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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

OeNB

The Oesterreichische Nationalbank would like to inform you that, as from 2016, its quarterly “Focus on European Economic Integration” will be available online only at www.oenb.at/feei. To get updated on latest releases, please register at <https://oenb.at/en/Services/Newsletter.html>.

Highlights of this Issue

- CESEEnet – new research information network (see p. 2)
- Expert meeting on macroforecasting in CESEE (see p. 2)
- Presentation (Magyar Nemzeti Bank): “Drivers of household credit demand before and during the crisis“ (see p. 4)
- Studies in: Focus on European Economic Integration Q2/16 (see p. 6)

CESEEnet – new research information network with a focus on Central, Eastern and Southeastern Europe



In May 2016, the OeNB's Foreign Research Division launched a new online platform, CESEEnet, to stimulate macroeconomic research in central bank-relevant areas with a regional focus on Central, Eastern and Southeastern Europe. By initiating and coordinating high-quality, policy-relevant economic research with a focus on issues particularly relevant for the CESEE countries and European integration, CESEEnet aims to enhance the quality and efficiency of economic policymaking.

One of the main objectives is to create a virtual center of excellence by building a platform encouraging researchers from different institutions to share their knowledge, communicate ideas, exchange opinions and collaborate across international borders. Participation is open to all economists working within the European System of Central Banks (ESCB) with a regional focus on Central, Eastern and Southeastern European (CESEE) economies.

At <https://www.cesee.net/> you will find a list of participating national central banks and information about various conferences and events hosted by CESEEnet members. Furthermore, the website offers an overview of recent publications (featured publications as well as links to contributions published on members' websites). There is also a restricted area on the website that contains information about events open to network members only, details on members' research agendas and experts' profiles.

The first expert meeting within the network was hosted by OeNB on June 30, 2016, and dedicated to "Macroforecasting in CESEE". For more information on this meeting, see below in this newsletter. Further meetings in different locations are envisaged in order to promote closer cooperation between researchers at ESCB central banks and actively enhance interaction.

Expert meeting on macroforecasting in CESEE

As part of its CESEEnet research information network activities, the OeNB hosted a workshop on macroforecasting on June 30, 2016. The event brought together researchers from various central banks in Central, Eastern and Southeastern Europe (CESEE), the ECB, the Banco de Portugal and the Vienna University of Business and Economics (WU Wien).

The first session of the workshop discussed issues related to forecast evaluation and measures

of forecast accuracy. Marián Vávra (NBS) presented a new test to judge whether forecasts based on a given model systematically outperform those based on competing models. The test has particularly useful properties when dealing with short time series and might be used at the NBS in the near future. František Brázdík (CNB) presented how the CNB decomposes forecast revisions from a structural model. This approach allows the assessment of how much of

a revision of a forecast can be attributed to revisions in the underlying data, conditioning information or expert judgement. The second session was devoted to nowcasting, which uses high-frequency data to predict the near future or the recent past of macroeconomic aggregates that are available with a time lag only. Rafael Ravník (HNB) presented MIRA (monthly indicator of real economic activity), the nowcasting model the Croatian central bank introduced in 2009. The model includes a set of foreign variables to capture revenues from tourism and has a proven track record in terms of forecast accuracy. Peter Tóth (NBS) presented results from a horse race between models to nowcast GDP in several CESEE economies. He concluded that both model specifications and the set of best short-term predictors vary across countries. An innovative and new short-term high frequency indicator was introduced by the next speaker, Paulo Rodrigues (Banco de Portugal). He presented research utilizing cash

withdrawals and point-of-sale revenues to nowcast private consumption in Portugal. The Portuguese network of ATMs is one of the most highly developed and strongly used networks in Europe. Consequently, the use of cash withdrawals could help significantly improve private consumption forecasts. Unfortunately, similar data for other countries are hardly available. Finally, the third session discussed new approaches to forecasting on a more general basis. Alistair Dieppe (ECB) gave an overview of the BEAR (Bayesian estimation analysis and regression) toolbox developed at the ECB that allows the estimation and inference of a battery of models for policy analysis and forecasting purposes. Florian Huber (WU Wien) presented work on a heavy-tailed prior distribution in Bayesian vector autoregressions that excels in forecasting. Finally, Anca-Adriana Galatescu (BNR) used non-linear single indicator models to successfully predict turning points in the Romanian and the euro area business cycles.

SAVE THE DATE I: 79th East Jour Fixe of the Oesterreichische Nationalbank on “Capital Flows to CESEE: Impact on Macro-Financial Stability and Policy Responses”, November 4, 2016

The East Jour Fixe was initiated by the OeNB in 1991. It is a high-profile policy discussion forum on economic reforms and developments in Central, Eastern and Southeastern Europe (CESEE). Participants come from diverse backgrounds and present academic, political and other professional expertise to a selected audience.

The 79th East Jour Fixe will focus on recent developments and driving factors of capital flows in

CESEE countries. In session 1, we will review the driving forces behind the interaction of capital flows and the boom-bust-cycles the region has experienced during the recent two decades. In session 2, we will look at international country experiences in coping with volatile capital inflows. We will end with a panel discussion in order to draw some policy lessons for CESEE countries.

Announcement

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

Preview:

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

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

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

Drivers of household credit demand before and during the crisis

Compiled by *Ádám Banai* and *Nikolett Vágó*

On June 9, 2016, the OeNB played host to a presentation of topical research results based on data from the OeNB's Euro Survey by *Ádám Banai*, head of the Applied Research and Stress Testing Department at Magyar Nemzeti Bank (MNB), and *Nikolett Vágó*, researcher at the same department.

In their paper, *Banai* and *Vágó* identified the drivers of household credit demand in Hungary and Poland. The authors emphasized that due to a lack of data, it was always challenging to examine household credit demand. The OeNB's Euro Survey is the only database which contains

relevant information on Hungarian households' financial behavior whose structure does not change over a long horizon. For this reason, getting access to Euro Survey data was found extremely useful by the MNB.

In terms of methodology, the key challenge was to fill missing observations, which the authors solved by using multiple imputations, a state-of-the-art method that is more reliable and efficient than conventional methods to fill data gaps. Their results confirmed that the outcome differed depending on the method used,

i.e. the proper treatment of missing variables was indeed important.

The results showed that in both Hungary and Poland, borrowing decisions were determined primarily by three factors: existing banking relations, which may be closely connected with financial awareness and financial literacy; macro-economic expectations, which also have a connection with households' personal financial situation; and trust in the institutional system. As regards the latter, trust in the EU – in addition to trust in domestic institutions – was particularly important in Poland: credit demand from households who trust the EU was stronger. In Hungary, trust in foreign banks was significant so that higher trust went hand in hand with higher credit demand. Also in Hungary, the labor market influenced credit demand in all periods. Unemployed people's intention to borrow was stronger than employed people's right after the onset of the crisis, which may have been attributable to strong liquidity constraints. As the two countries were examined separately, the

role of regions (agglomerations) could also be taken into consideration. In Hungary, the effect of the place of residence appeared to be very strong.

The largest difference between the Polish and Hungarian results appeared in the later phase of the crisis (between H2 2010 and H2 2011). In the case of Hungary, there were two factors that proved to be significant, which did not appear in the estimate performed on the Polish data. Firstly, the negative experience with foreign currency loans reduced credit demand. This may be attributable to the fact that in Hungary the problems related to foreign currency loans were well known already in 2010. Secondly, the results confirm that in Hungary self-selection may also play a strong role in household lending. Those households that regarded banks' credit conditions as strict were less inclined to apply for a loan in the first place.

SAVE THE DATE II: Forum “Completing Economic and Monetary Union” November 24 (evening) – 25, 2016

The OeNB will host this event on its premises. Please note that attendance is by invitation only. If you are interested in participating, please send an e-mail to EMU-Forum@oenb.at.

Keynote speaker: Valdis Dombrovskis, Vice-President of the European Commission

The EMU forum will bring together academics, experts and policymakers in order to debate the political economy of the euro area. The resilience of Economic and Monetary Union (EMU) hinges on its capability to reduce and distribute risks among its Member States. Hence, the rationale for EMU deepening is to enable long-term convergence via ex-ante coordination and swift crisis management via strong institutions. Following the “Five Presidents' Report – Completing Europe's Economic and Monetary Union” - the Forum will explore ways to complement the single currency by an economic, financial, fiscal and political union. This event, organized by the OeNB together with the Euro50 Group and the Vienna Institute for International Economic Studies (wiiw), builds on last year's workshop “Toward a Genuine Economic and Monetary Union”.

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

Focus on European Economic Integration Q2/16



Studies

The influence of sovereign bond yields on bank lending rates: the pass-through in Europe, Eller, M., Reininger, T., p. 54-78 ([Study](#))

Understanding the drivers of capital flows into the CESEE countries, Eller, M., Huber, F., Schuberth, H., p. 79-104 ([Study](#))

Recent Developments in selected CESEE countries

Developments in selected CESEE countries: Dynamic, domestic demand-driven growth in an adverse international environment

Compiled by Josef Schreiner ([Focus on European Economic Integration Q2/16](#))

Outlook for selected CESEE countries: Solid growth in CESEE-6 but no bright spots in Russia

Compiled by Antje Hildebrandt ([Focus on European Economic Integration Q2/16](#))

CESEE-related abstracts from other OeNB publications

The minimum requirement for own funds and eligible liabilities (MREL) – a first assessment for Austrian banks and selected subsidiaries in CESEE EU Member States, Metz, V., Richter, K., Weiss, P., Rottensteiner, B., Unterkofler, D., Langthaler, J., Pechmann, P., p. 105

([Financial Stability Report 31](#))

Olga Radzyner Award 2016 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 2016, four applicants are 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, Ser-

bia, 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.

Authors shall send their submissions by postal mail – with the envelope marked “Olga Radzyner Award” – to the Oesterreichische Nationalbank, Foreign Research Division, Otto-Wagner-Platz 3, PO Box 61, 1011 Vienna, Austria. Entries for the 2016 award should arrive at the OeNB by September 16, 2016, at the latest.

For more information, please contact [Eva Gehringer-Wasserbauer](mailto:eva.gehringer-wasserbauer@oenb.at) in the OeNB's Foreign Research Division.

See also: [Olga Radzyner Award](#)

Call for Applications: Visiting Research Program



The Oesterreichische Nationalbank (OeNB) invites applications from external researchers (EU or Swiss nationals) for participation in a Visiting Research Program established by the OeNB's Economic Analysis and Research Department. The purpose of this program is to enhance cooperation with members of academic and research institutions (preferably post-doc) who work in the fields of macroeconomics, international economics or financial economics and/or with a regional focus on Central, Eastern and South-eastern Europe.

The OeNB offers a stimulating and professional research environment in close proximity to the policy-making process. Visiting researchers are expected to collaborate with the OeNB's research staff on a pre-specified 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 out-

put 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 2016 should be e-mailed to eva.gehringer-wasserbauer@oenb.at by November 1, 2016.

Applicants will be notified of the jury's decision by mid-December 2016. The following round of applications will close on May 1, 2017.

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.

See also: [Visiting Research Program 2016](#)

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 4, 2016	79 th East Jour Fixe of the Oesterreichische Nationalbank on “Capital Flows to CESEE: Impact on Macro-Financial Stability and Policy Responses”. By invitation only!
Evening November 24 and November 25, 2016	Forum “Completing Economic and Monetary Union” at the OeNB. By invitation only!
November 28, 2016	Global Economy Lecture jointly organized by the Oesterreichische Nationalbank and The Vienna Institute for International Economic Studies, at the OeNB. Paul Collier, Professor at the University of Oxford, will give a lecture on “How should Europe meet the Duty of Rescue towards the Displaced and the Poor?” By invitation only!

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: www.jvi.org and [Program JVI 2016](#)

October 10-14, 2016	Macro-Financial Stability in Central, Eastern and Southeastern Europe
November 21-23, 2016	Cash Circulation and Payment Systems in Austria
November 28-December 2, 2016	Monetary and Financial Statistics Collected and Compiled by the ESCB

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