Editorial

This volume brings together the papers presented at the 45th Economics Conference: Economic and Monetary Union (EMU) – Deepening and Convergence. The conference, which was one of the events marking the start of Austria's second EU presidency, was organized by the Austrian Federal Economic Chamber (WKÖ) and the Oesterreichische Nationalbank (OeNB) and took place on July 5 and 6, 2018, on the premises of Raiffeisenlandesbank Linz, Upper Austria.

EMU and the euro are great achievements of the European project. Yet, the future of Europe also depends on its economic strength and on the commitment of all EU Member States to deeper integration. Hence the need to use the current favorable economic times to deepen the EMU so that future global challenges can be addressed successfully. In this respect, the conference aimed at contributing to a dialog among high-ranking experts from academia, politics, trade and industry to foster mutual understanding of Europe's future prospects on the one hand and Austria's role in this process on the other.

Opening Remarks

In his opening remarks, *Heinrich Schaller*, Chief Executive Officer of Raiffeisenlandesbank Oberösterreich, stressed the importance of a certain level of understanding and compromise to solve problems without getting too many emotions involved. *Ewald Nowotny*, Governor of the Oesterreichische Nationalbank, recalled that the institutional set-up of EMU has been substantially transformed as a result of lessons drawn from the crisis, and that the creation of the SSM (Single Supervisory Mechanism) has added an entirely new dimension to future euro area accession processes. But there is an ongoing need to use good times to make our economies more resilient by building fiscal buffers and implementing further economic reforms to strengthen the foundations of EMU. We have to make sure that the benefits of EMU reach all EU citizens. During Austria's EU Presidency, we will strive to help meet these challenges. *Christoph Leitl*, President of EUROCHAMBRES, the Association of European Chambers of Commerce and Industry and Honorary President of WKÖ, started his introduction by underlining his personal connection to his hometown Linz and by reminiscing on his time as a student of professor Nowotny. Looking ahead, Leitl stressed the needed of ensuring fair regulation, fair taxation and fair trade in the real economy in keeping with the principle of proportionality. In other words, big companies should have to pay more tax and smaller companies should have to pay less tax. Banks should be able to spend more time to serve their customers and less on having to meet regulatory demands. Fair trade is essential with respect to the uncertainty resulting from US trade policies. We have to support free trade and we need a strong Europe to accomplish this. In addition, we have a responsibility to many other parts of the world. We have to raise awareness about what is happening in the world and prepare for any incoming challenges with appropriate responses.

Keynote Lectures: Deepening EMU – Political Integration and Economic Convergence

Jens Weidmann, President of the Deutsche Bundesbank, opened the keynote lectures: He explained EMU by using the famous Linzertorte as an illustrative symbol. Given the range of recipes for Linzertorte that have existed since the 17th century, every bakery will have to pick "the right one" – but it won't be able to change the basic ingredients. For EMU, these basic ingredients include price stability and a stable financial system, for which the Treaty on European Union provides an ideal framework. The fact that the long period of stability during the great moderation was suddenly ended by a global financial crisis showed that EMU was vulnerable to adverse shocks. With the creation of the banking union, structural weaknesses of EMU have been remedied. A monetary union needs competitive and resilient economies. In EMU, the single monetary policy has been successful in ensuring price stability. Fiscal policies have been less successful; however, in 2018, all Member States remained under the 3% deficit ceiling, aided by low interest rates. Further fiscal efforts are still necessary, as are more far-reaching structural reforms. In regards to further risk sharing, Weidmann argued for prioritizing risk reduction through reducing NPLs and the sovereign-bank nexus over risk sharing to avoid moral hazard. In terms of instruments providing value added for Europe, he also argued in favor of strengthening the ESM and setting aside a euro area budget for investment, whereas the stabilization function should continue to be fulfilled at a national level. He closed his lecture by remarking that, unfortunately, there is no single correct recipe for Linzertorte. This is what makes Linzertorte unique. According to Popper, all that is needed is the willingness to have a discussion. Conferences like this can help us find solutions together.

Yves Mersch, member of the Executive Board of the ECB, spoke of a "constructive bubble". If we look back, the Werner Report already argued for economic policy coordination and the Delors Report for a fiscal dimension to support EMU. However, the Political Union Conference did not develop meaningful results; as a consequence, the EU is suffering because of these shortcomings. The only alternative is internal devaluation, which has created social resistance. The cost of a breakup of EMU is devastatingly high, so the only option is to continue to deepen EMU. The focus should be put on three areas: pursuing structural reforms, reducing risks in the financial sector and strengthening the EMU architecture. As the risk of adverse shocks persists, it is important to increase resilience. A sound and coordinated fiscal policy reduces the danger of spillovers. At this moment, we are still at the announcement stage and have not yet reached the implementation stage. We still need to enhance ownership of the instruments we have installed. Fiscal adjustment is necessary, especially in highly indebted countries. For Mersch, the main challenge is being able to cope with a severe area-wide recession. Any fiscal capacity has to be accompanied by responsibility and governance to avoid moral hazard. He further mentioned the banking union, which has translated some of the key lessons drawn from the crisis into a framework. Whether all of the reforms were necessary, only time will tell. He also mentioned the common backstop EDIS (European Deposit Insurance Scheme), which might not even have to be used in a way similar to the OMT program. That is the beauty of such backstops: If private risk sharing is in place, little public risk sharing is needed. Still, economic shocks can never be fully eliminated. To quote Jaques Delors, Europe is like a bicycle: it moves forward, if it stops, it falls over.

Panel 1: Stocktaking Convergence in EMU and CESEE

Peter Mooslechner, Executive Director of the Oesterreichische Nationalbank, chaired Panel 1, which dealt with the more specific issue of convergence and CESEE. When talking about convergence, we should be clear what kind of convergence we are referring to, as there are many different types, such as income, nominal, real, price, or sigma convergence and many more. The Treaty even uses the term cohesion instead. The current assessment and understanding of the issue is driven by expectations, which have been too high with regard to convergence. EMU is complicated and does not automatically lead to convergence. The benefits of convergence measures have become less clear. There is a need for stocktaking and analysis. Have our expectations been correct, how have they developed, where do we stand today and why? This panel features two distinguished speakers, Sylvie Goulard and Michael Landesmann.

Sylvie Goulard, Second Deputy Governor at the Banque de France, stressed that EU convergence is the cornerstone of the European social contract. It started in 1957, when the Treaty of Rome defined the constant improvement of living and working conditions of Europeans as the main objective. It also elaborated that the Union was to promote the wellbeing of its people in a competitive social market economy, aiming at full employment and social progress. The EU shall promote economic, social and territorial cohesion and solidarity among Member States. The Commission's roadmap of December 2017 stated that one lesson learned from the crisis is that achieving convergence and building robust economic structures is crucial for the prosperity of the Union. The notions of convergence and integration are at the heart of the EU. When we talk about the future of EMU, people are interested in specific results, especially in increasing GDP per capita.

It is a pity that the EU's Macroeconomic Imbalance Procedure has apparently failed to deliver. The idea was to look more closely at macro coordination, seriously consider spillovers when taking policy decisions at a national level, and to make efforts to tackle imbalances afterwards. However, recommendations have not been adhered to and implementation is rather weak. That is quite worrying. So what comes next? The EU's objectives are higher employment and growth in all Member States. To achieve this, we need to improve the rules of enforcement, as the current legal framework is not strong enough. Rejecting the calls that have been to do away with rules, Goulard stressed that we need rules, otherwise we will move backwards. Not only do we need rules, but we also need to respect them and share the ensuing risks. What remains is a fundamental policymaking problem: "We are privileged, as we are not the ones who are affected by our speeches. We ask for flexibility from the more deprived."

Michael Landesmann, professor of economics at Johannes Kepler University Linz and at the Vienna Institute for International Economic Studies (wiiw) focused on the situation of the CESEE countries and on the importance of institutional convergence. The prospering economies around Austria have been very successful in terms of convergence. They have been able to catch up due to FDI-led industrialization; disciplinary measures would not do. Still, income catching-up continues to lag behind. Emphasizing the issue of external imbalances and the resulting implications regarding instability, Landesmann stressed that building strong export sectors is an uneven process. There are persistently low export capacities in some groups of countries. Referring to the economics of geography, trends should be reinforced over time. Values added create the conditions for new trade. The power of business should be harnessed to counteract export gaps. We are already integrated, but which factors will drive convergence in the future?

In the ensuing discussion Goulard suggested that we should look more carefully at demographic factors. We prefer labor mobility, free movement of persons, but it can be hard to find the right balance, as some countries see their young people moving abroad. She also referred to difficulties due to Brexit and the movement of talents. Our society is based on solidarity between generations, but have we taken the young generation seriously? In the south of Europe, young people have been waiting for solutions for ten years. There is not really a better place to live than Europe. For policymaking to remain convincing, "the social market economy" must be kept up. Last but not least, Landesmann referred to the very problematic effects of differences in age and skill, which lead to divergence in successful countries.

What is the main reason for the lack of enforcement? Is it a fear of centralization? Where is the European counterpart to Amazon, Ali Baba etc.? Goulard suggested that we should accelerate innovation and implement initiatives against disruption. We do not have those giants. We cannot control the speed on a highway if we leave it up to the drivers. We need a stronger political commitment or stick to a neutral approach, but mixing the two does not work. Landesmann detected a lack of enforcement. He further stressed that we cannot take convergence for granted within a country, so there is no reason to expect it within the EU, either. We have to aim for a macroeconomic policy scenario, which allows for sustainable growth. Finally, Goulard stressed that it is essential to fight the rise of nationalism, otherwise we will not get far. We should not forget that we are the luckiest generation in the history of Europe and that the U.S. helped us. We have to return to a more rational approach, exchange views and find solutions.

Panel 2: Social Cohesion – The Role of Labor Mobility

Kurt Pribil, Executive Director of the Oesterreichische Nationalbank, chaired panel 2 with a focus on social cohesion, in particular the role of the labor market, labor mobility and migration in the Union. According to standard economic theory, migration entails benefits for the native population. The economic argument to support this claim is as follows: Labor increases, which in turn increases profits; the increase in profits leads to more investment, which boosts demand for labor. The result is a clear improvement in total welfare. However, the social and political consequences of open national borders sometimes suggest the opposite. There may be hostility towards large-scale immigration as a way of protesting against job losses, depressed wages and growing inequality. Economic welfare does not always seem to be congruent with social wellbeing.

Thomas Liebig, Senior Migration Specialist at the OECD, started by stating that the debate on migration produces two main positions – the heartless and the headless. Economic welfare will not always be the same as social welfare. As the Treaty of Lisbon states, the Union shall promote economic, social and

Editorial

territorial cohesion, and solidarity among Member States. He pointed out that labor mobility as part of the single market is one of the major achievements of the EU. Free mobility has been a key driving force for changes in migration flows in Europe. OECD studies show that free mobility has been a non-negligible shock absorber. He argued that the increase in labor mobility in Europe is inter alia a consequence of the EU enlargements of 2004 and 2007, which greatly increased the scope of free labor mobility within the EU/EFTA and the euro area. One in twelve people living in Austria comes from another EU country. Intra-EU migrants predominantly work low- and medium-skilled jobs. Intra-European mobility only started growing disproportionately once labor market disparities had reached a certain level. In fact, these disparities have grown as a result of the crisis in Europe. Free labor mobility has alleviated asymmetric shocks in Europe. In this respect, intra-EU migration has been a contributing factor in lowering regional unemployment disparities in the EU.

Angela Pfister, Economic Expert, Austrian Trade Union Federation (ÖGB), began her speech with the following question: "Is labor migration a win-win situation for all?" One of the driving factors for migration still is the large wage gap between Western and Eastern European countries. She emphasized that since the enlargement of the EU in 2004, a considerable catch-up process concerning wage development in CESEE countries was observable, but on average, wages in CESEE countries are significantly lower than in Austria, resulting in problems on the labor market and challenges for social cohesion in the EU in the near future. She concluded that a coordinated economic, social and labor market policy combined with increased public spending would be necessary to solve the problems mentioned.

Klaus F. Zimmermann, President of Global Labor Organization (GLO) and professor at Maastricht University, stressed that social cohesion and labor mobility act as an indicator of solidarity and mobility within the EU. Free labor markets have been at the core of EU economic integration policies since the beginning. The main fact is that labor mobility promotes optimal resource allocation and balanced adjustments to asymmetric shocks. Migrants can even reduce native unemployment if they complement, not substitute, native workers in the production of goods and services. He pointed out that labor markets that are well-integrated and more flexible would increase the resilience of EMU, similarly to deeper financial market integration.

Panel 3: EMU Deepening from Today's Perspective

Gertrude Tumpel-Gugerell, former member of the ECB Executive Board, chaired the third panel of the conference, which provided an overview about the politically critical discussion on the deepening of EMU.

Christian Keuschnigg, Professor of economics at the University of St. Gallen, examined analogies to the current discussion on Brexit. Is the euro irreversible? While there is an established and lengthy mechanism to prepare for accession to the euro area, there is no equivalent procedure for an exit. He stated that in the end, euro area countries must reduce the large imbalances in all scenarios, within or outside the euro area. Furthermore, he emphasized that Member States should view and accept each other as partners and in honesty, and take responsibility for their own actions to counteract imbalances.

Ulrike Rabmer-Koller, President of the European Association of Craft, Small and Medium-sized Enterprises (UEAPME), welcomed all efforts to complete the capital market union, but identified serious challenges for SMEs in Europe related to the debate on a reform of EMU. The main challenge is the restricted access to capital markets, as 95% of SMEs depend on bank finance. Therefore, she advocated for a completion of the banking union and emphasized the importance of reviewing banking regulations before taking further steps to deepen the EMU. We are facing four challenges: a lack of finance, public investment, structural reform and economic stability.

Thomas Wieser, former President of the Eurogroup Working Group, former chair of the Economic Finance Committee (EFC), said that political developments in Italy and Germany have slowed down a deepening of EMU. We are facing severe political problems in the Union, such as populism and nationalism. Most of the loopholes of the Maastricht Treaty have been filled, the banking union and ESM, for instance, have been successes. The five adjustment programs have been successful as well. In terms of fiscal policy, Wieser said the EU budget rules are difficult to implement and he questioned the need for an EU budget. Most of the work will have to be done by national governments with pro-growth policies. Nevertheless, many challenges will have to be overcome in order to complete EMU in any way and to prevent another crisis in the future. Therefore, it is a necessity to take further steps to strengthen EMU and enable it to be stable and resistant to crises in the future.

Dinner Speech: Deepening EMU – Political Integration and Economic Convergence

In his dinner speech, *Boris Vujcic* referred to the similarity between the Habsburg Empire and the EU. In both cases, various regions coexisted or coexist, united by supranational bodies and policies. Economic divergence has always been a breeding ground for destructive forces, especially during difficult economic times. In the EU, we have experienced a rise in populism and nationalism after the crisis. The EU has to deal with these issues and take them seriously. Furthermore, convergence should not be taken for granted. Convergence depends on structural issues more than on monetary and fiscal policies. There were strong investment inflows before the crisis, but this will not be the case in the future. Therefore, CESEE countries will have to develop new growth models. Fiscal policy can only create limited growth and is far from being the ideal instrument. The percentage of elderly people is growing and the population of working age is shrinking. We have to fight on so many fronts. The agenda for reforms is widely supported. Should we act on all of them? Do we understand them all? Probably not.

Keynote lecture: Deepening EMU – Political Integration and Economic Convergence

Marco Buti, Director-General of the DG for Economic and Financial Affairs of the European Commission presented the steps he considers necessary for preparing the EU to withstand a potential next crisis. His three key messages were as follows: First, Buti warned that the EU is not ready to withstand the next crisis, although several important institutional reforms have been implemented and banks are more resilient now than they were before the crisis. Among other things, the following action is key to improve the functioning of financial markets: complete the banking union, progress toward the capital markets union, establish a central fiscal capacity to deal with large shocks with asymmetric implications and arrive at an agreement to launch a genuine European safe asset. Second, Buti stressed that the EU and its Member States need political leadership to create a common narrative and to overcome the approach of implementing reforms mainly as "ultima ratio". The EU should use the current favorable conditions to prepare for the next downturn instead of waiting for the next crisis to implement reforms. Buti also mentioned that, due to the current political environment, it is no longer possible to trust politicians' commitment to preserve the European project, as it has been the case in the past. Third, Buti talked about the false dichotomy between risk reduction and risk sharing. While the EU does need risk reduction and risk sharing to happen in parallel, it is necessary to recognize the progress that has been made in reducing risks in Europe and that risk sharing helps further reduce risk. The Commission proposal for a European Investment Stabilisation Function represents a means to share and reduce risk.

Panel 4: Financial Convergence, Resilience and Supervision

Franz Rudorfer, Managing Director of the Austrian Federal Economic Chamber, opened the panel by stating that new regulations introduced in the aftermath of the financial crisis had made banks more resilient and definitely safer. Nevertheless, the industry is struggling with contradictory regulations, overlapping requirements and national gold-plating potentially jeopardizing the level playing field.

Florian Hagenauer, member of the Management Board of Oberbank, stressed that the main factors contributing to the impressive development of Oberbank over the last decade included an efficient management structure and a profit-oriented strategy. The focus lies on developing the customer base, on facilitating growth by entering new markets (Germany, Czech Republic, Slovakia and Hungary) and on opening new branches. In this respect, the human factor is a key aspect of their strategy. *Hagenauer* mentioned that the amount of red tape and related bureaucracy due to increased regulation makes life harder for banks, but that Oberbank tries to anticipate what will be the regulators' requirements. The regulatory measures are often difficult to implement and hard to explain to customers. Oberbank is following a conservative risk approach and does not have to follow every trend in banking; just being "boring" can be the secret to success.

Hannes Mösenbacher, Chief Risk Officer at Raiffeisen Bank International AG, stressed that regulation is necessary. At the same time, he pointed out that there are too many players involved who are competing against each other, such as the ECB, EBA and EC. Especially banks like Raiffeisen that are active in many countries would benefit greatly from a single rulebook. Competition is something to be welcomed, but having a competitive edge due to unequal regulation is unfair, especially with regard to new competitors like Fintechs. A new aspect which nobody covered so far is the "trade war" between the U.S. and Europe and the potential sanctions.

According to *Marco Valli*, Head of Macro Research and Chief Eurozone Economist at UniCredit Bank AG, cross-border banks need to be more resilient and better able to smoothen the economic cycle than banks that are not cross-border. Especially in the absence of a common fiscal tool for cyclical stabilization, they need to be able to lend if needed. However, regulatory treatment of cross-border banks is inconsistent. First, constraints on free movement of capital strongly discourages cross-border activity within a banking group. Second, the one-size-fits-all treatment of NPLs is compromising the level playing field due to differences in national jurisdictions. All of these constraints pose a risk to the functioning of the transmission mechanism of monetary policy in the euro area. The ultimate aim should be to have the banking union considered as a single jurisdiction from a prudential perspective. Although it is clear that this would take time, it is important to acknowledge that actions such as the ring-fencing of liquidity and capital, which might be seen as an optimal solution from a national point of view, are self-defeating at the aggregate level.

Panel 5: Convergence of Production, Investment and the Reduction of Imbalances

Ralf Kronberger, Director of the Austrian Federal Economic Chamber, started the panel by recalling the academic debate about whether the EU was ready for adopting a single currency or not – between those advocating that a single currency should be the crowning of a lengthy process of convergence among its prospective members, and those who considered a single currency feasible even against the backdrop of diverging economic indicators. Following the introduction of the euro, some economic variables have been showing a mixed picture, some even diverging in regard to per capita income between 1999 and 2014 in four countries of the euro area. During the period after the crisis, the institutional development of the EU took important steps forward. However, the Macroeconomic Imbalance Procedure (MIP) shows some weaknesses with regard to the interpretation of the existence of macroeconomic imbalances since there is no agreed upon definition of what represents a harming imbalance.

Marco Buti emphasized that the convergence before the 2008 crisis was not sustainable, especially not for the euro area countries. During the first ten years of the euro, the peripheral countries and the core structurally diverged. Possible reasons could be the misallocation of capital, as the core countries invested more in tradable goods whereas the periphery invested in non-tradable goods. This led to differences in growth due to productivity divergence, fed the political debate after the crisis, and increased disparity in social and political preferences.

According to *Wilhelm Molterer*, Managing Director of the European Fund for Strategic Investments (EFSI), convergence is the cornerstone of the EU and the driving force for making the EU stronger. EFSI is the central pillar of European Commission President Juncker's investment plan for Europe, aimed at supporting investment through supporting private public partnerships (PPPs) and through helping to build high-quality institutions and an investment-friendly environment. Technically, EFSI is an EU budget guarantee that provides the EIB Group with first-loss protection, thus enabling it to provide financing amounting to EUR 500 billion in investments from 2015 to 2020. Support of SMEs, sustainable investments and digitalization are given priority. PPPs need to close the financing gap and should promote investments;

however, some hurdles such as the low quality of institutions and the lack of efficiency on capital markets need to be removed.

As a representative of the industry, *Robert Ottel*, Member of the Management Board and CFO of voestalpine AG, remarked that the investments of voestalpine are longterm decisions driven by the attractiveness of the region and by innovation. In his opinion, CESEE is no longer as attractive and competitive as it used to be. The decisive long-term factor that encouraged voestalpine to invest in Austria was the availability of a skilled labor force as well as the secure business environment. In general, EU Member States have to compete for investment. Low labor costs are no longer a relevant factor, because they are converging. Tax and subsidy regimes can change in the medium to long run; therefore, they are important but not decisive factors. Demographic developments and the availability of skilled labor are the only long-term production factors.

Session on Banking and Capital Markets Union – Financial Regulation and SME Financing

Andreas Ittner, Vice Governor of the Oesterreichische Nationalbank, opened the panel by underlining that banks still play an important role in funding the real economy. Nevertheless, the banks' balance sheet structure shifted towards mortgage lending while funding for nonfinancial corporations decreased. This development is driven by supply and demand. Ittner then asked how financial regulation would affect banks' lending to small and medium sized enterprises (SMEs). Higher capital requirements do not have an immediate impact on the amount of credit given, but they affect the cost of funding for banks. In the short run, higher capital requirements can affect credit growth; in Austria, however, this was not the case. The financial crisis triggered the strongest decline in bank lending to SMEs. Initiatives envisaged by the European Commission's action plan on building a markets union (CMU) will reduce SMEs' reliance on bank lending, but Ittner cautioned against the belief that bank lending for SMEs will be substituted completely by CMU.

Danièle Nouy, Chair of the Supervisory Board of the European Central Bank, stated in her keynote lecture "Financing the economy – SMEs, banks and capital markets" that the core task for banks is to finance the real economy. What is the real economy? In fact, huge companies like Apple or General Motors do not represent the real economy; instead, SMEs are the backbone of the real economy. However, SMEs are generally limited in their choice of funding sources and must therefore rely heavily on banks. Regulators will react to this structural disadvantage for SMEs and envisage a separate treatment for SMEs in the Basel framework. The next step to diversify funding sources for SMEs is the completion and implementation of the capital market union – although there is still a long way to go. With a truly European integrated market, SMEs could tap into funding sources across borders.

According to *Andreas Treichl*, Chair of the Division 'Bank and Insurance' of the Austrian Federal Economic Chamber and CEO of the Erste Bank Group, banking regulation in EMU is a very complex stand-alone system. Compared to the U.S., European financial regulation is more democratic but also more bureaucratic. The EU is lacking a capital market culture; the only countries having one would be the UK (which is leaving) and Switzerland (which is outside the EU). In Austria and Germany, the prevailing attitude can be summed up as "saving is good, investment is bad". In his view, the CMU cannot be built by implementing instruments; it requires a change of culture. For Treichl, one of the most urgent steps that EU governments must take is to complete the third pillar of the banking union, i.e. EDIS. Europe is falling behind in the field of digitalization and artificial intelligence due to a lack of competition in the high-tech industry. To this end, politicians need to stop seeing investors as speculators. He suggested allowing banks to give 1% to 2% of their risk weigted assets (RWA) to SMEs in the form of unsecured credit, depending on the NPL ratio. Treichl concluded his speech by stating, "In Europe, we hate to make mistakes – but this is our greatest mistake".

Heinrich Schaller, CEO of Raiffeisenlandesbank Oberösterreich and former CEO of the Vienna Stock Exchange, stressed the importance of bank lending as a financing source for SMEs in Europe. Banks in Europe did a good job supporting SMEs with funding. During the crisis, banks were de facto the only funding source for SMEs in Austria. However, the ratio of bank lending vs. capital financing for SMEs is too high. This can only change if the mentality of EU citizens changes (as mentioned already by Treichl) and if the regulatory framework stops deterring banks from engaging in equity financing and from selling equity instruments. In general, the regulatory environment in the EU is too complicated and banks face too many requirements from too many institutions.

Othmar Karas, Member of the European Parliament, underlined the difference in cultures as well as the different political and economic frameworks and banking sectors/systems in the U.S. and Europe. The European economic system is financed through credit whereas the economic system in the U.S. is financed through capital. Even though the world needs global rules, European regulators should act as Europeans. In a political-historical outline, he explained that the compromise achieved in Maastricht was also about linking the EU Member States together to prevent them from returning to the nationalistic way of thinking of the past. *Karas* considers the banking and capital market unions to be essential projects to create financial stability as well as growth and jobs in Europe. The challenges of globalization, digitalization and Brexit are exacerbated by the daunting fact that the euro is still the only currency in the world which is not yet backed by a common budgetary, fiscal, economic and tax policy. In addition to strengthening the financial union, efforts to establish an economic and fiscal union while ensuring democratic accountability, effective governance and convergence must continue. The euro's rescue fund, the ESM, has to gradually develop into a fully-fledged European Monetary Fund, firmly anchored in EU Community Law.

Governor Nowotny closed the conference by thanking the organizers, speakers and participants for the inspiring event. We had serious and realistic discussions which can help to deliver practical progress. Hopefully, the conference was able to contribute to finding solutions for a successful deepening of and convergence in EMU.

Majken Corti
Ingrid Ettl
Sylvia Gloggnitzer
Christiane Kment
Franz Nauschnigg