

Q2/2013

# 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

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## Highlights of This Issue

- The **OeNB-BOFIT Outlook for the CESEE-7 countries** shows that the slowdown in economic growth experienced in 2012 will continue into 2013 so that GDP will expand by only 1.1% (see p. 2).
- **Evidence from the OeNB Euro Survey on households' savings and portfolio choices in CESEE** reveals a preference for traditional assets, in particular saving deposits, followed by either life insurance or pension funds (see p. 3).
- **The 2013 Conference on European Economic Integration (CEEI) on "Financial Cycles and the Real Economy: Lessons for CESEE"** will focus on the link between the financial cycle – the notion of financial booms followed by busts – and the real economy, and with related policy challenges (see p. 4).
- The latest issue of the OeNB's quarterly publication "**Focus on European Economic Integration**" has just been released (see p. 5).
- The OeNB invites entries from young economists from CESEE countries for the **Olga Radzyner Award** for excellent research on topics of European economic integration (see p. 8).
- The OeNB invites applications from external researchers for participation in a **Visiting Research Program** established by the OeNB's Economic Analysis and Research Department (see p. 8).

## OeNB-BOFIT Outlook for Selected CESEE Countries: Headwinds to Recovery because of Continued Weakness of the External Environment and Only Slow Pickup in Domestic Momentum<sup>1</sup>

The slowdown in economic growth the CESEE-7 region<sup>2</sup> experienced in 2012 will carry over to 2013, so that GDP will expand by only 1.1%, just marginally above the 1% recorded last year. We expect the growth dynamics to accelerate gradually during the course of 2013 and beyond, with GDP growth picking up to reach 2.4% in 2014 and 2.9% in 2015. Given an uptick in import growth combined with a moderate revival of external demand, the growth contribution of net exports in all countries apart from the Czech Republic will diminish over the forecasting horizon. In the Czech Republic and Hungary, the growth drivers will be fairly balanced between external and domestic demand; in all other countries, the moderate recovery will be spurred mainly by domestic demand. Overall, economic growth will remain below potential, and the growth differential to the euro area will be in the approximate order of 1.5 percentage points over the forecasting horizon. The risks to these projections remain tilted to the downside and are related to developments in individual euro area countries and heightened global risk aversion.

Croatia, which will accede to the EU in mid-2013, will not emerge from the recession this year. We expect GDP to contract by 0.5% in 2013 and to expand by 0.9% in 2014 and by 1.7% in 2015. Risks to the outlook for Croatia are also tilted to the downside, because private investments might fall short of expectations either because of deteriorating external demand conditions as a result of

developments in the euro area or due to insufficient implementation of the planned structural reforms.

Our GDP growth forecast for Russia amounts to 3.4% for 2013 as well as 2014; growth is projected to slow to about 3% in 2015. The forecast is based on an expected gradual slide of the oil price in the course of the forecast period, while the global economy and trade are anticipated to revive starting in 2013. Faster import growth will contribute to the slight slowdown of economic growth in 2015. Risks to the Russia forecast are more balanced and depend largely on prospective oil price developments, but also on the response of non-energy commodity exports to the projected global recovery.

For further information see

[Focus on European Economic Integration Q2/13](#)

<sup>1</sup> The OeNB and the Bank of Finland Institute for Economies in Transition (BOFIT) compile semi-annual forecasts of economic developments in selected CESEE countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia and Croatia). They are based on a broad range of available information, including country-specific time series models for Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania (for technical details, see Crespo Cuaresma, Feldkircher, Slacik and Wörz, 2009. Simple but Effective: The OeNB's Forecasting Model for Selected CESEE Countries. Focus on European Economic Integration Q4/09. 84–95). The projections for Russia were prepared by the Bank of Finland Institute for Economies in Transition and are based on an SVAR model. The cutoff date for all projections is April 2, 2013.

<sup>2</sup> Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania.

**OeNB-BOFIT CESEE GDP Projections, 2013-2015**

Real annual GDP growth in %



Sources: OeNB-BOFIT, Eurostat, Rosstat.

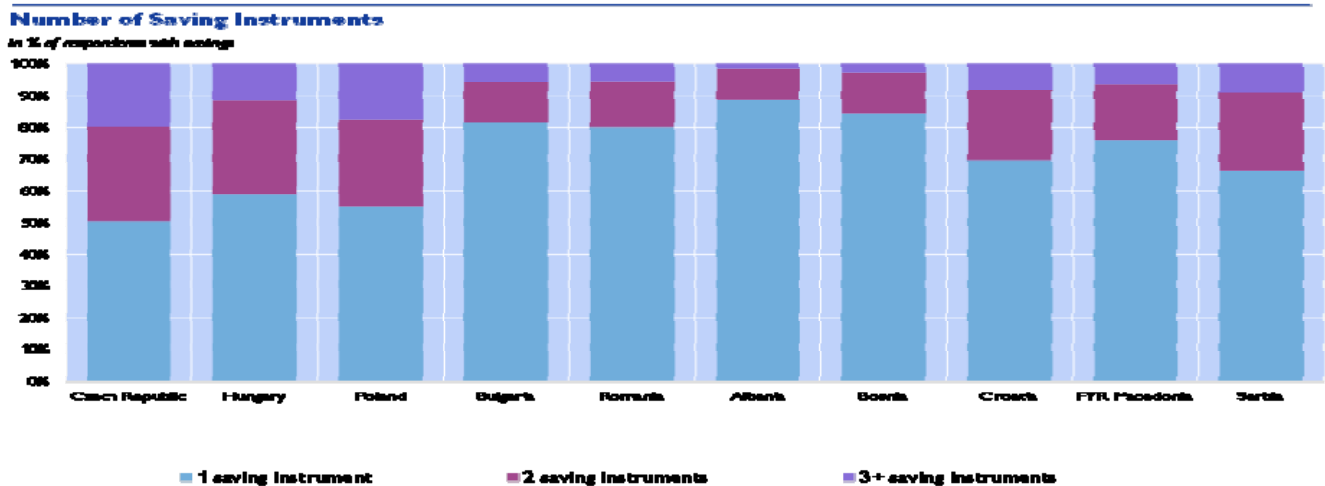
## OeNB Euro Survey: Households' Savings in Central, Eastern and Southeastern Europe

Evidence from the OeNB Euro Survey provides a unique picture of households' savings and portfolio choices in CESEE. On average, 62% of households across CESEE countries report to have savings. Figures differ largely across countries, however, ranging from 92% in the Czech Republic to 41% in Bulgaria, and include both current account and cash savings. The latter are particularly widespread in some CESEE countries (see Stix (2012) for an in-depth analysis on people's motivation to save in cash). Excluding these non-interest-bearing saving instruments, the average of CESEE households that hold

savings goes down to 28% (56% in the Czech Republic, 12% in Bosnia and Herzegovina).

With regard to saving instruments, survey evidence reveals a preference for traditional assets, in particular savings deposits followed by either life insurance or pension funds. In addition, the majority of households' saving portfolios is found to consist of only one type of asset (see chart 1). A similarly "underdiversified" portfolio pattern has recently been found to prevail the euro area (HFCN, 2013).

Chart 1



Source: OeNB Euro Survey, 2010-2011.

Note: Excluding respondents answering "Don't know" and "No answer".

Using this Euro Survey evidence, Beckmann, Hake and Urvova (2013) investigate households' saving decisions and their subsequent portfolio choices based on the life cycle hypothesis, i.e. by analyzing the sociodemographic determinants of households' saving behavior, most notably age. Their findings suggest that the individual propensity to save has a flattening-out hump shape, i.e. the young and the old save less than the middle-aged, but the old dissave less than the life cycle hypothesis would predict. This behavior might be attributable to a bequest motive or to memories of past economic

turbulences in CESEE. Age also plays a role in portfolio choice, with the young having a higher propensity to hold life insurance policies while the old are more likely to have savings deposits.

The OeNB Euro Survey has been conducted since fall 2007 on a semi-annual basis in ten Central, Eastern and Southeastern European (CESEE) countries. It gathers information on the use of the euro among CESEE households with regard to cash holdings, savings and loans, and provides a picture of how households evaluate their own current and future economic situation as well as that of their respective country. For further information on the OeNB Euro Survey and related publications, please visit [ceec.oenb.at](http://ceec.oenb.at).

### References

- Beckmann, E., M. Hake and J. Urvova. 2013. The Determinants of Households' Savings in Central, Eastern and Southeastern Europe. In: Focus on European Economic Integration. Forthcoming.
- Household Finance and Consumption Network (HFCN). 2013. The Eurosystem Household Finance and Consumption Survey. Results from the First Wave. ECB Statistics Paper no. 2. April.
- Stix, H. 2012. Why Do People Save in Cash? Distrust, Memories of Banking Crises, Weak Institutions and Dollarization. OeNB Working Paper 178.

## 73<sup>rd</sup> East Jour Fixe: Croatia – The 28<sup>th</sup> EU Member State

The 73<sup>rd</sup> East Jour Fixe on June 17, 2013, will focus on Croatia, which will become the 28<sup>th</sup> EU member state on July 1, 2013. The aim of the event is to identify present and future macroeconomic challenges Croatia will face in the real and financial sector and to discuss the role of EU integration.

The first contributions at the meeting will deal with the topic of *structural reforms* designed to boost growth and convergence as well as an *impact assessment of EU accession* on regional trade patterns. Following a stocktaking of financial market developments in Croatia, the second session will give room to a panel discussion at which ways to ensure and enhance macrofinancial stability from the bankers' and authorities' perspectives will be explored. The meeting will conclude with a

discussion of the future of the region from a broader political point of view.

Among others, Paul Vandoren, Head of the Delegation of the European Union to the Republic of Croatia, and Wolfgang Petritsch, Ambassador of the Permanent Delegation of Austria to the OECD, will feature as high-level speakers at this event. We are looking forward to a lively, high-profile policy dialogue bringing together academic, political and other professional experts.

For detailed information please visit: [http://www.oenb.at/de/geldp\\_volksw/zentral\\_osteuropa\\_neu/Veranstaltungen/veranstaltungen\\_uebersicht.jsp](http://www.oenb.at/de/geldp_volksw/zentral_osteuropa_neu/Veranstaltungen/veranstaltungen_uebersicht.jsp).

## Announcement

### Conference on European Economic Integration (CEEI) 2013

#### “Financial Cycles and the Real Economy: Lessons for CESEE”



organized by the Oesterreichische Nationalbank (OeNB)

November 18 and 19, 2013, Vienna Marriott Hotel, Parkring 12a, 1010 Vienna, Austria

By invitation only

The CEEI 2013 will deal with the link between the financial cycle – the notion of financial booms followed by busts – and the real economy, and with related policy challenges. The heterogeneous recovery paths of countries in Central, Eastern and Southeastern Europe (CESEE) appear to partly reflect differences in the pattern of the financial cycle prior to the crisis and varying policy responses to financial busts. Hence the question: How to diagnose and deal with financial booms and the related risks of financial stress? How to assess the

sustainability of financial deepening and thus the sustainable level of economic output? What considerations should guide policy reactions to downturns of financial cycles? These and other aspects will be discussed in the light of recent efforts to strengthen (macro)financial sector regulation at national and international levels.

[Conference on European Economic Integration](#)

## Research Visit of Jouko Rautava (BOFIT, Suomen Pankki – Finland's Bank) at the OeNB's Foreign Research Division

Jouko Rautava, Senior Economist at the Bank of Finland's Institute for Economies in Transition (BOFIT) spent four weeks at the OeNB's Foreign Research Division as a guest researcher in April and May 2013. Rautava is an expert on the economies and economic policies of Russia and China. Given his long-standing expertise and in-depth knowledge in this area, his visit provided an excellent opportunity for an exchange of ideas and discussions in particular with staff of the Foreign Research

Division working on emerging markets. During his stay, Rautava mainly worked on a new framework for assessing the Chinese authorities' progress in capital account liberalization more consistently over time. He also took the opportunity to present and discuss previous work on BOFIT's forecasting model for the Russian economy with experts of the OeNB's Economic Analysis and Research Department.

## Monetary Policy Regimes in CIS Economies and Their Ability Financial Stability, Summary of the Lecture by Professor Marek Dabrowski

On May 15, 2013, Professor Marek Dabrowski, former president of the Center for Social and Economic Research in Warsaw (CASE) and Professor of Economics, held a seminar at the OeNB discussing economic outcomes of different monetary policy regimes in CIS economies since the early 1990s. One of the major challenges for these countries was to achieve price stability after the transformation shock. The perestroika period and the dissolution of the ruble area led to very high inflation or hyperinflation in the first half of the 1990s, which moderated to two-digit levels after the introduction of new currencies and stabilization programs. However, this partial progress was not accompanied by sufficient fiscal policy support and could thus not prevent the financial crisis of 1998/99. The economic boom of the 2000s allowed for a return to macroeconomic stability with stronger fiscal fundamentals, but nevertheless proved insufficient to ward off the shock from the global financial crisis of 2008/09. In his presentation, Professor Dabrowski illustrated regulatory frameworks and exchange rate

trajectories of individual CIS countries. Of these, all countries currently maintain an intermediate (hybrid) monetary policy regime with more flexibility than 10 years ago. He contested that inflation targeting does not work yet mostly due a widespread "fear of floating." He rejected the continuation of hybrid regimes in an increasingly financially integrated global environment as such regimes are non-transparent, incredible and difficult to operate. Professor Dabrowski concluded by outlining the pros and cons of free floating regimes versus hard pegs without favoring either.

Besides his academic career, Marek Dabrowski has also held the positions of First Deputy Minister of Finance (1989–1990), Member of Parliament (1991–1993) and Member of the Monetary Policy Council of the National Bank of Poland (1998–2004). He has been involved in policy advising and policy research in a wide range of CESEE countries since the late 1980s. He is the author of several academic articles and policy papers, and editor of several book publications.

## OeNB Publications

### Focus on European Economic Integration Q2/13

Huynh-Olesen, D. T., Steiner, K., Hildebrandt, A., Wagner, K., "Residential Property Prices in Central Eastern and Southeastern European Countries: The Role of Fundamentals and Transition-Specific Factors", pp. 52-76.

The large movements in residential property prices in emerging markets observed over the past decade have raised interest in housing market developments. Within a cointegration framework applied to an unbalanced panel, we assess the relationship between residential property price developments, economic fundamentals and transition-specific factors in Central, Eastern and Southeastern European (CESEE) EU countries from 1999

to 2011. Our results show that demand-side fundamentals (disposable income, population, interest rates) and transition-specific factors related to housing demand (such as funding through remittances and credit growth) as well as construction costs on the supply side have been particularly important in residential property price movements. Nevertheless, these factors cannot fully explain residential property price movements, i.e. we


find evidence that house prices moved above the level indicated by those factors in the years preceding the crisis. The sharp correction of residential property prices that took place following the outbreak of the financial crisis reversed these overshoots and brought house prices back to – and in some countries even below – the level indicated by the explanatory factors. This suggests that residential property prices are likely to

rebound somewhat when economic conditions improve.

JEL classification: C23, P20, R3

Keywords: Housing markets, residential property prices, Central, Eastern and Southeastern Europe, cointegration framework

[Focus on European Economic Integration Q2/13](#)



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### Studies

Residential Property Prices in Central Eastern and Southeastern European Countries: The Role of Fundamentals and Transition-Specific Factors  
Duy T. Huynh-Olesen, Katharina Steiner, Antje Hildebrandt, Karin Wagner

Trust in the EU in CESEE: Did the Crisis and EU Integration Have an Impact? Evidence from the OeNB Euro Survey  
Elisabeth Beckmann, Sandra Dvorsky and Thomas Scheiber

### Recent Developments and Outlook

Compiled by Josef Schreiner

### Event Wrap-Ups

Turkish-Austrian Economic Relations in a European and International Context  
Compiled by Julia Wörz

IMF April 2013 World Economic Outlook: Hopes, Realities and Surveys  
Compiled by Christina Lerner

### Statistical Annex

Compiled by Angelika Knollmayer

[Focus on European Economic Integration Q2/13](#)

## Beckmann, E., Dvorsky, S., Scheiber, T., “Trust in the EU in CESEE: Did the Crisis and EU Integration Have an Impact? Evidence from the OeNB Euro Survey”, pp. 77-90.

The economic and financial crisis of 2008–09 and the ongoing sovereign debt crisis since 2010 have undermined EU citizens’ trust in national and European government institutions in many European countries. Against this background we look at trust in the EU in Central, Eastern and Southeastern Europe (CESEE) on the basis of results obtained from the OeNB Euro Survey. While we find that trust in the EU differs largely across the CESEE countries of the sample, the results are broadly comparable to average levels obtained for euro area countries over the same period. A comparison of pre-crisis and post-crisis levels of citizens’ trust in the EU reveals a certain divide: While trust in the EU declined significantly in the EU Member States of the sample during the sovereign debt crisis, an increase was found for

most of the non-EU countries over the same period. A number of major EU integration steps in the latter group of countries may explain this increase. We conclude that prudent communication policies remain key in fostering not only citizens’ general trust in European institutions, but also their understanding of necessary policy measures both in normal times and in particular in crisis times.

JEL classification: D02, E65, G01, H12, Z13

Keywords: Trust in the European Union, sovereign debt crisis, survey data; Central, Eastern and Southeastern Europe

[Focus on European Economic Integration Q2/13](#)

## Other CESEE-Related Publications

Beckmann, E., Fidrmuc, J., (2013). “Exchange Rate Pass-Through in CIS Countries. *Comparative Economic Studies*.” *forthcoming*.

We analyze exchange rate pass-through in seven CIS countries using monthly data from 1999 to 2010. In the short run, VAR models estimates show that exchange rate movements in the US dollar affect consumer prices to a relatively high degree (about 50%), while the Euro exchange rate is less important. Moreover, short-run exchange rate pass-through is very heterogeneous across countries. In particular, countries with high-energy imports from Russia generally have higher exchange rate pass-

through. In the long run, panel cointegration results show pass-through rates of 60% and above for both the US dollar and Euro exchange rates.

JEL classification: E31, E42, F31

Keywords: exchange rate pass-through, inflation, transition economies, Commonwealth of Independent States

[Comparative Economic Studies](#)

Ritzberger-Grünwald, D. (2013) “The Impact of External Shocks on Inflation Dynamics in CESEE.” Bank for International Settlements, Monetary and Economic Department, BIS Paper No.70, pp.161-170.

This contribution compares and contrasts Emerging Asia with Emerging Europe – the CESEE region to be specific – in terms of their inflation dynamics. The idea is to single out factors which are similar as well as factors which are different. To start with, the inflation performance of the CESEE region has been remarkable. In the context of economic stabilisation, taking place in the late 1990s and early 2000s, the region was characterized by a strong disinflation process, mainly driven by a few countries, for instance Romania. Inflation subsequently returned and picked up in the period from 2006 to 2008, but since then inflation rates have been rather modest. Overall, Emerging Asia has exhibited fairly similar inflation patterns, yet its crisis response seems to have been rather differ-

ent. Whereas inflation rates in Emerging Europe stayed at very low levels or declined even further, inflation rates in Emerging Asia returned to elevated pre-crisis levels relatively soon (Chart 1 a + b). A possible explanation is the sovereign debt crisis in some Euro Area countries, which prevented growth in the CESEE region from recovering as quickly as it did elsewhere. Due to the strong economic linkages between the Euro Area and CESEE there were several negative spill-overs to the CESEE region, with negative economic sentiment triggering severe setbacks in demand.

[BIS Paper No.70](#)

### Research Update Q2 2013:

#### Economic Analysis and Research Department of the OeNB

To find out more about OeNB economic research and analysis topics as well as past and forthcoming OeNB events ranging beyond CESEE-related research, see the next issue of the OeNB's Research Update, which is due to be released in June 2013.

[http://www.oenb.at/en/presse\\_pub/period\\_pub/volkswirtschaft/newsletter/einleitung.jsp](http://www.oenb.at/en/presse_pub/period_pub/volkswirtschaft/newsletter/einleitung.jsp)

## 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 post-doc) who work in the fields of macro-economics, international economics or financial economics and/or with 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 3 and 6 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 2013 should be e-mailed to [eva.gehringer-wasserbauer@oenb.at](mailto:eva.gehringer-wasserbauer@oenb.at) by November 1, 2013.

See also: [Visiting Research Program 2013](#)

## Call for Entries: Olga Radzyner Award 2013 for Scientific Work on European Economic Integration

The Oesterreichische Nationalbank (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 2013, 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 35<sup>th</sup> 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, Serbia, 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 2013 award should arrive at the OeNB by September 20, 2013, at the latest.

For more information, please see [www.oenb.at](http://www.oenb.at) or contact Ms. Eva Gehringer-Wasserbauer in the OeNB's Foreign Research Division either by e-mail [eva.gehringer-wasserbauer@oenb.at](mailto:eva.gehringer-wasserbauer@oenb.at) or by phone (+43-1-40420-5205).

See also: [Olga Radzyner Award 2013](#)



## Upcoming and Recent 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](mailto:ceec@oenb.at).

### Upcoming

June 17, 2013	73 <sup>rd</sup> East Jour Fixe "Croatia—The 28 <sup>th</sup> EU Member State"
November 18 - 19, 2013	Conference on European Economic Integration 2013 "Financial Cycles and the Real Economy: Lessons for CESEE" in Vienna

### Recent

May 15, 2013	"Monetary Policy Regimes in CIS Economies and Their Ability to Provide for Price and Financial Stability", Lecture by Professor Marek Dabrowski
February 18, 2013	72 <sup>nd</sup> East Jour Fixe „External Imbalances and Adjustment in CESEE to the Crisis"

## OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: [http://www.jvi.org/fileadmin/jvi\\_files/JVI\\_Program\\_2013.pdf](http://www.jvi.org/fileadmin/jvi_files/JVI_Program_2013.pdf)

11.-15.3.2013	Institutional Challenges for EU candidate and potential candidate countries on the Road to the EU and EMU (Oesterreichische Nationalbank in cooperation with the Federal Ministry of Finance)
16.-18.9.2013	Cash Circulation and Payment Systems in Austria
14.-18.10.2013	Macro-financial Stability in Central, Eastern and Southeastern Europe
21.-25.10.2013	Economic and Monetary Integration in Europe (Oesterreichische Nationalbank in cooperation with the Federal Ministry of Finance)
18.-22.11.2013	Monetary and Financial Statistics Collected and Compiled by the ESCB
2.-5.12.2013	Building New Skills in Financial Translation

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