

## Editorial

Twenty years ago, on January 1, 1999, the euro was born. Three years later, euro banknotes and coins were first put into circulation. Since then the euro has been “the most tangible representation of European integration for our citizens” (Draghi, January 2019). But the euro has become much more than the embodiment of European ideas – indeed, the European Economic and Monetary Union is the core pillar of policymaking with a view to achieving the objectives of the EU as laid down in the Lisbon treaty, notably sustainable economic development, a free single market and a social market economy.

Within the framework set by the EU treaties, the role of the ECB and the national central banks as independent institutions is to provide a stable environment by maintaining stable prices. While the global financial crisis and the ensuing sovereign debt crisis have revealed some vulnerabilities and structural deficiencies of EMU, which are at the core of an ongoing reform process of the European Union, it can be well argued that European monetary policy not only successfully maintained stable prices over the past 20 years but, by taking rapid and decisive action, also played a key role in overcoming the crisis. By lowering the key interest rates for the euro area to the effective lower bound and using a broad range of nonstandard measures, the Eurosystem successfully stabilized financial markets, counteracted fragmentation, restored bank lending to the real economy and safeguarded the monetary union. Two decades after the introduction of the euro, this special issue of *Monetary Policy & the Economy* has been compiled to take stock of the impact EMU has had on the Austrian economy and to review the tasks and responsibilities the OeNB has assumed as part of the Eurosystem and the European System of Central Banks (ESCB).

The Eurosystem’s common monetary policy is geared toward the euro area as a whole and the primary objective of maintaining price stability, defined as an inflation rate below, but close to, 2% over the medium term. Developments in individual countries can and do deviate from the euro area average for various reasons, both cyclical and structural. Yet if deviations persist, imbalances can build up in terms of competitiveness, labor markets and unemployment as well as excessive credit growth. A first set of articles in this special volume therefore reviews how inflation, financing conditions, wages and fiscal policy have developed in Austria since 1999.

Concerning inflation, *Fritzer and Rumler* show that inflation was relatively low and stable over the past 20 years, with average annual HICP inflation at 1.8% – close to average inflation in the euro area of 1.7% and thus very much in line with the Eurosystem’s definition of price stability. They argue that comparatively higher inflation rates of services have been the main reason for above-average inflation in Austria since 2011. Importantly, the flexibility of consumer prices appears to have increased in Austria in the past 20 years, suggesting that resulting macroeconomic frictions may have decreased in recent years.

With regard to wage flexibility, another important adjustment channel for coping with adverse shocks in a monetary union, *Fenz, Ragacs and Stiglbauer* argue that earlier adherence to the “hard currency bloc” had contributed to the flexibility of the wage bargaining processes in Austria. As outlined, real gross wages per employee grew only modestly over the past 20 years while hourly wages evolved more dynamically, also compared to the euro area average, and especially Germany and

Italy. The wage share decreased continuously between 1999 and the Great Recession but increased significantly in the aftermath of the crisis and has been fairly constant in recent years. Finally, wage growth has been a reflection of the increasing openness of the Austrian economy and changes in participation rates.

*Gnan, Valderrama and Waschiczek* examine whether the stance of monetary policy adopted for the euro area was also adequate for Austria. To do so, they calculate a financial conditions index for Austria and assess euro area policy rates against a simple hypothetical monetary policy rule for Austria. The outcome is that, in general, financing conditions over the last two decades were adequate, i.e. had a stabilizing impact on the economy, with bank lending rates being the key transmission channel.

While flexible product and factor markets help countries cope with asymmetric shocks in monetary union, fiscal policy remains a key instrument at the national level, even if within the limits set by the European fiscal framework. In their article, *Köhler-Töglhofer, Prammer and Reiss* show that EU fiscal rules on the 3% target and the medium-term structural balance have influenced Austria's budgetary policy to a significant extent, thereby limiting Austria's "discretionary fiscal policy space". At the same time, however, expenditure and revenue structures have remained under full national responsibility, thus continuing to exhibit the socioeconomic and political preferences of the Austrian voters.

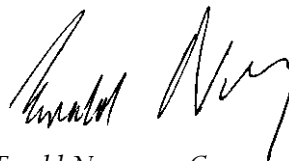
A second set of articles is devoted to the OeNB and its tasks in the Eurosystem/ESCB. According to the decentralized set-up of the Eurosystem, central decision powers reside with the Governing Council of the ECB in Frankfurt, but the implementation of the joint policies remains with the national central banks. *Jobst and Kwapil* review the implementation of monetary policy since 1999 through the lens of the OeNB's balance sheet. They show that during the crisis the balance sheets of the individual NCBs reflected the different extent but also the different channels through which national banking systems were affected. At the same time, however, NCBs' balance sheets have also been driven by structural factors and contingencies completely unrelated to monetary policy. They conclude that while the balance sheets of the euro area central banks contain valuable information, they have to be read with due care.

Regarding another central bank responsibility, cash logistics, *Schautzer and Stix* offer a view on euro cash holdings in Austria since 2002 – from the user as well as from the production and logistic side. They argue that while demand for cash for transaction purposes is bound to decline in the coming years, cash will retain an important role notably as a store of value. The high demand for cash is a manifestation of trust in the Eurosystem, building both on the stable purchasing power as well as on the "technical quality" of euro banknotes. But the national central banks are also key actors in noncash payments. Hence, *Dorfmeister* discusses recent developments in retail payment systems, notably the introduction of the Single Euro Payments Area (SEPA) in 2014, which significantly improved the efficiency of retail payments within EMU, reducing fees and increasing the speed and security of transactions.

The last contribution focuses on macroprudential policies – a shared responsibility of national authorities (in Austria the Financial Market Authority, the Ministry of Finance and the OeNB) and the ECB (European Systemic Risk Board). The global financial crisis had shown that it takes more than the supervision of individual institutions to ensure financial stability: a systemic perspective is needed

as well. Inspired by the effective application of macroprudential policy in Austria in the post-WW II era, *Posch, Schmitz, Steiner and Ubl* go one step further by arguing that the scope of macroprudential policy should be broadened beyond banking to include international capital flows in order to address negative side effects of structural and cyclical capital inflows into member states.

Understanding what happens in the member states of the euro area is crucial both for national policymakers striving to improve economic and social conditions there as well as for policymakers at the European level, as they continue to restructure and improve the institutional set-up of the Union, taking into account its interaction with the national and regional level. It is my hope that this special volume of *Monetary Policy & the Economy* will contribute to both these objectives.

A handwritten signature in black ink, appearing to read 'Ewald Nowotny', written in a cursive style.

*Ewald Nowotny, Governor*