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CESEE Research Update

Foreign Research Division

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The CESEE Research Update is released quarterly by the Foreign Research Division of the Oesterreichische Nationalbank (OeNB). The aim of this newsletter is to inform readers about OeNB analysis and research output on Central, Eastern and Southeastern Europe (CESEE) as well as past and forthcoming CESEE-related events.

Foreign Research Division
OeNB

Highlight of this Issue



CONFERENCE ON EUROPEAN
ECONOMIC INTEGRATION

Conference on European
Economic Integration (CEEI)
2019

Looking back on 30 years of transition – and looking 30 years ahead

On November 25 and 26, 2019, last year's CEEI gathered around 340 participants from 30 countries in Vienna to review three decades of political and economic transformation in Central, Eastern and Southeastern Europe (CESEE) and explore the challenges lying ahead.¹ As governor Holzmann pointed out in his opening remarks, the transformation itself was mostly seen as having been extremely successful: per capita-income levels have increased impressively, far-reaching reforms have been implemented swiftly and decisively, and macroeconomic and financial stabilization has been reached.

¹ A conference volume will be published by Edward Elgar Publishing Ltd in 2020. Presentations and papers, information about the speakers and the conference program are available at www.oenb.at/en/Monetary-Policy/focus-area-central-eastern-and-southeastern-europe/events/conference-on-european-economic-integration.html.



In her opening keynote speech, Beata Javorcik, Chief Economist at the European Bank for Reconstruction and Development (EBRD), mentioned that the CESEE economies have outperformed all other emerging market economies and now rank among “developed economies” with a per capita income level (at purchasing power parity) of about two-thirds of that of the G7 countries. The EU has been an important anchor for successful transformation in countries inside the EU and in countries with or without an EU membership perspective alike.



The second keynote speaker, Professor Anders Åslund, emphasized that for countries without an EU perspective, more engagement in the EU’s Eastern Partnership is needed, with an emphasis on financial support and education. The role of the EU in a global perspective was addressed by Professor Anton Pelinka in his dinner speech, and by Martin Selmayr, Ambassador of the European Commission

to Austria, in the third keynote speech. Both speakers advocated a more active role for the EU as a global political power. This could also address currently observed nationalistic tendencies in some CESEE countries.



Martin Selmayr also called for a careful dialog of the EU with its neighbors, a clearly defined relationship with Russia, and for pursuing EU accession talks with all candidate countries and potential candidates.

Turning to the role of economic policies, the governors from Slovenia, Boštjan Vasle, from Croatia, Boris Vujčić, and Vice Governor Ana Ivković from North Macedonia stressed the importance of sound macroeconomic policies and a coherent mix of monetary, fiscal and macroprudential policies to reduce imbalances and achieve a stable growth path. The Czech Governor, Jiří Rusnok, added to that the importance of the right exchange rate regime. With respect to (possible) euro adoption, the governors of the EU member states expressed satisfaction with their respective exchange rate arrangements and agreed that euro adoption is largely a political decision. Boris Vujčić emphasized the beneficial effects of euro adoption for Croatia. With respect to the appropriate exchange rate regime, Andrzej Sławiński, Professor at the Warsaw School of Economics, recalled that floating exchange rates have shown merits in the global financial crisis. Yet he also argued that Poland’s increased economic and financial integration had lowered the exchange rate pass-through and stabilized the Polish zloty against the euro, thus reducing the value of the option to wait.

The successful transformation of the banking system was reviewed by experts such as Stijn Claessens from the Bank for International Settlements, Radovan Jelasity, CEI of Erste Bank Hungary and Francesco Mazzaferro, Head of the Secretariat of the European Systemic Risk Board – ESRB.



The involvement of foreign banks led to a rapid build-up of the financial system while implying also risks related to foreign funding and foreign currency lending. The positive role of the Vienna Initiative in dealing with these issues was acknowledged. Further, the early use of macroprudential measures in many countries was discussed. Markus Eller presented ongoing OeNB research showing that macroprudential policies could be indeed effective in containing credit growth and capital inflows in view of the pronounced boom-bust cycles in capital flows and credit over time in CESEE. Johannes Wiegand from the IMF weighed the merits of fixed exchange rates in achieving stability in the early phase of transition against monetary policy space in his speech. He concluded that prioritizing monetary stability was the right choice as evidenced for example by the Baltic States. Primož Dolenc, Vice Governor of the Bank of Slovenia, shared the case of a severe crisis hitting Slovenia in 2013 as a result of several structural factors and outlined the successful swift action by the authorities.

The substantial reform progress and an impressive catching-up experience notwithstanding, the achievements of the past thirty years in CESEE have come at a cost,

including deep initial recessions and structural shifts accompanying price liberalization, which caused significant economic hardship. Philipp Ther, Professor at the University of Vienna, even went as far as saying that economic progress was overshadowed by individual and collective experiences such as threats of poverty or the absence of family members for work reasons even in early transition. Ivan Krastev, Fellow at the Institute for Human Sciences, asserted a “crisis of expectations” whereby many people became disillusioned with the process of transition as economic modernization failed to produce the expected social outcomes. This in turn supports outmigration (the loss of mostly young people, of money invested in education, of labor and of voters).

Looking forward, OeNB Executive Director Thomas Steiner highlighted the relocation of global power from the West to the East, as reflected among other things in the increasing soft power exerted by China through its Belt and Road Initiative.



This topic was heatedly debated also by Khee Giap Tan, Co-Director of the Asia Competitiveness Institute (ACI) at the National University of Singapore, who called for more pragmatism and calmness in the EU's stance

towards China and highlighted the benefits of the East Asian economic development model, which is characterized by an important role for government and industrial policy and gradual financial integration and trade liberalization, also in countries with limited or guided democracy.



Ágnes Szunomár, Economist at the Hungarian Academy of Sciences, argued that CESEE offered China strategic entry points to the EU partly out of disappointment from not catching up (more quickly) with advanced EU members. In the case of the Western Balkans – the key recipient of Belt and Road infrastructural expenditures in CESEE – the exposure to China may reflect dissatisfaction with remaining outside the European Union.

Further, megatrends such as climate change and demographic change were identified as important challenges ahead. Ada Ámon, Senior Associate at Third



Generation Environmentalism (E3G), was worried by the stance taken by the Visegrad group of countries that largely ignores climate threats. Apart from national energy and climate plans, the next EU budget (2021–2027) could provide great opportunities to improve the green transition in the CESEE countries. Alexia Fürnkranz-Prskawetz, Professor at the Vienna University of Technology, recalled the rapid population decline in the CESEE countries as a result of collapsing fertility after 1989 and its slow recovery, lower life expectancy than in the West and strong outmigration. Mario Holzner, Executive Director of the Vienna Institute for International Economic Studies (wiiw), reported that most CESEE countries are rapidly approaching the tipping point where labor demand equals labor supply. The new digital economy provides the CESEE countries with a new catching-up opportunity, if it were not for the fact that many CESEE countries are digital transformation laggards.

17th ESCB Emerging Markets Workshop

On December 9 and 10, 2019, the OeNB hosted the 17th ESCB workshop on emerging markets. Since its inception in 2003, this workshop series is a platform for central bank researchers working on macroeconomic issues related to emerging economies, with the Finnish, the Spanish and the Austrian central banks taking the lead.

Having received many high-quality submissions from a broad range of countries including Colombia, Ukraine and Turkey for this year's workshop, the organizing committee compiled a program spanning the course of two days. In two keynote speeches and thirteen selected

papers the presenters covered diverse topics from the realm of monetary and macroprudential policy, financial stability and international macroeconomics.

In his opening remarks, Robert Holzmann, Governor of the OeNB, emphasized the increasing relevance of emerging markets for the global economy in general and for Austria in particular. He then moved on to ponder about the heterogeneity and reasons for lower economic growth inside and outside the euro area dynamics and stressed that developing capital markets may provide a welcome stimulus to economic and productivity growth in many countries.

In the first keynote address, **Adam Gersl**, senior economist at the Joint Vienna Institute (JVI) discussed the counter-cyclical capital buffer (CCyB) as a macroprudential tool. According to the Basel III guidelines, the CCyB is a linear function of the credit-to-GDP gap, which is based on standard HP-filtering. Gersl mentioned that there is a surprising lack of correlation between credit-to-GDP gaps and the CCyB in many countries. Most Emerging Market Economies (EMEs) in Europe are on the lower end of the sustainable credit-to-GDP curve, suggesting that government may form their own judgements as to whether credit growth is excessive or not. Gersl also reminded participants that a CCyB is designed to increase resilience against shocks, not necessarily taming the financial cycle. Nevertheless, capital-based tools decrease the risk of a credit boom turning into a credit bust.

In the second keynote, **Enrique Alberola**, advisor at the monetary and economic department of the BIS and former Chief Representative of the BIS Americas office, talked about monetary policy frameworks in emerging markets. He emphasized that EMEs are more vulnerable to external shocks than AEs, hence, monetary policy

frameworks differ quite significantly. Inflation targeting may be only one policy goal, next to FX stabilization and financial stability considerations. In addition, trade and financial channels of FX changes work in different directions, which adds to the policy dilemmas faced by EME central banks. Additional instruments in the form of FX reserves and macro-prudential policies are needed and implemented. Alberola also warned that macroprudential policies are useful, but not a panacea.

In her dinner remarks Doris Ritzberger-Grünwald reviewed the history of the emerging markets workshop series. She pointed out that this event is a rather rare example of a well-functioning division of labor in the ESCB as various central banks have developed a significant comparative advantage with respect to different emerging market regions.

Against the background of the risks and challenges emanating from emerging markets' increasing importance on the global stage, the presented papers broadly covered four topics, namely monetary and macro-prudential policy, capital flows, international macroeconomics and financial stability.

Visiting Research Stay: Zuzana Fungáčová



Zuzana Fungáčová, Senior Adviser at the Bank of Finland Institute for Economies in Transition (BOFIT), visited the Foreign Research Division in the OeNB during the period from October 7 to November 8, 2019. Dr. Fungáčová is coordinating research at

BOFIT and is also editor of the BOFIT Discussion Paper Series. Her own research focuses on banking, emerging markets and their financial sectors as well as institutions. During her stay in Vienna, she worked on a research project examining political cycles in bank lending by Russian banks. The main findings, based on the monthly

data of individual banks, indicate that both state-owned and private banks in Russia increase their lending before presidential elections. This result cannot be explained by economic fundamentals and it seems to be related to political interference in the Russian electoral autocracy. Furthermore, she worked on a project examining if the experience of banking crises affects trust in banks in countries around the world. Continuing her research concerning trust in banks, Dr. Fungáčová has started a project utilizing data from the OeNB Euro Survey. Its aim is to investigate what kind of impact individuals' trust in foreign-owned and domestically owned banks has on the choice of banks for retail customers in CESEE countries. Overall, the visit provided an opportunity to discuss different research projects as well as the developments in the countries of focus with colleagues in the Foreign Research Division.

OeNB Euro Survey



The OeNB Euro Survey of households has been conducted since 2007 in ten Central, Eastern and Southeastern European (CESEE) countries. With a strong focus on exploring different dimensions and drivers of currency holdings and households' saving and borrowing behavior, the OeNB Euro Survey additionally

provides information on various aspects of financial literacy of CESEE households. **The main results of the survey have recently been updated with 2018 data and can be found at <https://oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>.**

Focus on European Economic Integration Q4/19 – latest issue ([full version](#))

Recent economic developments and outlook

Developments in selected CESEE countries

International headwinds take a toll on economic activity

Box 1: Ukraine: economic recovery continues, talks on further IMF program initiated

Box 2: Western Balkans: economic growth lost momentum in the first half of 2019

Compiled by Josef Schreiner



Outlook for selected CESEE countries

CESEE-6 show strong investment momentum in 2019 followed by softening growth dynamics – subdued growth continues in Russia

Compiled by Antje Hildebrandt

Studies

The impact of labor cost growth on inflation in selected CESEE countries

Clara De Luigi, Florian Huber, Josef Schreiner

Homeownership and housing finance patterns one generation after the fall of communism

Elisabeth Beckmann, Christa Hainz, William Pyle, Sarah Reiter

Event wrap-ups

The OeNB's 85th East Jour Fixe

Ukraine: political, economic and migration challenges

Compiled by Mathias Lahnsteiner

24th Global Economy Lecture

Danny Quah on “Demand and supply in a new world order: the role of non-great powers”

Compiled by Maria Silgoner

Save the Date



86th East Jour Fixe of the Oesterreichische Nationalbank

April 27, 2020, Veranstaltungssaal, ground floor

East Jour Fixe “Financial Stability in the Western Balkans”

Announcement

KLERS Klaus Liebscher Economic Research Scholarship

The Oesterreichische Nationalbank (OeNB) has established a new research scholarship: the “**Klaus Liebscher Economic Research Scholarship**.” This scholarship program gives outstanding researchers the opportunity to contribute their expertise to the research activities of the OeNB’s Economic Analysis and Research Department by providing remunerated consultancy services. The scholarship program targets Austrian and international experts with a proven research record in economics, finance or financial market stability who are interested in broadening their research experience and expanding their personal research networks. Given the OeNB’s strategic research focus on Central, Eastern and Southeastern Europe (CESEE), another key field of research might be the analysis of economic developments in the CESEE region. The program provides for an honorarium that depends on the length of the respective research project (max. EUR 10,000).

Please note that applicants need to be in active employment with their home institution. Eligible candidates must hold a PhD or equivalent degree and must have published work and conducted scientific research in the fields defined in the call for scholarship applications. Employees of the European Central Bank (ECB) or other central banks within the European System of Central Banks (ESCB) are not eligible for the Klaus Liebscher Economic Research Scholarship. ESCB employees may consider the options available under the ESCB’s External Work Experience (EWE) scheme or the Schuman Programme.

For more information, please visit the OeNB’s website at www.oenb.at/en/About-Us/Research-Promotion/scholarships_and_awards/klaus_liebscher_economic_research_scholarship.html or contact us by e-mail at scholarship@oenb.at.

Upcoming Events

The following events are organized by the OeNB and cover CESEE relevant topics.

Please note that attendance is by invitation only. If you are interested in participating in one or more of the events, please send an e-mail to event-management@oenb.at.

April 27, 2020	86 th East Jour Fixe “Financial Stability in the Western Balkans” (by invitation only)
May 7–8, 2020	47 th Economics Conference “The EU’s “Northern” Enlargement 25 Years on: A Comparative Stocktaking and Outlook” in cooperation with SUERF, Bank of Finland, Sveriges Riksbank and Norges Bank (by invitation only)
June 25, 2020	25 Jahre EU-Mitgliedschaft Österreichs - eine Bestandsaufnahme (by invitation only)
November 5–6, 2020	Conference on European Economic Integration in cooperation with Bruegel (by invitation only)

OeNB Courses at the Joint Vienna Institute (JVI) 2020

For further details see: [Course Schedule 2020](#)

January 20–24, 2020	Banking Supervision within the Basel Framework (in cooperation with the Deutsche Bundesbank and the JVI)
March 2–6, 2020	Financial Education
March 9–13, 2020	Monetary Policy Implementation (in cooperation with the Deutsche Bundesbank and the JVI)
March 30–April 3, 2020	HR Issues and Compliance (in cooperation with the Deutsche Bundesbank)
May 11–15, 2020	Challenges for Candidate and Potential Candidate Countries in the EU and EMU Accession Process (in cooperation with the Austrian Federal Ministry of Finance and the European Central Bank)
June 15–18, 2020	Financial Stability and Supervisory Stress Testing for Banking Systems
September 7–11, 2020	Economic Integration: European Union and Eurasian Economic Union (in cooperation with the Austrian Federal Ministry of Finance)
October 12–21, 2020	Macrofinancial Stability in Central, Eastern and Southeastern Europe (in cooperation with the JVI)
November 2–4, 2020	Cash Circulation and Payment Systems in Austria
November 23–27, 2020	Monetary and Financial Statistics Collected and Compiled by the ESCB