

Editorial

Dear reader,

It is a rare occasion when we get the opportunity to explore uncharted territory. A few years ago, OeNB researchers seized one of these few chances by contributing to the discussion on the fact that many households in Central and Eastern Europe (CEE) still held foreign currency assets (mainly in DEM, but also in USD and SFR) even though the turbulent transition years were more or less over. To this end, the OeNB launched a survey to investigate into the amounts these households hold and their motives for doing so. Another interesting question arose in connection with the introduction of the euro: How would foreign currency holders in CEE react?

To tackle these questions, a team of OeNB researchers (most notably Helmut Stix) conducted a survey in which households in five CEE countries are asked about the amounts of foreign currency cash and deposits they hold as well as about their motives. The first of these OeNB surveys, which are repeated twice per year, was conducted already in 1997, so that the period of the cash changeover was fully covered. Interestingly, most respondents refrained from exchanging their foreign currency holdings into domestic currency, but opted for euro instead. The result was a special type of euroization, which opened up a new field of research that addresses cash-related, but also monetary policy-related questions and is in several respects similar to the literature on dollarization. The main results of the OeNB Euro Survey were published by the ECB in its 2005, 2006 and 2007 reports on the international role of the euro.

In light of the fact that households' foreign currency holdings are still substantial in some CEE countries and are suspected to be even bigger in Southeastern Europe (SEE), the OeNB has recently decided to extend both the number of countries and questions covered in the survey so as to get an even larger and more informative data set. To date, the survey covers four CEE countries (Slovakia will drop out at the beginning of 2009, as Slovenia did in 2007) as well as seven SEE countries.

The main results of the OeNB Euro Survey are presented in the contribution on Euroization in Central, Eastern and Southeastern Europe by Sandra Dvorsky, Thomas Scheiber and Helmut Stix. The authors conclude that the euro still plays a dominant role in foreign currency-denominated assets (both cash and deposits) throughout the region. Interestingly, the amounts and the motives differ significantly: People in SEE hold relatively large amounts of euro cash mainly as a store of value, whereas people in CEE hold relatively small amounts of euro cash mainly for the purpose of making transactions abroad (notably during vacations or shopping trips to euro area countries). As the OeNB survey is still a quite unique piece of research, we will keep you informed about its results in future editions of the Focus on European Economic Integration.

The dynamic development of the Croatian banking sector is at the core of Sándor Gardó's contribution Croatia: Coping with Rapid Financial Deepening. Having undergone sweeping structural changes in the late 1990s, the sector has remained relatively stable and profitable since then. Driven by brisk credit growth, financial deepening has continued dynamically in recent years, so that the level of

bank intermediation is now among the highest in Central, Eastern and South-eastern Europe (CESEE). The large share of foreign-owned banks in the country's banking sector has contributed significantly to this development, with Austrian banks being among the most active players in Croatia.

Another contribution in the studies section introduces the topic of this year's Conference on European Economic Integration: the integration of European labor markets. The paper by Josef Schreiner gives an overview of Labor Markets in Central, Eastern and Southeastern European EU Member States – General Trends and Migration Effects.

Austria's activities are not confined to the banking sector: Like many other EU Member States, the country also has intensive trade links with the CESEE region. In his contribution, Thomas Reiningger examines Factors Driving Import Demand in Selected CESEE Countries. His results confirm the existence of a strong export-import link in most of the countries under review, the prominent role of fixed investment in determining imports in nearly all countries and, with some exceptions, the relatively smaller role of private consumption for imports.

Finally, Jesús Crespo Cuaresma and Tomáš Slačik provide another piece of evidence to solve a puzzle that has kept many economists busy so far: Determinants of Currency Crisis: A Conflict of Generations? The results of this follow-up to an earlier study suggest that crisis episodes in the 1980s were driven predominantly by adverse developments of macroeconomic fundamentals, while the results for crises in the 1990s might well be interpreted as empirical support for the second-generation type of crises, in which fundamental developments play only a secondary role.

Last but not least, let me take the opportunity to invite you to the OeNB's 2008 Conference on European Economic Integration, which will take place in Vienna on November 17 and 18. This year, the conference will address issues related to the integration of European labor markets including migration issues, and our main focus will be on the associated economic developments that are of major concern for central banks. If you are interested in joining us, please do not hesitate to contact us at

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