

July 2019

CESEE Research Update

Foreign Research Division

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Content

OeNB's 84th East Jour Fixe 2

Relaunch of the OeNB's
CESEE webpage 4

Focus on European Economic
Integration Q2/19 6

Announcement:
Klaus Liebscher Economic
Research Scholarship 7

OeNB courses at the JVI 9

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Imprint/inquiries/copyright 2019:
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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 analysis and research output on Central, Eastern and Southeastern Europe (CESEE) as well as past and forthcoming CESEE-related events.

Foreign Research Division
OeNB

Highlight of this Issue

The OeNB's 84th East Jour Fixe: Long-run economic growth and development in CESEE: goals, priorities and implementation strategies

In cooperation with the Official Monetary and Financial Institutions Forum (OMFIF)

The Oesterreichische Nationalbank (OeNB) organized its 84th East Jour Fixe in cooperation with the Official Monetary and Financial Institutions Forum (OMFIF). The event took place on June 3, 2019, and discussed the topic of "Long-run economic growth and development in Central, Eastern and Southeastern Europe (CESEE): goals, priorities and implementation strategies." Speakers from diverse backgrounds presented academic, political and other professional expertise to a selected, multinational audience.

In his welcome address, OeNB Governor *Ewald Nowotny* highlighted the OeNB's long-standing research focus on the CESEE region as well as related OeNB products and events. Moreover, he commented on a number of aspects affecting long-run growth in CESEE, ...

... such as demographic developments and difficulties in forecasting them, as well as on the increasingly important role of China.



Session 1 discussed long-run growth and resilience and was chaired by Dubravko Mihaljek, Adviser, Monetary and Economic Department at the Bank for International Settlements (BIS). Erik Berglöf, Director of the Institute of Global Affairs at the London School of Economics and Political Science, gave the keynote speech on convergence. He pointed out that some economists and policymakers are concerned about the middle-income trap for CESEE. However, there is limited empirical evidence that such a trap exists. In Berglöf's opinion, the outlook for CESEE will depend largely on how the region deals with the new challenges it currently faces: (1) rapidly changing technologies, (2) social equity and rising populism, and (3) environment and sustainability issues. He argued that overcoming these challenges requires well-executed industrial policies and preferably sector-oriented horizontal policies that promote education or innovation relevant for specific sectors. In his opinion, one issue is that the countries that need such industrial policies the most are often those that lack the state capacity to execute them properly. Berglöf concluded on a positive note, stating that historically, countries that grew fast in initial transition periods – as many CESEE countries did – usually did well also in later periods.

Slačík, Senior Economist at the OeNB's Foreign Research Division, who picked up some of Berglöf's key hypotheses. Slačík provided evidence that the structural convergence of CESEE countries toward the EU average between 2007 and 2016 was rather limited. He found differences across countries, when looking at five structural and competitiveness indicators. The information

and communications technology (ICT) sector showed the highest convergence, while the human capital indicator diverged from the EU average. Using the example of the automotive sector, Slačík moved on to demonstrate CESEE's increased integration into global value chains. However, the automotive sector currently faces several challenges, in particular ever-stricter emission limits. These will certainly lead to massive structural changes in the industry. Against this background, Slačík argued that the strong reliance of some CESEE countries on automotive industries and their stronger integration into global value chains bear cyclical and structural risks to growth.

In the ensuing discussion, several members of the audience referred to industrial policy. One question was whether the rise of the automotive sector in CESEE resulted from dedicated industrial policies. Most people involved in the discussion agreed that it was. Moreover, given current challenges in the automotive sector, the question was raised whether this showed that governments were not good at picking the "right" sectors for long-term growth. Another question was whether industrial policy should be conducted at the national or EU level. According to Berglöf, in the end these policies need to be solved at the domestic level, but they could be promoted and subsidized by the EU. Berglöf also elaborated on some of the state capacities he considered most important for successful industrial policies: bureaucratic capacity, judicial independence and transparency in procurement.

A live survey of the audience conducted via Mentimeter showed that 50% of survey participants thought that potential growth in the CESEE EU Member States would remain broadly unchanged over the next 10 to 15 years. Of the remaining 50%, a somewhat larger group thought that potential growth would decrease rather than increase. Regarding the audience's views on which topics CESEE policymakers should prioritize, a clear majority voted for "institutional quality and governance," followed by "investment in digitalization/new technologies" and "demographics/emigration" on a close second and third rank. The answer "upgrading of the production chain" came in fourth.

Session 2 focused on green growth in CESEE and on related opportunities and obstacles. It was chaired by Helene Schuberth, Head of the OeNB's Foreign Research Division. Sigrid Stagl, Head of the Institute for Ecological

Economics at the Vienna University of Economics and Business, pointed out that emissions in the atmosphere have progressed well beyond what could be considered a “safe” level. She questioned the term “green growth,” which she criticized as being ill defined. Stagl explained that output growth continues to imply an absolute increase in emissions, even though some progress has been made in terms of lowering emissions per unit of output. An absolute increase in emissions is still dangerous, given that we should actually lower the total amount of emissions. A “simple” law demanding a halving of emissions every decade would bring us back to a sustainable path – in the first decade, there will be some “low-hanging” fruits that facilitate achieving the goal. In the ensuing Q&A session, Stagl also elaborated on the effectiveness of different tools for greening the economy – in her opinion, some of the best policy tools are the discontinuation of all subsidies for fossil fuels, direct regulation, and taxes. Market-conform measures, such as emissions trading, tend to be somewhat less effective given uncertainties surrounding prices. Schuberth raised the topic of lock-in effects and Stagl confirmed that these effects were particularly high in the energy and transportation industries as the related infrastructure was often used for many decades.



Pieter de Pous, Senior Policy Advisor at E3G, shared some insights on a just transition with regard to phasing out coal in CESEE. He pointed out that regarding the phaseout of coal, some CESEE countries were progressing faster (e.g. the Czech Republic, Poland and

Slovakia) than others (e.g. Bulgaria and Romania). He then turned to coal transition in Canada, Spain Germany and the United Kingdom to draw some lessons from their experiences. The Czech Republic is currently setting up a Coal Commission, and De Pous emphasized that the mandate and setup of such commissions is critical for their success. Moreover, he pointed out that generous compensations as planned by Germany can make coal transition very costly. He also highlighted the importance of EU funds and the need for stable policy frameworks to ensure investments in renewable energies. De Pous used the U.K. as an example to illustrate that if carried out properly, the transition away from coal could happen very fast.

The OeNB's 84th East Jour Fixe closed with a panel organized by OMFIF and headed by OMFIF Chairman David Marsh. Vojtěch Benda, member of the Board of the Czech National Bank, Andrzej Raczkowski, Advisor to the President of Narodowy Bank Polski, and Weixi Gong, Chief of the Investment Promotion Division and Coordinator of the Investment and Technology Promotion Offices (ITPOs) Network at the United Nations Industrial Development Organization (UNIDO), discussed CESEE and China, and in particular China's Belt and Road Initiative (BRI). The panel covered topics such as the benefits of the BRI for China and CESEE, stronger financial linkages, central bank cooperation and the need for reciprocity in the relationship between China and CESEE. When the audience was asked about their views on Chinese investments in CESEE, most were critical. 50% of the audience participating in the live Mentimeter survey thought that CESEE governments should ensure reciprocity. 30% thought that CESEE governments should be wary about Chinese investments, monitor them closely and/or regulate them. Only 20% opted for the more positive answers about Chinese investments in CESEE.

The presentations and workshop program are available at www.oenb.at/en/Calendar/2019/2019-06-03-east-jour-fixe-84.html.

Relaunch of the OeNB's CESEE webpage

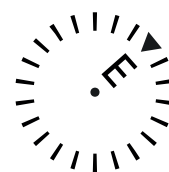
Let us invite you to visit the OeNB's revised CESEE webpage at <https://www.oenb.at/en/Monetary-Policy/focus-area-central-eastern-and-southeastern-europe.html>. It provides comprehensive information on Central, Eastern and Southeastern Europe (CESEE), the OeNB's special research focus area. Content on the webpage is arranged in four subject areas. New content has been added as well.

Under the heading Economic review and outlook, you will find an overview of recent economic developments in selected CESEE countries, a monthly update of current GDP estimates (CESEE nowcasting) for the CESEE EU Member States as a new feature, and the medium-term economic outlook (CESEE outlook).



The subject area Publications and database provides a single access point to research results published in the OeNB's quarterly journal Focus on European Economic Integration (FEEI), to the OeNB's quarterly newsletter CESEE Research Update, to the OeNB Euro Survey and to the CESEE banking sector database, which contains information on banking density, bank concentration and the role of foreign banks at the regional level.

Under the heading Events you will find information on OeNB flagship events such as the OeNB's annual Conference on European Economic Integration (CEEI) and the semiannual East Jour Fixe series. The proceedings and programs of past CEEIs and East Jour Fixes can be accessed from here as well.



East Jour Fixe

Information on Technical cooperation via the Joint Vienna Institute or ESCB programs can be found in the fourth subject area.

Please visit the OeNB's CESEE webpage at <https://www.oenb.at/en/Monetary-Policy/focus-area-central-eastern-and-southeastern-europe.html>

Preview: Special issue Focus on European Economic Integration Q3/19

The upcoming issue of the OeNB's Focus on European Economic Integration (FEEI Q3/19, to be published until the end of August) features a special issue dedicated to 30 years of transition and transformation in Central, Eastern and Southeastern Europe (CESEE). It includes contributions with different perspectives written upon invitation by renowned experts in the field as well as contributions by OeNB staff economists.

- a) A joint contribution of *likka Korhonen* and *Laura Solanko* from the Bank of Finland's Institute for Economies in Transition (BOFIT) and *Doris Ritzberger-Grünwald* and *Peter Backé* from the OeNB sets the stage and provides a selective review of thirty years of transition with a focus on issues that are particularly relevant from a central banking perspective. In doing so, it also briefly refers to the CESEE analysis by the two central banks as well as their cooperation in this area.
 - b) *Michael Landesmann*, former scientific director (1996-2016) of The Vienna Institute for International Economic Studies (wiiw), gives an overview of lessons learned from 30 years of experience of East-West integration in Europe. It covers issues related to the economics of transition of the CESEE economies after 1989, the relatively fast processes of institutional and economic catching-up, trade and production integration and the role of foreign direct investment (FDI). It also discusses the issues of reform reversals and political regression taking place in some CESEE countries and the political-economic analysis necessary to deal with these phenomena.
 - c) *Philipp Ther*, professor of Central European History at the University of Vienna, focuses in his article with a comparative perspective on the economic reforms that were implemented in Germany and East Central Europe during and after the unification in 1990. He reviews in particular the social policy consequences and draws a line to the more recent rise of right-wing populism.
- The remaining two contributions take a more recent perspective:
- d) A joint study of *Elona Dushku* and *Erjona Rebi* from the Bank of Albania and *Antje Hildebrandt* from the OeNB evaluates empirically the impact of housing market dynamics and housing market exposure of banks on the stability of the banking sector in CESEE countries.
 - e) *Thomas Scheiber* from the OeNB presents data on the use of euro cash as a safe-haven asset or as a means of payments over the last decade. The evolution of these selected key indicators using OeNB Euro Survey data, is contrasted with the main findings from the literature on the determinants of currency substitution in CESEE.

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 households' saving and borrowing behavior, the OeNB Euro Survey additionally provides information on various aspects of financial

literacy of CESEE households. The main results of the survey have recently been updated with 2018 data and can be found at <https://oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>.

For detailed results on the four indicators, see the OeNB's website.



Focus on European Economic Integration Q2/19 – latest issue [\(full version\)](#)

Recent economic developments and outlook

Developments in selected CESEE countries

Softening economic activity in late 2018 as international headwinds increase

Box 1: Ukraine: official financing resumed to support foreign reserves in election year 2019

Box 2: Western Balkans: strong domestic demand fuels economic growth

Box 3: The automotive industry in CESEE, its linkages with Germany and challenges ahead

Compiled by Josef Schreiner



Outlook for selected CESEE countries

CESEE-6 economic growth loses speed but remains robust, Russia returns to lower economic growth

Compiled by Antje Hildebrandt

Studies

Nonperforming loans in CESEE – a brief update on their definitions and recent developments

Stephan Barisitz

Household loans in CESEE from a new perspective: the role of income distribution

Mariya Hake, Philipp Poyntner

Save the Date I

85th East Jour Fixe of the Oesterreichische Nationalbank in cooperation with the National Bank of Ukraine

September 12, 2019, Veranstaltungssaal, ground floor

“Ukraine: Political, economic and migration challenges”

The 85th East Jour Fixe will focus on Ukraine, a country faced with both presidential and parliamentary elections in 2019. Against this backdrop of political change, we will assess Ukraine’s macroeconomic situation and challenges ahead. Invited speakers will provide us with insights into the country’s monetary policy and financial stability, IMF program and reform progress. Finally, we will also discuss Ukrainian migration, particularly to Poland. In this context, we will also look at migration intentions in CESEE countries.

Save the Date II

Conference on European Economic Integration (CEEI) 2019 Looking back on 30 years of transition – and looking 30 years ahead

organized by the Oesterreichische Nationalbank (OeNB)

November 25 and 26, 2019
Vienna Marriott Hotel
Parkring 12a, 1010 Vienna, Austria

CONFERENCE ASPECTS

Thirty years ago, in 1989, the Iron Curtain was lifted. To commemorate this historic event, the OeNB's CEEI 2019 will explore key questions about transition in Central, Eastern and Southeastern Europe (CESEE):

What have the last 30 years accomplished? We will look at successes and shortcomings of this historic transformation, the impact of political and global factors, and the lessons to be learned from fast progress in the emerging economies in Asia.

What can we expect in the next 30 years? We will discuss the urgent challenges for monetary and financial stability as well as the long-term determinants of economic growth in CESEE: factors like climate change and demographic trends.

Announcement I

KLERS Klaus Liebscher Economic Research Scholarship

The Oesterreichische Nationalbank (OeNB) has established a new research scholarship: the “Klaus Liebscher Economic Research Scholarship.” This scholarship program gives outstanding researchers the opportunity to contribute their expertise to the research activities of the OeNB's Economic Analysis and Research Department by providing remunerated consultancy services. The scholarship program targets Austrian and international experts with a proven research record in economics, finance or financial market stability who are interested in broadening their research experience and expanding their personal research networks. Given the OeNB's strategic research focus on Central, Eastern and Southeastern Europe (CESEE), another key field of research might be the analysis of economic developments in the CESEE region. The program provides for an honorarium that depends on the length of the respective research project (max. EUR 10,000).

Please note that applicants need to be in active employment with their home institution. Eligible candidates must hold a PhD or equivalent degree and must have published work and conducted scientific research in the fields defined in the call for scholarship applications. Applicants may be of any nationality and there is no age limit. Employees of the European Central Bank (ECB) or other central banks within the European System of Central Banks (ESCB) are not eligible for the Klaus Liebscher Economic Research Scholarship. ESCB employees may consider the options available under the ESCB's External Work Experience (EWE) scheme or the Schuman Programme.

For more information, please visit the OeNB's website at www.oenb.at/en/About-Us/Research-Promotion/scholarships_and_awards/klaus_liebscher_economic_research_scholarship.html or contact us by e-mail at scholarship@oenb.at.

Announcement II

The OeNB's conference volume “How to Finance Cohesion in Europe” will be published in the fall of 2019

Edited by Ewald Nowotny, Governor, Doris Ritzberger-Grünwald, Director and Helene Schuberth, Head of Division, Oesterreichische Nationalbank, Austria

How can financial flows help the EU fulfil its mandate to promote economic, social and territorial cohesion, and solidarity among Member States enshrined in the EU Treaty? Dissecting the complexity of cohesion, this book examines the factors that matter most for the functioning of the Economic and Monetary Union and for the income convergence of Central, Eastern and Southeastern European (CESEE) countries.

This insightful and timely book brings together central bankers, policy makers and academics to discuss how to best advance and fund the catching-up process of the euro area and in CESEE. Focusing on a modern understanding of industrial policy – which fosters skills, innovation and infrastructure – contributors highlight how the EU's regional policy can better meet persistent investments needs.

Critical and comprehensive, this book is crucial reading for researchers at all levels focusing on policy reform in emerging European economies. Central bankers and policy experts in public or international organizations will also benefit from this book's contemporary perspective on monetary and industrial policies.

More information: <https://www.e-elgar.com/shop/how-to-finance-cohesion-in-europe>

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 event-management@oenb.at.

| | |
|----------------------|---|
| September 12, 2019 | 85 th East Jour Fixe: "Ukraine: Political, economic and migration challenges" organized by the Oesterreichische Nationalbank (OeNB) in cooperation with the National Bank of Ukraine |
| November 25–26, 2019 | Conference on European Economic Integration 2019: "Looking back on 30 years of transition – and looking 30 years ahead" |
| December 9–10, 2019 | 17 th ESCB Emerging Markets Workshop 2019 organized by the Oesterreichische Nationalbank |

OeNB Courses at the Joint Vienna Institute (JVI) 2019

For further details see: [Course Schedule 2019](#)

| | |
|----------------------|---|
| January 14-17, 2019 | Financial Stability and Supervisory Stress Testing for Banking Systems |
| January 21-25, 2019 | Banking Supervision within the Basel Framework (in cooperation with Deutsche Bundesbank and JVI) |
| March 4-8, 2019 | HR Issues and Compliance (in cooperation with the Deutsche Bundesbank) |
| March 11-15, 2019 | Monetary Policy Implementation (in cooperation with Deutsche Bundesbank and JVI) |
| May 13-17, 2019 | Challenges for Candidate and Potential Candidate Countries in the EU and EMU Accession Process (in cooperation with the Austrian Federal Ministry of Finance and ECB) |
| September 9-13, 2019 | Integration in Europe: European Union and Eurasian Economic Union (in cooperation with the Austrian Federal Ministry of Finance) |
| October 14-18, 2019 | Macrofinancial Stability in Central, Eastern and Southeastern Europe (in cooperation with the JVI) |
| November 4-6, 2019 | Cash Circulation and Payment Systems in Austria |
| November 27-29, 2019 | Financial Translation and Editing: New Skills for New Challenges |