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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

- EBRD Transition Report 2015-16: Rebalancing Finance (see p. 2)
- 78th East Jour Fixe: Ukraine - progress of reforms and challenges ahead (see p. 4)
- Two books on 200 years of central banking in Austria (see p. 5)
- Euro Cash Holdings in CESEE - Recent Evidence from the OeNB Euro Survey (see p. 6)
- Studies in: Focus on European Economic Integration Q1/16 (see p. 7)

EBRD Transition Report 2015-16: Rebalancing Finance



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On January 28, 2016, the Oesterreichische Nationalbank (OeNB) welcomed Ralph de Haas, Director of Research at the European Bank for Reconstruction and Development (EBRD), to present the main findings of the latest EBRD Transition Report. The presentation was opened by Doris Ritzberger-Grünwald, Director of Economic Analysis and Research at the OeNB, and afterwards discussed by Harald Waiglein, Head of the Directorate-General Economic Policy and Financial Markets at the Austrian Federal Ministry of Finance.

In her welcome address, Ritzberger-Grünwald stated that this year's report is the first EBRD Transition Report in nearly a decade to focus on the financial sector. She explained that research has indeed established a positive nexus between financial deepening and economic growth but that more recent debates have questioned the sustainability of debt-financed growth given the deleveraging process that had begun after the onset of the crisis. Against this background, the report is highly relevant according to Ritzberger-Grünwald, as it provides ideas on how to restructure and develop financial systems to make them more resilient. It also explores ways to use financial systems to overcome the large investment gap in the EBRD region and to deepen domestic capital markets.

After the introductory remarks, Ralph de Haas, the EBRD's Director of Research, outlined the most important messages of the EBRD Transition Report 2015-16. Above all, he highlighted that the economies where the EBRD operates (EBRD region) are currently facing the challenge of rebalancing and strengthening their financial sectors to boost economic growth and innovation.

Part 1: Large investment gaps in the EBRD region

One of the key topics of the report is the emergence of an investment gap in the EBRD region. Prior to the crisis, convergence was largely driven by economic integration, high FDI and other capital in-

flows. With the onset of the crisis, external finance stopped being the motor of convergence in the EBRD region. De Haas pointed out that limited fresh debt funding has led to large post-crisis investment gaps in the region. He also showed that the stock of outstanding debt as a percentage of GDP is still rising at close to pre-crisis speed. Also, the composition of this debt is suboptimal: Too much domestic debt is still denominated in foreign currency and the level of nonperforming loans (NPLs) is persistently high. Thus, there is the need for developing local-currency financial markets and for concerted action to reduce NPLs.



Copyright: EBRD

De Haas suggested that the countries need to find alternatives beyond debt funding in the medium term. More precisely, countries of the EBRD region should build stronger links with other advanced and emerging markets to use the potential of diversifying FDI inflows. This recommendation should be seen against the background that FDI inflows have been below their estimated potential since the crisis and that 60% of investments originate in EU-15 source countries.



Copyright: EBRD

Part 2: Better access to finance for SMEs

According to de Haas, firm-level credit constraints have increased almost everywhere in the EBRD region, calling for a more resilient allocation of credit to firms, in particular SMEs. De Haas went on to explain that institutional improvements can have a powerful impact, in particular if credit registries and collateral regimes function well. Institutional aspects aside, credit is more likely to flow to SMEs where application procedures are appropriately streamlined and where relationship lending is more prevalent than transaction-based lending. Looking at the liability side of the banking system, de Haas called for more diverse funding sources.

Part 3: Private equity as an alternative funding source

In the last part of his presentation, de Haas argued that more emphasis should be put on private equity as an alternative funding source. Private equity, a financing instrument that has been rarely used in transition countries so far, is characterized by a medium-term investment horizon (between 3 to 5 years). De Haas showed that private equity can have a high impact on the economy. According to the EBRD, private equity investments on average add 30 jobs over a five-year period and increase labor productivity and profitability. As mentioned before, the unused potential of private equity is large. Hence, to attract more private equity, the protection of investors and the development of capital markets need to be improved.

Discussion

According to Waiglein many EU countries are facing challenges similar to those experienced by countries

in the EBRD transition region: debt overhang, high levels of NPLs, scarce liquidity and credit-constrained SMEs. Waiglein offered two explanations for such malfunctioning of financial sectors: first, legacy issues (high NPL levels) and, second, legal issues (e.g. related to intangible property rights and to deficits in insolvency law). Concerning financial constraints for SMEs, he drew attention to an initiative of the Austrian Federal Ministry of Finance and the World Bank which aims at improving accountability and regulatory oversight. Furthermore, the role of private equity was discussed, as private equity can be an important source of risk capital for start-ups provided an adequate legal framework ensures transparency, predictability and certainty.

Link to the EBRD Transition Report 2015-16: [EBRD Transition Report 2015-16](#).

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.

78th East Jour Fixe: Ukraine – progress of reforms and challenges ahead

The manifold challenges Ukraine is facing today were the topic of the 78th East Jour Fixe held at the OeNB on February 26, 2016. At the event, which was co-organized by the OeNB's Foreign Research Division and the Vienna Institute for International Economic Studies (wiiw), speakers addressed the following major issues: Ukraine's macroeconomic stability, fiscal and exchange rate policies, structural adjustment, the IMF's assistance program, the Minsk II agreement, anti-corruption policies, and external trade and banking developments.

Following a deep recession along with a war in some of its eastern regions in 2014–15, Ukraine reached some degree of macroeconomic stabilization through painful adjustment processes in 2015. Structural reform achievements include energy sector reforms, the banking sector clean-up, the introduction of public e-procurement, the new patrol police, and the restructuring of privately-held external sovereign debt. Yet, other important reforms are still pending, including the organization of local elections in rebel-held areas, and reforms to the country's constitution (decentralization and autonomy amendments).

As regards the problem of endemic corruption, the most pressing challenges relate to, inter alia, reforming the judicial system and the prosecutor's office, and tackling the issue of vested interests in state-owned companies.

The Deep and Comprehensive Free Trade Area (DCFTA) agreement between Ukraine and the EU,

which entered into force at the beginning of 2016, is expected to exert a positive structural impact on Ukraine only in the medium term. Currently, heightened trade frictions with Russia, the continuing conflict in the east of the country, both countries' recessions, and soft global commodity prices have contributed to a strong contraction of Ukraine's exports and imports.

While the economy's depression and the plunge of the hryvnia have contributed to pushing the banking sector deeply into the red, IMF and international support as well as the authorities' policies have helped stabilize the sector and shore up depositors' expectations. However, Ukrainian banks continue to suffer from substantial shortcomings and risks, including, in particular, high credit risks, high losses, exchange rate risks, the weak rule of law and corruption. The banking sector's recapitalization needs will continue to be substantial.

The speakers addressing the 78th East Jour Fixe included Dmytro Sologub (Deputy Governor of the National Bank of Ukraine), Jerome Vacher (IMF Resident Representative in Ukraine), Martin Sajdik (Special Representative of the OSCE in Ukraine), Olena Bilan (Chief Economist of the investment bank Dragon Capital and leading member of the NGO VoxUkraine), and Daria Kaleniuk (Executive Director of Anticorruption Action Center, a Ukrainian civil society organization).

More information and presentations:

<https://www.oenb.at/Geldpolitik/Forschung/workshops.html>

SAVE THE DATE I: Global Economy Lecture November 28, 2016

Paul Collier, Professor at the University of Oxford, will deliver the Global Economy Lecture 2016 on November 28, 2016.

Topic: How should Europe meet the Duty of Rescue towards the Displaced and the Poor?

The Global Economy Lecture is an annual event jointly organized by Oesterreichische Nationalbank (OeNB) and The Vienna Institute for International Economic Studies (wiiw) since 1999. This lecture has traditionally been held by eminent economists and dedicated to topical issues of global economic devel-

opments. The list of previous speakers includes Jeffrey D. Sachs, Elhanan Helpman, Robert Lawrence, Barry Eichengreen, Lucrezia Reichlin, H el ene Rey to name just a few.

On the occasion of this event, the Oesterreichische Nationalbank will also present the 2016 winners of the [Franz Weninger Award](#), the [Klaus Liebscher Award](#) and the [Olga Radzyner Award](#).

For more information concerning the awards, please visit our website.

Two books on 200 years of central banking in Austria

Do you know when your central bank created a business area specifically tasked with “economic analysis” and “statistical analysis”? At the Oesterreichische Nationalbank, this memorable date was 1898, at a time when today’s OeNB still operated under the name of the Austro-Hungarian Bank. And the reason this date is known within our bank and beyond today is that, during the past few years, a team of economists and historians delved into a vast amount of internal and external records with a view to drafting two “bicentennial books” to mark the OeNB’s 200th anniversary in 2016.



The scholarly part of the OeNB’s bicentennial books is **The Quest for Stable Money. Central Banking in Austria 1816–2016**, published by Campus (Germany). Reading the past in the light of the present, the two authors – Clemens Jobst (OeNB) and Hans Kernbauer (Vienna University of Economics and Business) – produced impressive evidence that despite the ongoing changes in the framework in which the OeNB operates, today’s challenges are in fact recurring themes in the narrative of the OeNB’s history. The book also casts new light on the evolution of the OeNB from the treasury’s banker to the banker’s bank; and it is the

first book to offer a compact overview of the past 50 years of Austrian monetary policy.

This scholarly book is complemented by **Memories of a Central Bank. Oesterreichische Nationalbank. Since 1816**, also published recently, by Brandstätter (Austria). Mainly authored by the OeNB’s Bank History Archives team, this book was designed to tell the story of the OeNB in an engaging manner, with lots of pictures and with insights into workaday life at the bank.



Thus, the book includes chapters on the changing role of women at the OeNB and articles on pioneering achievements of the OeNB in banknote printing. It tells the OeNB’s story through its building history and offers vignettes of eventful money transports or the bank’s first company physician. To set the scene, each chapter also adds the political, economic and social backdrop against which the OeNB operated.

The OeNB’s actual “birthday,” by the way, was June 1, 1816.

Campus–book:
http://www.campus.de/buecher-campus-verlag/wissenschaft/geschichte/the_quest_for_stable_money-10258.html

Brandstätter–book:
<https://www.brandstaetterverlag.com/buch/memories-central-bank>

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>).

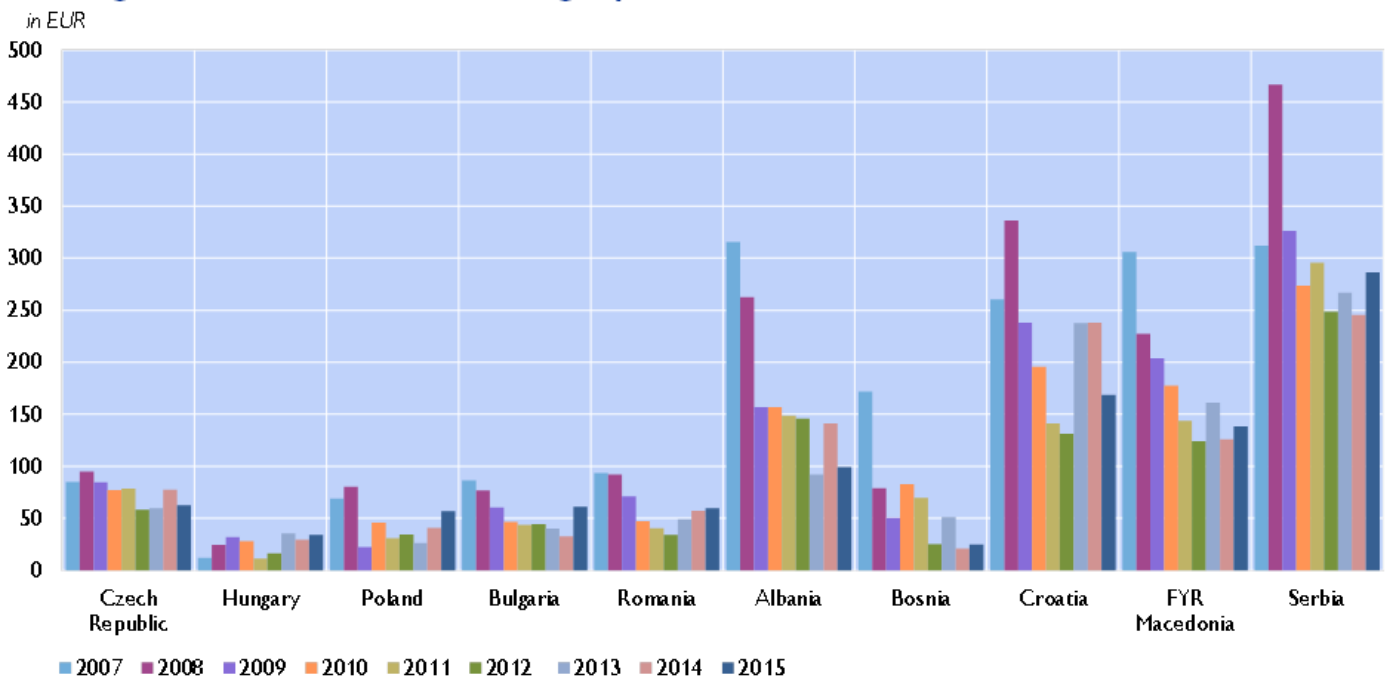
Euro Cash Holdings in CESEE – Recent Evidence from the OeNB Euro Survey

The OeNB Euro Survey of households has been conducted regularly since 2007 in ten Central, Eastern and Southeastern European (CESEE) countries to explore the different dimensions, the extent and the drivers of currency substitution in households' assets and liabilities.

Survey data are one of the rare sources to gather evidence on euro cash holdings in CESEE. According

to the OeNB Euro Survey, the 2015 averages of euro cash holdings per capita range between EUR 25 in Bosnia and Herzegovina and EUR 286 in Serbia (Chart). In most CESEE countries the annual averages remained rather stable over recent years after temporarily peaking during the 2008 financial crisis, where the peaks in Albania, Croatia and Serbia were mainly related to deposit withdrawals for fear of a bank collapse (Dvorsky, et al., 2010).

Average amounts of euro cash holdings by individuals



Source: OeNB Euro Survey.

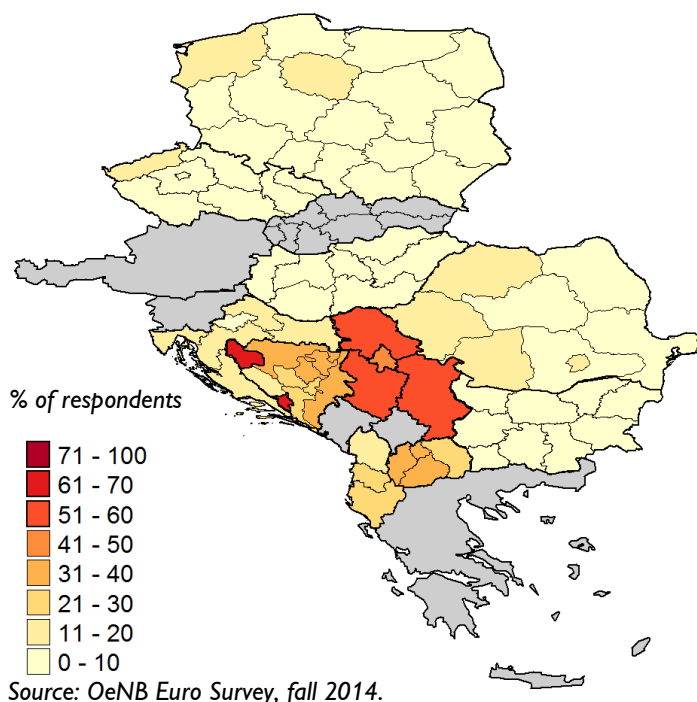
Note: Per capita values are extrapolated for the entire population aged 14 years and over. For details see Scheiber, T. and Stix, H. 2009. OeNB Working Paper 159.

In Albania, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia euro cash holdings per capita declined in comparison to 2009 and 2010 averages.

As before the crisis, the saving motive is still the main reason for holding euro cash in Southeastern Europe (SEE). Occasionally these cash hoardings are used for

payments in euro, too. The map depicts the regional frequencies of the actual payments in euro of respondents over the last six months as of fall 2014. Bosnia and Herzegovina, FYR Macedonia and Serbia exhibit particularly high shares. Nevertheless the incident of payments in euro has declined in all SEE countries since 2007.

Frequency of euro cash payments



References:

Dvorsky, S., Scheiber, T. and Stix, H. 2010. Real Effects of Crisis Have Reached CESEE Households: Euro Survey Shows Dampened Savings and Changes in Borrowing Behavior. In: Focus on European Economic Integration Q2/10. OeNB. 79–90.

Scheiber, T. and Stix, H. 2009. Euroization in Central, Eastern and Southeastern Europe – New Evidence on Its Extent and Some Evidence on Its Causes. OeNB Working Paper No. 159.

For more details on the OeNB Euro Survey, related publications and a summary of recent survey results, see:

<http://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>

Focus on European Economic Integration Q1/16

Studies



Modeling the evolution of monetary policy rules in CESEE, Feldkircher, M., Huber, F., Moder, I., p. 8-27 ([Study](#))

A monetary policy rule for Russia, or is it rules?, Korhonen, I., Nuutilainen, R., p. 28-45 ([Study](#))

Weathering global shocks and macrofinancial vulnerabilities in emerging Europe: Comparing Turkey and Poland, Eller, M., Huber, F., Schuberth, H., p. 46-65 ([Study](#))

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 May 1, 2016.

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

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

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.

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.

June 9, 2016	Presentation by Ádám Banai, Head of Applied Research and Stress-testing Department, Magyar Nemzeti Bank on "Drivers of household credit demand before and during the crisis" at the Oesterreichische Nationalbank. By invitation only!
June 30, 2016	CESEEnet: Forecasting Workshop at the Oesterreichische Nationalbank. By invitation only!
November 25, 2016	Forum "Completing Economic and Monetary Union" at the Oesterreichische Nationalbank. 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](#)

May 9-13, 2016	Challenges for Candidate and Potential Candidate Countries in the EU and EMU Accession Process
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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Postal address: P.O. Box 61, A 1011 Vienna, Austria

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