Editorial

Dear reader,

As 2007 is drawing to a close, we may venture to say that most Central, Eastern and Southeastern European (CESEE) countries have experienced another year in which economic performance – in particular output growth – has been buoyant, further promoting income convergence within Europe. At the same time, external imbalances have risen further in some countries, and inflation pressures have gained momentum across the region. These developments were attributable to both global and domestic supply factors, but were also driven by strong aggregate demand growth in the region. While the CESEE region remains a growth pole in Europe, macroeconomic and structural policymaking has certainly become more challenging in a number of CESEE countries. Policymakers must strike a balance between sustaining a continued and smooth path of real convergence while at the same time ensuring macroeconomic stability. It is worth noting on the positive side that, so far, the CESEE economies have on the whole displayed a remarkable degree of resilience amid the recent global financial market turmoil.

These issues are taken up and analyzed more deeply in various contributions to the current issue of Focus on European Economic Integration (FEEI). The Developments in Selected Countries section sheds particular light on inflation and external positions in ten CESEE countries in a comparative perspective. Against the backdrop of the turbulences on the credit markets of developed economies, this section also examines developments in the key financial market indicators of CESEE countries.

In the studies section, you will find a paper by Jesús Crespo Cuaresma and Tomáš Slačík on the determinants of currency crises that focuses on the role of model uncertainty. The authors use Bayesian model averaging techniques to assess the robustness of the explanatory variables proposed in the recent literature for both static and dynamic currency crisis models. Based on a sample that covers 27 emerging economies, including 9 CESEE economies, from 1994 to 2003, the study finds that macroeconomic fundamentals are very fragile determinants of currency crises.

In recent years, most CESEE countries have recorded fast credit growth and, consequently, sizeable increases in credit-to-GDP levels. Not astonishingly, therefore, the assessment and implications of credit expansion have become a key policy issue across the CESEE region. Peter Backé, Balázs Égert and Zoltan Walko have updated earlier work on this issue and present new results on the deviations of private sector credit-to-GDP levels from their estimated equilibrium levels in 11 CESEE countries. They show that the levels of private sector credit to GDP continued to catch up with their long-run equilibrium levels during 2005–2006 and that, in a few countries, credit levels have already become fairly elevated relative to the underlying fundamentals. The paper also addresses policy implications: Considering that monetary policy in catching-up economies is often constrained, appropriate fiscal, income and structural policies as well as tight prudential regulations and supervision are key to keeping credit growth and exuberant domestic demand in check.

Another update on an earlier study featuring in this FEEI issue deals with Exchange Rate Arrangements and Monetary Policy in Southeastern Europe (SEE) from 2004 to 2007. This contribution, authored by Stephan Barisitz, compares monetary policy and inflation developments in SEE countries. While individual countries in the region have opted for a range of different monetary policy regimes, the author argues that prudent monetary policies have been upheld. The anti-inflationary effectiveness of pegs continues to be satisfactory overall, while the initial results of inflation targeting in some SEE countries have also been broadly encouraging. The most recent pickup of inflation creates new policy challenges across the region and across different policy regimes.

Development and Regional Disparities in the European Union are at the center of a paper by Béla Szörfi, one of the winners of the 2007 Olga Radzyner Award. In this contribution, the author examines the relationship between within-country regional disparities and the stage of a country's economic development, using panel data methods. Szörfi finds evidence on the Williamson curve hypothesis, which holds that disparities are lower in the early stages of development, peak in middle-income stages, and diminish again as countries become rich. The paper also investigates which factors, apart from income levels, influence regional disparities. Among these factors, the date of EU accession is found to play an outstanding role, explaining more than one-half of the differences in regional disparities between EU Member States. This would seem to suggest that EU membership will help to mitigate regional disparities in the "new" EU countries through various channels, e.g. increased policy coordination and surveillance, structural funds and a strengthening of institutions.

Among the other contributions in this FEEI issue, let me single out the summary report on the 2007 Conference on European Economic Integration, which was held in November and which focused on Currency and Competitiveness. Exploring the links between the external value of currencies and structural developments in the real economy, the conference addressed a wide range of issues, e.g. worldwide current account imbalances, the competitiveness of catching-up economies, the challenges of euro adoption, and corporate exchange rate strategies. The prominent speakers of this conference included John Lipsky, First Deputy Managing Director of the International Monetary Fund, Lorenzo Bini-Smaghi, Member of the Executive Board of the ECB, as well as the central bank governors of Malta, Michael C. Bonello, Cyprus, Athanasios Orphanides, and Slovakia, Ivan Šramko.

I do hope that a number of these contributions will be of interest to you, either adding to your knowledge of the CESEE region or being of use in your personal research agenda. If you have further comments or wish to exchange ideas, please do not hesitate to contact us at

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