

Q3/2014

CESEE Research Update

Foreign Research Division

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

Foreign Research Division

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Event Wrap-Up

76th East Jour Fixe:

Using Survey Data for Economic Policy Research – A Focus on CESEE

In recognition that survey data can provide important input to economic policy, the OeNB dedicated its 76th East Jour Fixe on September 12, 2014, to “Using Survey Data for Economic Policy Research – A Focus on CESEE.” In her opening remarks, *Doris Ritzberger-Grünwald*, Director of the OeNB’s Economic Analysis and Research Department, highlighted the benefits of survey data but also stressed the caveats of working with survey data.

The subsequent sessions featured six papers that analyze a broad range of highly relevant topics, providing an overview of household and firm surveys which cover several CESEE countries and the range of current methodologies of working with these data. The first session was opened by *Martin Brown* (University of St. Gallen and Swiss Institute of Banking and Finance), who presented the paper “Euroization of Bank Deposits in Eastern Europe” (co-authored by *Helmut Stix*, OeNB). Based on the OeNB Euro Survey data, they argue that deposit euroization is related to monetary expectations but is also still influenced by households’ experiences of financial crises in the 1990s. The next speaker, *Dorothe Singer* (World Bank), presented the Global Financial Inclusion Database (Finindex), which is a survey among households on payments, savings, credit and insurance in 148 countries conducted in 2011, showed that there are large variations with respect to financial inclusion (account penetration), which only to a small part can be explained by GDP per capita. Continuing the topic of financial inclusion, *Karolin Kirschenmann* (Aalto University School of Business) started the second session with a presentation about the role of microfinance banks for the financial inclusion of house-

holds. *Helena Schweiger* (European Bank for Reconstruction and Development) moved on to the very topical question of how conflict affects firm performance and perceptions based on the August 2008 conflict between Georgia and Russia. The third session featured two papers that utilize firm-level survey data. *Ralph de Haas* (European Bank for Reconstruction and Development and Tilburg University) presented an analysis of how banks’ lending techniques affect funding to SMEs over the business cycle and showed that the role of relationship lending increases during economic downturns. Looking at the bank balance sheet channel using data on discouraged and informally rejected firms, *Alexander Popov* (European Central Bank) argued that the effect of lax monetary conditions on bank credit is even stronger when informal credit constraints are incorporated and concluded that survey data can provide a more complete picture of the effect of monetary policy.

After the presentation of these papers, the workshop closed with a roundtable of five representatives from CESEE central banks chaired by *Doris Ritzberger-Grünwald*, covering the more practical aspects that central bankers have to deal with in the use of surveys. *Biswajit Banerjee* (Bank of Slovenia), *Tomáš Holub* (Czech National Bank), *István Kónya* (Central Bank of Hungary) and *Florian Neagu* (National Bank of Romania) gave an overview of the surveys conducted in their central bank and in summary concluded that the role of surveys and more generally micro data has grown and will continue to grow, at the same time stressing that micro data will always remain complementary to macro data. [East Jour Fixe](#)

Collaboration between the National Bank of the Republic of Macedonia and the Foreign Research Division of the OeNB

The Monetary Policy and Research Department (MPRD) of the National Bank of the Republic of Macedonia and the Economic Analysis and Research Department of the Oesterreichische Nationalbank (OeNB) have started to collaborate in the area of micro data analysis. *Magdalena Petrovska*, an MPRD analyst, is currently spending a six-week research stay at the OeNB’s Foreign Research Division to work closely with OeNB experts experienced in survey data analysis and directly involved in the European

Wage and Price Dynamics Networks. Her research focus is on how Macedonian firms eventually relate price and wage adjustments to institutional and structural features, such as the nature of wage negotiations, the presence of forms of indexation of wages to prices, the intensity of competitive pressures, the structure of the workforce and the labor intensity of production.

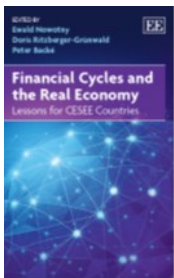
Conference on European Economic Integration (CEEI)

The Rebalancing Challenge in Europe – Perspectives for CESEE

CONFERENCE ASPECTS

The CEEI 2014 will examine the multiple challenges and potentially conflicting objectives of sectoral rebalancing in Europe, with a special focus on Central, Eastern and Southeastern Europe (CESEE). While significant progress has been made with the repair of banks' balance sheets, issues like private sector deleveraging, the considerable costs involved, slow economic growth as well as the difficulty of rebalancing simultaneously across countries and sectors still remain unsolved. Against this background, economic policy requires careful decisions on the type and sequencing of rebalancing exercises and prudent coordination across a wide range of stakeholders. The CEEI 2014 will analyze internal and external adjustments in Europe, discuss historical examples and thereby attempt to clarify the role of macroeconomic policy in large-scale rebalancing episodes. [CEEI 2014](#)

Announcement I



We are delighted to announce the forthcoming publication of a book covering the findings of the Oesterreichische Nationalbank's latest Conference on European Economic Integration. The book, entitled "Financial Cycles and the Real Economy: Lessons for CESEE Countries," will be published by Edward Elgar in October 2014. It addresses the policy challenges arising from the link between the financial cycle and the real economy, focusing in particular on Central, Eastern and South-Eastern Europe. The seventeen expert contributions highlight the role of financial cycles as leading indicators for financial crises and review efforts of economists to refine macroeconomic modeling by integrating financial factors. They also question the nexus between financial deepening and growth and assess the contribution of real estate bubbles to financial crises. Moreover, country-specific accounts discuss policies

that may be particularly useful in dealing with the financial cycle, both in the boom and in the bust phase.

[Edward Elgar Publishing](#)

Focus on European Economic Integration Q3/14

"Using a Threshold Approach to Flag Vulnerabilities in CESEE Economies",
Feldkircher M., Gruber T., Moder I., pp. 8-30



In this paper we examine macroeconomic, external and financial vulnerabilities of 22 Central, Eastern and Southeastern European (CESEE) economies. Our assessment is based on a nonparametric signaling or threshold approach, which involves monitoring selected indicators that show unusual behavior in the periods leading to a crisis. For that purpose, we have collected annual data on more than 90 emerging economies spanning the period from 1995 to 2012. Our dataset covers a broad range of potential early warning indicators related to the banking sector, the external side, and the macroeconomic and fiscal situation of the economy. Our

in-sample test shows that the threshold approach identifies 73% of crisis events correctly while issuing false alarms only for 31% of the noncrisis observations. For the purpose of this paper, crisis events comprise banking crises, currency crises and sovereign debt crises. Applying a composite vulnerability indicator to CESEE economies using the latest available data (2012), we identify Turkey, Belarus and Moldova as the countries that appear especially vulnerable to an unexpected adverse event based on our threshold approach.

[Focus on European Economic Integration Q3/14](#)

"Assessing the Full Extent of Trade Integration between the EU and Russia – A Global Value Chain Perspective", Benkovskis K., Pastusenko J., Wörz J., pp. 31-47

We analyze trade linkages between EU Member States and Russia, taking into account indirect trade links in global value chains. Our analysis is based on data for 2011 from the World Input-Output Database combined with gross trade flows between Russia and individual EU

economies. We derive our conclusions from three indicators: gross exports in final use, value added in final use and value added in output.

Russia represents the EU's fourth-largest trade partner in terms of direct export shares, while the EU is Russia's largest trade partner. In the same vein, Russia's economy is considerably more dependent on European value added for both final use and output production than vice versa. However, the degree of integration varies greatly among EU Member States. For example, the Baltic states

are notably more dependent on value added from Russia than vice versa, and certain economic sectors in the EU, such as the energy sector, utilities and air transport, are strongly dependent on inputs from Russia.

[Focus on European Economic Integration Q3/14](#)

“Macrofinancial Developments and Systemic Change in CIS Central Asia from 2009 to 2014”, Barisitz S., pp. 48-73

CIS Central Asia's structural heterogeneity may have deepened since the global crisis of 2008–09. Kazakhstan and Turkmenistan are relatively rich oil and gas exporters, the Kyrgyz Republic and Tajikistan are poor energy importers, and Uzbekistan is a more diversified but still rather poor economy. The rich hydrocarbon exporters typically achieve “twin surpluses” (current account and budget), while the hydrocarbon importers are often saddled with “twin deficits,” but benefit from remittance inflows. In contrast to the poorer countries, the energy exporters tend to attract large amounts of FDI and have carried out generous infrastructure modernization programs. Per capita income growth of the rich and the poor countries has diverged in recent years. No recession had occurred in Central Asia in 2009 and mostly robust GDP growth has ensued since. Growth drivers have been: recovering energy and other

resource prices and/or export volumes, generous private and public investment expenditures, and substantial remittances. Fixed exchange rates (to the U.S. Dollar) tend to be opted for by the oil and gas countries, floating currencies are preferred by the others. While price stability policies vary and inflation rates have on average come down to below double digits, price levels remain strongly exposed to volatile international food and staples markets. Banking sectors are fragile across the region; they are either recovering from a legacy of collapsed credit booms or suffering from high nonperforming loans as a result of connected lending or they require periodic subsidies for performing quasi-fiscal activities.

[Focus on European Economic Integration Q3/14](#)

“To What Extent Can Czech Exporters Cushion Exchange Rate Shocks through Imported Inputs?”, Tóth P. pp., 48-73

This paper examines the role of imported inputs in cushioning exchange rate shocks by using a partial equilibrium model of heterogeneous firms. Producers in the model can serve the domestic market, export final goods, import inputs or engage in both exporting and importing. In the model, an exogenous exchange rate shock simultaneously affects the variable costs and revenues associated with exports and imports. The impact of a hypothetical 1% appreciation of the domestic currency on sales is estimated using a panel of 7,356

Czech manufacturing firms observed from 2003 to 2006. We focus on the above period to exploit the rich within-firm variation in trade strategies. This variation is likely to be associated with the lifting of trade barriers following the Czech Republic's EU accession in 2004. For firms that both export and import, the model predicts a drop in export sales of 0.8% as opposed to a 1% drop for price-taker exporters who do not use imported inputs.

[Focus on European Economic Integration Q3/14](#)

CESEE-Related Abstracts from Other OeNB Publications

Macrofinancial Developments in Ukraine, Russia and Turkey from an Austrian Financial Stability Perspective, Barisitz S., Lahnsteiner M., Widhalm D., Wittenberger T., Financial Stability Report



Recent bouts of international financial market volatility and adverse geopolitical developments have put the spotlight on Ukraine, Russia and Turkey. While Austrian banks benefited from a benign macrofinancial environment in Russia and Turkey, in particular with regard to the swift recovery from the 2008–09 crisis

period, they are burdened by legacy issues of the last credit boom in Ukraine. By discussing macrofinancial developments in Ukraine, Russia and Turkey, this study sets the scene for a more in-depth analysis of Austrian banks' activities in these countries.

[full article](#)

Capital Market Development in CESEE and the Need for Further Reform, Jäger-Gyovai K, Financial Stability Report 27

Domestic capital markets in Central, Eastern and Southeastern Europe (CESEE) are still less developed than capital markets in more advanced economies. Unhedged foreign currency borrowing and dependence on external funding have been among the key vulnerabilities in CESEE during the global economic crisis. Therefore, there is a need for better developed local capital markets in the region, additional sources of domestic funding, and a reduction in foreign exchange exposure in domestic financial markets. International

initiatives, such as the Vienna Initiative or the EBRD Local Currency and Capital Markets Development Initiative, support local capital market development in the region. Well-developed capital markets are not only a crucial component for generating economic output, but also foster more stable growth through the ability of diversified financial sources to offset a slowdown of economic activity caused by a credit crunch.

[full article](#)

Save the Date Global Economy Lecture 2014

“Monetary Policy and International Capital Flows” jointly organized by OeNB and wiiw

Monday, December 1, 2014, 4:00 p.m.

Hélène Rey, Professor of Economics, London Business School
OeNB auditorium, ground floor

This year's Global Economy Lecture will be given by Hélène Rey, Professor of Economics at London Business School, Research Fellow at the Centre for Economic Policy Research and Research Associate at the National Bureau of Economic Research.

In her presentation Professor Rey will talk about financial integration in the world economy and monetary policy independence, addressing some of the following questions: Are the financing conditions in the main world financing centers setting the tone for the rest of the world, regardless of the exchange rate regime? Is there a global financial cycle and, if so, what are its determinants? The picture emerging is that of a world with powerful

global financial cycles characterized by large common movements in asset prices, gross flows and leverage. As credit cycles and capital flows obey global factors, they may be inappropriate for the cyclical conditions of many economies.

Further, credit flows are particularly procyclical and volatile. But even if capital flows, especially credit flows, are largely driven by a global factor, they might still bring important benefits to the world economy. A brief review of the empirical evidence and the quantification of standard growth models, however, show how elusive welfare gains to capital flows appear to be, though it could just be that they are hard to measure.

South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II

This new statistics publication will bring historical macroeconomic data on South-Eastern Europe to your fingertips. This volume represents a milestone in the joint endeavour of the South-East European Monetary History Network (SEEMHN), which brings together financial and monetary historians and economists with the objective of promoting knowledge about South-Eastern European monetary history.

When the idea of creating the SEEMHN came up in 2006, it was immediately clear that the OeNB would participate actively given the long-standing links with this region. Good policy is based on extensive experience,

both over time and in different settings. Over the past years the SEEMHN has succeeded in providing both types of experience: a review of history, and the possibility to compare the experiences of countries that have rarely featured prominently in standard international descriptions of monetary policy.

The SEEMHN recognizes that empirical studies require reliable data. Against this background, the central banks of Albania, Austria, Bulgaria, Greece, Romania, Serbia and Turkey have cooperated since 2006 to establish a historical database of 19th and 20th century financial and monetary data on the countries of South-Eastern Europe.

Clemens Jobst and Thomas Scheiber contribute on behalf of the OeNB a set of high-quality time series on Austria-Hungary from 1863 to 1914 that have not been systematically available until now and that cover the period during which some regions in South-Eastern Europe were part of the monetary area under the

responsibility of the OeNB and the Oesterreichisch-ungarische Bank, respectively.

South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II will be available for free download from the following websites as from December 2014.

Bank of Greece www.bankofgreece.gr
Bulgarian National Bank www.bnb.bg
National Bank of Romania www.bnro.ro
Oesterreichische Nationalbank www.oenb.at

Call for Applications: Visiting Research Program

The 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 postdoc) who work in the fields of macroeconomics, international economics or financial economics and/or pursue 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 for 2015 should be e-mailed to eva.gehringer-wasserbauer@oenb.at by November 1, 2014.

Applicants will be notified of the jury's decision by mid-December 2014. The following round of applications will close on May 1, 2015.

See also: [Visiting Research Program 2014](#)



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.

Olga Radzyner Award for Scientific Work on European Economic Integration

The OeNB has established an award to commemorate Olga Radzyner, former Head of the OeNB's Foreign Research Division, who died in a tragic accident in August 1999. The award is bestowed on young economists for excellent research on topics of European economic integration and is conferred annually. In 2014, four applicants were eligible to receive a single payment of EUR 3,000 each from an annual total of EUR 12,000.

Submitted papers should cover European economic integration issues and be in English or German. They should not exceed 30 pages and should preferably be in the form of a working paper or scientific article. Authors shall submit their work before their 35th birthday and shall be citizens of any of the following countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Kosovo, Latvia, Lithuania, Moldova, Montenegro,

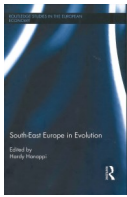
Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. Previous winners of the Olga Radzyner Award, ESCB central bank employees as well as current and former OeNB staff are not eligible. In case of co-authored work, each of the co-authors has to fulfill all the entry criteria.

This year the deadline for the application has already run out.

For more information, please see www.oenb.at or contact Ms. Eva Gehringer-Wasserbauer in the OeNB's Foreign Research Division either by e-mail eva.gehringer-wasserbauer@oenb.at or by phone (+43-1-40420-5205).

See also: [Olga Radzyner Award](#)

Announcement II



Routledge Studies in the European Economy, South-East Europe in Evolution, edited by Hardy Hanappi

This chapter familiarizes readers with the countries in South-eastern Europe (SEE) and intends to cover the last twenty years of the post-communist economic transformation and the catching-up process. Although the analysis contains an overview of the current economic situation, its objective is to show how the SEE region got there and what still has to be done to enhance the convergence progress. A comprehensive approach describes the various driving forces, i.e. political, institutional, and economic forces of convergence.

First, the specific differences between the countries in Central-eastern Europe (CEE) and the SEE countries will be stressed, as the SEE transition process is fairly often thrown into the same pot with that of the CEE countries. Yet their transition process shares only some common features with the CEE countries, like privatization issues, the Balassa-Samuelson effect, or institutional-building; however, they differ in economic, cultural, and geographical terms. Moreover, they have a unique historical background, including the many conflicts between the Turks and Mediterranean settlers, the separation from Europe and the decline under the Ottoman Empire for centuries as well as, more recently, the breakup of former Yugoslavia.

Going further, this contribution underlines the even more important fact to which generally little notice is paid, namely the heterogeneity in economic and institutional terms among the SEE countries themselves. For instance, as to the latter, on the one hand, Bulgaria and Romania joined the European Union (EU) in 2007 and only recently, on July 1, 2013, Croatia became an EU member despite the serious concerns of the EU Member States about corruption and organized crime in these three countries. On the other hand, the Western Balkan countries are still lagging behind in their EU integration process. In the last decade of the twentieth century, these countries' defining features were mostly ethnic conflicts, minority problems, and the violation of territorial integrity. Moreover, political instability, underdeveloped civil societies, low level of the rule of law, and destroyed economic systems presented a poor basis for economic development. The turbulent history of the region is the reason why the European Union defined as its main priority the preservation of peace, democracy, good governance, and stability.

<http://www.routledge.com/books/details/9780415524254>

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 24-25, 2014	Conference on European Economic Integration: The Rebalancing Challenge in Europe – Perspectives for CESEE
December 1, 2014	Global Economy Lecture 2014, "Monetary Policy and International Capital Flows", jointly organized by OeNB and wiw, H�el�ene Rey, Professor of Economics, London Business School
March 12, 2015	IMF Seminar: "The Western Balkans: 15 Years of Economic Transition" at the Joint Vienna Institute co-hosted by the OeNB

Czech National Bank Governor Singer Holds 2014 Annual Lecture at the JVI

The Governor of the Czech National Bank (CNB), Miroslav Singer, delivered this year's Annual Lecture at the Joint Vienna Institute (JVI) on September 26, 2014, outlining the CNB's experience with using the exchange rate as a monetary policy instrument. In the wake of the recent crisis, the Czech Republic had faced strong disinflation and an increasing risk of deflation from 2012, Singer explained. With the policy rate at the zero lower bound, the CNB therefore decided in late 2013 to use the exchange rate as an additional monetary policy

instrument. According to Governor Singer, the unconventional policies are already bearing fruit: The Czech economy is recovering and inflation may have bottomed out. The key challenge now was to get the timing for exiting the unconventional strategy right. The CNB would return to its standard inflation targeting framework with interest rates as the main policy instrument combined with free floating only once the need for policy tightening was sufficiently strong, Governor Singer concluded.

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: www.jvi.org and [Program JVI 2014](#)

October 13-17, 2014	Macro-Financial Stability in Central, Eastern and Southeastern Europe
October 20-24, 2014	Economic and Monetary Integration in Europe
November 17-21, 2014	Monetary and Financial Statistics Collected and Compiled by the ESCB
December 1-2, 2014	Financial Education in Central Banks: Initiatives and Activities
January 19-22, 2015	Advanced Course on Financial Stability Stress Testing for Banking Systems
May 18-22, 2015	Institutional Challenges for Candidate and Potential Candidate Countries on the Road to the EU and EMU
September 14-18, 2015	Macro-Financial Stability in Central, Eastern and Southeastern Europe
October 12-14, 2015	Cash Circulation and Payment Systems in Austria
October 19-23, 2015	Integration in Europe: European Union and Eurasian Union
November 16-18, 2015	Financial Education
November 30—December 3, 2015	Building New Skills in Financial Translation

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