

Research Update

Economic Analysis and Research Department

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Editorial

by Doris Ritzberger-Gr unwald
Director of the Economic Analysis and Research Department



Losing the first place, or: Things turned upside down

Being an economist today is more than a challenge. Rather than cycles, which guarantee at least some success when it comes to forecasting, we are watching a stagnation going into its fourth year in a row. Austria, a country which used to be on the bright side of life, sees its frontrunning position vanishing, in growth and in unemployment, too. In Central and Eastern European countries, normally a safe bet in terms of positive growth differentials and profit-making possibilities, conditions have meanwhile turned upside down. Either these countries are lost in transition, struggling with political infights, or they have become most competitive, making it difficult for old firms to hold their market share, and for new firms to entry.

But headwinds are not coming from the east alone. Also the CHF, a safe haven for two and a half years, has surprised us all. As a result of the Swiss central bank's decision to let the exchange rate go in January, many more tourists will enjoy the Arlberg region this year rather than going further west (replacing the Russians who did not turn out, perhaps). Those who have held on to their CHF-denominated FX loans are affected more negatively, although if you are lucky and live in the right country, the state will bail you out. Economists, who are still struggling with forecasting (remember my starting point?), are not amused either, as they thought that markets should not be taken by surprise.

Even signs which appeared positive at the first glance can turn into something completely different. Low oil prices should increase real income and therefore consumption and growth, right? Unfortunately, many environmental investments are no longer paying off, which means that only the most enthusiastic will stay in this business, irrespective of how cheap the money is. The good news is that, at least in Austria, deflation fears are more or less irrational. The highest inflation rate in the euro area saves us from such a scenario.

Quite a lot of things to have been turned upside down, and not to too many positive surprises from the Austrian perspective, apart from the successes of Austrian athletes in the World's Championship in downhill skiing.

Doris Ritzberger-Gr unwald

OeNB Expands Online Information on Austrian Real Estate Market

Marked Slowdown in Growth of Residential Property Prices in the Third Quarter

The OeNB makes available on its website comprehensive information about, and analyses of, the Austrian real estate market. The information is targeted at both the general public and experts. The OeNB Residential Property Market Monitor of December 2014, which is also published on the website, shows that the rise in residential property prices lost considerable momentum in the third quarter.

Residential Property Market's High Relevance Calls for Ongoing Monitoring of Prices

The real estate market plays a crucial role in a country's economy, with residential property being the most important component of households' wealth. As the purchase of property is usually, to some extent, debt financed, changes in property prices affect households' ability to repay loans and, as a result, also have an impact on the banking sector. Furthermore, the construction industry is a major employer, and investment in construction influences economic activity. Residential property is of key importance also from a social perspective. Property price developments therefore have far-reaching implications for the economy as a whole and for financial stability.

Information about current developments in the Austrian residential property market has so far been incomplete, however. To identify potentially adverse trends at an early stage, the OeNB has developed methods facilitating the ongoing monitoring and analysis of the residential property market.

Comprehensive Information on the Austrian Residential Property Market

The OeNB website now provides access to the OeNB's property market analyses and their underlying data. This includes, in particular, the quarterly publication of the Residential Property Price Index for Austria, compiled by the Vienna University of Technology in cooperation with the OeNB, and the ongoing monitoring of the Austrian residential property market. The monitoring results are published monthly as a fact sheet providing an overview of the most important data on the Austrian residential property market. In addition, once every quarter, the OeNB publishes its fundamentals indicator for residential property prices, which helps detect potentially harmful market developments. Twice a year, the OeNB compiles a comprehensive analysis of residential property market developments, covering both price developments and key supply and demand factors as well as aspects in connection with how households fund property purchases and with their indebtedness. Apart from these regular contributions, the website also offers

access other publications and studies related to the Austrian real estate market (e.g. the Household Survey on Housing Wealth 2008, the housing cost survey 2010, Household Finance and Consumption Survey 2010) and material on workshops and conferences organized by the OeNB. Finally, the website also includes an extensive list of useful links.

The OeNB Property Market Monitor of December 2014: Marked Slowdown in Residential Property Price Growth in the Third Quarter

The year-on-year growth of property prices in Austria slowed to 2.5% in the third quarter 2014 (Vienna: 2.2%); against the previous quarter, there was even a decline in prices (Austria: -1.2%, Vienna: -2.5%). The OeNB's fundamentals indicator for residential property prices indicates that the overvaluation of residential property in Vienna fell from 23% in the second quarter to 20% in the third quarter of 2014. For Austria as a whole, the indicator still shows that prices are justified by fundamental factors. Housing loans to households continue to grow only moderately, although the conditions for taking out housing loans have remained favorable. The currency breakdown shows that foreign currency loans continue to lose ground in favor of euro-denominated loans.



The OeNB's real estate market analyses and data are updated regularly; they are available in both German and English.

See <http://www.oenb.at/Monetary-Policy/real-estate-market-analysis.html>

Growth Remains Weak in 2015

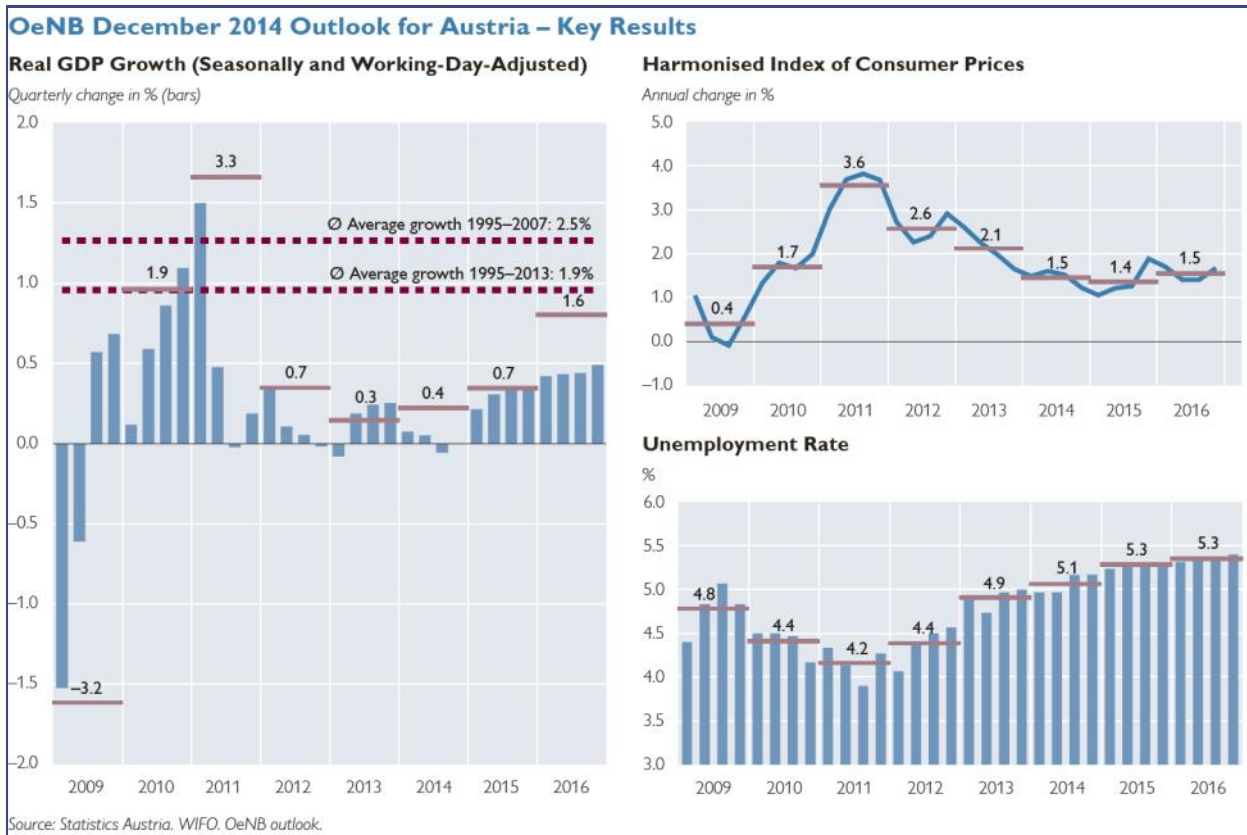
Economic Outlook for Austria from 2014 to 2016 (December 2014)

In its economic outlook of December 2014, the Oesterreichische Nationalbank (OeNB) expects the growth of the Austrian economy in 2014 to amount to only 0.4%. And available leading indicators do not currently provide any clear signs that business activity will recover perceptibly in 2015. Growth next year will thus be only marginally higher (0.7%). The weakness of growth that started in 2012 will thus continue for the fourth year in succession. It is only in 2016 that the OeNB expects economic growth to pick up to 1.6%. The growth prospects given in the economic outlook of June 2014 have had to be revised significantly downward. The growth now forecast for 2014 and 2015 will be around 1 percentage point lower than that expected in June. The downward revision of the figure for 2016 is in the order of half a percentage point.

The current weakness of economic activity in Austria is due to a whole range of factors. The external factors that have had a negative impact are, in particular, the persistent weakness of the euro area economy and geopolitical tensions such as those between Ukraine and Russia, as well as the related loss of confidence in the prospects of the export industry. At home, uncertainty about future economic development has curbed enterprises' propensity to invest. The modest increase in real incomes

has moreover left little room for additional consumer spending. The impact of growth-retarding factors will decline only slowly over the period under review, so that the supportive effect of the expansionary monetary policy on business activity will take hold only gradually.

In view of the subdued growth prospects, unemployment is expected to rise to 5.3% in 2015. It is only in 2016 that no further deterioration of the situation on the labor market is anticipated, but the economic recovery will remain too weak for unemployment to decline. Inflation is likely to fluctuate around the mark of 1½% in the period from 2014 to 2016. The fact that the upward movement of prices has slowed down significantly in comparison with that recorded over the past two years will help considerably to return real income growth to positive territory in the period under review. Low HICP inflation will therefore be a key driver of business activity. Although the general government budget balance (as defined in the Maastricht Treaty) will deteriorate to -2.4% of GDP this year, it is set to improve significantly in 2015 and 2016, namely to -1.8% and -1.4% of GDP, respectively. The government debt ratio will rise to 85.4% of GDP in 2014, but next year will see a reversal of the trend, with the debt-to-GDP ratio for 2016 expected to be in the order of 82.9%.



Austria: Credit Growth Remains Sluggish

13th Bank Lending Report of the OeNB (December 19, 2014)

Following a decline in the period from 2012 to mid-2014, the growth rate of loans granted by Austrian banks to domestic companies started to recover in June 2014. By October 2014 (the latest month for which data were available at the time of writing), the annual growth rate of corporate loans had inched up to 1.1%, which broadly corresponds to the level registered a year earlier. Austria thus outperformed the euro area, where the growth rate of corporate loans averaged -1.8% in October 2014 after more than two years in negative territory.

Broken down by economic sectors, the data for Austria show a protracted decline in bank lending to manufacturing businesses and to wholesalers and retailers. Also, bank lending to restaurants and hotels as well as the transport and storage services sector started to decline in September 2014. By contrast, bank lending to the other major economic sectors has continued to increase.

Austrian bank lending to households has been broadly recovering since May 2013. In October 2014, the annual growth rate stood at 1.3%, after having peaked at 1.6% in August. Here, too, Austria visibly outperformed the euro area, where the annual growth rate of bank lending to households was negative at -0.4% in October 2014.

MFI loans to non-financial corporations

year-on-year change in percent



Source: ECB.

Decreasing Bond Issuance from Austrian Nonfinancial Corporations

Corporate bond financing has contracted significantly in Austria since the first quarter of 2013. During this period, the annual growth rate of net bond issuance declined from 11% in March 2013 to -0.6% in October 2014. In contrast, equity financing has been on the increase in Austria since March 2014. Starting from slightly negative

values at the beginning of 2014, the annual growth rate of net stock issuance climbed to 3.0% in October 2014. For alternative funding, Austrian companies relied on borrowing from foreign banks and intragroup financing. In the first half of 2014, domestic companies raised around EUR 800 million (net) by borrowing from banks abroad (compared with around EUR 100 million in the first half of 2013), and roughly EUR 340 million through (domestic and cross-border) intragroup financing.

Historically Low Retail Interest Rates

Average interest rates on corporate and household loans were stable at record low levels after having fallen in line with key Eurosystem interest rates in the course of 2012. In the corporate loan segment, interest rates again declined slightly in the second half of 2014, evidently reflecting further cuts in key interest rates undertaken in 2014. By October 2014, interest rates for new corporate loans with an initial period of fixation of up to 1 year had dropped to 1.5% (from 1.8% in July) for loans of more than EUR 1 million, and to 2.1% (from 2.3% in July) for loans below EUR 1 million. In the household loan segment, interest rates on new consumer loans have trended upward since early 2013, whereas interest rates on new housing loans have been stagnating at a level of slightly above 2%.

Credit Standards Eased for the First Time Following the Crisis

Recent surveys among companies and banks suggest reasons on the supply side and on the demand side for the sluggish pace of credit growth in 2014. Small and medium-sized enterprises reported continued difficult access to bank loans, citing the general economic environment as the main reason. Moreover, the corporate respondents stated that banks' credit standards – collateral requirements, loan covenant terms and conditions – had remained persistently tight. In contrast, the banks responding to the euro area-wide bank lending survey indicated that in the third quarter of 2014, they had slightly eased their terms for lending to small and medium-sized enterprises for the first time in more than four years. However, the gradual tightening of credit standards that occurred in recent years is likely to continue to have a restrictive impact on corporate bank borrowing.

Call for Papers:

“Toward a Genuine Economic and Monetary Union”

Workshop in Vienna on September 10 and 11, 2015

This workshop’s **purpose** is to inspire reflection on the long-term future of Economic and Monetary Union (EMU). Starting from current crisis-related challenges, the workshop focuses on four areas in which reforms might increase the resilience of EMU architecture and the prosperity of the euro area. The workshop intends to give an overview of the current state of economic research and the policy debate, with an emphasis on creative proposals aimed at overcoming existing deadlocks. The specific areas covered are in line with the “Four Presidents’ Report – Towards a Genuine Economic and Monetary Union” of June 2012:

- Banking Union and Capital Market Union
- Fiscal Union and Area-Wide Taxation Issues
- Economic Union and the Social Dimension of EMU
- Political Union and Legitimacy of EMU

To qualify, **papers** must be written in English and reach the Oesterreichische Nationalbank (OeNB) by **May 1, 2015**, at the latest. Please e-mail your paper in pdf format to GEMU@oenb.at. Acceptance of papers will be communicated by May 29, 2015. Accepted papers may be published in workshop proceedings. Travel and accommodation expenses of presenters and discussants will be covered by the OeNB. See also: <http://www.oenb.at/en/Monetary-Policy/Research/workshops.html>

The final **workshop program** will cover the above topics in several sessions of presentations of both submitted and invited papers and will also feature

- an opening address by **Professor Ewald Nowotny**, OeNB Governor,
- a keynote speech by **Professor Paul De Grauwe**, London School of Economics, and a
- concluding panel with stakeholders and representatives of European institutions.

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Global Economy Lecture by H el ene Rey on “Monetary Policy and International Capital Flows”



The 2014 Global Economy Lecture was delivered by H el ene Rey, Professor of Economics at the London Business School. In her engaging presentation at the OeNB, she stressed the importance of the credit channel in the international transmission of monetary policy shocks. In particular, she highlighted the international role of the U.S. dollar and the need to incorporate insights from international finance into the analysis of international macroeconomics. As convincingly argued, the traditionally held belief that floating exchange rate regimes can successfully insulate an open economy from foreign monetary policy shocks is substantially altered when focusing on net wealth or balance sheet effects.

Looking into a wide range of asset classes (equity, FDI, debt and credit), she showed the presence of tremendous co-movements worldwide, thus constituting a global financial cycle which is essentially driven by just one global factor.

Given the dominance of the U.S. dollar in all asset classes, U.S. monetary policy emerges as affecting financial conditions even in countries with a flexible exchange rate regime. Furthermore, this implies that domestic monetary policy becomes ineffective in countering such spillover effects, thus assigning an important role to macroprudential policies.

The discussion first addressed the magnitude of the effects of U.S. monetary policy shocks relative to domestic monetary policy shocks, which H el ene Rey assessed as being of equal importance.

Prompted on the role of fiscal policy in response to the limitations of monetary policy, she referred to the long time lag

in implementation and its limited role as an active cyclical buffer, but she agreed that the spillover effects could be cushioned through a timely removal of fiscal distortions introduced earlier. Regarding the relevance of U.S. monetary policy for the euro area, she referred to a general lack of empirical evidence. Yet her findings suggest ample room for monetary policy transmission from the U.S.A. to the euro area, as many of the globally most important banks are domiciled in the euro area.



The Global Economy Lecture was jointly organized by the OeNB and the WIIW. [See more](#)

New JVI Course on “Financial Education,” December 1–3, 2014, Was Well Received

Promoting financial knowledge and understanding is one of the strategic goals of the Oesterreichische Nationalbank. By empowering the general public to attain a high level of understanding of basic economic and financial concepts, central banks may enhance the effectiveness of monetary policy and ensure the smooth functioning of financial markets.

The OeNB is currently not only reviewing its financial education activities, but also developing new educational measures. In this context, intensive cooperation with financial education stakeholders in other European countries is key for exploiting economies of scale. This is why the OeNB decided, in 2014, to introduce a course on “Financial Education” at the JVI, the Joint Vienna Institute, which is a Vienna-based training institution offering courses for central bankers and public administration officials in CESEE and the CIS countries.

The course was meant to give an overview on concepts, measures and empirical findings of financial literacy and education as well as on the optimal anchoring of financial education activities within institutions. The various topics were presented by OeNB staff as well as speakers from the ECB, the World Bank, the Swiss National Bank, the Vienna University of Economics and Business and a commercial bank. Ample space was given to the presentation of case studies from various countries as well as to the exchange of experience among course participants and lecturers.

Given the keen interest in the course and the excellent course evaluation results, a follow-up course is planned for November 2015.



Summary

Conference on European Economic Integration (CEEI) 2014

“The Rebalancing Challenge in Europe – Perspectives for CESEE”

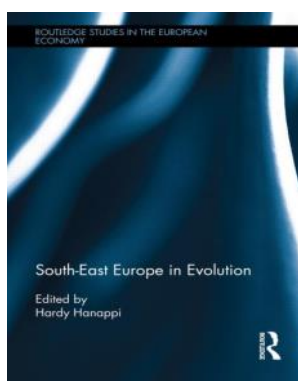
The OeNB's Conference on European Economic Integration (CEEI) 2014 took place in Vienna on November 24 and 25, 2014, and dealt with “The Rebalancing Challenge in Europe – Perspectives for CESEE.” More than 420 participants from around 35 countries followed the presentations and discussions of high-profile representatives of international organizations, central banks, academia as well as the banking and the real sectors.

Many speakers alluded to the crucial role of investment and presented their views on how to stimulate investment. Keynote speaker **Sir Suma Chakrabarti**, President of the EBRD, referred to targeted investment financing as a potential stimulus, while the keynote speeches by **Bradford DeLong** (University of California, Berkeley) and **Lucrezia Reichlin** (London Business School) stressed the current state of extreme risk aversion, which Reichlin partly viewed as a response to expansionary monetary policy. The scope for quantitative easing (QE) emerged as a second prominent topic subject to greatly differing views: **Lars Svensson** (Stockholm School of Economics) considered QE the necessary next step, while **Richard Koo** (Nomura Research Institute) warned of resulting asset price bubbles and argued in favor of reforming the Stability and Growth Pact.

The discussion of external rebalancing revealed the detrimental role of low demand and ensuing lower potential growth. In his dinner speech, Governor **Marek Belka** (Narodowy Bank Polski), mentioned ongoing increases in total factor productivity as a way out of this vicious circle. There was general agreement that more reform of Economic and Monetary Union (EMU) will be necessary and that regaining investor confidence is of key relevance. Progress in establishing the banking union was appreciated as a step in the right direction. **Thorsten Beck** (City University London) concluded that there was cause for optimism even though the banking union is still incomplete. In his words, the glass should be considered half full rather than half empty.

For details and presentation downloads, please visit <http://www.oenb.at/Publikationen/Volkswirtschaft/Conference-on-European-Economic-Integration-CEEI.html>.

The proceedings of the CEEI 2014 will be published by Edward Elgar Publishing Ltd. in the course of 2015. The CEEI 2015 will be merged with the Conference on the Future of the European Economy (CFEE) of Narodowy Bank Polski (NBP). The joint event will take place in Warsaw on October 15 and 16, 2015.



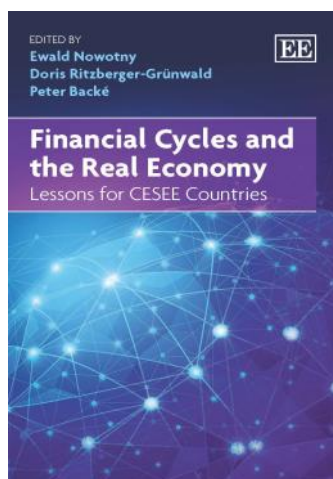
Structural evolution of agents: South-eastern Europe - two decades of economic achievements and challenges ahead,

Doris Ritzberger-Grünwald and Mariya Hake (2012) in:

Hardy Hanappi (ed.), *South-East Europe in Evolution*, Routledge Pub., pp. 13-44.

This chapter of the book 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 enhance the convergence process. A comprehensive approach describes the various driving forces, i.e. political, institutional, and economic forces of convergence.

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



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](#)

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 Q4/14

FDI in Russia from CESEE and Central Asia:

A Micro-Level Perspective

(Svetlana Ledyaeva, Päivi Karhunen, Riitta Kosonen, Julia Wörz)

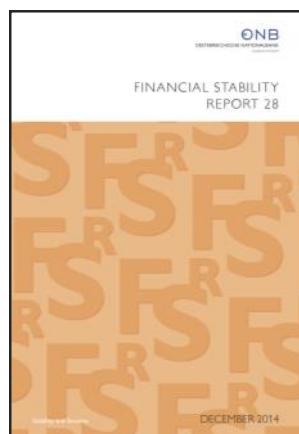
Developments in Selected CESEE Countries:

Economic Recovery Loses Steam in Adverse International Environment

Outlook for Selected CESEE Countries:

Moderate but Steady Growth amid a Notable Increase of External Risks

[See more](#)



Financial Stability Report 28

Austrian Banks in the Comprehensive Assessment (Maximilian Fandl, Robert Ferstl)

Austrian Subsidiaries' Profitability in the Czech Republic and Slovakia – CESEE Margins with an Austrian Risk Profile (Stefan Kavan, Daniela Widhalm)

Workshop Summary: Are House Prices Endangering Financial Stability? If So, How Can We Counteract This? (Martin Schneider, Karin Wagner)

The Banking Recovery and Resolution Directive and the EU's Crisis Management Framework: Principles, Interplay with the Comprehensive Assessment and the Consequences for Recapitalizing Credit Institutions in Crisis Situations (Dieter Huber, Georg Merc)

[See more](#)

OeNB Working Papers

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

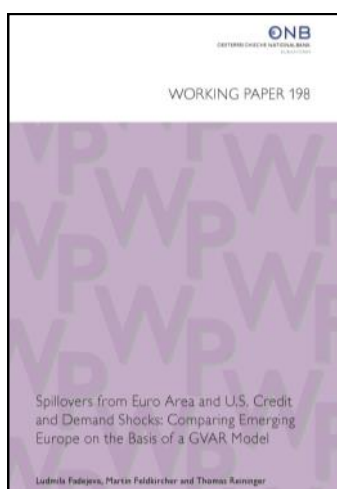


Shock Transmission through International Banks: Austria

Esther Segalla (Working Paper 199)

This study provides findings on the transmission of liquidity shocks by Austrian parent banks through the lending channel. I investigate how different types of parent banks adjust their balance sheet positions in response to a liquidity shock and how such an adjustment is transmitted into destination countries. I distinguish between three definitions of crossborder lending activities. In the most general definition I analyze changes in total lending, which consists of the two components - lending to banks and lending to non-banks. In a second step I concentrate on a narrower definition of lending, that is lending to non-affiliated banks. Finally I focus on an even more targeted definition, such as lending to affiliated banks (lending to branches and subsidiaries). I find that (1) smaller banks (parent banks without affiliates) did not adjust their balance sheet composition in a very pronounced manner in response to a liquidity shock. (2) Large banks (parent banks with affiliates) did decrease moderately their cross-border

loan share to other, non-affiliated banks. (3) Internal capital markets are important for the funding structure of Austrian parent banks and their foreign affiliates. (4) Destination countries matter. Countries signing the Vienna Initiative do receive strong support through the internal capital market.



Spillovers from Euro Area and U.S. Credit and Demand Shocks: Comparing Emerging Europe on the Basis of a GVAR Model

Ludmila Fadejeva, Martin Feldkircher and Thomas Reininger (Working Paper 198)

We examine the international effects of adverse loan supply and aggregate demand shocks originating in the euro area and the U.S.A. For that purpose, we use a global vector autoregressive (GVAR) model and isolate disturbances stemming from loan supply from those of four other macroeconomic shocks by means of sign restrictions. Our general results are as follows: Domestic and international responses of total credit and output to an adverse loan supply shock are substantial. They are more pronounced than the responses to an aggregate demand shock. Under both types of shocks, total credit decreases considerably more strongly than output in the long run, implying a reduction in financial deepening. This deleveraging process is particularly pronounced in the case of loan supply shocks. Taking a regional angle, Central-, Eastern- and Southeastern Europe (CESEE) and even considerably more the Commonwealth of Independent States (CIS) are the most strongly affected regions, and their total credit and output responses are stronger than in the country of shock origin. This is true for both types of structural shocks in the euro area and in the U.S.A. Last, historical decompositions of deviations from trend growth show that for the euro area developments, foreign shocks originating in the U.S.A., the UK and the CESEE and CIS regions feature most prominently, while for the U.S. developments, foreign shocks emanating from the euro area and China play a considerable role.

particularly pronounced in the case of loan supply shocks. Taking a regional angle, Central-, Eastern- and Southeastern Europe (CESEE) and even considerably more the Commonwealth of Independent States (CIS) are the most strongly affected regions, and their total credit and output responses are stronger than in the country of shock origin. This is true for both types of structural shocks in the euro area and in the U.S.A. Last, historical decompositions of deviations from trend growth show that for the euro area developments, foreign shocks originating in the U.S.A., the UK and the CESEE and CIS regions feature most prominently, while for the U.S. developments, foreign shocks emanating from the euro area and China play a considerable role.

External Publications by Staff Members

The International Transmission of US Shocks – Evidence from Bayesian Global Vector Autoregressions

Martin Feldkircher und Florian Huber (2015). *European Economic Review*, available online 28 January 2015, ISSN 0014-2921 <http://dx.doi.org/10.1016/j.euroecorev.2015.01.009>

We analyze international spillovers of expansionary US aggregate demand and supply shocks, and of a contractionary US monetary policy shock. For that purpose we use a Bayesian version of the global vector autoregressive model coupled with a prior specification that explicitly accounts for uncertainty regarding variable choice. Our results are three-fold: First, we find significant spillovers of all three shocks, with the monetary policy shock impacting most strongly on international output. Second, the dynamics of the receiving countries' responses depend on the structural interpretation of the respective shock. Third, US shocks tend to spread globally through the financial channel (i.e., interest rates) and the trade channel (i.e., the real effective exchange rate).

Using Cash to Monitor Liquidity - Implications for Payments, Currency Demand and Withdrawal Behavior

Ulf von Kalckreuth, Tobias Schmidt and Helmut Stix (2014). *Journal of Money Credit and Banking*, Vol. 46 (8) December. 1753–85.

This paper provides one explanation why cash is still used for transactions despite a broad diffusion of noncash payment instruments. In particular, we argue that a distinctive feature of cash—a glance into one's pocket gives a signal of the remaining budget and past expenses—provides utility to some consumers. Using payment survey data, we show that consumers who need to keep control over their remaining liquidity and who have elevated costs of information processing conduct a larger percentage of payments using cash, withdraw less often, and hold larger cash balances than other consumers.

The Euroization of Bank Deposits in Eastern Europe

Martin Brown and Helmut Stix (2015). *Economic Policy*, Vol. 81, doi: 10.1093/epolic/eiu002.

In Central, Eastern and Southeastern Europe a substantial share of bank deposits are denominated in foreign currency. Deposit euroization poses key challenges for monetary policy and financial sector supervision. On the one hand, it limits the effectiveness of monetary policy interventions. On the other hand, it increases financial sector fragility by exposing banks to currency risk or currency-induced credit risk. Policymakers disagree on whether countries in the region should tackle deposit euroization with 'dedollarization' policies or should rather strive to adopt the Euro as their legal tender. Assessing the potential effectiveness of 'dedollarization' policies requires a clear understanding of which households hold foreign currency deposits and why they do so.

On the basis of survey data covering 16,375 households in ten countries in 2011 and 2012, we provide a comprehensive household-level analysis of deposit euroization in Central, Eastern and Southeastern Europe. We examine how households' preferences for, and holding of, foreign currency deposits are related to individual expectations about monetary conditions and network effects. We also examine to what extent monetary expectations and deposit euroization are the legacy of past financial crises or the outflow of current policies and institutions in the region. Our findings suggest that deposit euroization in Central, Eastern and Southeastern Europe can be partly tackled by prudent monetary and economic decisions by today's policymakers. The preferences of households for Euro deposits are partly driven by their distrust in the stability of their domestic currency, which in turn is related to their assessment of current policies and institutions. However, our findings also suggest that a stable monetary policy may not be sufficient to deal with the hysteresis of deposit euroization across the region. First, we confirm that the holding of foreign currency deposits has become a 'habit' in the region. Second, we find that deposit euroization is still strongly influenced by households' experiences of financial crises in the 1990s. Our findings question the effectiveness of supply side interventions (e.g. bank regulation) or demand side interventions (e.g. local currency capital market development) in de-euroizing household savings. First, we show that deposit euroization is largely demand driven. Second, we show that households already have access to a broad range of savings products in local currency.

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

March 10, 2015	The Western Balkans: 15 Years of Economic Transition (Conference jointly with the IMF)
March 11, 2015	Asset and liability management with ultra-low interest rates, conference jointly with the BWG and SUERF, registration @ http://www.suerf.org/index.php?option=com_k2&view=item&id=577&Itemid=165
May 29, 2015	East Jour Fixe on Russia
June 15 –16, 2015	43 rd Economics Conference: Long-Term Perspectives for Economic Growth
October 15 – 16, 2015	Conference on European Economic Integration (CEEI): Boosting EU Competitiveness – The Role of CESEE (jointly organized with the Narodowy Bank Polski at Warsaw)

Recent

December 1, 2014	Global Economy Lecture (GEL) with H�el�ene Rey (London Business School)
December 12, 2014	Friday Seminar, Sovereign risk, interbank freezes, and aggregate fluctuations, (Philipp Engler)
December 19, 2014	Friday Seminar (Claudia Steinwender), TBA
January 9, 2015	Friday Seminar, General Equilibrium and The New Neoclassical Synthesis (Jean Jaques Hering)
January 23, 2015	Friday Seminar, Money In Modern Macro Models: A Review of the Arguments (Franz Seitz)

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: www.jvi.org

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