Conference on European Economic Integration 2011: European Integration in a Global Economic Setting – CESEE, China and Russia[1]

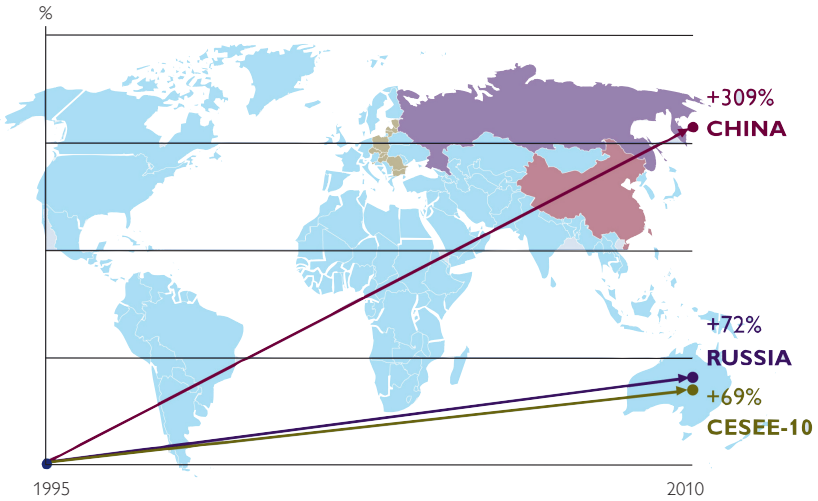
Compiled by Doris Ritzberger-Grünwald und Maria Silgoner[2]

The topic of the Conference on European Economic Integration (CEEI) 2011 of the Oesterreichische Nationalbank (OeNB), which took place in Vienna on November 21 and 22, 2011, was "European Integration in a Global Economic Setting – CESEE, China and Russia".[3] This year, the OeNB organized the conference in cooperation with Suomen Pankki – Finlands Bank, whose regional analysis and research focus on China and Russia made for a perfect match with the OeNB's expertise on Central, Eastern and Southeastern Europe (CESEE). The joint conference drew on synergies established through numerous cooperation projects over the years.

The CEEI 2011 discussed various aspects of European economic integration from a global perspective, investigating the impact of China and Russia as emerging global economic players on the catching-up process in CESEE. Contributions focused on the sustainability of current growth strategies and the challenges for monetary policy and banking in the light of the recent economic and financial

Chart 1

Real GDP Growth



Source: OeNB calculations based on IMF data.

Note: 1995=100. The CESEE-10 countries comprise the ten CESEE EU Member States: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

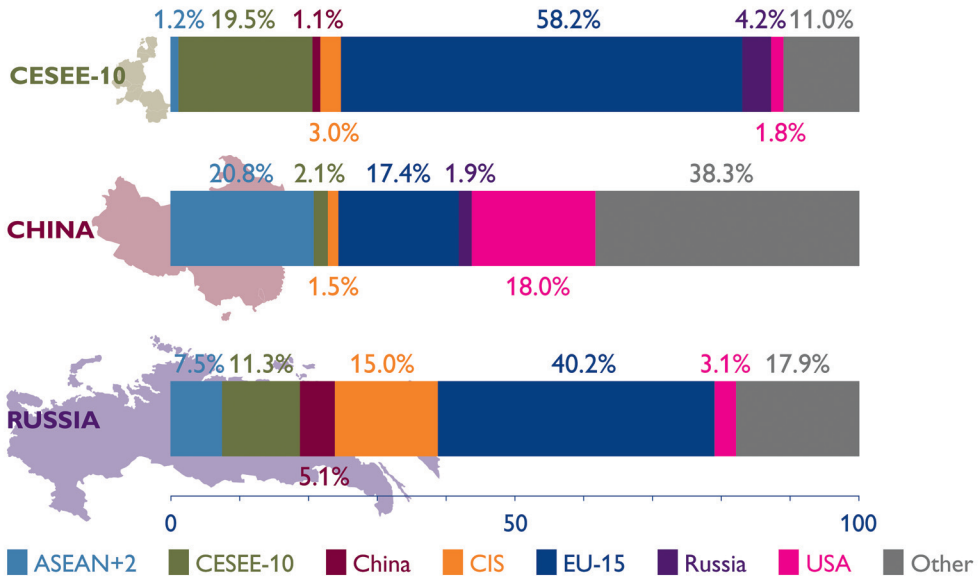
[1] *The charts are from the leaflet "European Integration in a Global Economic Setting – CESEE, China and Russia – Facts & figures," which was available as a handout at the CEEI 2011 (graphic design: Austrian Museum for Social and Economic Affairs).*

[2] *Oesterreichische Nationalbank, Foreign Research Division. On the basis of notes taken by Markus Eller, Martin Feldkircher, Sándor Gardó, Mariya Hake, Antje Hildebrandt, Mathias Lahnsteiner, Paul Ramskogler, Thomas Reininger, Thomas Scheiber, Josef Schreiner, Maria Silgoner, Katharina Steiner, Jarmila Urvova and Julia Wörz.*

[3] *The conference proceedings will be published by Edward Elgar Publishing Ltd. in the course of 2012. Presentations and papers, information about the speakers and the conference program are available at www.oenb.at under Services and Events.*

Chart 2

Export Destinations in 2010



Source: OeNB calculations based on UN Comtrade data.

Note: ASEAN+2 refers to ASEAN plus Japan and Korea. The CESEE-10 countries comprise the ten CESEE EU Member States: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. CIS does not include Russia. Data refer to the share of exports from CESEE-10, China and Russia in total exports to selected countries or economic areas.

crisis. More than 300 participants from over 30 countries and more than 130 institutions followed the presentations and discussions of high-ranking representatives of central banks, international organizations, the business and banking sectors, and academia.

In his opening remarks, *Ewald Nowotny,* Governor of the *OeNB,* addressed China's and Russia's impact on the growth potential of CESEE. Especially China records impressively high growth rates, although admittedly from a low starting point. Still, as a result of its strong growth performance China will turn into an increasingly attractive destination for exports from the CESEE region. At the same time, however, the rising importance of the Chinese and Russian economies represents a challenge in its own right. The main export destinations of China and the CESEE countries overlap, so that the two economic areas in fact compete for the same markets. Russia plays a key role in securing the supply of energy and thus in securing CESEE growth.

Erkki Liikanen, Governor of *Suomen Pankki – Finlands Bank,* continued the opening address and defined the emergence of China as one of the key trends in the global economy of the past two decades, with China succeeding in delivering rather sophisticated goods to a number of markets. He pointed out that in the near future the emerging and developing economies will overtake the advanced economies in terms of output, thereby significantly shifting the balance of economic activity in the world. While this growing share necessarily comes at the expense of Europe and the U.S.A., the global economy must not be understood as a zero-sum game. With China becoming more affluent, Liikanen said, the export markets for European goods and services are growing, too.

Andrew K. Rose, professor of international trade at the *University of California at Berkeley,* started his key note lecture with an overview of potential key drivers of economic development, such as institutions and geographic situation. While there is broad consensus that "trade never hurts," this does no longer clearly apply to financial markets as well. Rose presented his current research on the economic effects of regional trade agreements (RTAs). Using information on 122 RTAs between developed and developing countries, he finds that stock market returns – an indicator for market expectations on the economic effects of RTAs – overall respond positively to RTAs. This is true even in the case of asymmetric RTAs between advanced and developing countries, although poorer countries' gains are stronger than those of more advanced countries. Rose's empirical findings suggest that stock markets rise more when RTAs are signed between countries that had seen intensive trade before the agreement was signed, both in general and bilaterally. When asked on the effects of a potential complete liberalization of trade between the U.S.A. and the EU, Rose emphasized the desirability of greater trans-Atlantic trade liberalization but at the same time underlined the persistence of vested interests between the two regions that render complete trade liberalization very unlikely. The discussion further centered on problems related to data imperfections and closed on considerations with respect to changes in the pattern of comparative advantages between countries.

In his introduction of *Min Zhu,* Deputy Managing Director at the *International Monetary Fund (IMF),* Governor Nowotny highlighted the IMF's important role in managing the crisis. In his keynote lecture, Zhu addressed the changing global economic structure and the challenges both China and Europe will have to face in this new setting. He pointed out that global growth gravity is moving away from the advanced economies to the emerging economies, narrowing the gap between these two groups, while both are currently facing a growth slow-down. This development causes global demand structures to change as lifestyles in the emerging markets adjust to people's increasing incomes. Both trade patterns and global financial flows are becoming more emerging markets-oriented. China thus needs to adopt a new growth model based rather on domestic consumption than on external demand and investment. To this end, China needs to move up the value chain, open up its services sector and use fiscal policy to provide its people with solid education, health care and pension systems. While the financial map has already started to change owing to the outflow of FDI from the emerging markets, the Chinese Yuan Renminbi should be allowed to appreciate in the long term. For the moment, China is in for a soft landing, with inflation being the major challenge. Europe, on the other hand, faces weak and uneven growth rates, mainly due to low labor utilization and low productivity. Higher human capital formation and more investment in research and development, together with a better promotion of the Single Market, should help tackle these issues.

Global Imbalances, Capital Flows and Monetary Policy

The first session, chaired by Vice Governor *Wolfgang Duchatczek (OeNB),* discussed the interlinkages between global imbalances, capital flows and monetary policy.

Gian Maria Milesi-Ferretti, Assistant Director at the *IMF,* argued that the build-up of imbalances within the euro area was mainly driven by (1) imports to the euro area periphery from non-euro area countries (e.g. China) and increasing

commodity prices and by (2) rising demand for German (investment) goods from China and from oil-exporting countries. The euro area periphery's deficits were mainly financed by euro area investors while external investors purchased German and French securities – a trend that increased foreign exposure to public debt and domestic banks (overseas funding). The global financial crisis induced a significant contraction of current account imbalances across the world. Countries whose precrisis current account balances were in excess of what could be explained by economic fundamentals experienced the largest contractions in their external balance. External adjustment in deficit countries was achieved primarily through demand compression rather than expenditure switching. Adjustment via the real exchange rate was only modest.

Professor *Menzie David Chinn* from the *University of Wisconsin* concluded that the Chinese development model has proved successful but the current approach has reached the point of diminishing returns. In the current global macro-environment, the scope for export-led growth is constrained. Another reason for reducing the export contribution to growth is that the export sector is a very capital-intensive sector. The unavoidable reorientation of U.S. demand away from consumption adds to this effect. China is facing a stark choice between bearing increasingly large capital losses in its foreign exchange reserves and tolerating immediate losses in terms of a significant drop in its current account surplus and large revaluation losses. Just like Zhu before him, Chinn recommended a reorientation toward domestic demand and liberalizing the services sector. A faster appreciation of the Chinese Yuan Renminbi would not only eliminate global imbalances, but would facilitate East Asian adjustment via the exchange rate channel.

Over the last few years, large oil-exporting countries also accumulated substantial current account surpluses due to high oil prices. *Iikka Korhonen,* Head of the *Bank of Finland Institute for Economies in Transition (BOFIT),* examined how oil exporters contributed to global imbalances and their adjustment in recent years. High oil revenues seem to spark off import booms with some lag. However, terms-of-trade shocks did have effects on the real exchange rate, which in turn affected imports. In general, there is evidence that exchange rate changes have a systematic effect on exports but not necessarily on current accounts. Drawing on observations from the 1980s and more recently from 2008 and 2009, Korhonen expects that a significant drop of oil prices will lead to an adjustment of oil exporters' current account surpluses.

Professor *Gunther Schnabl,* Director of the *Centre for International Economics* at *Universität Leipzig,* put forward the thesis that global imbalances are the consequence of an asymmetric world monetary system. According to his model, the U.S.A. and Germany are center countries with rising and/or high current account deficits (U.S.A.) and surpluses (Germany). These are matched by current account surpluses of countries stabilizing their exchange rates against the U.S. dollar (U.S. dollar periphery) and current account deficits of countries stabilizing their exchange rate against the euro (euro periphery). While the aggregate current account of the euro area has been balanced by and large, the expansionary monetary policy in the U.S.A. as well as exchange rate stabilization and sterilization policies in the dollar periphery (e.g. China) are found to have contributed to global current account imbalances. Policy coordination between China and the U.S.A. would help to escape from the policy dilemma.

Competitiveness and Trade: Implications for CESEE?

Session 2, chaired by *Seppo Honkapohja,* Member of the Board of *Suomen Pankki – Finlands Bank,* addressed the issue of how CESEE, China and Russia compete on international export markets, in particular on the EU market.

Loukas Stemitsiotis, Head of Unit at the *European Commission,* focused on the strong decline in global trade during the "Great Recession," which he referred to as the "Great Synchronization," underpinning the parallel slump in trade all over the world. While the trade performance of the CESEE countries had benefited from their proximity to the EU-15 and the low output volatility there over the previous decade, trade with the EU-15 declined strongly in the course of the recent crisis. Compared with developments in other emerging market regions, CESEE exports have so far recovered less dynamically. At the same time, the trade integration of the CESEE countries with China has clearly increased during the crisis. As one of the main challenges for future trade developments in CESEE, Stemitsiotis pointed to the improvement of the value-added content of exports, which implies that the CESEE countries will be confronted with higher competition from other emerging markets, including China.

Ágnes Csermely, Director at *Magyar Nemzeti Bank,* provided evidence for the impact of Hungary's trade integration with and macroeconomic exposure to China. Depending on the perspective, this integration is perceived as a threat or an opportunity. On the micro-level, increased competition from China has apparently induced a restructuring toward producing higher-technology electronics products in Hungary. The burden of adjustment, however, has primarily fallen on low-technology industries, resulting in a significant downsizing of employment and stagnating labor productivity. On the macro-level, a positive output shock in China pushes Hungary's GDP up considerably – mostly indirectly via trade linkages with the U.S.A. and the euro area. On the negative side, increased demand in China induces higher commodity prices. The resulting rise in inflation is more pronounced in CESEE than in other regions of the world.

OeNB economists *Katharina Steiner* and *Julia Wörz* investigated the impact of China's and Russia's emergence as global economic players on the trade performance of the CESEE EU Member States in the EU-15 market. Using a multidimensional dataset, they showed that the intensification of already existing trade relationships contributed most significantly to export growth from CESEE, China and Russia to the EU-15 market, pointing out that EU accession had temporarily led to a notable contribution of new trade relationships to the export growth of the new EU countries. Regarding the commodity breakdown of exports to the EU-15, Russia has increasingly specialized in natural resources, while CESEE and China have diversified their export base, intensifying direct competition in capital goods, machinery and vehicles. Notably, CESEE shows a weaker competitiveness effect than China in one of its main export categories (transport equipment).

Global Investment Strategies

In his keynote lecture, *Oleg Zasov,* Director of the *General Macroeconomic Forecasting Department* of the *Ministry of Economic Development of the Russian Federation,* presented the current economic outlook for Russia, bearing in mind the recently mounting uncertainties with respect to capital flows and the depreciation of the Russian ruble. Post-crisis recovery in Russia is well underway, supported by a

rebound in oil prices and further corroborated by the country's economic growth acceleration in the third quarter of 2011. Zasov presented a rather positive outlook for Russian GDP growth in the near future, with growth receding somewhat in 2012 against 2011, but remaining strong on the back of fiscal relaxation and infrastructure investment. In particular Gazprom, which is already responsible for 20% of total investments, plans to double its investment activities. This is especially welcome given the negative contribution of government investment to overall investment growth. However, Russian GDP growth in 2012 would turn negative in a scenario of lower oil prices. Zasov expects the impact of Russia's forthcoming accession to the World Trade Organization to be generally positive even though he also highlighted potential risks for the oil industry and FDI in Russia. Furthermore, he illustrated the double-edged effects of recent capital outflows, which helped avoid appreciation but also squeezed liquidity.

Panel 1 at the end of the first conference day was chaired by *Antti Suvanto,* Head of General Secretariat of *Suomen Pankki – Finlands Bank* and dealt with global investment strategies of international cooperation.

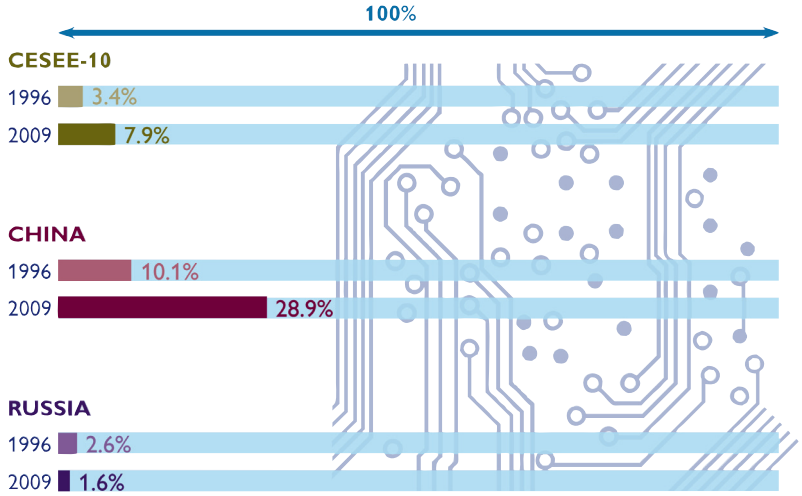
Karin Exner-Wöhrer, Member of the Board of *Salzburger Aluminium AG (SAG),* represented an Austrian family business that operates on a global scale, constructing aluminum parts for vehicle and airplane production. As a specialized supplier to industry, the company by and large follows its customers. Among other factors that drive SAG's decisions of where to invest abroad, Exner-Wöhrer mentioned the stability of the financial and legal system and a well-trained and -educated labor force in the destination countries as well as the availability of home (i.e. Austrian) management staff ready to move abroad. So far, SAG has not felt any direct consequences emanating from the sovereign debt crisis that might contain access to funding via bank lending.

Franz Rotter, Chairman of the Management Board of *voestalpine Edelstahl GmbH,* represented an Austrian company producing special steel. He said that any investment in production facilities in this industry is long term since it involves the setting-up of large production plants and requires an extensive amount of qualified workers. Among the driving factors for foreign investment he named the target country's market potential, high training and education levels and a sound legal system. Rotter emphasized the need for good relationships between the banking sector and the steel industry. He went on to say that he had noticed first signs of credit shortages attributable to the ongoing sovereign debt crisis only with respect to large-scale investments.

Boris Nemsic, Executive Partner of *Delta Partners EPG,* has a long-standing expertise in the telecommunication business both in CESEE and the CIS countries. Nemsic strongly emphasized the "innovation power" of the target country as the key determinant of investment decisions. He noted that in Russia a great deal of innovation happens on the input side via large-scale investment in research and development, while innovation output (e.g. in the form of patents) stays behind. According to Nemsic, we will have to learn two key lessons if we want to prevent Europe from lagging behind the most dynamic markets: (1) to invest much earlier in new target markets showing extraordinary market potential (e.g. Africa), like Chinese companies do, and (2) to change our attitude toward increasingly technology-based innovation ("mathematics is beautiful").

Chart 3

Share of High-Tech Exports in Total Exports



Source: OeNB calculations based on IMF and World Bank data.

Note: The CESEE-10 countries comprise the ten CESEE EU Member States: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. CESEE-10 exports include intra-CESEE-10 trade.

The dinner speech on the first conference day was delivered by former Ambassador *René Nyberg,* Chief Executive Officer of the *East Office of Finnish Industries.* Drawing from his professional experience – he represented the Finnish government in various positions in Moscow, Brussels, Vienna and Berlin – he compiled a selection of anecdotes illustrating policy challenges in Russia. The country is rich in raw materials, arable land and scientific knowledge, although the latter is not fully exploited. Russia's policies over the last few years have been characterized by the juxtaposition of stability and reform. High oil prices, for instance, both grant stability and allow room for structural reform. Unfortunately, the reform opportunities provided by the recent crisis were not sufficiently utilized. While public finances remained in order owing to high oil revenues, the current budgetary plan provides for excessive spending in the fields of defense, education and pensions. Nyberg emphasized the importance of FDI, stating that the Russian government had by now openly acknowledged the extraordinary importance of FDI for utilizing the country's growth potential. Finland has become the largest investor in Russia in per capita terms, particularly in the energy sector. This movement has only been possible because Russia carried out a large-scale energy market reform.

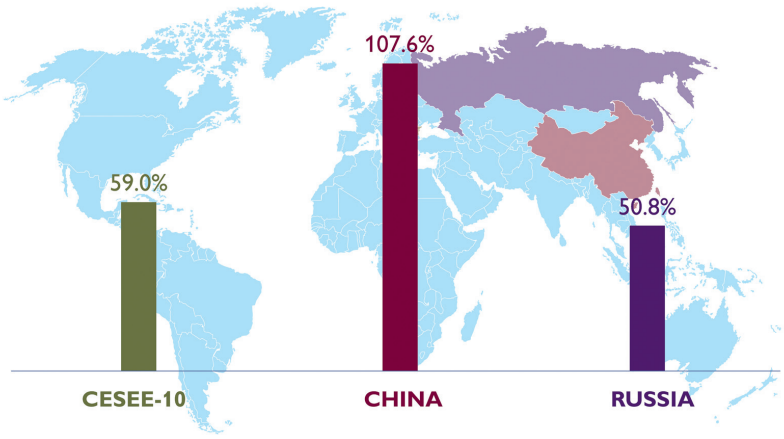
Is the Catching-Up Process Sustainable?

Session 3, which was chaired by *OeNB* Director *Peter Mooslechner,* investigated the sustainability of the catching-up process in the three economic areas under discussion

In his keynote lecture, Professor *Markus Taube* from the *University of Duisburg-Essen* presented a concise overview of the current state and potential problems of the Chinese banking sector, which is still dominated by the country's four largest banks. Currently, the Chinese banking sector appears to be in surprisingly good shape. The nonperforming loan ratio is at a record low although some of this success has been achieved by massive commercial bank bailouts by the Chinese

Chart 4

Outstanding Loans from Commercial Banks in % of GDP in 2008



Source: OeNB calculations based on IMF data.

Note: The CESEE-10 countries comprise the ten CESEE EU Member States: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

government. By the same token, the relatively positive assessment of the recent IMF stress test of Chinese banks has to be interpreted in the light of heavy interventions by the Chinese supervisory authorities. One of the major challenges for the Chinese banking sector is the popping up of regional house price bubbles. Also, Chinese banks are still relatively rigid and unable to differentiate interest rates according to risk levels. Another source of uncertainty is to be found in the role the two different types of shadow banking play in China, making the banking system extremely opaque. The first type of shadow banking relates to off-balance sheet and company-to-company lending that is not subject to proper regulation. What is even more problematic, however, is the second type, i.e. informal shadow banking. Shadow-banking poses a major challenge for Chinese supervisory authorities.

Anders Åslund, Senior Fellow at the *Peterson Institute for International Economics,* presented facts on the economic and fiscal impact of the global crisis on the CESEE countries. He argued that surging public expenditures are one of the major concerns. Referring to the competitiveness challenge of the CESEE countries, Åslund argued that countries with low or no exchange rate flexibility, especially the Baltic countries, managed to increase their exports the most. Thus, nominal depreciation is neither a necessary condition nor actually beneficial for export growth. With regard to the current debt crisis, Åslund sees the danger of a serious liquidity squeeze and challenging times for the CESEE banking sector. In the course of the general discussion ensuing Session 3, he was asked whether his recovery recipe can also be transferred to the current crisis situation in the euro area periphery countries. Åslund had to admit that the Baltic countries started out with exceptionally low public debt levels and that their massive wage increases before the crisis made it a lot easier for Baltic labor markets to show downward flexibility during the crisis.

Jean-Luc Schneider, Deputy Director at the *OECD,* shared his views on the short-term outlook for and long-term convergence in China, Russia and CESEE. Short-term prospects are characterized by a sharp slowdown in world trade and growth in almost all countries at the end of 2011 and in 2012, combined with a high degree of downward risks. Russia and China will follow this European profile, although on a much lower level. The reduction of public ownership and government involvement, the encouragement of innovation and research and development as well as investment in human capital – a set of measures that are well known as the OECD's "Going for Growth" strategy – can positively affect economic convergence to OECD averages in the long term. While Schneider concluded with the comforting observation that the crisis had increased the pace of reforms in the recent past, Mooslechner was not overly optimistic, as he sees the economies in question heading toward a much lower equilibrium growth path.

According to *Altin Tanku,* Director at the Bank of *Albania,* the major differences of the export models in CEE and SEE are their respective geographical distance to the EU, market size and the fact that the CEE countries are EU members. The SEE countries managed to keep their export share to EU markets at a constant level during the last decade while China's and Russia's EU market shares even increased. Labor costs and different types of export goods may be responsible for successfully defending this position, as GDP per capita in Albania and Bosnia are still lower compared to those in China. While CEE is specialized in intermediate goods, Albania mainly exports final goods. According to Tanku, the SEE countries and Russia are not competing for resources. The same is true for China, although some competition for resources might arise in the future. China is a supplier of cheap products and a potential customer for minerals and infrastructure to support its expansion on the EU market. However, China can be regarded as a potential threat for resources and markets for SEE. The EU, by contrast, is the most important economic and political driving force for the SEE countries.

Frank Moss, Director General International and European Relations at the *ECB,* discussed the previous contributions to Session 3, drawing the following lessons: First, excessive credit growth has emerged as the root of the crisis and foreign currency lending can be considered as a special risk in the CESEE countries. Second, convergence takes time and requires constant efforts in order to be sustainable. Third, maintaining competitiveness is key to sustainable convergence. Internal devaluation aimed at regaining competitiveness can work if the right conditions and policies are in place. Fourth, economic integration with neighboring countries pays off. Finally, Moss emphasized that entry into the euro area was no free lunch.

In the second keynote lecture of the day, *Sergey Aleksashenko,* Scholar-in-Residence at the *Carnegie Moscow Center,* gave a comprehensive overview of Russia's current economic challenges. Taking Vladimir Putin's reelection in the presidential elections in March 2012 for granted, Aleksashenko stressed that the current decade will be much more difficult for Putin than his previous terms as Russian president as Russia now faces a number of new economic challenges: (1) Recovery from the 2009 recession is only slow, and growth is rather unstable. (2) Demographic developments are negative: Russia is going to see a serious decline not only in its population, but also in its labor force. Immigration will not be sufficient to compensate for this decline. (3) Russia's current account increasingly depends on

oil exports. As a consequence, oil prices have an impact on the balance of payments and, in turn, high oil price volatility can lead to a high volatility of the exchange rate of the Russian ruble. Recently Russia has seen a 10% depreciation of the ruble. (4) Moreover, the federal budget heavily depends on oil revenues. (5) There is a lack of productive investments. (6) With a GDP contribution of less than 10%, Russia's financial sector is still weak; in addition, banking supervision is relatively insufficient. Aleksashenko pointed out that Russia's economic challenges were closely connected with political inefficiencies. For instance, an increase in investment is impossible without a substantial improvement of the investment climate, which requires political reforms (fair courts, law enforcement, protection of property rights, fight against corruption, opening the economy and welcoming foreign investment).

Banking and Financial Stability in the Light of the Crisis

Panel 2 of the CEEI 2011 was chaired by *OeNB* Executive Director *Andreas Ittner* and discussed banking and financial stability issues in the light of the current crisis.

The panelists shared the view that policymakers have taken decisive and determined action at a global level to stabilize financial markets and restore confidence. According to *Gianni Franco Papa,* Head of CEE Division at *UniCredit S.p.A.,* international support measures by the IMF and the EU, decisive action by national central banks (i.a. providing liquidity, cooling down lending growth, adjusting reserve requirements and making outright foreign exchange market interventions) as well as the Vienna Initiative were instrumental in avoiding a fully-fledged financial crisis in CESEE. Alongside these measures, *Dejan Šoškic,* Governor of the *National Bank of Serbia,* also highlighted the importance of country-specific factors and policies (e.g. a conservative banking business model before the crisis, or a rise in deposit insurance levels) in maintaining confidence in the banking sector. *Ksenia Yudaeva,* Director of the *Center of Macroeconomic Research* at *Sberbank,* noted that in this regard Russia's experience differs somewhat from that of CESEE: In Russia, the presence of foreign banks is relatively low and banking sector developments rather depend on international financial markets than on European banking groups. Thus, all policy measures that helped calm the situation in the global financial markets were also helpful in stabilizing the Russian banking sector. Comparing the Nordic banking crisis in the early 1990s with the current situation in CESEE, *Ilkka Salonen,* Partner at *Septem Partners Oy,* noted some similarities, such as the slowdown in capital inflows, but also major differences, in particular regarding the underlying causes: For example, in Finland – in addition to a real estate bubble – the collapse of the Soviet Union (at that time an important export market for Finland) served as a severe shock to the banking system at that time.

The panelists saw foreign currency loans as an important accelerator of the catching-up process in CESEE on the one hand, but said that on the other hand they also represented a risk factor that required constantly monitoring. When discussing possible exit strategies, all stakeholders engaged need to be involved, according to Papa. In fact, commercial banks in CESEE have already stopped selling the riskiest sort of products to unhedged borrowers. Šoškic identified the lack of available long-term local currency funding as the main reason for the widespread use of foreign currency loans in CESEE, which in many countries carries a systemic risk potential and impairs the monetary transmission mechanism. Over-

all, Papa confirmed that double-digit growth rates in CEE will be impossible to maintain in the future and that the region will have to rely on diversification and prosperity in the long run. Excecutive Director Ittner asked why financial market participants did not learn their lessons from past crises and repeatedly made the same mistakes and why public authorities did not take adequate action in the run-up to a crisis. According to Papa, this is because financial innovation is faster than regulation, but also because there is a psychological component at play that suggests that "this time things would be different." We now need to adapt to a new lower-growth environment in which diversification will become more necessary. In Salonen's view, we finally need to realize that banking is a leveraged business and that banks earn money by taking on risk, which also makes them vulnerable. In this context, Yudaeva pointed out that in spite of progress toward more forward-looking banking regulation, banking and financial crises cannot be avoided altogether. In Šoškic's opinion, markets are as a rule always ahead of regulators, so that the main challenges will be to avoid irrational exuberance, to understand markets and to step up cooperation. This view was taken up by Executive Director Ittner in his summary, in which he favored international cooperation over nationalization.

In addition to the 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 CEEI's status as one of the leading forums of discussion on economic and monetary integration in CESEE.

In their concluding remarks, OeNB Governor *Ewald Nowotny* recapitulated that cooperating in the organization of the CEEI 2011 had been highly rewarding for all parties involved. The cooperation had benefited from the complementary nature of the two central banks' regional research focuses and from their long-standing collaboration in many areas. *Seppo Honkapohja,* Board Member of *Suomen Pankki – Finlands Bank,* confirmed that he was looking forward to continuing this cooperation in 2012: He invited all participants to attend next year's CEEI, which is – for once – to take place in Helsinki on November 26 and 27, 2012.