

Q4/2012

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 National Bank (OeNB). The aim of this newsletter is to inform readers about OeNB research and analysis output on Central, Eastern and Southeastern Europe (CESEE) as well as past and forthcoming CESEE-related events.

Foreign Research Division

OeNB

Highlights of This Issue

- On November 26 and 27, 2012, the **Conference on European Economic Integration (CEEI) 2012** took place in Helsinki. The CEEI 2012 was jointly organized by the OeNB and Suomen Pankki – Finland's Bank and focused on the importance of sustainable economic policies and of institutions promoting such policies (see p. 2)
- The **2012 Global Economy Lecture**, an event organized jointly by the OeNB and the wiiw for the 17th consecutive year, was given by Professor John Van Reenen and focused on the impact of rising Chinese imports on advanced - in particular European – economies (see p.6)
- The current **OeNB-BOFIT Outlook for Selected CESEE Countries** expects GDP growth in the CEE-7 region to pick up from 1.2% in 2012 to 2.2% in 2013 and 2.8% in 2014 (see p. 5)
- On October 4 and 5, 2012, the OeNB hosted the **10th ESCB workshop on emerging markets** – a platform for disseminating relevant research conducted on macroeconomic and financial issues (see p.6)
- The latest issue of the OeNB's quarterly publication "**Focus on European Economic Integration**" has just been released (see p. 9)

Conference on European Economic Integration (CEEI) 2012:

“Achieving balanced growth in the CESEE countries”

This year's Conference on European Economic Integration (CEEI) was jointly organized by Suomen Pankki – Finlands Bank and the OeNB and took place in Helsinki from November 26 to 27, 2012. More than 150 participants from around 35 countries followed the presentations and discussions of high-profile representatives of international organizations, central banks, the banking sector and academia. The conference title “Achieving balanced growth in the CESEE countries” reflected the need to find a new growth model for the CESEE region, which was hit hard by the financial and economic crisis of 2008 and 2009. As OeNB Governor Nowotny pointed out in his opening remarks, the foreign capital inflow-based growth model proved to be unsustainable in the long-run since it led to the build-up of substantial vulnerabilities. The resulting boom-bust cycles harmed potential growth as well as the CESEE region's convergence process vis-à-vis the euro area. Governor Liikanen of Suomen Pankki – Finlands Bank discussed growth, financial markets and macroprudential regulation, emphasizing the positive but nonlinear relationship between these variables.

Keynote speaker Danny Quah (LSE) demonstrated the shift of the world's economic center of gravity toward the east, which is expected to continue over the next decades. Session 1 dealt with the “dark side of globalization,” namely volatile capital flows and deleveraging in emerging market economies. Karolina Ekholm (Deputy Governor, Sveriges Riksbank) argued that the current reduction in credit and net inflows of capital in CESEE rather constitutes an adjustment to economic fundamentals than a threat to macroeconomic stability. Also, emerging Europe seems to have become more competitive since 2008 in comparison with the rest of Europe. Debora Revoltella (Director, EIB) presented the latest results of the EIB Bank Lending Survey, according to which the current stagnation of credit growth is caused by both demand- and supply-side factors and the banking sector appears to be moving toward stronger deposit-based refinancing. Session 2 discussed the growth strategies of EU neighboring countries, with Ahmet Faruk Aysan

(The Central Bank of the Republic of Turkey) providing an overview of the conventional and unconventional policy measures that helped the Turkish economy to successfully perform a “soft landing” after 2010. By contrast, Konstantin Sonin (New Economic School, Moscow) pointed out that in Russia, institutional reforms will be necessary to enable long-term growth as previous growth drivers have been exploited. The role institutions play was also emphasized by keynote speaker Florencio López-de-Silanes (EDHEC Business School). In his view, however, what really matters for growth is the interaction of institutions and human capital.

Doris Ritzberger-Grünwald (OeNB) showed in Session 3 that CESEE and euro area business cycles became more heterogeneous during the crisis, mainly due to economic developments in the small countries. This observation was detailed by Ardo Hansson (Governor, Eesti Pank), who discussed the advantages and disadvantages of the sharp economic adjustment programs in the Baltic countries.

A practitioners' panel at the end of the second conference day featured representatives from commercial banks active in CESEE. Gianfranco Bisagni (UniCredit Bank Austria AG) noted that at the moment, the credit level is growing in countries with a low loan-to-deposit ratio, which indicates that the banking sector is becoming more sustainable. Radovan Jelašić (Erste Bank Hungary) and Esa Tuomi (Nordea) pointed out the balancing act banks are currently performing as they are forced to increase capital buffers on the one hand while, on the other, they should not restrain credit growth such as not to hamper economic growth.

For details and presentation downloads, please visit <http://www.suomenpankki.fi/ceei2012>.

The conference proceedings of the CEEI 2012 will be published by Edward Elgar Publishing Ltd. in the course of 2013. The CEEI 2013 will be held in Vienna on November 18 and 19, 2013. For more information, please contact ceei@oenb.at.

Olga Radzyner Award Winners 2012

2012 marks the 13th year in which the OeNB bestowed the Olga Radzyner Award on young economists from Central, Eastern and Southeastern Europe (CESEE) for excellent scientific work on European economic integration. This award commemorates Olga Radzyner, the former head of the OeNB's Foreign Research Division, who died in a tragic accident in August 1999.

Interest in the award has been rising continually over the years. In 2012, the OeNB received 20 submissions from young economists from 11 countries, a great number of which was of outstanding quality. The many different aspects related to European economic integration covered in the contributions ranged from trade and FDI issues, financial integration and financial market developments to fiscal and monetary policy issues. Out of the pool of promising young CESEE economists competing for the award, a panel of OeNB reviewers selected four papers, which were considered outstanding in terms of originality, overall presentation of the research question and analysis, and the use of state-of-the-art methods. On November 26, 2012, at the Conference on European Economic Integration (CEEI), this year jointly organized by the OeNB and Suomen Pankki – Finlands Bank, Governor Ewald Nowotny conferred this year's award upon:

Selena Begovic (Bosnia and Herzegovina), teaching assistant at the School of Economics and Business Sarajevo for her paper on the estimation of the effects of currency board arrangements on inflation performance in European transition countries. Applying a rather novel econometric approach, the author finds that inflation is lower in countries with a currency board regime than in countries employing other monetary frameworks. However, these findings tend to be driven by countries with what the author defines as "strong currency board arrangements," while the monetary policy regime has no effect on inflation in countries operating "weak currency board arrangements."

Jane Bogoev (the former Yugoslav Republic of Macedonia), analyst at the financial stability unit of

the National Bank of the Republic of Macedonia, for his paper on the determinants of bank lending in local and foreign currency in a small open transition economy with a fixed exchange rate. Based on bank balance sheet data, the author finds that in the former Yugoslav Republic of Macedonia, foreign currency loans react strongly to changes in the foreign reference rate while domestic currency loans react only weakly to the domestic rate. From a monetary policy point of view, this is a useful argument against foreign currency loans.

Rilind Kabashi (the former Yugoslav Republic of Macedonia), analyst at the National Bank of the Republic of Macedonia, for his paper on the cyclical character and determinants of fiscal policy in transition countries. The author estimates a fiscal reaction function for the 27 EU Member States and 6 Western Balkan countries and performs a wide range of sensitivity checks. This paper is among the first to present empirical evidence on fiscal policy determinants for the Western Balkans.

Krisztina Orban (Hungary), PhD student at the Central European University in Budapest, for her paper focusing on the relationship between the country to which firms export and the country that owns the bank with which these firms bank. In this paper, the author analyzes a firm-level data set she constructed from officially available national data sources and finds a significant relationship between exporting to and banking with the same country.

[Winners of the Olga Radzyner Award 2012](#)

“How Emerging Europe Came Through the 2008/09 Crisis” –

Discussion of a New IMF Book at the JVI

A new book entitled “How Emerging Europe Came Through the 2008/09 Crisis: An Account by the Staff of the IMF’s European Department” was presented by its editors, Bas B. Bakker and Christoph Klingen, at the Joint Vienna Institute (JVI) on September 14, 2012. Doris Ritzberger-Grünwald, Head of the OeNB’s Foreign Research Division, Zoltán Bakay, Senior Researcher at Erste Group Bank AG and Professor Michael Landesmann, Scientific Director of the Vienna Institute for International Economic Studies, participated in the ensuing panel discussion, which was chaired by the new JVI Director Norbert Funke.

Doris Ritzberger-Grünwald emphasized that in an environment that is still rapidly changing it is valuable to be able to rely on a book like this, which provides a concise and systematic overview of the conditioning factors before the 2008/09 crisis, the economic developments during the crisis, the policy responses implemented, and the legacies and remaining challenges. With the benefit of hindsight, the book allows a better understanding of the interconnectedness of single crisis “events” and policy reactions. Moreover, the authors back their arguments by a rich descriptive data set and informative boxes. Regional perspectives are complemented by detailed country experiences, accounting for the heterogeneity in emerging Europe.

At the same time, Ritzberger-Grünwald critically reviewed the main lessons given in the book. For example, the authors maintain that one of the most important lessons to be learned from the crisis is to strive for a new growth model that relies more strongly on the tradable sector. She stressed that export-oriented growth is not the panacea for everything. It is questionable whether this strategy works for everyone (on a European or global scale) and whether it works even in the short to medium run. First, the crisis taught us that external economic shocks can transmit substantially and quickly to emerging Europe via trade channels and via the market sensitivity to external factors. Second, the

question arises where external demand should come from, given the continued crisis in the main CESEE export markets. Third, there is no simple remedy that can help every country improve its external competitiveness (wage cutting alone is not enough).

Finally, Ritzberger-Grünwald suggested possible areas of follow-up research. The analyses provided in the book could be complemented by a systematic examination of (1) cross-country contagion and the importance of financial market and trade channels for West-East spillovers, (2) the impact of the crisis at the micro level (for which the OeNB Euro Survey would be an important source), (3) the joint importance of various explanatory variables for the output loss suffered during the 2008-09 crisis, and (4), looking forward, the long-run impact of the crisis on the convergence process in Europe (see also the summary of the OeNB’s Conference on European Economic Integration, CEEI, on page 2 of this issue).

For more information on the book launch, please also see the recent JVI Alumni Newsletter: http://www.jvi.org/fileadmin/jvi_files/Newsletter/JVI_Alumni_Newsletter_3_-_November_2012.pdf.

Hard copies of the book can be ordered at: <http://www.imfbookstore.org/ProdDetails.asp?ID=HEECEA>.

OeNB-BOFIT Outlook for Selected CESEE Countries: Renewed Slowdown Followed by Modest Recovery¹

Weak euro area growth in the first half of 2012 and dim prospects for the remainder of the year will deeply affect the **CESEE-7 region**². After two years of moderately strong growth between 2% and 3%, GDP in the region will expand by only 1.2% in 2012. The growth contribution of domestic demand is decreasing in all countries (apart from Bulgaria), and the contribution of net exports is shrinking in the Czech Republic, Hungary, Romania and Bulgaria (turning negative in the latter) but rising in Poland. Growth is projected to pick up slightly to 2.2% in 2013 and 2.8% in 2014, backed by a moderate revival of domestic demand. Domestic demand will, however, still remain constrained by ongoing consolidation plans and weak labor markets. The contribution of net exports will diminish further as a result of anemic growth in the euro area. The projections for the CESEE-7 countries continue to hinge strongly on growth developments in the euro area. Based on simulation results undertaken in 2011, a further reduction of euro area growth by ½ percentage point in both 2012 and 2013 (compared with our baseline) would most likely dampen CESEE-7 growth to about 1% in 2012 and slightly below 2% in 2013.

Risks to these projections are strongly related to developments in the euro area and are still biased downward. Even though recent policy moves and ongoing work to improve the institutional foundation of the monetary union have alleviated some of the downside risks, negative spillover risks from the euro area periphery remain elevated. A weakening of global growth would also affect the region through its general impact on

Europe. On the other hand, swift political decisions leading toward the implementation of a European banking union, the avoidance of the fiscal cliff in the U.S.A. and a thus more favorable global economic development would pose upside risks to these projections.

In **Russia**, annual GDP growth is anticipated to moderate from 4.3% in 2011 to 3.7% both in 2012 and 2013, before easing to 3.4% in 2014. This is based on a projected small decline of oil³ and commodity prices over the forecasting period, which largely reflects persisting global weaknesses, even if a recovery of global growth is expected from 2013 onward. Less robust Russian growth will also bring down import expansion rates to around 10% in 2012 and to 5% in 2013 and 2014.

Croatia will only slowly come out of recession, with GDP growth accelerating from -1.8% this year up to 0.5% in 2013 and 1.4% in 2014.

¹ Cutoff date for projections: October 4, 2012. The OeNB and the Bank of Finland Institute for Economies in Transition (BOFIT) compile semiannual projections of economic developments in selected CESEE countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia and Croatia). The projections draw on a broad range of available information, including country-specific time series models for Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania (all OeNB) and Russia (BOFIT).

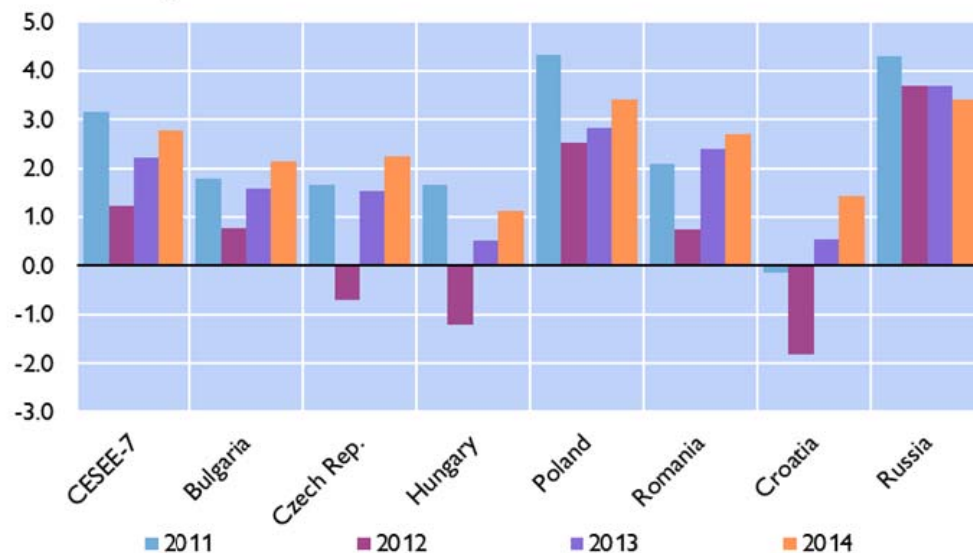
² The CESEE EU Member States that have not yet introduced the euro: Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania.

³ Compared with the 2011 average, the oil price is expected to decrease by less than 10% until end-2014, based on oil futures.

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OeNB-BOFIT CESEE GDP Projections

real annual GDP growth in %



17th Global Economy Lecture: John Van Reenen

Trade-Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity

On October 22, 2012, John Van Reenen, Professor of Economics at the Department of Economics and Director of the Centre for Economic Performance at The London School of Economics and Political Science, gave the 2012 Global Economy Lecture at the OeNB. This annual event is organized in cooperation with The Vienna Institute for International Economic Studies (wiiw). In his inspiring presentation, Van Reenen analyzed the impact of rising imports from China on advanced – in particular European – countries. This seminal trend in world trade has two positive implications for importing countries: First, not only is innovation spurred in firms which are heavily exposed to competition from Chinese imports, but also IT intensity and total factor productivity are raised. Second, import pressure from China leads to creative destruction in the sense that low-tech firms have to shed labor, but jobs are reallocated to more high-tech firms. In terms of magnitude, however, it seems that the job losses in low-tech tasks outnumber the gains in the high-tech segment, a point which was also raised in the discussion.

Professor Van Reenen presented an empirical investigation of these developments, based on an extremely rich, newly constructed panel dataset, which combines firmlevel data on IT intensity, patents, balance sheets and data on international trade.

The discussion zeroed in on the potentially negative general equilibrium effects for advanced importing countries as well as on the observation that imports from China are not necessarily low-cost and hence low-tech imports, but they may well have been produced by high-tech multinationals located in China, which implies that competition actually comes from advanced countries' firms. John Van Reenen emphasized that this is yet another demonstration of the fact that China's integration into the global economy is accelerating a process of global reallocation and skill-upgrading.

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10th ESCB Emerging Markets Workshop¹

On October 4 and 5, 2012, the OeNB hosted the 10th ESCB workshop on emerging markets – a platform for disseminating relevant research conducted on macroeconomic and financial issues. With more than 40 submissions from over 20 countries, the jury was truly spoiled for choice this year. Within the course of 1.5 days, the program organizers accommodated two stimulating keynote speeches and 13 papers. Moreover, the exchange of views benefited considerably from discussants' contributions as well as questions and comments raised by the large audience. The workshop's success was also reflected by the highly positive feedback.

In the introductory statement, *Peter Mooslechner*, Director of the OeNB's Economic Analysis and Research Department, pointed to the growing economic and political importance of emerging markets for the global economy in general and for Austria in particular. However, intensifying real and financial integration with emerging markets – while being instrumental in spurring economic growth and welfare – also holds risks and implies new big challenges for monetary, regulatory, fiscal and supervisory authorities in both advanced and emerging economies. Therefore, Mooslechner closed by highlighting that the ESCB workshop was meant to unveil these risks, challenges and vulnerabilities and to help resolve them.

In the first keynote address, *Andrzej Sławinski*, General Director of the Economic Institute of Narodowy Bank

Polski, emphasized – against the background of the genesis of the current crisis – the crucial role of macroprudential instruments as a second weapon of central banks' countercyclical policy, i.e. besides monetary policy tools. In particular, the recent economic and financial crisis calls for macroeconomic stability to be set as a direct target for macroprudential policy to facilitate a timely reaction to macroeconomic imbalances resulting from excessive credit growth. According to Sławinski, the merits of such an approach are so obvious that it is set to be adopted in an increasing number of countries, particularly under the framework of the planned banking union in the European Union. Against the backdrop of the risks and challenges emanating from emerging markets' strengthening role on the global stage, as outlined in Mooslechner's introductory statement, the papers presented in three sessions broadly centered on (1) monetary policy and capital flows, (2) financial and fiscal stability, and (3) real economy issues. While the first session was kicked off by academic work revolving around time-varying components of inflation paths and capital flows, after the coffee break the focus shifted to drivers of exchange rates and macroeconomic forecasts.

¹ The presentations and workshop program are available at <http://ceec.oenb.at> (Events).

The afternoon session on financial and fiscal stability issues started out by discussing the effect of different exchange rate arrangements on real economic developments during the current crisis. Three papers on fiscal sustainability issues, bank failures and the interlinkages of the two closed the first day.

The second day of the workshop was devoted to real economy topics ranging from measurement problems for macroeconomic variables to sources of growth, wealth and competitiveness. Moreover, *Laurent Weill*, Professor at Strasbourg University, delivered the second keynote speech of the workshop. In his contribution titled "Corruption and Bank Lending," Weill cited some stylized

facts on corruption in CESEE, which is still comparably high, and – contrary to expectations – has not eased in line with rising wealth. He then presented empirical evidence suggesting that corruption had a detrimental impact on growth, inter alia through the bank lending channel, as corruption not only reduces the bank lending volume but also favors bad loans. Therefore, Weill wrapped up by stressing that the impact of corruption on bank lending should not be underestimated, especially given the key role of banks in economic development.

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OeNB Euro Survey:

Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe

To date, much light has already been shed on the macroeconomic risks to financial stability stemming from foreign currency loans. In contrast, little is known about how foreign currency borrowing affects private households and its indirect impact on banks' credit risk. The increase in nonperforming loans in many Central and Eastern European countries, marked by a high share of foreign currency borrowing over the past years, suggests that foreign currency loans could be too risky for largely (unhedged) households.

Beckmann, Fidrmuc and Stix (2012) explore this issue, employing data from the OeNB Euro Survey to analyze how foreign currency loans affect the financial vulnerability of households. The survey gathers information on whether households have taken out a loan and whether they have been in arrears on loan repayments as well as on the currency composition and the purpose of the loan. Chart 1 shows the sample mean of loans and loan arrears by currency denomination.

Chart 1

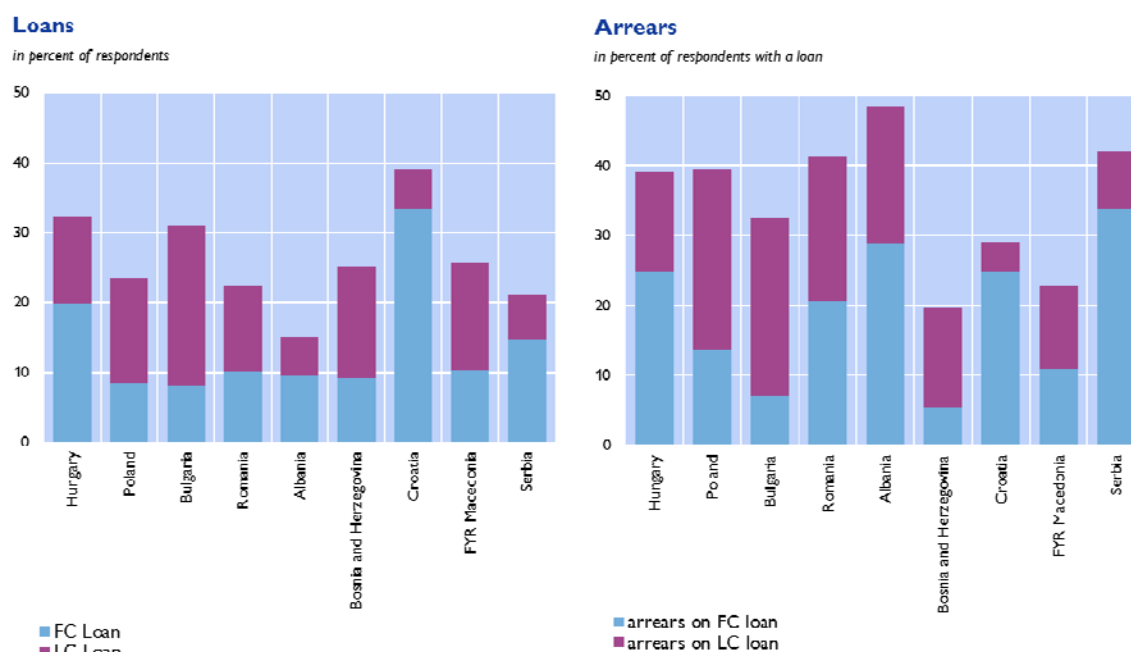


Chart 1: Sample Mean of Loans and Loan Arrears, Fall 2010 to Fall 2011

Note: The left panel shows the incidence of loans as well as their currency denomination. The right panel shows the percentage of loan holders who report to have been in arrears at least once during the past 12 months, separated by loan currency denomination.

Source: Beckmann, Fidrmuc, Stix (2012). "Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe". OeNB Working Paper 181.

Based on this information, Beckmann, Fidrmuc and Stix (2012) analyze the determinants of loan arrears and study whether foreign currency loans increase loan arrears. Their results reveal that the de facto exchange rate regime affects the incidence of loan arrears: Regardless of the denomination of the loan, the incidence of loan arrears is about 12 percentage points higher in depreciation countries than in non-depreciation countries. While an appealing explanation for this finding is that depreciations cause higher arrears for foreign currency loans, the authors' results demonstrate that arrears of local currency loans likewise increased as a result of the financial crisis. Employing direct survey information about the causes of loan arrears, they show that high rates of arrears among households in Central and Eastern European countries are caused to a significant extent by

adverse income shocks and that such shocks have a more important impact than installment shocks.

The OeNB Euro Survey has been conducted since fall 2007 on a semi-annual basis in 10 Central, Eastern and Southeastern European countries. It gathers information on the use of the euro among households with regard to cash holdings, savings and loans and provides a picture, how households evaluate the current and future economic situation of their country as well as of the household itself. For further information on the survey and related publications please visit ceec.oenb.at.

Call for Applications: Visiting Research Program

The Oesterreichische Nationalbank (OeNB) invites applications from external researchers for participation in a Visiting Research Program established by the OeNB's Economic Analysis and Research Department. The purpose of this program is to enhance cooperation with members of academic and research institutions (preferably post-doc) who work in the fields of macro-economics, international economics or financial economics and/or with a regional focus on Central, Eastern and Southeastern Europe.

The OeNB offers a stimulating and professional research environment in close proximity to the policymaking process. Visiting researchers are expected to collaborate with the OeNB's research staff on a prespecified topic and to participate actively in the department's internal seminars and other research activities. They will be provided with accommodation on demand and will, as a rule, have access to the department's computer resources. Their research output may be published in one of the

department's publication outlets or as an OeNB Working Paper. Research visits should ideally last between 3 and 6 months, but timing is flexible.

Applications (in English) should include

- a curriculum vitae,
- a research proposal that motivates and clearly describes the envisaged research project,
- an indication of the period envisaged for the research visit, and
- information on previous scientific work.


Applications for 2013 should be e-mailed to eva.gehringer-wasserbauer@oenb.at by May 1, 2013. Applicants will be notified of the jury's decision by mid-June. The following round of applications will close on November 1, 2013.

See also: [Visiting Research Program 2013](#)



OeNB Publications

Focus on European Economic Integration Q4/12



Recent Economic Developments and Outlook
Developments in Selected CESEE Countries
Compiled by Josef Schreiner
Outlook for Selected CESEE Countries:
Renewed Slowdown Followed by Modes Recovery
Compiled by Julia Wörz

Studies
How Sustainable Are Public Debt Levels in Emerging Europe?
Evidence for selected CESEE Countries from a Stochastic Debt Sustainability Analysis
Markus Eller, Jarmila Urvova
The Impact of Memories of High Inflation on Households' Trust in Currencies
Elisabeth Beckmann, Thomas Scheiber

Event Wrap-Ups
IMF October 2012 World Economic Outlook and Global Financial Stability Report
Compiled by Christina Lerner
10th ESCB Emerging Markets Workshop
Compiled by Tomas Slacik
17th Global Economy Lecture: John van Reenen
Trade-Induced Technical Changes? The Impact of Chinese Imports on Innovation, IT and Productivity
Compiled by Julia Wörz

Eller, M., Urvova, J. , “How Sustainable Are Public Debt Levels in Emerging Europe? Evidence for selected CESEE Countries from a Stochastic Debt Sustainability Analysis“ p.48-79.

To assess to which extent public debt positions in four CESEE economies (the Czech Republic, Hungary, Poland and Slovakia) are sustainable in the medium term, we apply a stochastic debt sustainability analysis (SDSA), building on Celasun, Debrun and Ostry (2007). In contrast to conventional debt sustainability analyses, this approach explicitly accounts for the risks surrounding medium-term debt dynamics, e.g. risks stemming from the interaction of (endogenously determined) fiscal and macroeconomic shocks. This is one of the first papers explicitly applying an SDSA to countries in emerging Europe. The baseline projections suggest that, on average, public debt would not get out of control in any of the four countries until 2016. However, when we also account for the risks around the median projection, the primary balance is apparently not responsive enough (with regard to public debt) so that increasing debt paths cover a considerable share of the overall frequency distribution. The probability of reaching, in 2016, a higher

debt-to-GDP ratio than in 2011 is largest in the Czech Republic and Slovakia and less pronounced in Hungary and Poland. When confronting the baseline projections with alternative policy scenarios, we can confirm the importance of a timely and continuous response to debt developments; otherwise public debt will quickly get out of control. Furthermore, compliance with the defined Stability and Convergence Programme targets limits the overall risks to the debt outturns.

Keywords: Public debt sustainability, fiscal reaction function, fan charts, stochastic simulations, public debt forecast, Central and Eastern Europe

JEL classification: C54, E62, H63, H68, E62, P2

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Beckmann, E., Scheiber, T., “The Impact of Memories of High Inflation on Households’ Trust in Currencies“, p.80-93.

Many Central, Eastern and Southeastern European (CESEE) economies experienced periods of hyperinflation during transition. Given the importance of trust for households’ financial decision making, we analyze how memories of high inflation influence people’s trust in currencies. Individuals who have lived through periods of economic turbulence are more likely to perceive the euro as more trustworthy than the local currency. Individuals who have experienced hyperinflation retain an

inclination for a safe haven currency and remain more alert to economic turbulence and prone to distrust currencies in general.

Keywords: Trust in currencies, euroization, financial crisis, survey data; Central, Eastern and Southeastern Europe

JEL classification: D03, D14, D83, D84, G01

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Other OeNB Publications

Beckmann, E., Fidrmuc, J. and Stix, H. (2012), ‘Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe’, OeNB Working Paper No. 181.

Given recent adverse developments, widespread foreign currency borrowing in CEECs poses a serious challenge for financial stability. Against this background, we use survey data to study the determinants of loan arrears of private households. Our data confirm a non-negligible impact of foreign currency loans on financial vulnerability. However, higher loan delinquency rates in depreciation countries can only partly be explained by foreign currency borrowing. Employing survey information about the reasons for households’ financial difficulties, we show that

income shocks exert a stronger impact on loan delinquency rates than the direct effect which works through increased installments on foreign currency loans.

Keywords: Foreign currency loans, arrears, dollarization, euroization, household debt, non-performing loans, financial vulnerability, CEECs.

JEL Classification: G21, D14, C25.

[OeNB Working Paper No. 181](#)

Abstracts from Other CESEE-Related Publications

Feldkircher, M. and Korhonen, I. (2012), “The Rise of China and its Implications for Emerging Markets - Evidence from a GVAR Model”, BOFIT Discussion Papers 20/2012.

This paper studies empirically the role of China in the world economy. We examine both the way the Chinese economy reacts to selected exogenous macroeconomic shocks and the repercussions for the world economy of a shock emanating from China. With regard to the latter, we focus on the responses of emerging markets, in particular those in Europe. Based on a global VAR (GVAR) model and a new data set that excels in country coverage and covers the most recent time period including the global financial crisis, our results are threefold: First, we show that a +1% shock to Chinese output translates to a permanent increase of 1.2% in Chinese real GDP and a 0.1% to 0.5% rise in output for most large economies. The countries of Central Eastern Europe (CEE) and the former Commonwealth of Independent States (CIS) also experience an output rise of 0.2%, while countries in South-Eastern Europe see a permanent 0.1% reduction in output. Secondly, to benchmark the shock to Chinese output, we examine

the response to a +1% shock to US GDP. The results show that the US economy remains dominant in the world economy despite the rapid rise of China in recent years. In this vein, output rises in advanced economies by 1% to 1.4% and in the CIS and CEE regions by 1.5% and 0.7% respectively. By contrast China seems to be little affected by the US shock. Finally, we examine the effect of a +50% hike in oil prices on China and emerging economies. As one of the largest oil exporters, Russia’s real output increases by about 6%. In contrast, the surge in oil prices puts a drag on Chinese output, amounting to 4.5% in the long-run.

Keywords: China, macroeconomic shocks, foreign shock, GVAR, great recession

JEL Classification: C32, F44, E32, O54

[BOFIT Discussion Paper 20/2012](#)

Upcoming and Recent 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 ceec@oenb.at.

Upcoming

February 18, 2013	72 nd East Jour Fixe „External Imbalances and Adjustment in CESEE to the Crisis”
November 18 - 19, 2013	Conference on European Economic Integration 2013 in Vienna

Recent

November 26 - 27, 2012, in Helsinki	Conference on European Economic Integration (CEEI) 2012 “Achieving balanced growth in the CESEE countries” Jointly organized by Suomen Pankki and the Oesterreichische Nationalbank (OeNB)
October 22, 2012	Global Economy Lecture 2012, John van Reenen, London School of Economics, "Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity"
October 4-5, 2012	10 th Emerging Markets Workshop

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: http://www.jvi.org/fileadmin/jvi_files/JVI_Program_2013.pdf

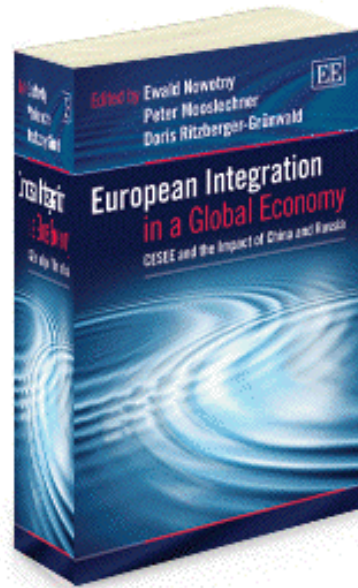
21.-24.1.2013	Financial Stability Stress Testing for Banking Systems – An Introduction
11.-15.3.2013	Institutional Challenges for EU candidate and potential candidate countries on the Road to the EU and EMU (Oesterreichische Nationalbank in cooperation with the Federal Ministry of Finance)
16.-18.9.2013	Cash Circulation and Payment Systems in Austria
21.-25.10.2013	Economic and Monetary Integration in Europe (Oesterreichische Nationalbank in cooperation with the Federal Ministry of Finance)
18.-22.11.2013	Monetary and Financial Statistics Collected and Compiled by the ESCB
14.-18.10.2013	Macro-financial Stability in Central, Eastern and Southeastern Europe
2.-5.12.2013	Building New Skills in Financial Translation

Announcement

European Integration in a Global Economy CESEE and the Impact of China and Russia

Edited by Ewald Nowotny, Peter Mooslechner and Doris Ritzberger-Grünwald

The emergence of the BRICs and of China in particular has played an important if underappreciated role to the competitive difficulties of Greece, Portugal and other Southern European countries. The contributors to this volume warn that similar challenges now confront the economies of Eastern and South-Eastern Europe, many of which compete head to head with China in international markets. More reassuringly, the authors also specify an agenda for structural adjustment, product upgrading and deeper integration with Western Europe that offers hope for meeting the China challenge.



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Oesterreichische Nationalbank, Foreign Research Division
Postal address: P.O. Box 61, A 1011 Vienna, Austria

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