The Financial Crisis: A Challenge for the Transatlantic Partnership

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One can still remember the inauguration of US President Barack Obama in January 2009. So many hopes, dreams and wishes were placed in the new leader in Washington. People were wondering what would change and, more importantly, what had to change.

But 2009 was also defined by another major event: the global financial and economic crisis; its magnitude and the way it affected every American, every European and others around the world took us by surprise.

In Europe, we were, and still are, facing challenging times. We understood the importance of solidarity and the meaning of standing shoulder to shoulder. In Europe, it is an unspoken law that the strong help the weak. Since the accession of Estonia in January 2011, the euro area consists of 17 countries with an overall population of approximately 30 million people. Even during the financial crisis, the euro has kept and *improved* its position as a global currency. In addition, the euro has acted as a shelter, not only for the participating countries, but also for Europe as a whole. This shows that the European Union has demonstrated its ability to make important decisions even during hard times. It also underlines that the European Union is based on the equal-treatment principle.

As a European, I firmly believe that Europe will be stronger as a result of the crisis, because we have to learn from our experiences. As far as Austria is concerned, our banks did not withdraw funds from hard-hit regions, but continued to support their subsidiaries in Central, Eastern, and Southeastern Europe (CESEE), thus making an important contribution ("The Vienna Initiative") to the stabilization of the entire region. Austria even increased its market shares, especially in countries like Slovenia and Slovakia, which have also adopted the euro.

A few figures demonstrate how deeply Austria is rooted in the CESEE: At the end of September 2010, the consolidation claims of Austrian banks in CESEE countries amounted to some EUR 209.2 billion, around 72 percent of which were accounted for by EU Member States. With about EUR 300 billion in investments, Austrian banks' overall exposure in the region is relatively high as compared to other European countries. However, as the IMF has repeatedly confirmed in its annual assessments, these claims are well diversified across the region; they are in line with the principle of risk diversification.

Budget consolidation is an important issue for Austria, as well. Although the global economic and financial crisis has had a strong impact on the Austrian economy, Austria took measures that would be stabilizing in the short run and sensible in the long run. In 2011, Austria's public deficit will amount to 3.2 percent of GDP. In 2012 it will drop below

three percent, and further decline to 2.2 percent of GDP by 2014. Austria also managed the crisis quite well: among the European Member States, the lowest unemployment rates were recorded in Austria and in the Netherlands (both 4.3 percent) as well as in Luxembourg (4.7 percent), which shows that Austria did its homework.

The European Union is on the right path. As the European Council emphasized in its conclusion on February 15, 2011, the most urgent task for the European Union is to restore confidence by preventing a vicious cycle of unsustainable debt, disruptions of the financial market, and low economic growth, ensuring sustainable public finance policies, correcting harmful macroeconomic imbalances, advancing financial repair, and boosting potential economic growth against the backdrop of the crisis. Furthermore, thematic surveillance and targets must be consistent with the need for fiscal consolidation, and measures taken should be prioritized with a view to maximizing the impact on economic growth and jobs in line with the overall objectives of the Europe 2020 Strategy.

But this is not only a challenge we are facing in Europe; also for the United States it is time to act, as President Obama stated in his State of the Union speech in January of this year. We both have a strong interest in overcoming the crisis. After all, Europe remains the most profitable region of the world for US companies! Over the past decade, European firms accounted for three quarters of total US investment inflows and US investment flows to Europe considerably outweigh US investments elsewhere.

It is clear that we have to improve our financial systems and our financial regulatory mechanisms. In September 2010, the international banking regulations were revised as part of the Basel III agreement. The new regulations will ensure improved financial stability, but they will need a 100 percent commitment from the United States, and so do the new accounting rules and new financial regulations, to mention but a few. We have to address the risk management deficiencies of financial institutions, as well as the conflict of interest on the part of credit rating agencies, and we have to improve our supervisory capacities.

Creative power and—most of all—courage, are required to face the challenges together. It won't help to blame one side for the cause of the financial crisis or the other for having created large economic imbalances. Moreover, the debt crisis has not only hit Europe, but is also threatening the United States, at least in some states.

In a globalized world, in which we interact very closely, the crisis inevitably draws us even closer together. We swim together or we sink together, as they say. The "transatlantic" relationship must evolve into a real Atlantic partnership. The United States and Europe must stand together and take common responsibility in order to enable others to follow. We were largely responsible for the crisis, and, as a community of values, we must lead the way out of it. This is what the world expects from us. As Ambassadors, it is our task to contribute to that endeavor by building new bridges and reinforcing existing ones.