger-Grünwald and a group of OeNB staff members further avenues of research for the CESEE region. Apparently, there are some common strands and trends of research, such as the increasing importance of microdata, the use and further development of GVAR models, and the attempt to better understand financial cycles (versus the real economy). The major outcome of the meeting was that research cooperation between central banks of the region and the OeNB should be intensified and institutionalized. Especially the capacity constraints affecting central bank research departments require collaboration to be able to meet the increasing demand.

Nationalism, Integration and Disintegration in the Past and Now

The last half-day of the conference was organized by the IWM. A first session (*“European Integration and Nationalism: Two Steps Forward, One Step Back”*) investigated whether enlargement was one of the causes for the revival of nationalism. Speakers pointed out the failure to develop a European identity. The merits of European integration were strongly emphasized by the winners, leaving the less favored population at unease. The examples of Hungary and Turkey share the experience of a return of nationalism, antidemocratic tendencies and mismanagement that destroyed past liberal achievements and isolate the countries from the EU.

The last session (*“A Century of European Disintegration and Integration: 1914–2014”*) went further back in history, investing the successive and sometimes overlapping periods of integration and disintegration. The peculiar aspect of European integration is that the EU is neither a nation state (“there are no European tanks”) nor an empire; nonetheless, its very structure makes small nation states economically viable. While most major regional questions were solved in wars, the Eastern question was ultimately solved smoothly within the European integration process. By contrast, the Russia-Ukraine conflict is an example of unpeaceful solutions to a question.

In addition to official debates, the two conference days provided a welcome opportunity for informal discussions and networking among central bankers, government officials, business and financial sector managers, researchers and journalists. Both media coverage and the positive feedback from participants confirmed the success of the approach to investigate the decade since EU enlargement from various angles.