

November 2016

CESEE Research Update

Foreign Research Division

www.oenb.at/cesee-research-update

Content

OeNB-BOFIT projections for selected CESEE-countries 2

Household borrowing outlook for CESEE – new evidence from the OeNB Euro Survey 3

OeNB Course “Macrofinancial Stability in CESEE” 4

Olga Radzyner Award Winners 2016 4

OeNB Courses at the JVI 9

<http://www.oenb.at>
<http://cesee.oenb.at>

Imprint/inquiries/copyright 2016:
 Oesterreichische Nationalbank,
 Foreign Research Division
 Postal address: P.O. Box 61, A 1011 Vienna,
 Austria
 To subscribe or unsubscribe to our
 newsletter, please visit our website
<http://cesee.oenb.at>

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 research and analysis output on Central, Eastern and Southeastern Europe (CESEE) as well as past and forthcoming CESEE-related events.

Foreign Research Division
 OeNB

The Oesterreichische Nationalbank would like to inform you that, as from 2016, its quarterly “Focus on European Economic Integration” will be available online only at www.oenb.at/feei

To get updated on latest releases, please register at <https://oenb.at/en/Services/Newsletter.html>.

Highlights of this Issue

- **OeNB-BOFIT projections for selected CESEE-countries** (see p. 2)
- **Household borrowing outlook for CESEE – new evidence from the OeNB Euro Survey** (see p. 3)
- **OeNB Course “Macrofinancial Stability in CESEE”** (see p. 4)
- **Olga Radzyner Award Winners 2016** (see p. 4)
- **Save the Dates:**
 - **EMU Forum 2016:** Completing Economic and Monetary Union, November 24 and 25, 2016
 - **Global Economy Lecture by Sir Paul Collier:** How should Europe meet the duty of rescue towards the displaced and the poor?, November 28, 2016

OeNB-BOFIT projections for selected CESEE-countries: Steady growth in CESEE-6 after temporary dip in early 2016 – trough reached in Russia

Annual economic growth in the **CESEE-6 region (Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania)** will reach 3.0% per annum in 2016 and 3.1% in 2017, thus weakening somewhat compared to 2015. In 2018 growth will pick up to 3.3%. The outlook reflects a downward revision compared to our April 2016 projection. In the first half of 2016, investments declined beyond expectations – especially so in Hungary and Poland – following the phasing out of the previous EU funding period. For 2017, we also lowered our prospects for investments in Poland. Alongside solid external demand, domestic demand and in particular private consumption will be the main drivers of growth across the region. Consumption growth will amount to 4.5% in 2016 – 1.2 percentage points above the 2015 outcome – and decelerate somewhat over the projection horizon. Export growth will weaken across the region, except in Poland and Romania, in 2016 compared to 2015 but will regain momentum in accordance with the external assumption on euro area growth. The growth differential between CESEE and the euro area will amount to 1.3 percentage points in 2016 and will widen to 1.5 and 1.7 percentage points in 2017 and 2018 respectively.

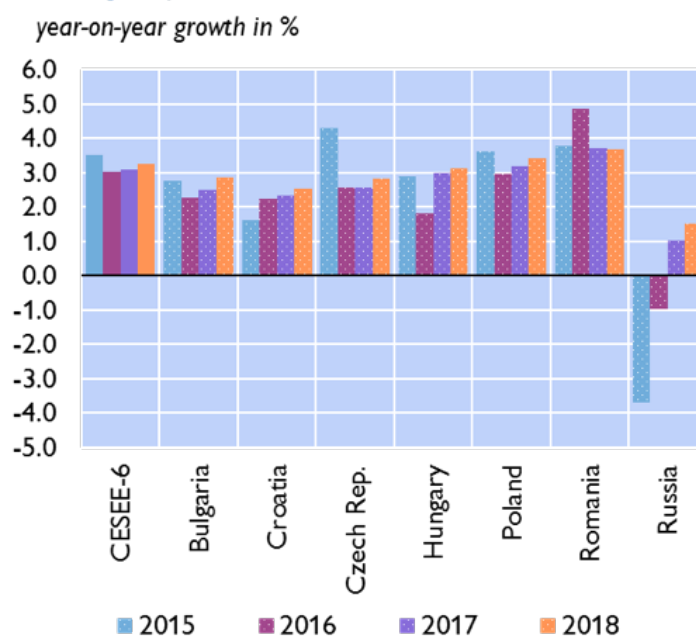
Risks to growth in the CESEE-6 countries are skewed to the downside and arise predominantly from political factors. An apparent risk is related to the political impact the Brexit vote might have over the next two years until a new relationship between the EU and the UK is established. Furthermore, the outcome of the US presidential elections and the unresolved geopolitical tensions pose risks to the region. Moreover, increasing inflationary pressure in several CESEE-6 countries implies a downside risk.

We forecast **Russian** GDP to decrease by 1% in 2016, implying an upward revision by 2 percentage points compared to our previous forecast, which is attributable to the higher oil price and a weaker real exchange rate of the ruble than previously assumed. With economic growth at 1%, Russia will move out of recession in 2017. For 2018, we expect the Russian economy to

expand by 1.5%. Private consumption is expected to increase somewhat whereas investment activity will still be subdued largely because of great uncertainties regarding the overall economic situation. With an expected moderate increase of the oil price, we see export growth to gain some speed. After weakening in 2016, import growth will revive over the projection horizon. We assume that oil prices will rise steadily over the projection horizon from an average of below USD 45 per barrel in 2016 to USD 55 per barrel in 2018.

Risks to the projections for Russia are large but more or less balanced. The oil price may deviate in either direction from the path assumed. Geopolitical tensions may ease or intensify.

GDP projections for CESEE-6 + RU



Source: OeNB.

[The full outlook](#)

[Recent economic developments in CESEE](#)

Household borrowing outlook for CESEE – new evidence from the 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 substitution in households' assets and liabilities, the OeNB Euro Survey additionally provides information on future financial plans of CESEE households. The main results of the survey have recently been updated with 2015 data and can be found on <https://oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>.

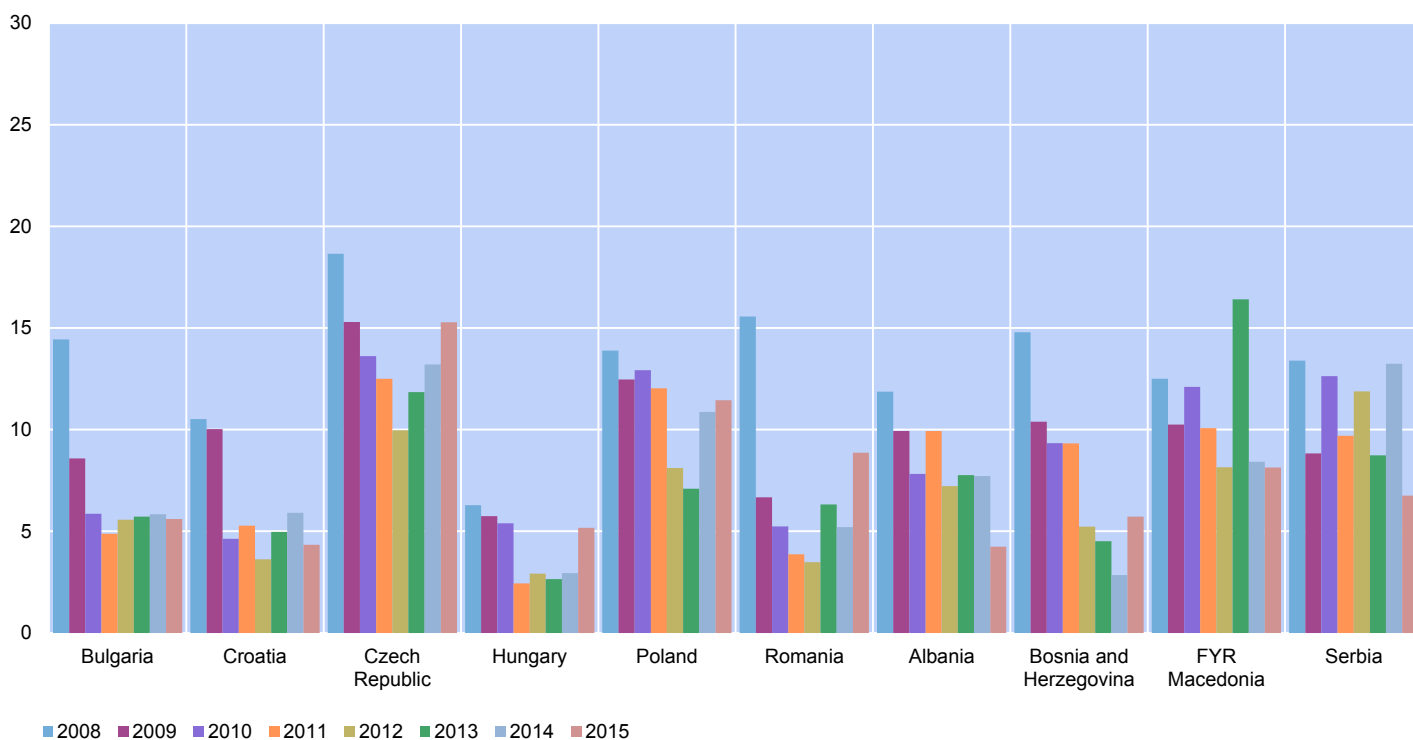
To give a flavor of this dataset, we will zoom in on CESEE households' borrowing plans in the following. Evidence from the 2015 OeNB Euro Survey depicted in Chart 1 shows that the dynamics of households' plans to take out loans within the next year display an ambi-

guous pattern across countries. Compared to 2014, there are modest to substantial increases in respondents that plan to take out loans in Poland, the Czech Republic, Hungary, Romania and Bosnia and Herzegovina. The responses of households in Bulgaria, Croatia, the FYR Macedonia¹, Albania and Serbia suggest a decrease in planned loans. The difference to 2014 is especially large in Albania (–3.5 percentage points) and Serbia (–6.5 percentage points).

A closer look at the respondents who plan to take out loans reveals a shift toward foreign currency loans. This is especially the case in countries where the number of respondents planning to take out loans has decreased. Among those households that indicated that they plan to take out a loan, the share of households intending to take out foreign currency loans increased from 42% to

Do you plan to take out a loan within the next year?

% of respondents (annual average)



Source: OeNB Euro Survey.

¹ Former Yugoslav Republic of Macedonia.

52% in Croatia; notable increases are also observed in Albania (13.7 percentage points), the FYR Macedonia (15.4 percentage points) and Serbia (24.5 percentage

points). However, these figures should be treated with some caution due to the smaller number of observations.

OeNB Course “Macrofinancial Stability in CESEE” at the Joint Vienna Institute, October 10–14, 2016

In cooperation with Reiner Martin from the ECB’s Macro-Financial Linkages Division, the OeNB’s Foreign Research Division organizes an annual seminar on “Macrofinancial Stability in Central, Eastern and Southeastern Europe (CESEE)” at the Joint Vienna Institute (JVI). The 2016 seminar took place in the week of October 10–14.

The wide range of topics included interactions between the real and the financial sector; macroeconomic stabilization via monetary and fiscal policy and, in particular, the evaluation of financial stability risks in CESEE. Other sessions addressed topical issues such as the resolution of nonperforming loans (NPLs), the effectiveness of macroprudential instruments or the volatility of capital flows. Besides lectures which were prepared by OeNB and ECB experts, the course also featured contributions from the OECD, the IMF, the World Bank, the JVI and the Vienna University of Economics and Business.

During group sessions, which are always an essential part of the course, participants developed an adjustment program for sample countries subject to macrofinanci-

al stress. They negotiated the program in role plays, representing the international authorities (European Commission, ECB, IMF) and the countries involved (national central bank and ministry of finance).

The course attracted experts and mid-level officials from central banks and ministries of finance or economics from a wide range of CESEE and CIS countries (spanning from the Czech Republic to Tajikistan and from Lithuania to Turkey).

The seminar feedback was highly positive. 80% of the participants strongly agreed that they would recommend the course to their peers. Moreover, 70% of the participants strongly agreed that the knowledge and information provided will add value in their jobs.

Next year’s seminar is scheduled to take place on October 9–13, 2017. The application deadline is July 9, 2017. To view the course description and to apply online, please go to <http://www.jvi.org/training/course-schedule-2017.html>.

Olga Radzyner Award Winners 2016

The Olga Radzyner Award is bestowed annually on young economists from Central, Eastern and Southeastern Europe (CESEE) for excellent scientific work on European economic integration. The Oesterreichische Nationalbank (OeNB) established this award in 2000, to commemorate the former head of its Foreign Research Division, Olga Radzyner, who pioneered the OeNB’s CESEE-related research activities.

In 2016, the OeNB received 20 submissions for the Olga Radzyner Award from candidates from 12 countries. Of this total, the jury of OeNB reviewers chose to award three papers that were considered outstanding in terms of originality and quality of the analysis, including the use of state-of-the-art methods. The awards are

going to be conferred by OeNB Governor Ewald Nowotny on November 28, 2016, on the occasion of the 21st Global Economy Lecture at the OeNB. The winners are (in alphabetical order):

Ernests Bordāns (from Latvia) and *Madis Teinmaa* (from Estonia) – for their paper “Baltic tigers facing the middle-income trap?” Although the title suggests that this paper only focuses on the Baltic countries, it is characterized by an impressive effort to, first, provide an assessment whether a given country (out of 152) was trapped in middle income in a specific year (1960-2014) and, second, to study which impact a variety of (more than 100) macroeconomic, financial and institutional variables have on the probability of being trapped in

middle income. The results show that qualitative public institutions, business-friendly regulation, a lower degree of income inequality, stable macroeconomic environment, prudent fiscal policy, a higher share of tertiary education or higher technological and innovations advancement decrease the probability of facing a middle-income trap.

Edvard Orlić (from Croatia) – for his paper “Cross-sectoral FDI spillovers and their impact on manufacturing productivity.” The paper examines the role of FDI in affecting a country’s long-run productivity growth rate through intra- and inter-industry spillovers. On the one hand, the estimation results point to negative intra-industry FDI spillovers: An increasing share of foreign firms in the same manufacturing industry has apparently a negative impact on productivity, probably reflecting incentives for foreign firms to prevent the leakage of embodied knowledge and technologies to their direct domestic competitors. On the other hand, there is evidence for considerably positive inter-industry FDI spillovers: Local manufacturing firms gain productivity

if their service suppliers (especially knowledge-intensive service providers) or their manufacturing customers consist to a larger extent of foreign firms.

Oana Peia (from Romania) – for her paper “Banking crisis, R&D investments and slow recoveries.” This paper proposes a new channel for medium- to long-run effects of banking crises on real economic growth, namely the disproportionate discouragement of investments in innovative, growth-enhancing technologies. Assuming that creditors are sufficiently pessimistic about the liquidity needs of the real sector following a systemic banking crisis, the theoretical part of the paper predicts that credit supply constraints are tightened, prompting firms to shift their investments to short-term, low-productivity ones. These predictions were tested with industry-level data for 13 OECD countries. The respective estimation results show that industries more dependent on external finance and located in more bank-based economies invest disproportionately less in R&D following episodes of bank distress.

Announcement

The OeNB’s Conference Volume “Boosting European Competitiveness“ will be published by Edward Elgar in fall 2016.

Edited by Marek Belka, President, Narodowy Bank Polski, Poland, Ewald Nowotny, Governor, Oesterreichische Nationalbank, Austria, Pawel Samecki, Management Board Member, Narodowy Bank Polski, Poland and Doris Ritzberger-Grünwald, Director, Oesterreichische Nationalbank, Austria

In the global financial crisis, competitiveness gaps between euro area countries caused additional strain. This book discusses the various dimensions of competitiveness, with a special focus on emerging Central, Eastern and Southeastern European countries. For Europe to proceed with convergence and to resist global competitive pressures, it argues that policies to boost productivity and innovation are vital. With products becoming ever more technically sophisticated and global interconnectedness on a relentless rise, it also demonstrates that quality, customer orientation and participation in global production networks and global value chains are at least as important as relative costs and prices.

This book delves into the literature and dissects the complexity of competitiveness, aiming to offer tangible policy advice focused on how well the European economy is performing and how it could improve. The key findings of the book, from a mix of academics and policymakers, constitute a state-of-the-art assessment of competitiveness that may challenge traditional perceptions of how economies can return to a path of sustainable growth.

Comprehensive and forward-looking, this enlightening book will appeal to academics, researchers and policy-makers with a particular interest in European economies and economic integration.

<https://www.e-elgar.com/shop/>



Save the Date I

EMU Forum 2016 Completing Economic and Monetary Union

November 24 and 25, 2016

Oesterreichische Nationalbank (OeNB)

Otto-Wagner-Platz 3, 1090 Vienna, Austria

FORUM AGENDA

The EMU Forum 2016 brings together academics, experts and policy makers to debate about the political economy of the euro area. The resilience of Economic and Monetary Union (EMU) hinges on its capability to reduce and distribute risks among its member countries. The rationale behind deepening EMU is to enable long-term convergence based on ex ante coordination and swift crisis management by strong institutions. Drawing on the Five Presidents' Report on "Completing Europe's Economic and Monetary Union," the forum will explore ways to bolster the single currency by promoting economic, financial, fiscal and political union.

- The evening session of the first day of the forum will offer outside perspectives on EMU reform needs from pre-in and opt-out countries, given topical economic and political challenges.
- The morning session will elaborate on how economic union may contribute to a real convergence path, with a particular focus on social investment and wage coordination.
- The first session in the afternoon will explore to what extent financial union will be able to achieve private risk-sharing through integrated banking and capital markets.
- The second afternoon session will look into the prospect of a fiscal union with a treasury for the euro area and the chances of achieving public risk-sharing, a reduction of risk and joint debt management.
- A final policy panel will discuss the chances that political union could improve the democratic legitimacy of EMU by creating an environment where member states gain sovereignty by sharing it.

This event, organized by the OeNB together with the Euro50 Group and the Vienna Institute for International Economic Studies (wiiw), builds on last year's workshop "Toward a Genuine Economic and Monetary Union".

<https://www.oenb.at/en/Publications/Economics/Workshops/2015/Workshop-No.-21.html>

In cooperation with the Euro50 Group and wiiw

More information: <https://www.oenb.at/en/Calendar/terminarchiv-2016/2016/emu-forum-2016.html>

Save the Date II

Global Economy Lecture by Sir Paul Collier: How should Europe meet the duty of rescue towards the displaced and the poor?

Monday, November 28, 2016, 4:00 p.m.

Oesterreichische Nationalbank

Otto-Wagner-Platz 3, 1090 Vienna

This year's Global Economy Lecture will be given by Sir Paul Collier, Professor of Economics and Public Policy at the Blavatnik School of Government and Co-Director of the International Growth Centre, Oxford.

In his presentation, he will scrutinize the role of public policy in the current refugee crisis. The Syrian refugee situation has been an avoidable tragedy. Thousands have drowned, millions have been neglected. This is the consequence of a chronic failure of public policy. The explanation for this failure is partly that the global refugee system is hopelessly out of date: it is broken. This has been compounded by political responses that have lurched from one populist approach to another, with insufficient thought as to their consequences. The global refugee situation will remain serious for many years, and so urgently requires serious policy attention. The lecture will be based on a forthcoming book, jointly written with Alexander Betts, "Refuge: transforming a broken refugee system".

Sir Paul Collier is Professor of Economics and Public Policy at the Blavatnik School of Government and a Professorial Fellow of St Antony's College. He is a Director of the International Growth Centre and a Professeur invité at Sciences Po, Paris.

His research covers fragile states; the effects of aid and the problems of democracy in low-income and natural resources rich societies; urbanization in low-income countries; private investment in African infrastructure and changing organizational cultures. Recent books include *The Bottom Billion* (Oxford University Press, 2007) which in 2008 won the Lionel Gelber, Arthur Ross and Corine prizes and in May 2009 was the joint winner of the Estoril Global Issues Distinguished Book prize. His latest book is *Exodus: How migration is changing our world* (Oxford University Press, 2013). In 2014, Paul received a knighthood for services to promoting research and policy change in Africa.

The Global Economy Lecture is jointly organized by the Oesterreichische Nationalbank (OeNB) and The Vienna Institute for International Economic Studies (wiiw).

On this occasion, OeNB Governor Ewald Nowotny will bestow the Klaus Liebscher Award and the Olga Radzyner Award.

More information: <https://www.oenb.at/en/Calendar/terminarchiv-2016/2016/global-economy-lecture-2016.html>

Focus on European Economic Integration Q3/16 [\(full version\)](#)



Studies

The development of bank profitability in Denmark, Sweden and Switzerland during a period of ultra-low and negative interest rates, Scheiber, T., Silgoner, M., Stern, C., p. 8-28 [\(study\)](#)

Design of fiscal frameworks and compliance with fiscal rules in CESEE, Reuter, W. H., p. 29-40 [\(study\)](#)

Belarus in recession, banking sector in difficulties – Russia to the rescue, Barisitz, S., p. 41-49 [\(study\)](#)

Event wrap-ups and miscellaneous

Drivers of household credit demand before and during the crisis, p. 52-53
Compiled by Ádám Banai and Nikolett Vágó (Magyar Nemzeti Bank) [\(link\)](#)

Expert meeting on macroforecasting in CESEE, p. 54
Compiled by Martin Feldkircher [\(link\)](#)

Call for Applications: Visiting Research Program



The Oesterreichische Nationalbank (OeNB) invites applications from external researchers (EU or Swiss nationals) 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 co-operation with members of academic and research institutions (preferably postdoc) 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 three and six 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 2017 should be e-mailed to Eva.Gehring-Wasserbauer@oenb.at by May 1, 2017.

Applicants will be notified of the jury's decision by mid-June 2017. The following round of applications will close on November 1, 2017.

See also: [Visiting Research Program 2017](#)

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 ceec@oenb.at.

November 23, 2016	Workshop on Competitiveness and Inclusive Growth in Cooperation with: EIB, World Economic Forum, Bruegel
November 24 and 25, 2016	EMU Forum 2016: Completing Economic and Monetary Union (by invitation only)
November 28, 2016	Paul Collier (University of Oxford): Global Economy Lecture 2016 „How should Europe meet the Duty of Rescue towards the Displaced and the Poor?“ (by invitation only)
January 26 and 27, 2017	HFCS-CESEE Workshop of the Oesterreichische Nationalbank: How to use survey data for financial stability analysis in CESEE countries
November 20 and 21, 2017	Conference on European Economic Integration

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: www.jvi.org

November 21 – 23, 2016	Cash Circulation and Payment Systems in Austria
November 28 – December 2, 2016	Monetary and Financial Statistics Collected and Compiled by the ESCB
January 23 – 26, 2017	Advanced Course on Financial Stability Stress Testing for Banking Systems
January 30 – February 3, 2017	Banking Supervision within the Basel Framework (in cooperation with JVI and DBB)
March 2 – 3, 2017	International Cooperation in Central Banks
March 13 – 17, 2017	Monetary Policy Implementation (in cooperation with JVI and DBB)
March 20 – 22, 2017	Financial Education
May 8 – 12, 2017	Integration in Europe: European Union and Eurasian Economic Union (in cooperation with the Austrian Federal Ministry of Finance)
September 11 – 15, 2017	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 ECB)
October 9 - 13, 2017	Implementing Early Warning Frameworks for Macro-Financial Stability Assessments in Central, Eastern and Southeastern Europe
November 22 – 24, 2017	Financial Translation and Editing: New Skills for New Challenges
November 27 – 29, 2017	Cash Circulation and Payment Systems in Austria