

Research Update

Economic Analysis and Research Department

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Editorial

by Peter Mooslechner

Director of the Economic Analysis and Research Department

Time to say goodbye...



Around 17 years after I joined the Austrian central bank and more than 14 years after I was appointed Director of the Economic Analysis and Research Department of the Oesterreichische Nationalbank (OeNB), the time has now come to move on: for the next six years, I will serve on the OeNB's Governing Board. Looking back, I can certainly say that working in economic analysis, research and – in particular – monetary policy was highly stimulating and fascinating, as it meant constantly challenging traditional economic wisdom and exploring new territories.

When I decided to join the central bank in 1996, Austria had just joined the EU and was preparing to enter monetary union. What motivated me to take this decision at the time was mainly the expectation of being able to contribute to the preparation of monetary union "from the inside," to help get it started and to see it function. And I have never been disappointed – on the contrary. For a policy-oriented economist, this has been the most fascinating experience I can imagine:

- The first five years, roughly, were fascinating as they saw the preparation for, and start of, monetary union as well as the first review of the ECB's monetary policy strategy.
- From today's perspective, the second five-year period appears rather quiet, but I remember it to have been full of surprising issues in dealing with this completely new "animal" we had brought to life.
- Obviously, the most recent five-year period – the one we are still in – was characterized by the crisis, when everything was turned upside down and we were forced into uncharted territory on an almost daily basis.

But what really strikes me, when looking back on all these years, is that the topics and challenges under discussion have not changed that much. In fact we are now, to a large extent, back to dealing with the same set of questions as in the preparatory phase of monetary union: questions of monetary policy strategy, country-by-country analysis as well as monetary policy instruments and implementation.

It is needless to say that I will, of course, continue to follow these discussions from my new perspective. And I can do this calmly and confidently, as I know that the Economic Analysis and Research Department and all these demanding issues will be in good hands:

Doris Ritzberger-Gruenwald, who many (if not all) of you already know, was chosen as my successor by the OeNB's Board of Governors and has just been appointed to this position by the OeNB's General Council. I wish her all the best, and I should like to ask all of you to offer her the same kind of support and cooperation I have enjoyed for all these years. Let's stay in contact and let's all try, together, to do our best to help master this still very fragile economic situation to the benefit of Europe as a whole.

Hope to see you soon,

Peter

Eurosystem Household Finance and Consumption Survey 2010: Methodological Notes for Austria

Nicolás Albacete, Peter Lindner, Karin Wagner, Siegfried Zottel



The Eurosystem Household Finance and Consumption Survey (HFCS) is the first compilation of data in Austria capturing real assets, financial assets, debt, income and expenditures of households in one survey, allowing a comprehensive representation of the balance sheet of households in Austria. It is an ECB initiative and was carried out in all euro area countries, with the

exception of Ireland and Estonia. The ex-ante harmonization of the survey and the methods used make the HFCS data comparable across all euro area countries. The ECB has made the data set available to the research community on April 9, 2013.

In Austria, the HFCS was conducted by the OeNB in cooperation with the survey company Institut für Empirische Sozialforschung GmbH. The main results of the Austrian survey were published by Fessler et al. (2013) Eurosystem Household Finance and Consumption Survey 2010 First Results for Austria. To give a documentation of the methods applied and to provide guidance on how to work with these new data, the OeNB now provided an additional publication entitled Eurosystem Household Finance and Consumption Survey 2010: Methodological Notes for Austria. It aims at making the process of data set compilation as

transparent as possible and serves as the basis for the correct evaluation of HFCS data. The chapters provide a detailed explanation of each step applied in the survey process of the HFCS in Austria. First it gives information on the questionnaire, its sequence of questions and its particularities. Then it looks into the role of the interviewers who conducted the interviews in person. After the interviewers had collected the raw data, all information was reviewed already during the field phase; if necessary, further data were collected, or the data were edited. This process is described in detail in the chapter on consistency checks and editing measures. For cases in which interviewees did not want or were unable to answer one or several questions, multiple imputations were applied to obtain the missing information. This approach made it possible to correct distortions due to nonresponse at least to some extent and also to account for the uncertainty attached to this method of dealing with missing observations. A detailed description of the developed complex Sampling is provided. On this basis, the construction of survey weights took place. Later on, the construction of replicate weights necessary to correctly estimate the variance of estimates is explained. Finally, a user guide provides basic advice on the correct use of HFCS data in STATA®. All other essential documentation and background material used in the HFCS in Austria is published in the online appendix at the project's website www.hfcs.at.

¹ See press release on http://www.ecb.int/press/pr/date/2013/html/pr130409_1.en.html.

² In: Monetary Policy & the Economy Q3/12, http://www.oenb.at/en/img/mop_2012_q3_in_focus_tcm16-251583.pdf.

Report on housing market developments in selected countries of the euro area, Austria and CESEE

Housing prices show a quite divergent growth path in Europe. While we see substantial house price corrections in some peripheral parts of Europe (ES, EL, IE and NL), Germany, France, Belgium, Finland and Austria have been experiencing a marked rise in property prices lately. Partly, these developments have to be seen against the background of low interest rates and investors' search for "safe haven" investment opportunities. In Austria, predominantly the prices for single family homes and used condominiums have undergone a strong rise. With these partly strong price increases, an overheating of house prices in some of these countries may become an issue at some point. While the Deutsche Bundesbank sees no signs for a bubble for the time being, the Swiss National Bank reacted in February

2013 by activating the countercyclical capital buffer targeted at mortgage loans financing residential property.

In CESEE prices have stayed more or less stable since 2010 in most countries. Weak investment in the construction sector and conservative financing developments are inter alia responsible for this development.

This short analysis of housing market developments in selected euro area countries, Austria and CESEE can be found on the OeNB's website („Konjunktur aktuell“; in German language).

Further details please see http://www.oenb.at/de/img/konjunktur_aktuell-maerz2013_tcm14-254157.pdf

The OeNB's Economic Indicator Heralds Positive GDP Growth in Austria in Early 2013

The OeNB's Economic Indicator of March 2013 shows that Austria is rebounding from the sluggish performance during the fourth quarter of 2012. Specifically, the OeNB forecasts real GDP to edge up in the first quarter of 2013 (+0.1% against the previous quarter) and to quicken a bit more in the second quarter of 2013 (+0.3%). This represents an upward revision of 0.1 percentage points in the second quarter of 2013 against the forecast in the OeNB December 2012 Economic Outlook for Austria.

The OeNB's Economic Indicator of March 2013 reflects the most recent developments of hard and soft facts. For instance, industrial output as defined by Eurostat2 rose astonishingly forcefully in December (month on month) but nonetheless fell slightly for the fourth quarter as a whole (see table below). At the same time, the decline in construction output (NACE Section F) intensified in the course

of the fourth quarter. Hence, industrial output as a whole (NACE Sections B through F3) diminished in the fourth quarter, notwithstanding a small increase in December.

New orders lead industrial production by some two to three months, but are also more volatile. The slowdown of the global economy in the fourth quarter of 2012 has left its marks above all on order books. Industry will come to feel the impact of the contraction of new orders during this period with a time lag. Only a marked improvement in actual orders received in the first quarter of 2013 could offset the dampening effects of the developments in the fourth quarter.

The next release of the OeNB's economic indicator is scheduled for July 2013.

Industrial Output and New Orders (seasonally adjusted)

	Dec. 12	Nov. 12	Oct. 12	Q4 12	Q3 12	Q2 12	Q1 12	2012	2011	2010	2009
<i>Change on previous period in %</i>											
Industrial output NACE B–F	+0.6	–0.5	–0.2	–1.1	+0.9	+2.0	+0.2	+1.9	+5.7	+4.5	–9.5
Construction output	–2.1	–1.2	–0.5	–3.0	+2.4	+3.1	–2.3	+1.8	–0.1	–4.3	–1.9
Industrial output as defined by Eurostat	+3.5	–1.1	–0.3	–0.6	+0.3	+1.6	+1.0	+1.8	+6.9	+6.6	–11.4
New orders NACE B–F	+0.6	–0.5	–0.2	–1.1	+0.9	+2.0	+0.2	+1.9	+5.7	+4.5	–9.5
New construction orders	–2.1	–1.2	–0.5	–3.0	+2.4	+3.1	–2.3	+1.8	–0.1	–4.3	–1.9
New orders as defined by Eurostat	+3.5	–1.1	–0.3	–0.6	+0.3	+1.6	+1.0	+1.8	+6.9	+6.6	–11.4

Source: Eurostat, OeNB calculations.

Cautious Loan Policy of Banks and Restrained Loan Demand of Enterprises

Bank Lending Survey of April 2013

With the April 2013 survey round, the number of Austrian banks participating in the quarterly bank lending survey was increased from five to seven. Three banks were newly included to the sample, one credit institute no longer takes part in the survey. The April 2013 results show that in the first quarter of 2013, Austrian banks tightened their standards for corporate loans somewhat for the fourth time in a row. Credit standards for loans to private households remained unchanged in the period under review. In the second quarter of 2013, the cautious stance towards firms is likely to continue. Regarding housing loans, banks do not expect any changes, whereas a slight easing of the standards for consumer loans is anticipated. The demand of enterpris-

es for loans declined slightly in the first quarter of 2013, while households' demand for housing and consumer loans rose marginally. For the second quarter of 2013, the banks surveyed expect a further slight drop in the demand for corporate loans while the demand of private households is expected to edge up.

For further details see

http://www.oenb.at/de/presse_pub/aussendungen/2013/2013q2/pa20130424_vorsichtige_kreditpolitik_der_banken_bei_verhalten_er_kreditnachfrage_der_unternehmen.jsp

(in German language only)

The Future of Sovereign Borrowing in Europe

Key findings of a conference jointly organised by SUERF, OeNB & BWG
on March 8, 2013, in Vienna

On March 8, 2013, around 130 participants from academia, banking and finance, governments and central banking gathered at the premises of the OeNB in Vienna for a conference jointly organised by SUERF, the OeNB and the Österreichische Bankwissenschaftliche Gesellschaft to discuss "The Future of Sovereign Borrowing". The financial, economic and sovereign debt crisis has fundamentally changed the rules of the game in sovereign debt markets, particularly but not only in the Euro Area. While some countries enjoy a safe-haven status, others face soaring risk spreads. Sovereign rates of crisis countries have been downgraded dramatically, but also safe-haven countries' prime rating has been lost or is under close scrutiny. Sovereign bonds as a broad category have lost



their – previously widely perceived – status as "risk-free" assets. The crisis countries face unsustainably expensive financing costs (or even a loss of access to bond market financing), pushing them towards shorter financing or forcing them to rely on financial support by other countries and the international community, or massive intervention by central banks. The conference focussed on three aspects: first, how both issuers and lenders have reacted to the changed environment (session 1); second, implications of the current and likely future state of public finances and debt markets for financial stability, monetary policy and central banks (session 2); and third, ways to improve risk management and to foster caution in future sovereign borrowing (session 3).

OeNB Summer School 2013: “Non-linear VAR Models”

taught by Gianni Amisano

The 11th OeNB Summer School is dedicated to multivariate non-linear time series models and is going to take place in the period from August 26–30, 2013. Like every year the summer school is hosted by the OeNB at the premises of the Joint Vienna Institute. While the course primarily aims at strengthening the analytical background of OeNB economists, it always offers a limited contingent to researchers from other central banks and institutions.

The course will be given by Gianni Amisano, who is a senior economist at DG research at the ECB and a visiting professor at CenSoc University of Technology in Sydney. He has written numerous articles in the field, published in outstanding international scientific journals such as the *Journal of Econometrics*, the *Journal of Applied Econometrics* and the *Journal of International Money and Finance*.

The paradigm of macroeconomists to keep models simple and parsimonious has triggered analysis that assumes linearity, time-constant relationships and inference “around the

mean”. The current crisis has revealed that these simplifying assumptions can mislead policy guidance. With the strong pro-cyclical features of the current euro area crisis, such as the market impact of credit downgrades or the feedback loop between sovereign and bank creditworthiness, non-linear models become appealing.

The summer school will start with an introduction to vector autoregressive (VAR) models, identification of structural VARs and Bayesian estimation techniques. The course will then focus on non-linear models, such as Markov-switching VAR models, threshold and smooth transition models and time varying parameter models. Theoretical lectures will be complemented by hands-on computer lab sessions that apply the aforementioned methods to applications in the field of monetary policy during financial crises, the Phillips curve and non-linear behavior in the money-inflation relationship.

The OeNB's Special Focus: CESEE

Croatia – The 28th EU Member State

73rd East Jour Fixe on June 17, 2013, OeNB, Vienna

The 73rd East Jour Fixe on June 17, 2013, will focus on Croatia, which will become the 28th EU member state on July 1, 2013. The aim of the event is to identify present and future macroeconomic challenges Croatia will face in the real and financial sector and to discuss the role of EU integration.

The first contributions at the meeting will provide an impact assessment of EU accession on the real economy in Croatia as well as on the regional trade patterns in the Western Balkans. Following a stocktaking of financial market developments in Croatia, the second session will give room to a panel discussion at which ways to ensure and enhance macrofinancial stability from the bankers' and authorities' perspectives will be explored. The last session will deal with the topic of structural reforms designed to boost growth

and convergence in Croatia. The meeting will conclude with a discussion of the future of the region from a broader political point of view.

Among others, Paul Vandoren, Head of the Delegation of the European Union to the Republic of Croatia, and Wolfgang Petritsch, Ambassador of the Permanent Delegation of Austria to the OECD will feature as high-level speakers at this event, which will attract participants from numerous countries. We are looking forward to a lively, high-profile policy dialogue bringing together academic, political and other professional experts.

Detailed information about the venue is available at http://www.oenb.at/de/geldp_volksw/zentral_osteuropa_neu/Veranstaltungen/veranstaltungen_uebersicht.jsp.

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 macroeconomics, 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 stay, and
- information on previous scientific work.

Applications for 2013 should be e-mailed by May 1, 2013 to eva.gehringer-wasserbauer@oenb.at

Applicants will be notified of the jury's decision by mid-December. The following round of applications will close on November 1, 2013.

See also:

http://www.oenb.at/en/geldp_volksw/zentral_osteuropa/News/020_visitingresearchprogram/visiting_research_program.jsp

OeNB Periodical Publications

www.oenb.at/de/presse_pub/period_pub/volkswirtschaft/volkswirtschaft.jsp

List of all Publications since 2001 (by staff of the Economic Analysis and Research Section):

http://www.oenb.at/de/img/publications_of_the_economic_analysis_and_research_department_tcm14-254989.pdf



Focus on European Economic Integration Q1/13

How Important Is Total Factor Productivity for Growth in Central, Eastern and Southeastern European Countries? (Benkovskis, Fadejeva, Stehrer, Wörz)

Nonperforming Loans in Western Europe – A Selective Comparison of Countries and National Definitions (Barisitz)

Understanding Central Banks' Role in Enlargement – Governance Issues (Lindner, Mihailovici)

The Dynamics of Deposit Euroization in European Post-Transition Countries: Evidence from Threshold VAR (Tkalec)



Monetary Policy & the Economy Q1/13

Austria Withstands Recession: Return to Positive Growth in Early 2013 (Vondra)

Structural Budget Balances: Calculation, Problems and Benefits (Reiss)

Effective Retirement Age in Austria – A Review of Changes since 2000 (Stiglbauer)

The Future of Sovereign Borrowing Key Findings of a Conference Jointly Organized by SUERF, OeNB and BWG on March 8, 2013, in Vienna (Gnan, Holler)

OeNB Working Papers

http://www.oenb.at/de/presse_pub/research/020_workingpapers/2012/working_papers_2012.jsp

External Publications by Staff Members

Nominal and Real Wage Rigidities. In Theory and in Europe

Markus Knell (2013). *Journal of Macroeconomics*, 36, 89–105

In this paper I study the relation between real wage rigidity (RWR) and nominal price and wage rigidity. I show that in a standard DSGE model RWR is mainly affected by the interaction of the two nominal rigidities and not by other structural parameters. The degree of RWR is, however, considerably influenced by the modelling assumption about the structure of wage contracts (Calvo vs. Taylor) and about other institutional characteristics of wage-setting (clustering of contracts, heterogeneous contract length, indexation). I use survey evidence on price- and wage-setting for 15 European countries to calculate the degrees of RWR implied by the theoretical model. The average level of RWR is broadly in line with empirical estimates based on macroeconomic data. In order to be able to also match the observed cross-country variation in RWR it is, however, essential to move beyond the country-specific durations of price and wages and to take more institutional details into account.

Institutional determinants of domestic and foreign subsidiaries' performance

Klaus Gugler, Dennis C. Mueller, Evgeni Peev, Esther Segalla (2013). *International Review of Law and Economics* 34, 88–96

This article investigates the determinants of subsidiaries' profitability using a unique dataset of more than 23,000 listed and unlisted subsidiaries worldwide over the period 1994–2005. We find that profitable parent companies are able to transfer some of the intangible assets that make them profitable to their subsidiaries. Our results indicate that good institutions (measured by the Worldwide Governance Indicators) are associated with better performance for companies' subsidiaries. When we categorize countries in terms of the origins of their legal systems, we also find that this dimension of institutional quality is generally associated with better performance. Controlling for both legal origins and country governance institutions, we find that both sets of institutions are significantly related to subsidiaries' performance, and that there is an overlap in their explanatory power.

Does the Broad Public Want to Consolidate Public Debt? – The Role of Fairness and of Policy Credibility

Helmut Stix (2013). *Kyklos* 66(1), 102–129

The paper employs information obtained from a public opinion survey to analyze why voters differ in their demand for fiscal consolidation, i.e. why some voters support and others oppose a reduction of public debt levels. Results demonstrate that preferences for consolidation vary considerably across individuals along economically informed dimensions. First, voters behave rationally in the sense that self-interest matters. Second, voters care for their children (but this motive seems less important than one might presume). Third, voters care strongly for how the consolidation burden is distributed among the current generation - this is as at least as important as the intergenerational aspect. Fourth, the lack of credibility of fiscal policy plans is a serious impediment to voters' support for consolidation. These results imply that fiscal consolidation plans should be "fair" and that the imposition of credible fiscal policy rules could increase voters' support of consolidations.

Public debt, discretionary policy, and inflation persistence

Stefan Niemann, Paul Pichler, Gerhard Sorger (2013). *Journal of Economic Dynamics and Control* 37(6), 1097–1109

We describe a simple mechanism that generates inflation persistence in a standard sticky-price model of optimal fiscal and monetary policy. Key to this mechanism is that policies are implemented under discretion. The government's discretionary incentive to erode the real value of nominal public debt by means of surprise inflation renders inflation expectations and, in further consequence, equilibrium inflation rates highly correlated with the stock of public debt. Debt, in turn, is highly persistent, allowing for tax-smoothing in the face of disturbances. Due to the aforementioned correlation, the persistence in debt carries over to inflation. Our analysis uncovers a non-monotonic effect of nominal rigidities on inflation persistence and shows that government debt under discretion does not display the near random walk property familiar from the Ramsey literature. A calibrated version of the model that incorporates a moderate degree of monopolistic competition and price stickiness is quantitatively consistent with the inflation dynamics experienced in the USA since the Volcker disinflation of the early 1980s.

Upcoming and Recent Events

The following events are organized by the OeNB. 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 OeNB.ResearchUpdate@oenb.at

Upcoming

November 18 – 19, 2013	Conference on European Economic Integration (CEEI): Financial Cycles and the Real Economy: Lessons for CESEE
June 21, 2013	Stefano Battiston (Eigenössische Technische Hochschule Zürich); Debt Rank: Too Central to Fail?
June 20 – 21, 2013	Meeting of the Household Finance and Consumption Network
June 17, 2013	73 rd East Jour Fixe: Croatia – The 28 th EU Member State
June 10 – 11, 2013	41 st Economics Conference of the OeNB: A Changing Role for Central Banks?
June 7, 2013	Johannes Boehm (London School of Economics); Contract Enforcement Costs, Productivity, and Industry Structure Across Countries
May 15, 2013	Marek Dabrowski (Center for Social and Economic Research); Comparative analysis of monetary policy regimes in CIS countries

Recent

April 26, 2013	Jürgen Huber (University of Innsbruck); Experimental Study of Tobin Taxes
April 12, 2013	Joel Shapiro (Saïd Business School); University of Oxford A Mechanism for LIBOR
March 15, 2013	Tarun Ramadorai (Saïd Business School); University of Oxford; How do Regulators influence Mortgage Risk? Evidence from an emerging Market
March 15, 2013	Jochen Mankart (Universität St. Gallen); Bank defaults and credit supply over the business cycle
March 8, 2013	Presentation of the EBRD Transition Report (Jointly with BMF)
February 25, 2013	East Jour Fixe: External Imbalances and Adjustment to the Crisis in CESEE
February 22, 2013	6 th FIW-Research Conference “International Economics
February 18, 2013	HFCS Technical Workshop-Eurosystem Household Finance and Consumption Survey (HFCS) in Austria
January 30, 2013	SUERF/OeNB/BWG Conference– The Future of Sovereign Borrowing

OeNB Courses at the Joint Vienna Institute (JVI)

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

September 16 – 18, 2013	Cash Circulation and Payment Systems in Austria
October 14 – 18, 2013	Macro-Financial Stability in Central, Eastern and Southeastern Europe
October 21 – 25, 2013	Economic and Monetary Integration in Europe
November 18 – 22, 2013	Monetary and Financial Statistics Collected and Compiled by the ESCB
December 2 – 5, 2013	Building New Skills in Financial Translation

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