

Research Update

Economic Analysis and Research Department

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Editorial



by Doris Ritzberger-Grünwald
 Director of the Economic Analysis and Research Department

Broadening the scope of price monitoring

This issue of our Research Update is dedicated to one of our new main research topics, namely housing market developments. Having to closely follow price developments in general as central bankers, our price stability aim has made us very familiar with HICP movements. Yet monitoring asset prices, mainly in markets where bubbles may arise, is a more recent addition to this task.

The relaunch of the OeNB's website late last year gave us the opportunity to pool housing-related information in a new section ("Real Estate Market Analysis"). Similarly, under the heading "The OeNB property market monitor," this newsletter pools information on house prices and related indices, the results of our fundamentals indicator for residential property prices, and housing-related research and analyses, currently e.g. a comparison of housing markets in Austria, Germany, and Switzerland. In the near future we will add our new indicator for commercial property prices. This line of research is, indeed, helpful in several ways. When the SNB made the surprise move earlier this year of letting its currency float against the euro, and Austrian FX loans came into the spotlight, our expertise of the housing market was quite welcomed. Knowing more about the households who are the owners of these FX loans – given data generated by our Household Finance and Consumption Survey – we know that the majority of these households has a relatively favorable income position, which should help them handle the difficult situation more easily.

When it comes to inflation in general, Austria is not in a very favorable position these days. Being far removed from where a country would like to be, Austria suffers from relatively low GDP growth rates combined with relatively high inflation rates. Our inflation experts have identified services, mainly in tourism, but also the financial sector as the "inflation triggers." Of course these factors are not the only ones responsible for our unfavorable situation, letting us fear that Austria could miss the next upswing in Europe – if there is any! To find out more, you are invited to join our 43rd Economics Conference on "Long-Term Perspectives for Economic Growth," which is coming up on June 15–16 in Vienna.

Hope to meet you there!
 Doris Ritzberger-Grünwald

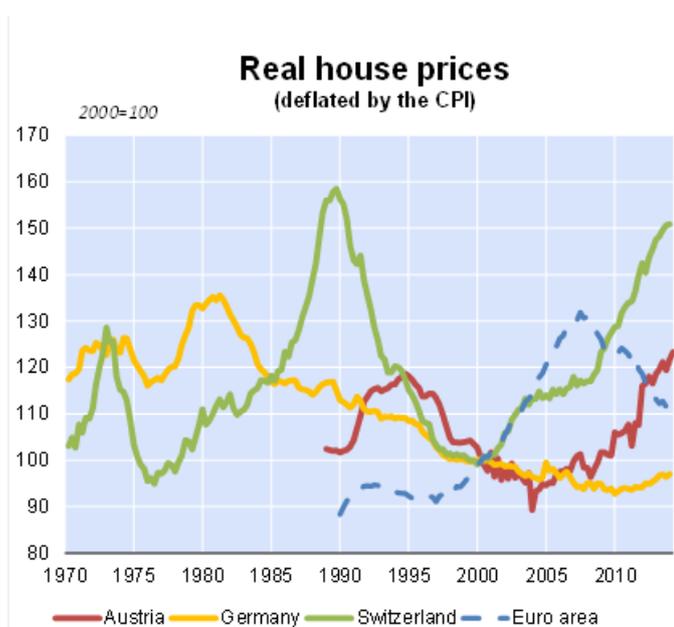
Report on housing markets in Austria, Germany and Switzerland

Running counter to the sharp rise in house prices and housing wealth observed since the mid-1990s in the vast majority of European countries, real house prices in Germany and Austria were going down in this period and did not start to rise until 2010 or 2007, respectively. This reflects national idiosyncracies in housing markets and motivated the discussion of relevant peculiarities in, and similarities among, Austria and Germany as well as Switzerland.

Among the most important structural features that ensured housing market stability in these three countries during the last decade are well-developed rental markets, low homeownership ratios and conservative lending standards. While the tax systems of Germany and Austria do not encourage indebtedness, Swiss taxpayers benefit from taking on a lot of leverage. Recent house price increases in all three countries under review can be attributed to various crisis-related channels as well as to demographic developments, including immigration. The Swiss authorities have already implemented a number of macroprudential measures to safeguard the banking sector.

House price developments in the three countries – some stylized facts

While some euro area countries (e.g. Greece, Spain) experienced a decline of house prices in the late 2000s, nominal house prices were rising in Austria, Germany and Switzerland. Given the impact of demographic and economic developments on house prices, the fact that



Source: TU Wien, BIS, OeNB.

house prices have been rising more strongly in Switzerland than in Austria and Germany may be related to the fact

that the population, including net inward migration, and real disposable income grew most.

The recent upswing in the Austrian and German housing market has also been driven by the global financial situation. Given increased demand for safe assets, the housing market became an investment vehicle of choice for international investors and for domestic households seeking to protect the value of their assets. Furthermore, this tendency has been reinforced by low returns on financial assets.

Low homeownership ratios and well-developed rental markets dominate

Within the EU, Austria (58%) and Germany (53%) have the lowest ownership ratios, far below the EU-28 average of 71% (2012). The low ratios are essentially the consequence of well-developed rental markets, on top of a well-developed social housing sector in Austria and Germany. Furthermore, subsidies for homeowners are not as high in Austria and Germany as in countries like Spain or the Netherlands. The fact that Germany has a lower ownership ratio than Austria may reflect the higher degree of regional mobility observed in Germany.

The housing tax system has far-reaching implications for real estate markets

The effects of mortgage deductibility can be seen in Switzerland, where mortgage payments can be deducted when calculating imputed rent. The volume of outstanding mortgage loans is three times as high in Switzerland as in Austria and Germany (relative to GDP). High transaction costs stabilize the market in Austria and Germany by fostering long-term investment in real estate and by preventing speculation.

Very high household indebtedness in Switzerland (124% of GDP) in contrast to Austria (55%) and Germany (59%)

National structures of housing finance differ from country to country. While foreign currency loans play a major role in Austria (22% in 4Q2014), the German share is much lower, in Switzerland it is almost negligible (<1%). Furthermore, the share of variable-rate loans accounting for 87% in Austria is very high compared to Germany (15%) and Switzerland. The typical maturity of mortgage loans is much longer in Austria (25–30 years) than in Germany (10–15) and Switzerland (2–10).

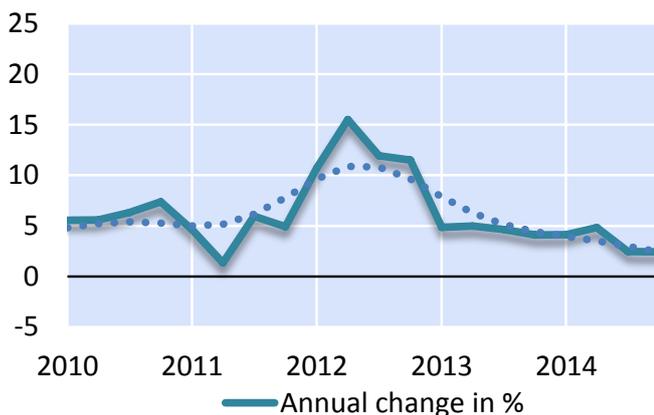
For further details see http://www.oenb.at/dms/oenb/Publikationen/Volkswirtschaft/MOP-GEWI/2015/Monetary-Policy-and-the-Economy-Q1-15/chapters/schneider_MOP_1_15/mop_2015_q1_analyses4.pdf

The OeNB property market monitor of April 2015: Marked slowdown in residential property price growth in the second half of 2014

Slowdown in price growth stabilizes in the second half of 2014

Residential property price growth continued to moderate considerably in the fourth quarter of 2014, with inflationary pressures slowing to +2.4% in Austria year on year. Once again, prices declined against the previous quarter (-0.5% compared with -1.2% in the third quarter of 2014).

Residential property prices in Austria



Source: TU Wien, OeNB.

In Vienna, property price growth had continually subsided since the fourth quarter of 2013, coming to +1.0% year on year in the fourth quarter of 2014. For Austria excluding Vienna, by contrast, price growth accelerated further at +3.2% in the fourth quarter of 2014 year on year.

Overvaluation in Vienna declined in the second half of 2014

The OeNB's fundamentals indicator for residential property prices pointed to a 19% overvaluation for Vienna in both the third and fourth quarter of 2014.

This is a 22% decline against the first and second quarter of 2014, which is mainly attributable to a reduction in real estate prices against the second quarter. For Austria as a whole, the indicator shows that residential property prices are in line with fundamentals; in the fourth quarter of 2014, they were underpriced by 2% relative to fundamentals.

Residential construction in Austria remains flat

Residential construction in Austria continued tepid growth. Real housing investment advanced slightly in 2014 (+0.4%) after having contracted in the two previous years. A rather dynamic first half year (thanks to mild weather

conditions) was followed by a slowdown in the second half of the year. Production output and the number of annual hours worked in construction also point to weak developments in this segment. For the first quarter of 2015, survey results released by the European Commission ("Home improvements over the next 12 months") signal a further contraction.

Housing loans continue to grow only moderately

Housing loans to households continued to grow only moderately, although the conditions for taking out housing loans remained favorable. A currency breakdown shows that foreign currency loans lost further ground in favor of euro-denominated loans. Despite the continued decline in the share of foreign currency loans in total loans, foreign currency risk remained high. The share of variable rate loans in total housing loans in Austria is very pronounced by international comparison and continues to rise, which goes hand in hand with considerable interest rate risk.

News

- On October 9 and 10, 2014, the OeNB organized a workshop entitled "Are House Prices Endangering Financial Stability? If so, How Can We Counteract This?". The proceedings of this workshop are available on the OeNB website at <http://www.oenb.at/en/Publications/Economics/Proceedings-of-OeNB-Workshops/2015/Workshop-No.-19.html>
- The OeNB launched a project to construct a commercial property price index as a useful tool for monitoring the commercial real estate market and for detecting adverse trends in regional and sectoral market segments. First results will be available not before 2016.
- Statistics Austria for the first time published a House Price Index (HPI) on March 25, 2015. The HPI reflects changes in the purchase prices of residential property throughout Austria. Apart from the HPI, Statistics Austria now also publishes an Owner Occupied Housing Index (OOH PI) reflecting price changes related to the acquisition and ownership of residential property. Both indexes will be released on a quarterly basis, dating back to the first quarter of 2010. In spite of this fact, the OeNB will calculate in collaboration with the Vienna University of Technology its' indices also in the future (as they have more break-downs and cover a longer time period – from 3Q1986 onwards).



Asset-liability management with ultra-low interest rates

Insights from a conference jointly organized by SUERF, the OeNB and the Austrian Society for Bank Research

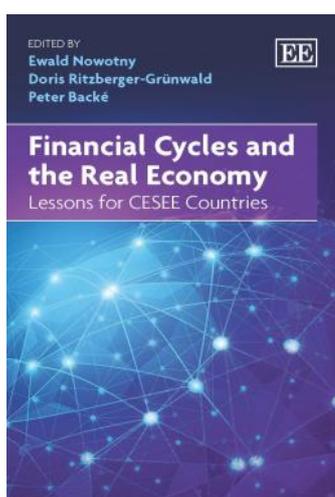
In reply to the financial crisis, “Great Recession” and sovereign debt crisis, many central banks have pursued ultra-easy and far reaching unconventional monetary policies for several years. Yields on various bond classes – including euro area sovereign bond yields since the sovereign debt crisis has subsided – have reached extremely low levels. Prices on stocks and real assets have soared. In several countries, markets have been expecting a reversal of the interest rate cycle for some time now. As a result, the risk of – possibly substantial – price corrections in all these asset classes may be seen to have increased.

This environment poses challenges for banks’ asset liability and risk management as well as earnings. Institutional investors facing yield pressure may resort to more risky strategies, established forms of investment strategies may no longer be viable. Also official investors, like central banks and sovereign wealth funds, feel the pressure from lower current or future earnings and potential future risk from the current ultra-low yield and rather high pricing levels.

To discuss relevant issues, scenarios, options and risks in this environment, SUERF in cooperation with the Austrian central bank (OeNB) as well as the Austrian Society for Bank Research organized a full-day conference, which

brought together financial practitioners, academics, supervisors and policy makers. Lessons from history were explored, a bird’s eye perspective from academia and international institutions as well as inside views from industry practitioners were provided. Possible consequences for financial stability, the macroeconomy at large as well as adequate policy responses were discussed.

With around 170 registered participants, the conference demonstrated impressively how useful and crucial an interdisciplinary dialogue between practitioners, policy makers and academics is in particular when it comes to new, complex and multidimensional topics such as the one addressed in this conference. To fully grasp relevant scenarios, challenges and possible solutions to the topic at hand, the conference combined insights from economic history, macroeconomics, finance and business administration as well as legal and institutional expertise on relevant supervisory frameworks, including various operational aspects. Only such a holistic view allows financial firms and policy makers to make adequate assessment and decisions, and enables academics to tailor their analysis and research to the needs of practitioners and policy makers and society at large. SUERF thanks its co-organisers, its members as well as conference speakers and participants for supporting activities like this.



Financial Cycles And The Real Economy

Lessons for CESEE Countries

Ewald Nowotny, Doris Ritzberger-Grünwald and Peter Backé (2014), Edward Elgar Publishing

What is the link between the financial cycle – financial booms, followed by busts – and the real economy? What is the direction of this link and how salient is this connection? This unique book examines these fundamental questions and offers a paramount contribution to the debate surrounding the recent financial and economic crisis.

With contributions from eminent academics and policy makers, this multi-disciplinary collection ascertains the policy challenges perpetuated by financial cycles in the real economy. Prominent macroeconomic models are challenged as experts question the nexus between financial deepening and growth, and assess the contribution of real estate

bubbles to financial crises. Focusing on Europe, and in particular on Central, Eastern and South-Eastern Europe, the collection provides country-specific accounts, suggesting policy initiatives for dealing with financial cycles. The book concludes that financial cycles are leading indicators for financial crises and calls for economists to integrate financial factors into macroeconomic modelling. [see more](#)

Nicholas Stern receives the Schumpeter Award 2015 for Innovative Achievements: Development of low-carbon activities can unleash a period of growth



©foto@minutilli.com

Professor Lord Nicholas Stern, Professor at London School of Economics, President of the British Academy and former Chief Economist at the World Bank, received the Joseph A. Schumpeter Award 2015 at a ceremony held in the Oesterreichische Nationalbank on March 13. The prize is funded by the City of Vienna and is conferred by Austria's Schumpeter Society to eminent economists, business people or politicians. Stern, who acknowledged of having been influenced by Schumpeter's work throughout his career, was awarded for his economic analysis, always taking environmental and social factors into consideration. In 2006, the landmark Stern Review on „The Economics of Climate Change” was released by the British Government. In 2014 the Global Commission on the Economy and Climate, co-chaired by Stern, its report “Better Growth – Better Climate”.

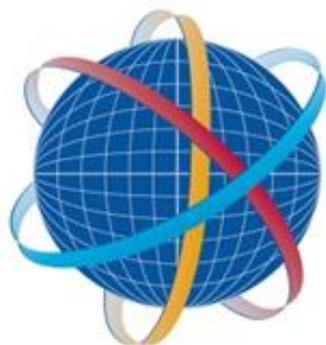
At the ceremony, Stern called for the EU to boost economic growth by investing in low carbon technologies by referring to Schumpeter's thesis on 'creative destruction'. “At a time when many European countries are struggling to stimulate economic growth, they would do well to remember Schumpeter's lessons about how technological change can usher in periods of intense creativity and innovation that generate prosperity and wealth. We can see that low-carbon technologies offer such an opportunity to generate Schumpeterian growth. If governments put in place clear and strong policies to confront high-carbon activities with their real costs, and incentivize the

development of low-carbon alternatives, they can unleash a period of transformation and growth in European economies.” Stern said on specific policies: „Further, these policies will have much greater traction if they are pursued by Europe working together. Europe could be in the vanguard of the industrial and urban revolution of the 21st century, making its cities less congested and polluted and its energy systems more efficient, clean, coherent and secure.”

The same day Nicolas Stern gave a lecture on “The Logic, Urgency, and Promise in Tackling Climate Change” at WIIW. The logic for action he derived from climate science which robustly confirms human sources and impacts of rapidly rising greenhouse gas concentration. The management of immense unprecedented risk however faces difficulties such as uncertainty, lags as well as its public good nature. Urgency is required as delay increases the risk and cost, and high-carbon infrastructure investment could imply that the lock-in lasts for decades. Stern's Promise refers to a “new energy-industrial revolution” cutting the emissions/output ratio by a factor of 7 or 8. A global transition to low-carbon growth representing a very attractive path that could, if economic history is a guide, stimulate dynamic, innovative and creative growth.



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43rd Economics Conference

Long-term perspectives for economic growth

June 15 and 16, 2015

Vienna Marriott Hotel

Parking 12a, 1010 Vienna

Seven years after the crisis began, many euro area countries still report low economic growth and high unemployment. While euro area monetary policy has cut interest rates to close to zero and has taken a variety of unconventional measures to support the economy, the full effects of these measures are yet to be seen. Fiscal policy seems to have reached its limits in many countries, with more expansionary fiscal policies widely considered a threat to debt sustainability and sovereign creditworthiness. The European Union has embarked upon a number of ambitious structural reform programs but implementation seems hesitant and unconvincing in many countries. While financial sector risk-taking has regained momentum, low investment and high unemployment continue to challenge the real economy.

Why is the economy recovering so slowly or, in some cases, not at all? Has the crisis reduced the long-run growth potential? And if so, by how much? How far below potential are current growth rates? Is the EU facing a period of secular stagnation? Conclusive answers to these and related questions are still missing, and so is effective policy action in some areas. To close these gaps, the OeNB's Economics Conference will (re)examine conventional drivers of economic growth and innovative policy measures. Participants from economic policy institutions, academia and the private sector will strive to sketch an appropriate policy mix for tackling the current lowgrowth and high-unemployment environment particularly in the EU.

Program

Monday, June 15, 2015

Opening address

Ewald Nowotny (OeNB)

Werner Faymann, Austrian Federal Chancellor (to be confirmed)

Session 1: Restarting Growth: Perspectives for the Euro Area

Chair: Andreas Ittner (OeNB)

André Sapir (Bruegel)

Karl Aiginger (Austrian Institute of Economic Research)

Session 2 Long-Run Growth, Monetary Policy and the Financing of the Economy

Chair: Peter Mooslechner (OeNB)

Peter Praet (ECB)

Maarten Verwey (European Commission)

Klaus Liescher Award Ceremony and Presentation of the Award-Winning Papers

Session 3: Potential Growth: Drivers and Impediments

Chair: Ernest Gnan (OeNB)

Thomas Helbling (IMF)

Giuseppe Nicoletti (OECD)

Session 4: Debt overhang as a drag on growth

Chair: Martin Summer (OeNB)

Juan F. Jimeno (Banco de España)

Ugo Panizza (Graduate Institute of International and Development Studies)

Tuesday, June 16, 2015

Session 5: Demography, labor markets, investment and growth

Chair: Kurt Pribil (OeNB)

Alexia Fűrnrkranz-Prskawetz (Austrian Academy of Sciences)

Wilhelm Molterer (European Investment Bank)

Session 6: The threat of secular stagnation and how to avoid it

Chair: Doris Ritzberger-Grünwald (OeNB)

Nicholas Crafts (University of Warwick)

Carl Christian von Weizsäcker (Max Planck Institute for Research on Collective Goods)

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 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 (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 2015 should be e-mailed to eva.gehringer-wasserbauer@oenb.at by May 1, 2015. Applicants will be notified of the jury's decision by mid-June. The following round of applications will close on November 1, 2015.

OeNB Periodical Publications

<http://www.oenb.at/en/Publications/Economics.html>

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



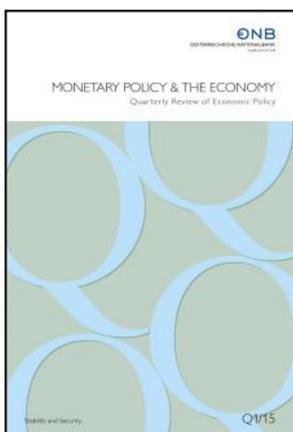
Focus on European Economic Integration Q1/15

Sectoral Deleveraging in Europe and Its Economic Implications (Martin Gächter, Martin Geiger, Florentin Glötzl, Helene Schuberth)

A Local or a Foreign Currency Loan? Evidence on the Role of Loan Characteristics, Preferences of Households and the Effect of Foreign Banks (Elisabeth Beckmann, Anita Roitner, Helmut Stix)

Price and Wage Rigidities in the Republic of Macedonia: Survey Evidence from Micro-Level Data (Florian Huber, Magdalena Petrovska)

[See more](#)



Monetary Policy & the Economy Q1/15

Austria: Economic Growth in 2014 at 0.4% (Christian Ragacs, Fabio Rumler, Martin Schneider)

Determinants of Inflation Perceptions and Expectations an Empirical Analysis for Austria (Friedrich Fritzer, Fabio Rumler)

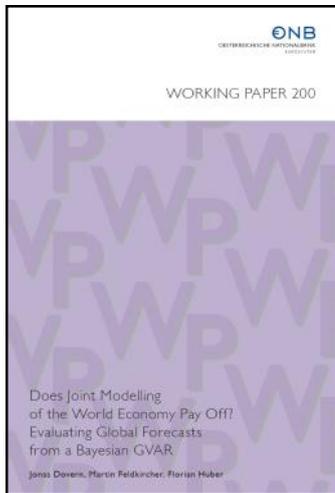
Impact of Inflation on Fiscal Aggregates (Doris Prammer, Lukas Reiss)

Housing Markets in Austria, Germany and Switzerland (Martin Schneider, Karin Wagner)

[See more](#)

OeNB Working Papers

<http://www.oenb.at/en/Publications/Economics/Working-Papers.html>



Does Joint Modelling of the World Economy Pay Off? Evaluating Global Forecasts from a Bayesian GVAR

Jonas Dovern, Martin Feldkircher, Florian Huber (Working Paper 200)

We analyze how modeling international dependencies improves forecasts for the global economy based on a Bayesian GVAR with SSVS prior and stochastic volatility. To analyze the source of performance gains, we decompose the predictive joint density into its marginals and a copula term capturing the dependence structure across countries. The GVAR outperforms forecasts based on country-specific models. This performance is solely driven by superior predictions for the dependence structure across countries, whereas the GVAR does not yield better predictive marginal densities. The relative performance gains of the GVAR model are particularly pronounced during volatile periods and for emerging economies.

External Publications by Staff Members

Foreign currency borrowing and knowledge about exchange rate risk

Elisabeth Beckmann and Helmut Stix (2015). *Journal of Economic Behavior & Organization* 112. 1–16.

Foreign currency loans by unhedged borrowers are widespread in many regions of the world. Against this background, we study whether the demand for foreign currency loans is driven by a lack of knowledge about the exchange rate risk emanating from such loans. We employ individual-level survey data from eight Central and Eastern European countries that provides information on agents' knowledge about exchange rate risk. Results show, first, that a majority of respondents is aware that depreciations increase loan installments. Second, we find that knowledge about the exchange rate risk exerts a strong impact on the choice of the loan currency.

Endogenous Leverage and Asset Pricing in Double Auctions

Thomas Breuer, Martin Jandačka, Hans-Joachim Vollbrecht, Martin Summer (2015). *Journal of Economic Dynamics and Control* 2. 144–160.

We propose a double auction mechanism for the exchange of leveraged assets and bonds in an agent based model. In this framework we validate recent results in general equilibrium theory about endogenous leverage and its consequences for asset pricing. We find that the institutional details of exchange are critical for a good match between the theoretical equilibrium state and the final state of the double auction: Specifically, the outcome of the double auction is sensitive to the details of how markets for debt and collateral are coordinated and how collateral is cleared. When trade is restricted to neighbors in a network, final prices and allocations are significantly different from unrestricted equilibrium.

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 or take a look at <http://www.oenb.at/en/Calendar.html>

Upcoming

May 29, 2015	77 th East Jour Fixe: Russia – Economic turmoil and policy options
June 15 –16, 2015	43 rd Economics Conference: Long-Term Perspectives for Economic Growth
June 19, 2015	Michael König (Universität Zürich): Friday Seminar
June 26, 2015	Emmanuel Mönch (Deutsche Bundesbank): Friday Seminar
September 10 – 11, 2015	Workshop: Toward a Genuine Economic and Monetary Union
October 15 – 16, 2015	Conference on European Economic Integration (CEEI) and Conference on the Future of the European Economy (CFEE): BOOSTING EU COMPETITIVENESS – The Role of the CESEE Countries (jointly organized and co-hosted with Narodowy Bank Polski in Warsaw)
November 5 – 6, 2015	13 th ESCB Emerging Markets Workshop hosted by the OeNB (by invitation only)

Recent

May 8, 2015	Tom Fischer (Universität Würzburg): Friday Seminar
April 10, 2015	Nikolaus Hautsch (Universität Wien); Systemic Risk Spillovers in the European Banking and Sovereign Network
March 11, 2015	Asset and liability management with ultra-low interest rates, conference jointly with the BWG and SUERF
March 10, 2015	The Western Balkans: 15 Years of Economic Transition (Conference jointly with the IMF)
January 9, 2015	Jean Jaques Herings (Maastricht University): General Equilibrium and The New Neoclassical Synthesis

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: www.jvi.org

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