

HIGHLIGHTS

About a year ago, the Foreign Research Division of the OeNB launched the CEEC Research Platform, a website designed to provide access to research and to provide the public and experts with information about the economic, monetary and financial integration of the CEECs. Given the high number of visits to our website, it has proved to be a success. We highly appreciate the interest of thousands of users worldwide. The *ceec.oenb.at* website will serve us to present a growing volume of research and related activities to readers interested in integration, convergence and transition-related topics in the new EU Member States, the current EU candidate countries and in other transition countries in the Western Balkans and the CIS. Finally, we would like to thank you for your input and feedback, which were decisive for the changes we have undertaken: we have revised menu navigation, introduced a new design and provided new access options.

Menu Navigation: Informative and User Friendly

In this busy day and age, concise and user-friendly menu navigation has top priority for a website. Hence, we have revised menu navigation and added new menu items.

You can find the following material on our website in German and English (wherever available):

- The OeNB's publication on CEE and SEE, Focus on European Economic Integration, the successor to Focus on Transition (all available back issues may be accessed in the archives)
- Studies published in OeNB publications by OeNB staff and other authors and in external publications by OeNB staff on
 - monetary policy
 - exchange rates
 - the banking sector and financial stability
 - trade and direct investment
 - fiscal policy (including pension systems)
 - the real economy, labor markets, inflation
 - institutional issues
 - EU enlargement
- In-depth analyses of economic developments in Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia and Russia
- Statistics providing an overview both by countries and by economic indicators
- Information about the technical cooperation activities with CEE transition countries including the Western Balkans and the CIS
- Schedules of and reports on the OeNB's CEE-related activities
- Valuable links to national statistical offices and central banks in the service part of the website
- A subscription option to e-mail alerts

New Design

The OeNB has relaunched its public website at www.oenb.at, which provides access to the wide range of OeNB research as well as to information about other OeNB activities. While the CEEC Research Platform has also been integrated into the OeNB's public website, you may still reach it directly at ceec.oenb.at.

Easy Access

We hope that you will find this website useful and that you will stay in touch with us: Click on ceec.oenb.at or visit the OeNB's public website www.oenb.at, where you may click on the quick link Central and Eastern Europe. Please send your inquiries or proposals directly to the CEEC team at ceec@oenb.at.

The selected abstracts below alert readers to studies on CEEC topics published in other OeNB publications.

The Transformation of the Romanian Financial and Banking Sector

Stephan Barisitz

Compared to other transition countries, the Romanian banking sector and stock exchange are small. However, Romanian banking has been on the catching-up route since the economic crisis the country experienced in 1997–99. Banking reform has achieved considerable progress since then. Today a major share of the assets of the sector is in foreign ownership, with Austrian banks in prominent positions. As a consequence of the swift credit expansion in 2002 and 2003 as well as of continuing structural problems and weaknesses, the risk potential has risen recently, though. Overall, given the size of the country, the Romanian financial sector bears an impressive growth potential, which, however, can only be tapped if the authorities persevere with their reform efforts.

Published in Financial Stability Report 7 available at http://www.oenb.at/en/presse_pub/period_pub/periodische_publicationen.jsp.

Central and Eastern Europe – The Growth Market for Austrian Banks

Peter Breyer

Although the Central and Eastern European banking market (excluding Russia) is relatively small with total assets of some EUR 350 billion (by comparison, total bank assets in Austria were some EUR 605 billion at the end of 2003), it is nevertheless a growth market. In addition to higher economic growth, the low degree of bank intermediation suggests strong growth potential for banks in Central and Eastern Europe (CEE) in the coming years.

Above-average growth potential, higher interest margins than in Western Europe and restructuring potential have led Western European banks to invest heavily in the CEE banking sector. Approximately 70% of the CEE banking market is currently controlled by Western European banking groups. Austrian banks were among the first to invest in Central and Eastern European countries and are now some of the best-known Western European banks in the region. As early as 2002 and 2003, steady expansion in the CEE region had a positive impact on the profitability of Austria's consolidated banking sector.

Favorable reports on the CEE banking market, however, often ignore potential risks. Key sources of risk in the Central and Eastern European banking market are macroeconomic imbalances, the risk of growing exchange rate volatility, credit risk, increasingly fierce competition and political risks.

Published in Monetary Policy and the Economy 3/2004 available at http://www.oenb.at/en/presse_pub/period_pub/periodische_publicationen.jsp.

The “East Jour Fixe” of the Oesterreichische Nationalbank

The East Jour Fixe of the Oesterreichische Nationalbank, a series of meetings initiated in 1991 as a forum in which economists, members of academia, government officials and other experts on Eastern Europe meet to discuss specific transition issues, looks back on a long tradition. In the first half of 2004, two meetings continued this series.

The 51st East Jour Fixe on April 16, 2004, concentrated on selected theoretical and empirical aspects of financial systems in CEECs. In the first session, chaired by Doris Ritzberger-Grünwald, Head of the Foreign Research Division of the OeNB, Rafał Kierzenkowski of the Banque de France presented a theoretical work on the bank lending channel and the effectiveness of the Polish monetary policy transmission during transition. In the second session, chaired by Jarko Fidrmuc, Foreign Research Division of the OeNB, Márton Nagy and Csaba Mór , senior economists at Magyar Nemzeti Bank, presented a joint empirical paper on market structure and bank performance in CEECs. The last presentation by Peter Breyer, Banking Analysis and Inspections Division of the OeNB, focused on the activities of Austrian banks in the CEECs.

The 52nd East Jour Fixe took place on July 1, 2004. The highly topical meeting focused on energy against the background of the sharp rise in oil prices in recent months. The event again comprised two parts: In the first session, chaired by Markus Arpa, Deputy Head of the Foreign Research Division of the OeNB, Professor Ray Barrell of NIESR and Douglas Sutherland of the OECD discussed the macroeconomic impact of oil price shocks. The second session, chaired by Doris Ritzberger-Grünwald, Head of the Foreign Research Division of the OeNB, covered selected aspects of the energy sector. Wolfgang Ernst of the Austrian oil company OMV discussed the implications for Austria of current oil prices, while Nebojsa Nakicenovic of the IIASA and the Vienna University of Technology addressed future technological options in the energy sector and geographical implications with a focus on the future role of Russia and China.

A synopsis of the meetings is provided below.

51st East Jour Fixe

Financial Systems in CEECs

On April 16, 2004, the Oesterreichische Nationalbank organized the 51st East Jour Fixe meeting on “Financial Systems in CEECs.” The seminar was organized in two sessions, focusing on the transmission mechanism and the banking sector, respectively. A special feature was that two of three papers presented at the event received the Olga Radzyner Award in 2003.

The first session was chaired by Doris Ritzberger-Grünwald, Head of the Foreign Research Division of the OeNB. She introduced the topic of the meeting, stressing the importance of the transmission mechanism and the role of the banking sector for the countries on the edge of full membership in the European Union. Rafał Kierzenkowski, Banque de France, then presented his paper on “The Multi-Regime Bank Lending Channel and the Effectiveness of the Polish Monetary Policy Transmission During Transition.”¹ The speaker started with

¹ The contribution is based on the author’s Ph.D. thesis at the University of Paris Dauphine, which received the Olga Radzyner Award in 2003. The presented version of the paper is forthcoming in the *Journal of Comparative Economics*.

a short discussion of capital markets in Poland, which are still fairly narrow by international standards. Furthermore, the financial system is based heavily on banks collecting savings and providing loans to investors. Starting from the structure of the financial system in Poland, which is typical of that in several new EU Member States, Mr. Kierzenkowski described a generalized monetary transmission model with a bank lending channel.

The standard models show that the bank lending channel amplifies monetary policy actions: monetary policy becomes more restrictive when the banking sector reduces loan supply in response to a negative monetary shock. By contrast, Mr. Kierzenkowski's results show that the standard findings depend crucially on several assumptions. If these assumptions are relaxed, the bank lending channel can generate several regimes in the transmission process. It may either amplify (standard case) or attenuate, i.e. smooth, the effects of monetary shocks, depending on the model parameters. Furthermore, the spread between loan and bond interest rates is a good indicator of which regime is actually working in an economy.

In the second part of his presentation, Mr. Kierzenkowski calibrated the model for Poland between 1994 and February 2002. The results show that the bank lending channel was in the attenuation regime at the beginning of the period (1996–98) and in a neutral position afterwards. The exchange rate could be a driving force behind the change, as the structural break coincides with the adoption of a floating exchange rate system in Poland.

Mr. Kierzenkowski's contribution was discussed by Sylvia Kaufmann of the Economic Studies Division of the OeNB. She pointed out the new contributions the author made to the modeling transmission mechanism in general as well as in the acceding countries. Then, she addressed possible differences between fixed and floating exchange rate regimes, the relationship between the bank lending channel and the credit channel, and the role of time-changing parameters during accession to the European Union.

The second session on banking systems in the acceding countries was chaired by Jarko Fidrmuc, Foreign Research Division of the OeNB. Mr. Fidrmuc linked the papers of the second session to the previous contribution, which had already stressed the importance of the banking sector in the transmission mechanisms of the CEECs. Subsequently, Márton Nagy and Csaba Mór , senior economists at Magyar Nemzeti Bank, presented their joint paper on “The Relationship between Market Structure and Bank Performance: Empirical Evidence for Central and Eastern Europe.”² The contribution analyzes the role of market structure in the pricing behavior and profitability of banks in the CEECs. In particular, the authors discuss two relationships: first, the structure-conduct-performance paradigm (SCP), which supposes that higher concentration allows for higher prices and extra profits and second, the relative market power (RMP) hypothesis, which states that banks with large market shares and well-differentiated products can increase their profitability. The estimations using the individual bank data of eight CEECs between 1998 and 2001 confirm the RMP hypothesis but reject the SCP hypothesis. Furthermore, costs, risks,

² *The Olga Radzyner Award-winning paper was published as MNB Working Paper 2003/12 available at http://english.mnb.hu/dokumentumok/WP2003_12.pdf.*

reserve ratios and the depth of bank intermediation also play an important role in the banks’ performance.

Finally, Peter Breyer, Banking Analysis and Inspections Division of the OeNB, presented his recent analysis on “Central and Eastern Europe: An Expanding Market for Austrian Banks.”³ His presentation was mainly devoted to three issues. Mr. Breyer began by describing the role of Austrian banks in the region, which own about 22% of the banking assets in CEE. These investments are also very important from the domestic perspective of the Austrian banking sector. Austrian banks’ subsidiaries in Central and Eastern Europe account for about 10% of their total assets. Second, Mr. Breyer argued that there was still a significant growth potential in CEE banking based on GDP growth forecasts and the low levels of financial intermediation. This is likely to improve the Austrian banking sector’s profitability in the coming years. Finally, the speaker addressed possible risks in CEE with respect to overall macroeconomic developments (twin deficits and currency risk) as well as to sectoral developments (closing of currently high interest margins and credit risks). Correspondingly, Mr. Breyer stressed the importance of adequate risk-control measures. Overall, the growth in CEE banking is likely to outpace banking growth in Austria and Western Europe.

Thomas Url, senior economist at the Austrian Institute of Economic Research (WIFO), concentrated on the first paper in his discussion. He compared the presentation with similar results available for OECD countries, noting that some differences found for the CEECs may be due to data problems in these countries. Finally, Mr. Url also touched upon the economic policy implications of both papers.

52nd East Jour Fixe

The Oil Price: Prospects and Macroeconomic Implications

On July 1, 2004, the Oesterreichische Nationalbank organized the 52nd East Jour Fixe on “The Oil Price: Prospects and Macroeconomic Implications” in view of the recent development of oil prices. The willingness of the speakers to participate in this meeting at short notice and at the beginning of the summer season has to be highly appreciated.

The seminar was organized in two sessions, the first focusing on the macroeconomic effects of the current oil price hike on the EU and the world economy and the second on sectoral effects in selected countries. The first session was chaired by Markus Arpa, Deputy Head of the Foreign Research Division of the OeNB, who introduced the topic of the meeting with a quote by Sheik Ahmed Zaki Yamani, former Minister of Petroleum and Mineral Resources of Saudi Arabia: “The Stone Age did not end for the lack of stone, and the Oil Age will end long before the world runs out of oil.” First, Ray Barrell of the National Institute of Economic and Social Research, NIESR, in London

³ The full contribution may be found in the Oesterreichische Nationalbank’s quarterly publication *Monetary Policy and the Economy* 2/2004.

and the Imperial College London, presented a paper⁴ coauthored with Olga Pomerantz, also of NIESR, entitled “Oil Prices and the World Economy.” Ray Barrell stressed that the oil and energy intensities were now much lower than in the 1970s and 1980s. This also implies lower macroeconomic effects than during the oil price shocks, which simulations in the authors’ macroeconomic forecasting model (NiGEM) confirm. However, the new EU Member States are more energy intensive, which makes them more vulnerable to oil price hikes. Mr. Barrell concluded that the policy response of central banks and the behavior of oil exporting countries play a decisive role in the outcome of an oil price shock.

Douglas Sutherland of the Organisation for Economic Co-operation and Development, OECD, linked his presentation to the preceding contribution. The speaker analyzed OPEC and the supply side of the oil market in more detail. In real terms, the current oil price is relatively low in comparison to that during previous episodes of high oil prices, which, in combination with lower energy intensities particularly in the EU countries, reduces the macroeconomic effects of the current oil price jump. The speaker gave an outlook of the development of production shares, with an increase in the share of OPEC expected in the medium term.

Doris Ritzberger-Grünwald, Head of the Foreign Research Division of the OeNB, headed the second session, opening with broader issues related to the energy sector in general and the impact on selected countries. Wolfgang Ernst (OMV, Corporate Strategy, Vienna) focused on the impact on Austria in “Oil Price: The Austrian Perspective.” The presentation started with basic aspects from the oil industry’s point of view. Recent price increases are not caused by fears of oil running out, stated Mr. Ernst. Proven reserves have been growing for decades as a result of new discoveries and improving technologies of exploitation. The cost curve of upstream business and oil companies’ price assumptions are well below the range forecast today. However, geopolitics, financial markets, oil product imbalances and taxes also determine consumer prices. Mr. Ernst continued by recounting conditions in Austria. Austria’s energy supply is characterized by a shift from coal and oil to gas and renewables. This shift and some flexibility on the consumer side decrease the impacts on the economy.

In the final contribution, Nebojsa Nakicenovic, International Institute for Applied Systems Analysis (IIASA) and Vienna University of Technology, added a further dimension to the theme in his presentation “Global Oil and Gas Perspectives: A Possible Role of Russia.” In his compelling lecture, Mr. Nakicenovic reviewed alternatives to oil as the major energy source. According to his analysis, oil will be replaced well before this natural resource is exhausted. Natural gas, renewables and methane hydrate could play an important role in this process. However, it is very difficult to foresee the trends in the next decades. Mr. Nakicenovic moved on to address Russia’s role as an energy supplier and China’s position as an energy importer, stressing that these countries were likely to gain importance in the next decades.

The discussion in both sessions addressed the issue of energy intensities in Austria and the European Union, in particular in the new Member States.

⁴ The full version of the contribution is published in *Focus on European Economic Integration* 1/2004.

Long-run price relations between various energy products were discussed as well. More detailed questions covered the structure of the consumer price index in Austria and the adequate response of policymakers to an oil price shock. Last but not least, the discussion of alternative energy resources continued well after the seminar.