Selected Abstracts

The selected abstracts below alert readers to studies on CESEE topics in other OeNB publications. You may find the full-length contributions at www.oenb.at.

Stress Tests for the Austrian FSAP Update 2007: Methodology, Scenarios and Results

Michael Boss, Gerhard Fenz, Gerald Krenn, Johannes Pann, Claus Puhr, Thomas Scheiber, Stefan Schmitz, Martin Schneider, Eva Ubl

This paper presents the methodology, scenarios and results of the stress tests conducted for the update of Austria's Financial Sector Assessment Program (FSAP) in 2007. The focus of the paper lies in particular on the following two macroeconomic stress scenarios: (a) a regional shock in Central, Eastern and Southeastern Europe hitting Austrian banks through their large exposure in the region, and (b) a global downturn in economic activity causing a deterioration of Austrian banks' domestic loan portfolios, whereby in the second scenario, contagion risk within the Austrian interbank market was also taken into account. Stress test calculations were performed by the OeNB for all Austrian banks (top-down approach) as well as by the six largest Austrian banking groups for their respective exposure (bottom-up approach). The paper describes the methodologies for scenario construction and the stress tests themselves and then discusses the scenarios as well as the stress test results in detail, including a comparison of the two approaches. Finally, the paper presents the results of additional sensitivity stress tests for credit risk emanating from foreign currency lending, for the most important categories of market risk and for liquidity risk. Overall, the update of Austria's FSAP 2007 confirmed the results of previous stress testing exercises, in particular for the large Austrian banking groups that show considerable shock resistance mainly as a result of their generally sound capital buffers and high profitability.

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Walking the Tightrope: A First Glance on the Impact of the Recent Global Financial Market Turbulences on Central, Eastern and Southeastern Europe

Sándor Gardó, Antje Hildebrandt, Zoltan Walko

The Central, Eastern and Southeastern European (CESEE) countries have, to some extent, felt the impact of the international financial market turbulence observed since mid-July 2007. While CESEE markets tended to follow the negative global investor sentiment in general, they performed relatively well compared to other emerging markets. Overall, increases in risk premiums and asset price losses were rather contained in the region, which may reflect a positive impact on investor judgment induced by EU convergence. However, the fact that the financial turmoil had a stronger impact on countries with weaker economic fundamentals and/or insufficient policy credibility shows that correcting overly large economic imbalances remains imperative in a relatively fragile international environment.

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Effects of the Full Opening of the Austrian Labor Market to EU-8 Citizens

Klaus Prettner, Alfred Stiglbauer

Within the next few years, Austria will lift its temporary restrictions on the free movement of workers from the EU-8 countries. Estimates of the resulting inflow of foreign labor to Austria are surrounded by a high level of uncertainty and vary widely. A review of the literature and the results of empirical estimations presented in this paper – indicating an expected inflow of some 200,000 immigrant

employees within ten years – suggest the following: Immigration will have a small impact on the Austrian labor market at the aggregate level, but may reduce the employability of low-skilled, low-income workers. As regards the impact on inflation, it can be assumed that price pressures will decline.

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The Competitiveness Challenge: EU Member States in International Trade

Antje Hildebrandt, Maria Antoinette Silgoner

Given the increasing internationalization of trade, it is imperative for any country to ensure that its economy remains competitive. This study sheds light on trends in competitiveness in the EU Member States as made evident in an analysis of various indicators. Having lost their exchange rate autonomy by adopting the euro, the euro area countries face an additional constraint on national economic policy-making in the pursuit of competitiveness. In recent years, diverging unit labor cost developments have left their mark on competitiveness trends in individual euro area countries. Changes in competitiveness should not be interpreted in isolation, but rather against the background of a country's level of economic development, as evidenced in particular by the EU Member States in Central, Eastern and Southeastern Europe. For instance, long-term catching-up processes and equilibrium price adjustments have a major impact on price competitiveness indicators. The countries of this region managed to tap their potential for catching up and succeeded in withstanding international competition especially by raising product quality.

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The Treaty of Lisbon – Amendments to the EU Treaties and Their Consequences for EMU

Sylvia Gloggnitzer

The Treaty of Lisbon is the EU's new legal framework. The EU heads of state or government have agreed on a new EU treaty conceived to ensure that the enlarged EU consisting of 27 Member States functions more efficiently than under the Treaty of Nice, which is currently in place. The Treaty of Lisbon was signed by EU heads of state or government on December 13, 2007, in Lisbon. The Treaty of Lisbon is to replace the EU Constitutional Treaty rejected in national referendums in France and the Netherlands; it has retained large parts of the constitutional treaty's substance. First and foremost, the new EU treaty represents a reform that introduces increased majority voting, a clear delimitation of EU competences and a changed institutional framework for EU institutions. Other than the general institutional changes, elements of the Treaty of Lisbon relevant to Economic and Monetary Union (EMU) include, above all, the introduction of price stability to the new treaty's list of objectives, the institutional status of the ECB and the protection of its independence as well as the strengthening of the Eurogroup. The conditions for EMU set out in the Treaty of Maastricht are now reinforced politically in the Treaty of Lisbon. For the EU's new legal basis to enter into force on January 1, 2009, as scheduled, the Treaty of Lisbon needs to be ratified by all 27 Member States prior to the elections to the European Parliament in 2009.

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The Impact of EU Enlargement in 2004 and 2007 on FDI and Migration Flows – Gravity Analyses of Factor Mobility

Andreas Breitenfellner, Jesús Crespo Cuaresma, Peter Mooslechner, Doris Ritzberger-Grünwald

This paper contributes to the ex post assessment of macroeconomic effects triggered by the 2004/ 2007 wave of EU enlargement, with a specific focus on factor trade, i.e. the cross-border mobility of labor and capital. While most of the potential for trade in goods and for foreign direct investment (FDI) was tapped ahead of actual enlargement, above all migration effects are spread out over a longer period given transition rules for labor market integration. We use (innovative) gravity models to establish the potential for factor trade and cross-check the results against current developments. Our key finding is the uneven development of capital and labor mobility since EU enlargement. While migration potentials are materializing as expected, FDI stocks have remained relatively stable at already high levels. Furthermore, we observe a nonlinear relationship between migration and per-capita income, which may be explained on theoretical grounds and attributed to institutional factors. While the highest-income countries (above all Slovenia and the Czech Republic) are already turning into immigration countries, the low-income countries and those last to join the EU (Bulgaria and Romania) are likely to see further emigration and more FDI inflows.

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