

Austria's accession to the European Union (EU) on January 1, 1995, was motivated by numerous guiding purposes. In the light of Austria's strong international ties, economic arguments – especially integration into the Single Market and unrestricted access to European markets – played an important (maybe even dominant¹) role. After ten years of EU membership, it is now time to assess the impact of Austria's EU entry and to possibly draw conclusions for the future. This special issue of “Monetary Policy & the Economy” begins with an overview of the implications of EU accession for the Oesterreichische Nationalbank (OeNB) as an institution and then analyzes topics that may be grouped in three thematic categories: first, changes at the macroeconomic level (monetary policy regime, inflation, growth, fiscal policy); second, repercussions on the Austrian financial markets (financial structure, internationalization, financial stability); and third, effects on the structure of the Austrian economy (labor market, foreign trade, liberalization effects in network industries).

The OeNB has always actively supported Austria's integration into the EU. In preparing and implementing Stage Three of Economic and Monetary Union (EMU) and by introducing the euro, the OeNB assumed responsibility for a central pillar of the EU's economic policy agenda in Austria. The euro has, indeed, changed the OeNB's role among Austria's economic and monetary policy-making institutions. The hard currency policy agreed upon by the OeNB, the Austrian federal government and the social partners was given up in favor of the monetary policy of the Eurosystem, which now defines the framework for Austria's economic policymaking. At the same time, the OeNB's tasks, and methods of accomplishing them, have been transformed fundamentally since Austria joined the EU and the OeNB became an integral part of the European System of Central Banks (ESCB). In a way, the situation at the OeNB can be regarded as a microcosm reflecting the sweeping changes triggered by EU accession, which will continue to make themselves felt for quite a while in Austria's economic policymaking institutions in general.² The trend toward benchmarking economic policy-making institutions across EU Member States also enhances the quality, consistency and transparency of economic policy decisions in Austria.

The euro has proved as stable as the Austrian schilling and, moreover, offers a number of advantages on account of its more widespread use. Austria's first ten years of EU membership were an era of price stability, with average annual HICP inflation coming to 1.5%. Prices – in particular for agricultural products and tradable goods as well as in the network industries, which saw far-reaching liberalization across the EU – developed at a modest pace after 1995. The euro cash changeover hardly affected the general price level. In fact, the euro has had a more stabilizing effect on Austria's external environment for prices than the hard currency policy ever had. At the same time, this implies that in EMU wage and price moderation is of key importance for preserving Austria's competitiveness.

Since the late 1980s, Austria's economic policy has experienced a fundamental reorientation. The greater openness of the Austrian economy – with the full liberalization of capital transactions in 1991 a case in point – and the pronounced growth of public debt considerably reduced the scope for autonomous economic policymaking at the national level. In this situation, EU accession was a catalyst for forthcoming structural reforms.

Major efforts to consolidate public finances were taken in 1996 and 1997 with a view to fulfilling the Maastricht convergence criteria to qualify for participation in Stage Three of EMU. Prompted by the provisions of the Stability and Growth Pact and the EU-wide debate on the quality of public finances, the objectives of balancing the general government budget, reducing the govern-

¹ See Pelinka, A. 2002. *Innensicht. Rollenbild und Rollenwahrnehmung Österreichs als Akteur in der EU*. In: Neisser, H. and S. Puntcher-Riekmann (eds.). *Europäisierung der österreichischen Politik. Konsequenzen der EU-Mitgliedschaft*. Vienna.

² See Kramer, H. 2002. *Österreichs Wirtschaftspolitik im Rahmen der EU*. In: Neisser, H. and S. Puntcher-Riekmann (eds.). *Europäisierung der österreichischen Politik. Konsequenzen der EU-Mitgliedschaft*. Vienna.

ment spending ratio and creating a public expenditure and revenue structure that promotes growth in the long run have become guideposts for fiscal policy since the turn of the millennium.

To be able to react swiftly to changes in international competition and to smoothly absorb shocks, economic structures within the Single Market and EMU have to be highly flexible. The EU undertook to intensify competition by opening up economic sectors that used to be protected by national regulations on competition. The liberalization of network industries is one example of how the EU acts as a catalyst for reforms that entail cost reductions in other areas of the economy and thus dampen inflation. EU accession and participation in EMU also helped further strengthen economic ties between Austria and the other EU Member States.

As a consequence of increasing internationalization, the Austrian labor market had been going through a process of change even before Austria joined the EU. EU accession then opened up the domestic labor market for all EU citizens. Structural challenges that have existed for quite some time – such as the unrealized potential of raising the labor participation of older persons and women – will need to be tackled when implementing the Lisbon strategy.

EU membership has accelerated the liberalization of the Austrian financial market and substantially expanded the financing options for Austrian businesses. Austrian banks have reacted to the challenges of EU integration by stepping up mergers and acquisitions, focusing on cost savings and playing a proactive role in internationalization, in particular training their sights on Central, Eastern and Southeastern Europe. Austria's international financial integration has increased strongly over the last decade. Greater efficiency in capital allocation and broader risk diversification have strengthened the stability of the Austrian financial system. Financial stability is also enhanced by close cooperation at the European level in the regulation and supervision of financial institutions, in which the OeNB is actively involved.

All in all, EU membership has had a positive effect on the Austrian economy. Aside from the direct integration effects of the Single Market and EMU, it has triggered a reform process in Austrian economic policy. Furthermore, Austria saw the benefits of EU membership increase following EU enlargement. Austrian decision-making bodies and the general public came to realize after some years that they can profit more from EU membership by playing a proactive role in shaping the European integration process in all its different aspects. However, there is still ample scope for extending the potential of EU integration both for Austria and for the EU as a whole. To this effect, it is necessary to readily embrace the dynamic economic development in an ever deepening Single Market as well as in a globalized environment. As an EU member in the heart of Europe, Austria is in an excellent position to continue to raise its level of wealth over the next ten years, provided that it is able and willing to make use of the wide range of new opportunities in this environment.

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