The OeNB’s first Conference on European Economic Integration (CEEI) took place from November 28 to 30, 2004, at the Marriott Hotel in Vienna and covered the topic “South Eastern EUROPEAN Challenges and Prospects.” Ever since the fall of the Berlin Wall 15 years ago, the Oesterreichische Nationalbank (OeNB) has been following the transition process very closely. One of the OeNB’s major activities in this respect has been to host the “East-West Conference” on an annual basis. With the accession of ten new member countries to the European Union on May 1, 2004, a pivotal step was made to permanently close the divide that used to run across our continent. To mirror this historic change and to reflect the growing together of Europe, the OeNB decided to change the name of the “East-West Conference” to “Conference on European Economic Integration.” The 2004 conference was the first to take place under the new name.

At the welcome reception on the eve of the conference, OeNB Executive Director Josef Christl explained that this year’s topic — “South Eastern EUROPEAN Challenges and Prospects” — was chosen because this part of Europe (comprising, from the OeNB’s perspective, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Romania, and Serbia and Montenegro) has become a new focus of both regional growth and European integration. Writing “EUROPEAN” in capital letters reflects this double focus in a nutshell, showing that the OeNB has extended the geographical focus of its economic research to comprise this region of Europe, too.

Opening Remarks (Klaus Liebscher) and Keynote Speech (Jean-Claude Trichet)

The conference was opened by OeNB Governor Klaus Liebscher, who pointed out that compliance with the fiscal rules set by the Stability and Growth Pact (SGP) was essential in order to safeguard the stability of the euro and the credibility of Economic and Monetary Union. He emphasized that while the SGP worked as such, its implementation was a problem. A weakening of the SGP would certainly send a wrong signal to any new EU Member State. Governor Liebscher illustrated why the OeNB had such a pronounced interest in the Central and Eastern European countries (CEECs) in general and in the region of Southeastern Europe in particular. Since the end of the Cold War, economic and financial relations between Austria and the CEECs have substantially deepened and Austria has become one of the major foreign investors in the region. Furthermore, the Austrian banking sector plays an outstanding role in the Southeastern part of our continent.

The conference continued with a stimulating keynote speech by Jean-Claude Trichet, President of the European Central Bank (ECB), who took note of the high quality of the OeNB’s research on, and analysis of, economic developments in the CEECs and recognized the OeNB’s expertise on related issues within the Eurosystem. The ECB President then discussed the particular challenges Southeastern Europe faces in the transition process. He argued that both economic

1 Authors: Stephan Barisitz, Jarko Fidrmuc, Thomas Gruber, Antje Hildebrandt, Gabriel Moser, Gotthard Reitschuler and Zoltan Walko.
and monetary performance in the region had improved over recent years, but a lot remained to be done. With a per capita income of only 26% of the EU average (based on PPP) in 2003, the region is poor, but growth rates have been relatively high in recent years. Jean-Claude Trichet elaborated on the region’s economic and financial ties with the EU. Not only is the European Union the most important trading partner for Southeastern European countries, but FDI inflows into the region – often coming from the euro area – have recently increased as well. President Trichet then focused on the use of the euro in Southeastern Europe. The Eurosystem takes a neutral position regarding the internationalization of the common currency. However, Trichet highlighted that “…countries aiming at EU accession cannot use unilateral euroization as a way of circumventing the stages foreseen by the Treaty establishing the European Community for the adoption of the euro.” Jean-Claude Trichet concluded by recapitulating the prospects for the region, which can be summed up simply as progress toward EU membership.

Opening Session: South Eastern Europe – Where Do Institutions and the Economy Stand?

Erhard Busek (Special Coordinator of the Stability Pact for South Eastern Europe), Reinhard Pribe (Director Western Balkans, DG External Relations, European Commission) and Peter Sanfey (Senior Economist for South Eastern Europe, EBRD) participated in the first session, which was chaired by Professor Michael Landesmann (Director of Research, wiwi). In his introductory statement, Erhard Busek pointed to major successes of the Stability pact for South Eastern Europe, which was adopted in Cologne in June 1999. The pact’s main achievements include the creation of a regional network of 28 bilateral free trade agreements, progress in the formation of a regional energy market and a core transportation network. Major problems persist, however: Post-conflict reconciliation has not yet been achieved everywhere and a number of obstacles remain with regard to the implementation of commitments. Intraregional trade is hampered by nontariff barriers. Busek went on to say that undoubtedly, the major driving forces of transformation in the region were the prospects of joining the European Union and NATO. The year 2005 is likely to prove difficult, however, as it will probably see the beginning of negotiations on the political status of UN-administered Kosovo; moreover, the existing union of Serbia and Montenegro might be modified by referendums.

Peter Sanfey stressed that the EBRD felt cautiously optimistic about South-eastern Europe/the Balkans. In his view, the general public discourse on the Balkans places too much emphasis on negative and distracting political questions, such as the political status of Kosovo, GDP expansion in Southeastern Europe (which came to an average of 4% to 5% in recent years) exceeds growth in Central Europe, not to speak of the western part of our continent. But growth in Southeastern Europe is starting from a very low level. So far, of all the countries in the region, Bulgaria, Romania and Croatia have made the most progress in terms of transition – a development which is largely attributable to the “pull” of EU membership. Bosnia and Herzegovina as well as Serbia and

2 The term Kosovo denotes Kosovo/Kosova.
Montenegro, by contrast, seem to be lagging behind. According to Peter Sanfey, challenges include the necessity to overcome widespread problems of corruption, organized crime and weak judiciary systems, to reduce the gray economy, which accounts for up to a third of GDP and undermines tax collection, to strengthen financial intermediation which – despite expanding credit volumes – is still quite modest, and to adjust the investment climate to attract more FDI.

According to Reinhard Priebe, the Stabilization and Association Process (SAP) constitutes an instrument promoting reforms and the rapprochement of the western Balkans to the EU. Priebe went on to explain where the individual countries of the western Balkans currently stand within the SAP.

With respect to Albania, negotiations on a Stabilisation and Association Agreement (SAA) are currently moving at a slow pace. Problems relate to the implementation of reforms, to organized crime, to corruption and to the judiciary.

According to the Feasibility Study the European Commission presented last year on Bosnia and Herzegovina, the country needs to improve policy enforcement in a number of areas, including customs reform. Constitutional reforms beyond the stipulations of the Dayton Agreement will be necessary to move the country nearer to the EU.

Croatia was granted EU candidate status in June 2004 and preaccession status a few weeks ago. Accession negotiations are scheduled to start in early 2005, depending on full cooperation with the Hague Tribunal.

After having received a membership request from the Former Yugoslav Republic of Macedonia (FYROM) in spring 2004, the European Commission is expecting a response to its questionnaire in early 2005. Red tape and protectionist attitudes should be overcome.

As regards Serbia and Montenegro, the EU has now adopted a new “twin track” approach: Two agreements are being negotiated separately with the two republics, but both within the framework of an SAA with the entire state union.

With a view to Kosovo, Priebe stated that more responsibility will need to be transferred to the elected authorities. Given the unclear status of the territory, privatization is particularly problematic.

Michael Landesmann pointed out that the region’s current situation cannot be compared to that of Central Europe ten years ago. Among the distinguishing factors of Southeastern Europe is the heterogeneity of the reform process across the individual countries. Despite strong credit growth a banking crisis is not likely to materialize, given the foreign control of banking sectors. Southeastern Europe has witnessed a dramatic process of deindustrialization, which is one of the causes of current account deficits. In the ensuing discussion the growth record of the region was somewhat critically commented in the light of much higher growth rates in other transition countries further east. It was agreed that there was no room for complacency.
Session II: A Foreign Currency for My Country?
The Case of Dollarization and Euroization

The chairman of session II, OeNB Executive Director Josef Christl, introduced the session with some remarks on foreign currency holdings in the countries adjoining Austria to the east. According to recent surveys conducted by the OeNB, the euro plays a significant role in Central and Eastern Europe and has assumed the importance the Deutsche mark and the Austrian schilling had before the cash changeover. 90% of all respondents think that the euro is currently rather stable or very stable and that it will remain stable over the next two years. Christl pointed out that overall, the single currency has an excellent reputation in Austria’s eastern neighbor countries. Moreover, today most countries in Southeastern Europe have geared their monetary policy to an external anchor which is – without any exception – the euro.

In his academic keynote address entitled “Dollarization and Euroization,” Professor Eduardo Levy Yeyati (Universidad Torcuato Di Tella, Buenos Aires) set out to analyze the difference between dollarization and euroization. According to Professor Yeyati, the case of euroization features an – at least implicitly – shared lender of last resort as well as an active monetary policy vis-à-vis the rest of the world. As the key difference between the two concepts, he pointed out the bilateral agreement with an anchor economy in the case of euroization, whereas dollarization embodies the truly unilateral adoption of a foreign currency. Euroization – as opposed to dollarization – constitutes part of the endgame to get the euro, as Professor Yeyati put it. He further stressed the most important dilemmas a country faces when dollarizing: first, reduced transaction costs versus exchange rate rigidity; second, enhanced credibility versus loss of countercyclical monetary policy; third, reduced borrowing costs versus financial fragility, i.e. loss of the lender of last resort.

In the next presentation, Boris Vujcic, Deputy Governor of Hrvatska narodna banka, showed that Croatia has one of the highest degrees of euroization among transition countries. In his view, the main reason for the importance of the euro is Croatia’s past history of macroeconomic and monetary instability, which even stretches back to former socialist Yugoslavia. In this respect, financial markets might not have a long memory, whereas citizens do. Furthermore, tourism plays an important role in Croatia, as it is accompanied by foreign currency inflows. Boris Vujcic made clear that a high degree of euroization implies high liquidity and solvency risks. In his conclusion he pointed out what can be done and what cannot be done in the case of Croatia. According to Vujcic, it is not possible to use nominal depreciation to improve competitiveness or to reverse euroization. Furthermore, unilateral euroization would not be acceptable. Therefore, he opts for continuing to manage a de facto euroized financial system.

The last speaker of this session was Adalbert Winkler, Deputy Head of the EU Neighbouring Regions Division at the ECB, who talked about motives, features and policy implications of current cases of official dollarization or euroization. He explained that sustained cases of official dollarization were rather politically than economically motivated. Countries opting for official dollarization are generally small, characterized by geographical proximity to the country of the anchor currency and have a status of political dependency. Key mechanisms to foster integration with the anchor country include fiscal transfers, tourism
and offshore finance. Thus, integration not only takes place via the trade effect of a common currency. Winkler concluded by pointing out that dollarization cannot be regarded as a substitute for integration. Overall, both dollarization and euroization should be considered with caution.

Session III – Panel Discussion: Circumstances and Choice in South Eastern Europe – Monetary and Exchange Rate Policies

The last session of the first day of the conference was chaired by Peter Mooslechner, Director of the OeNB’s Economic Analysis and Research Section. In the first contribution, Professor Daniel Daianu (Academy of Economic Studies, Bucharest) concentrated on disinflation in Romania from the perspective of the announced shift to inflation targeting in the second half of 2005. He stressed that standard inflation targeting may not be fully appropriate for the Romanian economy because some preconditions (e.g. an efficient transmission mechanism, the technical ability to forecast inflation in the medium run, a low share of the informal sector in the economy) have not yet been entirely met. Therefore, Professor Daianu proposed a “soft” inflation targeting framework which concentrates on shorter periods (up to four quarters) and recognizes the role of the exchange rate.

Professor Julius Horvath (Central European University, Budapest) discussed policy challenges in Southeastern Europe. He noted that the problems of the region were related to a wide range of historical and geopolitical factors. Still, this century provides new chances for economic development because important reforms have been implemented in recent years. Sound exchange rate policies and disinflation may play a key role in the region’s recovery. Further contributions to the discussion concentrated on the implementation of policy measures.

Ljubiša Krgović, President of Centralna banka Crne Gore (Central Bank of Montenegro), reviewed the challenges of monetary developments in his republic. In 1999 to 2000, Montenegro carried out a currency reform and replaced the highly inflationary Yugoslav dinar by the Deutsche mark (the euro). He stressed that official euroization constituted the appropriate monetary policy for Montenegro, which was borne out by a record of low inflation, GDP growth, and improvements in the banking sector. However, whereas the euro has helped with increased stability and predictability, the common European currency is no substitute for the continuation of structural reforms.

Mariella Nenova-Amar, Director of Economic Research and Projections at the Bulgarian National Bank, presented the case of the Bulgarian currency board. The major reasons for the severe economic and financial crisis of 1996–97 in Bulgaria, according to Nenova-Amar’s presentation, consisted in the subordination of monetary policy to the government and in the continued refinancing of commercial banks. However, the policy failures of the past (dollarization of the economy, reduction of domestic debt through hyper-inflation, and defaults of the major banks) created good preconditions for the introduction of the currency board in 1997, which provided an appropriate framework for subsequent policies.
Finally, Peter Nicholl, Governor of Centralna banka Bosne i Hercegovine, explained Bosnia and Herzegovina’s monetary regime. He started his presentation by outlining the specific conditions of the country, where in the mid-1990s (a few years after the collapse of former socialist Yugoslavia), four currencies were broadly circulating, but only the Deutsche mark was generally accepted throughout the economy. Under these conditions, either official dollarization by way of the Deutsche mark or a currency board were the only policy options. Actually, the new domestic currency, which was named Bosnian convertible mark, became a national symbol that helped unify the young state. In the ensuing discussion, panelists confirmed that, like a currency board, a hard peg monetary regime by itself is not sufficient to “discipline” the economy; prudent fiscal policies and in-depth structural reforms are necessary to increase economic flexibility and efficiency.

**Dinner Speech by Axel Weber**

Axel Weber, President of the Deutsche Bundesbank, gave a dinner speech entitled “Changes in the Focus of European Economic Integration.” After presenting a short historic outline of the economic and monetary integration of Europe, Axel Weber dealt with a number of essential points of current and future European integration. In the euro area, the integration of European financial markets — to which EMU has made a substantial contribution — is particularly important. Key measures have already been decided in the framework of the Financial Services Action Plan (FSAP). In contrast, fiscal policies of a number of Member States give rise to concern, as EU agreements pertaining to the Stability and Growth Pact (SGP) are increasingly not being respected. In this context, President Weber warned against “deforming” the SGP. The size of budget deficits cannot be justified by the current economic situation; budgetary consolidation and other structural measures to ensure the long-term financial viability of pension systems in the face of population aging appear urgently necessary. In the area of banking supervision, priorities lie in the standardization of supervisory practices and the implementation of Basel II. Only once these steps have been taken should the discussion move to the division of responsibilities between the national and European levels. In this context, structural differences exist between the old and new Member States, given the clearly higher share of foreign ownership in the banking sectors of the new members.

As regards the future enlargement of EMU, Axel Weber underlined the importance of nominal convergence, i.e. convergence of nominal inflation rates through disinflation, before joining ERM II. This approach, as well as the planned wide fluctuation bands, may help secure the stability of the exchange rate regime. Premature entry into ERM II should be avoided, since such a move would forfeit flexibility in achieving adjustments to the real exchange rate. Healthy government finances are also important, as are the maintenance of a competitive edge vis-à-vis Western European countries and the attractiveness for foreign direct investors.
**Session IV: FDI and Trade as Pivotal Elements for Catching-Up and Competitiveness**

This session was chaired by Peter Mooslechner, Director of the OeNB’s Economic Analysis and Research Section, who argued, in his opening remarks, that openness to trade, access to international markets and FDI played a vital role for economic growth and real convergence in Southeastern Europe. He added that Austrian enterprises were among the region’s leading investors. After the devastating effects the armed conflicts of the 1990s had on trade relations and FDI, the signing of free trade agreements among the Southeastern European countries in recent years has been an important step toward economic and political stability. Most of these countries have abandoned tariffs and quantitative restrictions on almost all imports and exports. Reducing nontariff barriers and improving infrastructure and the investment climate remain the key challenges, Mooslechner contended.

Professor Ewald Nowotny, Vice Rector of the Vienna University of Economics and Business Administration, said in his introductory statement that he considered an export-driven growth strategy the best way to achieve real convergence. Such a strategy creates demand and employment and it forces countries to be competitive, which in turn increases the need for structural adjustment. Ewald Nowotny viewed the Stability Pact for South Eastern Europe as a very helpful instrument to foster trade integration. However, although the normalization of trade with regional neighbors is important for these countries, access to the EU market is even more important. With respect to FDI, Nowotny argued that production know-how and access to markets are the trump cards foreign direct investors have in their hands. Apart from Croatia, the countries of the western Balkans appear to be lagging behind their Southeastern European peers in the competition for FDI inflows. Nowotny further pointed out that the region would have to focus increasingly on greenfield investment and try to become part of the “car building bonanza” currently underway in the new EU Member States.

Dimitri Demekas, Division Chief of the Southeastern I Division of the IMF’s European Department, discussed the pros and cons of the impact of FDI on the host country and found that in transition economies the pros were clearly compelling. There is a need for extensive enterprise restructuring and technological upgrading. In addition, reliance on foreign savings puts a premium on non-debt-creating flows. Econometric analysis on FDI in Southeastern Europe reveals that gravity variables such as market size and proximity are the most important determinants of FDI. Also, business taxes and the quality of infrastructure play a crucial role, whereas the impact of trade policy and of governance seems to be weak. Jarko Fidrmuc, economist at the OeNB’s Foreign Research Division, presented a study on the trade integration of the new EU Member States and the Southeastern European countries. He drew attention to the question whether euro area trade integration with the Southeastern European countries will follow corresponding patterns with the new Member States. Fidrmuc found that Southeastern Europe is characterized by a rather small degree of trade integration with the euro area, reflecting the overall relative closedness of the former region’s economies. However, the geographical trade structures are converging with the trade structures of the new Member States, and there is ample scope
for Southeastern Europe to integrate into the world economy and to liberalize intraregional trade.

Boris Nemsic, CEO of Mobilkom Austria, found that the strong commitment of Austrian enterprises, such as Mobilkom Austria, in Southeastern Europe played a pivotal role in the catching-up process. For him, the quickly expanding economies in the region offered unique business opportunities. Of course, most Southeastern European economies are very small and poor. Except for Romania, which has a population of about 22 million and a GDP of almost EUR 50 billion (in 2002), the average economy in the region has 5 million people and a GDP of EUR 12 billion (which equals but 5% to 6% of Austria’s GDP). The telecom markets in these countries are highly underdeveloped and seem to be too small for the big European enterprises to engage efficiently. Thus, by being one of the first telecommunication companies active in the region, Mobilkom Austria may enhance its comparative advantages over time and become the major player while the Southeastern European markets grow. Nemsic considered it important to have a good knowledge and understanding of local conditions.

**Session V: Confronting Serious Challenges: High Unemployment, Poverty, Brain Drain**

The fifth session was chaired by Thomas Wieser, Director General at the Austrian Ministry of Finance. The other speakers were Robert Holzmann, Tito Boeri and Kalman Mizsei. In his presentation entitled “Poverty, Migration, and Employment in South-Eastern Europe: What Can the Data Tell Us?” Robert Holzmann, Director for Social Protection with the World Bank Group, noted that despite significant growth rates, enormous differences still existed between the Southeastern European countries in terms of real GDP per capita. With regard to poverty, migration and the labor market, Holzmann drew the following conclusions: Poverty in Southeastern Europe increased in parallel with the fall in output; inequality, however, seems to have changed little and therefore cannot be considered to have been a main contributor to the past increase in poverty rates. For the time being, only Albania seems to have recovered far enough to have reached the GDP level of the end-1980s. As a reaction to the fall in output and the increase in poverty, but also as a result of armed conflicts, migration has increased, albeit with significant differences between the countries with regard to the level and flows of migration. Robert Holzmann noted that despite indications of a migration of high-skilled workers from the region, one had to bear in mind that the level of re-migration was also high. The labor market situation is characterized by high, and sometimes increasing, unemployment and is therefore on average worse than in other Central and Eastern European countries. The persistent high level of joblessness is not so much a problem of labor market regulation, but suggests serious structural shortcomings in the areas of both company and job creation.

In his presentation “Jobless Growth in the South Eastern European Countries, Migration and the Role of the EU,” Tito Boeri, Professor at Bocconi University in Milan, noted that despite their high GDP expansion rates, Southeastern European countries have experienced more or less jobless growth since 1997. However, as he pointed out, this phenomenon was not attributable to
tight macroeconomic policies. In order to investigate the determinants of employment and the reasons for the jobless growth phenomenon, Professor Boeri presented reduced-form regressions, according to which GDP growth raises employment and a rise of real interest rates and budget deficits reduces employment. Why are loose fiscal policies partly responsible for joblessness? The reason is that budget deficits are often linked to public sector wage hikes, which push up private sector wages. With regard to immigration, Boeri suggested the adoption of a common EU policy toward immigrants and the use of EU conditionality to foster structural reforms in the product and labor markets. In his view, these measures would be essential to spread immigration flows evenly over time and to ensure that immigrants move according to demand. Large differences in welfare payments across the European Union may distort location decisions of immigrants. To prevent this, EU Member States should coordinate their minimum standards for welfare and eventually shift welfare funding to the Union level rather than close access to welfare benefits. According to Professor Boeri, neither migration restrictions nor welfare access exclusion can reduce migration pressures in the long run.

Kalman Mizsei, Director of the Regional Bureau for Europe and the CIS with the UN Development Program, identified unemployment as the main problem prevalent in Southeastern Europe: With lower unemployment, a number of (political or ethnic) tensions might disappear or fade. Mizsei pointed to concerns about continuing instability in Serbia and Montenegro, the province of Kosovo, Bosnia and Herzegovina, and the Former Yugoslav Republic of Macedonia and concluded that active labor market policies and retraining were needed. He further emphasized that one should not be deceived by the current average level of GDP growth in the region, which comes to between 4% and 5%. Southeastern Europe still has a lot of catching-up to do and is presently clearly outperformed when it comes to economic dynamism by other catching-up economies, like Ukraine, which registered a GDP expansion of 13% in the first three quarters of 2004 (year on year).

Session VI – Panel Discussion: Banking in South Eastern Europe and the Leading Role of Austrian Banks

The final session was chaired by OeNB Executive Director Josef Christl. The panel discussion was preceded by an introductory statement by Professor Laurent Weill of the Université Robert Schuman in Strasbourg. Professor Weill’s lecture focused on measuring efficiency differences between central and eastern European and western European banking sectors and found evidence of a gap in favor of the latter, albeit on the basis of a restricted number of selected indicators. But banking efficiency levels appear to vary strongly across Central and Eastern Europe. Professor Weill attributed the lower average efficiency of CEE banks largely to weaker managerial performance, which may, however, be too basic an indicator for this complex issue. By contrast, foreign ownership seems to have a beneficial impact on banking efficiency. Radovan Jelasic, Governor of Narodna banka Srbije, praised Austrian banks’ expansion in Serbia since 2000 and pointed out that their strategy of dealing with the CEECs as their home market was likely key to their success. According to Jelasic, the presence of foreign banks has made it easier for the public to differentiate between “good”
and “bad” credit institutions and has contributed to restoring confidence in the domestic financial system. Foreign banks have also spread better management practices and raised the quality of services. From the point of view of the central bank, foreign banks have played an important role in pushing regulators to improve regulation. In fact, many rules and regulations of Serbian banking have been copied from Austria.

The Director of the Research Department of Hrvatska narodna banka, Evan Kraft, focused on challenges for banking reform in Southeastern Europe. After elaborating briefly on the beneficial impact of foreign investors, Kraft referred to the recent consumer lending boom and identified the consumer loan bias in banks’ asset allocation as one of the major risk factors. As a rule of thumb, problems may arise if the rate of lending growth exceeds twice that of GDP expansion. He also raised the issue of the ambiguous relationship between competition and concentration, and of the challenges for cross-border regulation and crisis resolution. Based on Croatia’s experience with rogue traders, he highlighted foreign banks’ operational risks and pointed to the often mixed reception of foreign banks by the Southeastern European public. He explained that by “mixed reception,” he meant that, while many citizens principally object to the selling of domestic credit institutions or assets to foreigners, at the same time they prefer to place their own accounts with foreign banks. Norbert Walter, chief economist at the Deutsche Bank, summarized his views on foreign banks’ presence in the region. While acknowledging reform progress, Walter referred to the still modest level of banking intermediation in Southeastern Europe, which implies a huge growth potential. In his view, this potential is the major motive for foreign banks’ participation in the region, with a beneficial side effect on the quality of the host country’s banking system. Norbert Walter also pointed to the risks associated with the high share of foreign currency assets and liabilities on Southeastern European banks’ balance sheets, warning that authorities need to proceed cautiously when they contemplate opening up foreign exchange markets. He also stressed the importance of banking supervision and the need for coordination between supervisors at the European level.

Heinz Wiedner, Member of the Board of Austria’s Raiffeisen International Bank Holding AG, explained his bank’s strategy in Eastern Europe, which combines early market entry with employing local management and providing universal banking services in the region. Looking at expected future economic growth and the current level of financial intermediation, Wiedner expressed his optimism concerning the expansion potential in Southeastern European banking. According to Wiedner, foreign banks can contribute to the expansion by creating trust with private individuals, by providing know-how and technology transfer, by introducing new products and services, by enhancing competition and by supporting the SME sector. Manfred Wimmer, General Manager for Strategic Group Development at Austria’s Erste Bank, impressively demonstrated that success in the CEE banking business can be achieved by a different strategy as well. He explained that Erste Bank’s expansion strategy as a retail credit institution had been to wait for the privatization of the large savings banks and to concentrate on the retail business instead of offering universal banking services. The fact that savings banks are usually privatized at a late stage explains why Erste Bank is currently represented only in four CEECs...
(the Czech Republic, Slovakia, Hungary and Croatia). When discussing the major contribution of regional business to the group’s overall performance, Wimmer said that CEE banks are better than western banks if one looks at cost-to-income or profitability ratios.

**Closing Remarks**

In his concluding statement, Josef Christl pointed out that Southeastern Europe was a region with considerable potential, that it was clearly on the catching-up lane, not without sizeable risks and in need of painful adjustment, but was driven by the powerful political anchor of strived-for future EU membership. Remarkable success has been achieved in improving the investment climate, but more needs to be done. Christl recalled that countries whose goal it is to join the EU do not have the option of using unilateral euroization as a way of circumventing the official stages for the adoption of the single currency. Even if the path to EU entry in some cases may still be long and difficult, the reward of serious efforts is on the horizon; it embodies our common European future—living together in peace, prosperity and freedom.