

Research Update

Economic Analysis and Research Department

www.oenb.at/research.update

Content

Austria's Economy	2
Loan Report of the Oesterrische Nationalbank	2
SUERF/OeNB/BWG Conference	3
72th East Jourfix	4
HFCS	4

Periodical Publications	5
OeNB Working Papers	6
External Publications by Staff Members	7
Upcoming and Recent Events	8
OeNB Courses at the Joint Vienna Institute (JVI)	8

The OeNB's Special Focus: CESEE

Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe	9
---	---

Call for Applications – Visiting Research Program	10
---	----

Call for Entries: Olga Radzyner Award 2013	10
--	----

<http://www.oenb.at>
<http://ceec.oenb.at>



Editorial

by Peter Mooslechner
 Director of the Economic Analysis and Research Department

The Magic Mountain.....

...or “Der Zauberberg” is not really an optimistic story. But when world leaders are meeting at Davos this year, the place which inspired Thomas Mann to write his famous novel, there will be a kind of optimism not seen since the onset of the recent (and still ongoing) financial and economic crisis.

In Austria, another magic mountain” is making the headlines these days: the “Hahnenkamm” in Tyrol’s Kitzbühel, venue of – by Austrian reckoning – the world’s most famous and spectacular downhill ski race. It is easy to understand, at least from the perspective of a rather small and tourism-oriented mountainous country, that such an event is psychologically much more important than any issue related to the economic crisis. Let’s hope that the Austrian team is doing well, as this will certainly have a positive impact on the performance of the Austrian economy.

Returning to the question of optimism versus pessimism, it seems surprising that overall sentiment – from financial markets to business – has stabilized and improved significantly since summer last year. Two elements were key to this upswing in mood:

- First, the ECB’s announcement of unlimited(!) potential to counteract any unjustified speculation against sovereign bonds of certain countries (under very clear and tough conditions) contributed essentially to the stabilization of expectations.
- Second, and it seems even more importantly, the EU provided a clear political signal that Europe is willing to embark on the road to further integration and to undertake joint efforts to make this feasible. Innovations ranging from the ESM to a banking union contributed significantly to this exercise in “political integration credibility.”

These improvements we saw besides the (many) still existing fragilities and risks have contributed to our assessment that the Austrian economy passed the trough at the turn of the year. Growth in 2013 will be quite low, of course, but what we expect – based on all the hard and soft information available at the moment – is a clear improvement in the dynamics of the Austrian economy in the course of this year.

Frankly speaking, the outcome of the Hahnenkamm race is much more uncertain. Let’s hope for the best for our downhill racers, in particular because of the unchallenged interaction between people’s mood and economic dynamics...

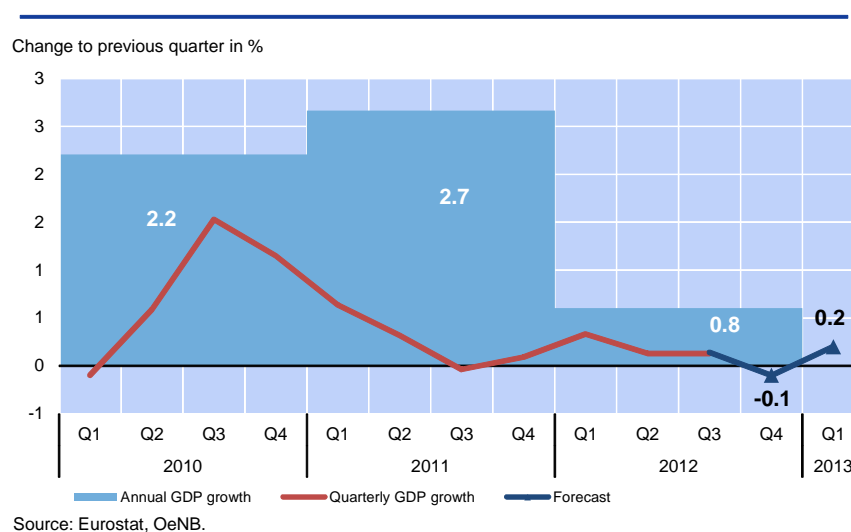
Austria's Economy has bottomed out at the beginning of 2013

Results of the OeNB's Economic Indicator from January 2013

The Austrian economy seems to have bottomed out at the beginning of the year 2013. According to the results of the OeNB's economic indicator real GDP contracted slightly in the fourth quarter of 2012, but for the first quarter of 2013 a moderate expansion of 0.2% is expected. The more positive growth outlook for the first quarter is ascribable above all to the significant improvement of business sentiment.

The growth forecast for the fourth quarter of 2012 has been revised downwards by 0.1 percentage points compared to the last release of the OeNB economic-indicator results. Over the entire year 2012 the OeNB now projects growth to reach 0.6% - 0.2 percentage points more than in its economic outlook of December. The upward revision for 2012 is explicable almost entirely by the effect of revisions of historical data.

Short-Term Outlook for Austria's Real GDP for the Fourth Quarter of 2012 and the First Quarter of 2013 (seasonally and working-day adjusted)



Loan Report of the Oesterreichische Nationalbank

The growth of loans extended by Austrian banks to nonfinancial corporations recovered continuously after its crisis-induced slump in mid-2010. Contrary to the trend at the European level, this recovery continued in 2012 until August, when the annual growth rate stood at 3.4%; after that, the growth of loans to nonfinancial corporations slowed, reaching 2.5% in October 2012 (the most recent reporting month). The breakdown by economic sectors shows that lending expanded in all major sectors (manufacturing, construction, trade, transport, hotels and restaurants), with the exception of energy supply, where loan growth has been on the decline for some time. Lending to households also accelerated after the financial crisis, but after July 2011 the annual growth rate of loans to households slowed down again, falling from 2.3% to 0.6% in October 2012.

Current business surveys indicate that the availability of bank loans deteriorated slightly in the course of 2012. The bleaker economic outlook is the major cause of this deterioration according to the businesses surveyed. At the same time, bank policies, such as banks' willingness to lend, are believed to have played a key role. Businesses also say that credit terms and conditions, in particular collateral requirements and covenants, were tightened somewhat in 2012. Also, the share of bank loans granted in full and at the expected terms and conditions decreased in the summer and fall of 2012.

Further details please see http://www.oenb.at/de/img/kreditbericht_dezember_2012_tcm14-252310.pdf



SUERF/OeNB/BWG Conference

The Future of Sovereign Borrowing in Europe

March 8, 2013 Kassensaal, Oesterreichische Nationalbank, Vienna

Notes on the Conference Topic:

The financial, economic and sovereign debt crisis has fundamentally changed the rules of the game in sovereign debt markets, particularly but not only in the Euro Area. While some countries enjoy a safe-haven status, other face soaring risk spreads. Sovereign rates of crisis countries have been downgraded dramatically, but also safe-haven countries' prime rating has been lost or is under close scrutiny. Sovereign bonds as a broad category have lost their – previously widely perceived – status as "risk-free" assets. The crisis countries face unsustainably expensive financing costs (or even a loss of access to bond market financing), pushing them towards shorter financing or forcing them to rely on financial support by other countries and the international community or massive intervention by central banks.

Programme

- Opening 09:00 Opening and Welcome**
Ewald Nowotny, Governor, Oesterreichische Nationalbank
Urs Birchler, SUERF President and University of Zürich
- Keynote 09:15 The Future of Sovereign Borrowing**
Chair: Ernest Gnan, SUERF and OeNB
The Future of Sovereign Borrowing
Alessandro Missale, UNCTAD and University of Milan
- Session 1 10:45 European Sovereign Borrowing - Adjusting to the new environment**
Chair: Otto Lucius, Austrian Society for Bank Research
The Investor Perspective
Christopher Marks, BNP Paribas
The Issuers Perspective
Hans J Blommestein, OECD and Tilburg University
The crisis resolution perspective
Juha Kilponen, Bank of Finland
- Session 2 13:15 Sovereign debt, monetary and financial stability**
Chair: Peter Mooslechner, Oesterreichische Nationalbank
The role of sovereign debt in monetary policy implementation - an international comparative perspective
Ulrich Bindseil, ECB
How does the crisis affect the interaction between monetary policy and sovereign borrowing?
Eric Leeper, Indiana University
On the treatment of sovereign borrowing in banking supervision and regulation
Martin Hellwig, Max Planck Institute for Research on Collective Goods
- Session 3 15:15 Towards more prudent sovereign borrowing**
Chair: Martha Oberndorfer, Austrian Federal Financing Agency
Risk management of debt portfolios
Maria Cannata Bonfrate, Italian Treasury
GDP-indexed bonds - a tool to reduce macro risk?
Mark L.J. Wright, UCLA
Principles of sovereign lending and borrowing
Yuefen Li, UNCTAD

http://www.suerf.org/index.php?option=com_k2&view=item&id=382&Itemid=129



72th East Jourfix- External Imbalances and Adjustment to the Crisis in CESEE

February 18, 2013

8:45 – 13:15, Veranstaltungssaal EG

The 72nd *East Jour Fixe* on February 18, 2012, will put a special focus on the evolution of macroeconomic imbalances in CESEE before and after the 2008/09 crisis. The first session will provide an overview of pre- versus post-crisis imbalances in these countries, with a particular focus on external imbalances and respective external and internal adjustment processes. Moreover, potential determinants of vulnerability and their explanatory power for the severity of the downturn in individual countries will be analyzed. The second session will give room for an in-depth discussion of two country cases: Latvia and Slovakia. Starting from different initial conditions, both countries have experienced a severe output decline followed by a V-shaped recovery. The workshop will be concluded by an assessment of (successful) policy measures implemented during the period of economic adjustment and policy challenges that lie ahead in CESEE.

For Programme updates please see:

http://www.oenb.at/en/geldp_volksw/zentral_osteuropa/Events/OJF/72nd_east_jour_fixe.jsp#tcm:16-252618

Technical Workshop—HFCS

"Eurosysteem Household Finance and Consumption Survey (HFCS) in Austria"

February 25, 2013

Oesterreichische Nationalbank

Otto-Wagner-Platz 3, 1090 Vienna, Austria

Programme

The HFCS is the first comprehensive survey among euro area households that provides information on households' financial assets, real assets and debt, making it possible to analyze their net wealth. The ECB will make the HFCS data set available to the research community on February 15, 2013. To provide guidance on how to work with these new data, the OeNB will hold a technical workshop on February 25, 2013. During the workshop, OeNB experts will explain the basic features of the data and show participants how to use the complex data set.

9:00 a.m. Registration

9:30 a.m. Workshop opening

10:00 a.m. Methodological framework of the HFCS

1:00 p.m. Lunch break

2:00 p.m. Implementation in Stata

5.00 p.m. End of workshop

Participation in this event requires prior registration by e-mail to Peter.Lindner@oenb.at and Pirmin.Fessler@oenb.at by January 31, 2013, at the latest.

OeNB Periodical Publications

www.oenb.at/de/presse_pub/period_pub/volkswirtschaft/volkswirtschaft.jsp

List of all Publications since 2001 (by staff of the Economic Analysis and Research Department):

http://www.oenb.at/de/img/publications_2012_4_fin_tcm14-246599.pdf



Focus on European Economic Integration Q4/12

How Sustainable Are Public Debt Levels in Emerging Europe? (Eller, Urvová)

The Impact of Memories of High Inflation on Households' Trust in Currencies (Beckmann, Scheiber)

IMF Oct.2012 World Economic Outlook and Global Financial Stability Report (Lerner)

10th ESCB Emerging Markets Workshop (Slačík)

17th Global Economy Lecture: John Van Reenen Trade-Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity (Wörz)



Financial Stability Report 24

How do Austrian Banks Fund Their Swiss Franc Exposure? (Auer, Kraenzlin, Liebeg)

Contagiousness and Vulnerability in the Austrian Interbank Market (Puhr, Seliger, Sigmund)

Clusterin Austrian Banks' Business Models and Peer Groups in the European Banking Sector (Ferstl, Seres)



Monetary Policy and the Economy Q4/12

Forthcoming

Austria Prevails in Bleak Environment—Economic Outlook for Austria from 2012 to 2014 (December 2012) (Fenz, Schneider)

Housing Cost Burden of Austrian Households: Results of a Recent Survey (Beer, Wagner)

The Use of Means of Payment in Austria -An Analysis Based on Survey Data from 1996 to 2011 (Mooslechner, Stix, Wagner)

The Cross-Border Movement of Euro Banknotes and Austria's TARGET2 Liabilities (Jobst, Handig, Schneeberger)

OeNB Working Papers

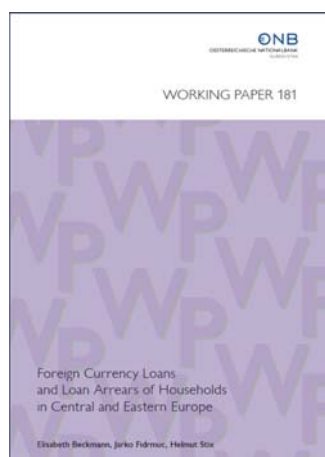
http://www.oenb.at/en/presse_pub/research/020_workingpapers/_2012/working_papers_2012.jsp



Have Changes in the Financial Structure Affected Bank Profitability? Evidence for Austria

Fabio Rumler, Walter Waschiczek (Working Paper 180)

We examine the impact of changes in the financial structure of the Austrian banking sector over the past 15 years, such as disintermediation, internationalization and privatization, on the profitability of banks. Several proxies based on bank balance sheet data at the micro level as well as macroeconomic variables are used to capture these changes. The case of Austria is particularly interesting because country-specific developments, such as the opening-up of the banking sector due to EU accession, coincided with the global deregulation of banking activities. Our estimation results, which are based on dynamic panel regression methods, indicate that disintermediation (a lower percentage of loans over total assets) and higher market concentration in the banking sector had a positive effect on bank profitability, while, surprisingly, changes in the ownership structure (privatization and increased foreign ownership) as well as more foreign lending by Austrian banks did not have a clear-cut or significant impact on bank profits.



Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe

Elisabeth Beckmann, Jarko Fidrmuc and Helmut Stix (Working Paper 181)

Given recent adverse developments, widespread foreign currency borrowing in CEECs poses a serious challenge for financial stability. Against this background, we use survey data to study the determinants of loan arrears of private households. Our data confirm a non-negligible impact of foreign currency loans on financial vulnerability. However, higher loan delinquency rates in depreciation countries can only partly be explained by foreign currency borrowing. Employing survey information about the reasons for households' financial difficulties, we show that income shocks exert a stronger impact on loan delinquency rates than the direct effect which works through increased instalments on foreign currency loans.

External Publications by Staff Members

The internal workings of internal capital markets: Cross-country evidence

Gugler, K., Peev E., E.Segalla (2013) *Journal of Corporate Finance*, Volume 20, April 2013, Pages 59-73

We derive empirical predictions from the standard investment-cash flow framework on the functioning of internal capital markets (ICM), but circumvent its criticism by focusing on parent cash flow and investment opportunities. We test these predictions using a unique dataset of parent firms and their listed and unlisted subsidiaries in 90 countries over the period 1995–2006. We find that company and country institutional structures matter. (1) Ownership participation of the parent firm in the subsidiary plays a crucial role for the proper functioning of ICMs. The larger the ownership stake of the parent, the better the functioning of the ICM. (2) The best functioning cross-border ICMs can be found in the sub-sample of firms with parents from a country with “strong” institutions and subsidiaries from a country with “weak” institutions. (3) Unlisted subsidiaries are much more dependent on the ICMs their parents provide than listed subsidiaries. Thus, ICMs are not per se “bright” or “dark”, their proper functioning depends on how they are set up. <http://dx.doi.org/10.1016/j.jcorpfin.2012.12.001> (13 December 2012)

Heterogeneity and Cross-Country Spillovers in Macroeconomic-Financial Linkages

Ciccarelli, M., Ortega, E., Valderrama, M. T. (2012). *ECB Working Paper 1498*

We investigate heterogeneity and spillovers in macro-financial linkages across developed economies, with a particular emphasis in the most recent recession. A panel Bayesian VAR model including real and financial variables identifies a statistically significant common component, which turns out to be very significant during the most recent recession. Nevertheless, countryspecific factors remain important, which explains the heterogeneous behaviour across countries observed over time. Moreover, spillovers across countries and between real and financial variables are found to matter: A shock to a variable in a given country affects all other countries, and the transmission seems to be faster and deeper between financial variables than between real variables. Finally, shocks spill over in a heterogeneous way across countries.

Spin-offs of austrian municipalities: extent, range of services and risk potentials

Hauth, E., Grossman, B (2012) *Umfang und Risikopotenzial von kommunalen Ausgliederungen in Österreich*. In: *Das öffentliche Haushaltswesen in Österreich*, 53, 4/2012, Vienna, 30-45

Shifting investment-related tasks of municipalities in Austria to infrastructure and real estate enterprises controlled by the municipality has increased in the past. But data on this off-budget sector have hardly been available up to the present. This study on Spin-offs in the Sector of Austrian Municipalities is based on a survey of the Government Debt Committee (made on a voluntary basis) and covers the following topics: 1. Significance of municipal spin-offs in Austria in which the influence of the municipality dominates (including number of spin-offs, organizational forms), 2. Range of services of spun-off units in municipalities (including scope of activities and investment volumes) as well as 3. Risk potential of spin-offs for the municipalities (among other things, arising as a result of off-budget debt, inadequate management of holdings). The results of this study showed an additional extra-budgetary debt level of municipal enterprises (excluding Vienna) in the extent of EUR 7 billion to EUR 10 billion and an extra-budgetary volume of investment of municipal enterprises (excluding Vienna) for the year 2010 in the range of EUR 1.2 billion to EUR 1.6 billion corresponding approximately to the (official) public investment volume of the local government level (including Vienna).

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

Upcoming

January 25, 2013	Jochen Mankart (Universität St. Gallen), Bank defaults and credit supply over the business cycle
January 30, 2013	Presentation of the EBRD Transition Report (Jointly with BMF)
February 18, 2013	East Jourfix- External Imbalances and Adjustment to the Crisis in CESEE
February 22, 2013	6 th FIW-Research Conference "International Economics
February 25, 2013	HFCS Technical Workshop-Eurosystem Household Finance and Consumption Survey (HFCS) in Austria
March 8, 2013	SUERF/OeNB/BWG Conference– The Future of Borrowing
March 15, 2013	Tarun Ramadorai (Said Business School University of Oxford), How do Regulators influence Mortgage Risk? Evidence from an emerging Market

Recent

Dezember 21, 2012	Gael Giraud (L'Université Paris 1 Panthéon-Sorbonne), Financial Crashes versus Liquidity Trap: The Dilemma of Monetary Policy
Dezember 7, 2012	Ernesto Villanueva (Banco de Espana), Consumption and Initial Mortgage Conditions: Evidence from survey data
November 26 - 27, 2012	Conference on European Economic Integration (CEEI) 2012 "Achieving balanced growth in the CESEE countries" Jointly organized by Suomen Pankki and the OeNB
November 23, 2012	Julian Kolm (Universität Wien), Securitization, Shadow Banking, and Bank Regulation.
November 19, 2012	Vortrag von Dr. Thomas Wieser im Rahmen der Vortragsreihe der Österreichischen Statistischen Gesellschaft (OSG)

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: http://www.jvi.org/fileadmin/jvi_files/JVI_Program_2013.pdf

March 11 - 15, 2013	Institutional Challenges for Candidate and Potential Candidate Countries on the Road to the EU and EMU
September 16-18, 2013	Cash Circulation and payment Systems in Austria
October 14-18, 2013	Macro-financial Stability in Central, Eastern and Southeastern Europe
October 21-25, 2013	Economic and Monetary Integration in Europe
November 18-22,2013	Monetary and Financial Statistics Collected and Compiled by the ESCB

Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe

To date, much light has already been shed on the macroeconomic risks to financial stability stemming from foreign currency loans. In contrast, little is known about how foreign currency borrowing affects private households and its indirect impact on banks' credit risk. The increase in nonperforming loans in many Central and Eastern European countries, marked by a high share of foreign currency borrowing over the past years, suggests that foreign currency loans could be too risky for largely (unhedged) households.

Beckmann, Fidrmuc and Stix (2012) explore this issue, employing data from the OeNB Euro Survey to analyze how foreign currency loans affect the financial vulnerability of households. The survey gathers information on whether households have taken out a loan and whether they have been in arrears on loan repayments as well as on the currency composition and the purpose of the loan. Chart 1 shows the sample mean of loans and loan arrears by currency denomination.

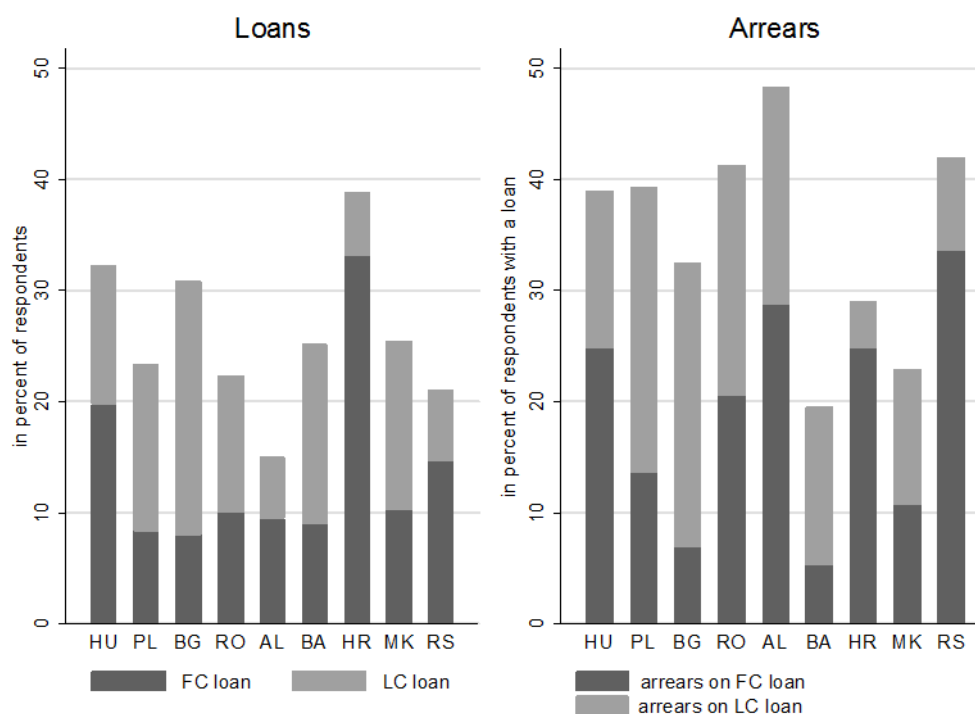


Chart 1: Sample Mean of Loans and Loan Arrears, Fall 2010 to Fall 2011

Note: The left panel shows the incidence of loans as well as their currency denomination. The right panel shows the percentage of loan holders who report to have been in arrears at least once during the past 12 months, separated by loan currency denomination. Source: Beckmann, Fidrmuc, Stix (2012).

Based on this information, Beckmann, Fidrmuc and Stix (2012) analyze the determinants of loan arrears and study whether foreign currency loans increase loan arrears. Their results reveal that the de facto exchange rate regime affects the incidence of loan arrears: Regardless of the denomination of the loan, the incidence of loan arrears is about 12 percentage points higher in depreciation countries than in non-depreciation countries. While an appealing explanation for this finding is that depreciations cause higher arrears for foreign currency loans, the authors' results demonstrate that arrears of local currency loans likewise increased as a result of the financial crisis. Employing direct survey information about the causes of loan arrears, they show that high rates of arrears among households in Central and Eastern European countries are caused to a significant extent by adverse income shocks and that such shocks have a more important impact than installment shocks.

References:

Beckmann, E., J. Fidrmuc and H. Stix. 2012. Foreign Currency Loans and Loan Arrears of Households in Central and Eastern Europe. OeNB Working Paper 181. <http://econpapers.repec.org/paper/onboenbwp/181.htm>

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 macroeconomics, 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 stay, and
- information on previous scientific work.

Applications for 2013 should be e-mailed by May 1, 2013 to eva.gehringer-wasserbauer@oenb.at

Applicants will be notified of the jury's decision by mid-December. The following round of applications will close on November 1, 2013.

See also: http://www.oenb.at/en/geldp_volksw/zentral_osteuropa/News/020_visitingresearchprogram/visiting_research_program.jsp

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 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, 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 either by electronic mail to eva.gehringer-wasserbauer@oenb.at or by postal mail – with the envelope marked "Olga Radzyner Award" – to the Oesterreichische Nationalbank, Foreign Research Division, Otto-Wagner-Platz 3, POB 61, 1011 Vienna, Austria.

Entries for the 2013 award should arrive by September 20, 2013, at the latest. Together with their submissions, applicants shall provide copies of their birth or citizenship certificates and a brief CV.

For detailed information, please visit the OeNB's website at www.oenb.at/en/ueber_die_oenb/foerderung/stipendien/radzyner/teilnahme/teilnahme.jsp or contact Ms. Eva Gehringer-Wasserbauer in the OeNB's Foreign Research Division either by e-mail (eva.gehringer-wasserbauer@oenb.at) or by phone (+43-1-40420-5205).

Imprint/Inquiries/Copyright 2013:

Oesterreichische Nationalbank, Economic Analysis and Research Department

Postal address: P.O. Box 61, A 1011 Vienna, Austria: OeNB.ResearchUpdate@oenb.at

To subscribe or unsubscribe from our newsletter, please visit our website http://www.oenb.at/de/geldp_volksw/vowi_pub/newsletter/einleitung.jsp