

Research Update

Economic Analysis and Research Department

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Editorial

by Peter Mooslechner
Director of the Economic Analysis and Research Department

The Hidden but Essential Importance of the Counterfactual

More than five years after the start of the still ongoing European financial and sovereign debt crisis, some basic optimism seems to be justified now that we can see that the mix of European policy measures taken will be able to (1) stabilize the situation, and (2) provide a sustainable starting point to overcome the existing problems.

This assessment is legitimate even though global forecasts for 2012 and 2013 had to be revised downward slightly recently and, of course, even though an additional one- to two-quarter delay before the emergence of a substantial upturn cannot be excluded. The central point is that the newly created institutional European setting – ranging from fiscal support via the European Stability Mechanism (ESM) to the Outright Monetary Transactions (OMT) of the Eurosystem to the forthcoming centralized structure of European banking supervision – has been received as both credible and encompassing.

We are by no means out of the woods yet. For example, even if Austria is doing surprisingly well in the course of the actual downturn, the fact that about 20% of its export markets are in negative growth territory at the moment quite impressively illustrates the burden weighing on its economy.

What is different today is that the enormous institutional reforms undertaken in the EU in almost all relevant policy areas have made European economic structures much more resilient, and effective backstop facilities are available in the event of additional shocks.

However, we still have a long way to go to solve the many problems still pending and to establish a new growth orientation in Europe. The immediate economic and social costs of the measures and reforms scheduled or taken constitute a particularly demanding challenge in attaining this goal. These costs are firmly linked to public and political resistance against specific measures, against European solidarity and against European integration.

It is extremely difficult to overcome widely held views based on microeconomic, static, individual “feelings” rather than facts. Mario Draghi was quite correct to recently make the point forcefully that from a macroeconomic perspective, “In the current circumstances, the greatest risk to stability is not action, but inaction.” This refers to many well-known mistakes in economic history (Lehman being one of the latest examples): Letting things crash is certainly not an option that can be expected to contribute positively to economic welfare and institutional credibility. The obvious difficulty is that the counterfactual to a crash does not appear to be on anybody's mind until the crash has actually taken place. Therefore, dealing with interconnectedness, second- and third-round effects as well as contagion and spillovers must be a key concern of modern economics and effective economic policymaking.

Eurosystem Household Finance and Consumption Survey 2010

First Results for Austria

This report provides a first overview of the results of the Eurosystem Household Finance and Consumption Survey in Austria, the central objective of which is to create a complete financial balance sheet of households, providing a picture of the financial situation of households. The HFCS covers households' real assets, financial assets and debt as well as a broad range of socio-economic characteristics, thereby providing for the first time data to calculate Austrian households' net wealth. It is an extensive data source to examine a wide range of issues in monetary policy and financial stability; apart from that, HFCS data can be used to analyze general economic policy issues. This first report and a methodological report which will be published in the next weeks together with the information published at www.hfcs.at, is to provide a starting point for conducting research on the basis of HFCS data.

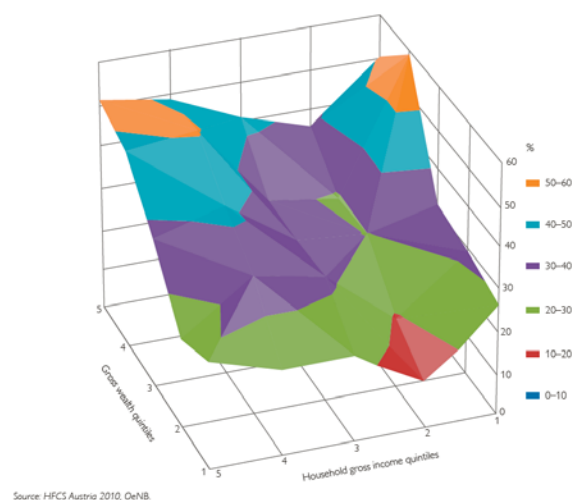
The main results of the first HFCS results for Austria are as follows:

The distribution of the individual components of net wealth varies considerably. While almost all households (about 97%) hold financial assets, less than one-half of Austrian households own (part of) their main residence (about 48%). Only about 36% of households have debt, most commonly in the form of collateralized loans to finance the main residence. The amount of real assets exceeds that of financial assets held by households. The real asset item that is particularly unevenly distributed are investments in self-employed businesses. As regards households' financial assets, riskier investments with lower participation rates belong to the relatively unequally distributed investment instruments.

All in all, the distribution of net wealth in Austria is very skewed. One-tenth has less than some EUR 1,000, but 10% have more than about EUR 542,000 in net wealth. A household's wealth tends to increase with age, income and education. Debt is usually held by wealthy and high-income households. Households most likely to suffer under their debt burden are those with uncollateralized loans and comparatively low debt.

One of the most important sources of wealth is inheritance. 35% of Austrian households have received inheritances. Both the frequency and the amount of inheritances increase markedly with net wealth.

Share of Indebted Households by Income and Gross Wealth



Still, the smaller inheritances account for a much larger share of the total wealth of the less well-off households.

The majority of households (about 42%) saves to provide for unexpected events. The second most common motivation is provision for old age, which is the most important purpose of saving cited by about 13% of households. The reasons for saving vary considerably with a household's wealth.

The quality of data production is crucial in order to obtain useful results from a household survey as complex as the HFCS. In particular, much attention was paid to in-depth training for interviewers, close-meshed sampling, careful data editing, exact weighting, elaborate imputation methods and transparent documentation. This notwithstanding, the HFCS underestimates the inequality of the distribution of wealth in Austria, and the problem of inadequate statistical coverage of the wealthy persists.

The chart above shows the percentage of indebted households by gross wealth and income. It turns out that higher-income households tend to hold debt with a higher frequency. There is a tendency that it is wealthy households that hold debt more often (back left), but there are also some low-wealth households that hold debt with a higher frequency (back right). This debt tends to be uncollateralized, as otherwise there would be gross wealth in the form of real estate. These less wealthy households use debt as a substitute for income and/or wealth. In other words, the purpose of debt here is to provide liquidity to finance the purchase of consumer goods. Further analysis shows that especially households with lower amounts of (unsecured) debt have higher loan-to-asset ratios, which implies a relatively low risk to financial stability. The vast majority of mortgage holders, who have the largest amount of total debt by far, can cover their debt by financial and real assets.

Publications on http://www.hfcs.at/de/hfcs/hfcs_publicationen.jsp

[HFCS des Eurosystems 2010. Erste Ergebnisse für Österreich. Geldpolitik & Wirtschaft Q3/12. OeNB. 2012.](#)

Eurosystem HFCS 2010. First Results for Austria. Monetary Policy & the Economy Q3/12. OeNB. 2012. Forthcoming.

HFCS des Eurosystems 2010. Methodische Grundlagen. Geldpolitik & Wirtschaft Q3/12 – Addendum. OeNB. 2012. Forthcoming.

Eurosystem HFCS 2010. Methodological Notes. Monetary Policy & the Economy Q3/12 – Addendum. OeNB. 2012. Forthcoming.

Austria's Economy Stagnates in the Second Half of 2012

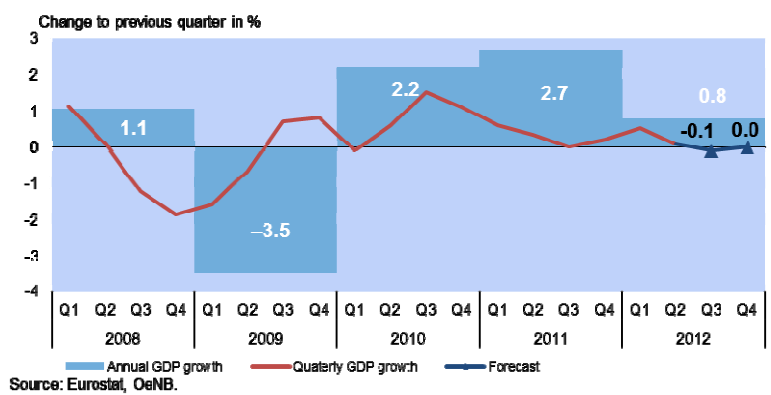
Results of the OeNB's Economic Indicator of October 2012

After a good start in 2012, Austria's economy increasingly came to feel the reverberations of the global economic slowdown in the wake of the European financial and sovereign debt crisis. From mid-2012, economic growth has lost considerable momentum. As manufacturing and exports are not providing any impulses, the OeNB expects the Austrian economy to stagnate in the second half of the year. The results of the OeNB's Economic Indicator point to a marginal decline in real GDP in the third quarter (by 0.1% against the previous quarter) and stagnation in the fourth quarter. This marks a downward revision by 0.2 percentage points from the OeNB's Economic Indicator published in July 2012. However, there are currently no indications that Austria could slip into recession. Real GDP growth for full-year 2012 will reach about ¾% owing to the animated pace of economic growth early in the year.

With growth slowing in key emerging economies like China, the U.S.A. facing a possible phasing-out of tax breaks and the going into effect of automatic spending cuts at the beginning of 2013 (the "fiscal cliff") and Europe beset by the sovereign debt crisis, the prospects for the world economy have deteriorated further recently.

While Austria's fundamentals are sound, as an export-oriented economy, it is nevertheless strongly affected by the economic effects of these developments. Nominal goods exports have been stagnating since the second quarter of 2011 and have been contracting in real terms.

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



The next release of the OeNB's short-term economic indicator is scheduled for January 2013.

Global Economy Lecture 2012

"Trade-Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity"

Jointly organized by OeNB and wiiw

John Van Reenen Director, Centre for Economic Performance

The London School of Economics and Political Science

Monday, October 22, 2012, 4:00 p.m.

OeNB auditorium, ground floor

The Global Economy Lecture 2012 will be given by John Van Reenen, Professor of Economics at the Department of Economics and Director of the Centre for Economic Performance at The London School of Economics and Political Science. The lecture will focus on China's increasingly dominant position in world trade whereby some largely neglected aspects will be emphasized. Cheap imports from China not only pose a challenge to producers in the most developed countries, they increasingly also serve as important intermediate inputs. In their research, Professor Van Reenen and his co-authors show that the rise in Chinese imports into Europe and the U.S.A. not only drives out inefficient firms of the market but also encourages the most successful firms in the developed world to innovate. Overall, these dynamics increase the productivity level in the Western world. In his lecture, John van Reenen will discuss policy responses to the China-induced fall in demand for low-skill workers in highly developed countries. Since keeping China out of the world market is not a viable option, advanced economies will have to improve their human capital through education and training.





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.

The conference will be opened by Governor Ewald Nowotny (Oesterreichische Nationalbank) followed by a keynote address. Thereafter three sessions will focus on:

- European sovereign borrowing – adjusting to the new environment
- Sovereign debt, monetary and financial stability
- Towards more prudent sovereign borrowing

Confirmed Speakers:

Martin Hellwig (Max Planck Institute for Research on Collective Goods)

Juha Kilponen (Bank of Finland)

Eric Leeper (Indiana University)

Yuefen Li (UNCTAD)

Ewald Nowotny (Oesterreichische Nationalbank)

Program updates may be found on www.suerf.org



Focus on external trade 2011/2012

By Ernest Gnan, Ralf Kronberger

This new publication, which is produced under the joint auspices of the OeNB and the Austrian Chamber of Commerce, compiles contributions from various authors, mostly in German language, on aspects relevant to Austria's foreign trade in goods and services and foreign direct investment during 2011. Important changes in institutional framework conditions for Austria's export industry are described in some detail. Furthermore, against the backdrop of global and European developments, the general economic situation in Austria, including the country's price competitiveness, are analysed. The special topic of this year's edition is „Austria's foreign trade – development and strategy in the crisis“. The topic is embedded into a historical context, followed by ideas on an adequate foreign trade strategy from an Austrian and European perspective. To conclude, the new EU Excessive Imbalances Procedure is described and its implications for Austria are analysed.

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http://portal.wko.at/wk/format_detail.wk?angid=1&stid=682111&dstid=15

OeNB Summer School 2012: “Economics of Financial Networks” taught by Yves Zenou and Ethan Cohen-Cole

The 10th OeNB Summer School focused on the topic “Economics of Financial Networks” and took place between 27 and 31 of August 2012 at the Joint Vienna Institute. The course lecturers were Prof. Yves Zenou (Stockholm University and CEPR) and Prof. Ethan Cohen-Cole (Robert H Smith School of Business University of Maryland College Park).



The course provided a description and overview of the leading methods in modeling financial networks. Applications of financial network economics comprise e.g. interbank lending, bilateral and tri-party repos, payment system networks and bank-firm lending networks. Lectures explored models of random networks, strategic network formation as well as behavior on networks. In each case, the relationship to the broader networks literature and financial networks applications has been highlighted.

The participants included 17 from the Oesterreichische Nationalbank (AUSA, BAREG, VOWA, VOSTA und FINMA), 6 from other national banks (BG, DE, ECB, HU, SE, UK), as well as 3 participants from the University of Vienna and 1 from the University of Tübingen. The course was designed to suit a variety of skill levels and incorporated exercises in theory as well as practical applications to policy.

10th Emerging Markets Workshop, October 4-5, 2012

On October 4-5 2012 the OeNB hosted the 10th ESCB workshop on emerging markets. The European System of Central Banks launched this workshop series on macroeconomic and financial issues in emerging market economies in 2003 pursuing the idea of providing researchers with a platform through which they may disseminate results of their work and learn more about relevant research conducted on emerging markets issues. In the meantime invitations to the workshop have also been extended to non-ESCB banks. Therefore, with more than 40 mostly excellent submissions from more than 20 countries including e.g. Russia, Kosovo and many Latin-American countries the organisers of this year's event were truly spoiled for choice. Stretching the 1.5 days they had at their disposal to the limits two stimulating key note speeches and 13 pieces of research could be accommodated on the agenda.

In his introductory statement Peter Mooslechner, director of the Economic Analysis and Research Department at the OeNB, pointed to the rising importance of emerging markets for the global economy in general and the Austrian one in particular while, however, stressing also their looming potential vulnerabilities. In the subsequent first keynote speech of the workshop Andrzej Sławinski, General Director of the Economic Institute from the Narodowy Bank Polski, highlighted against the background of the genesis of the current crisis the crucial role of macroprudential instruments as a second weapon of central banks' countercyclical policy. In contrast, Laurent Weill from the University of Strasbourg, addressed in his central contribution of the second day detrimental effects of corruption on bank lending in emerging markets. Along the areas of vulnerabilities, risks and challenges Peter Mooslechner sketched out in his introductory statement the presented papers centered in three sessions around the following broad topics: i) monetary policy and capital flows ii) financial and fiscal stability and iii) real economy issues. The first session thus focused inter alia on capital flows and balance of payments issues, inflation forecasts and expectations as well as objectives, tools and transmission mechanisms of monetary policy. In the second session topics related particularly to exchange rates and exchange rate regimes, banking and financial sectors as well as global financial risks were debated. Finally, the third block of papers addressed sources of growth, wealth and competitiveness issues along with measurement problems for macroeconomic variables. The presentations and the workshop program will be made available soon at <http://ceec.oenb.at>.

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_3_fin_tcm14-246599.pdf



Focus on European Economic Integration Q3/12

The Impact of Country Risk Ratings and of the Status of EU Integration on FDI Inflows in CESEE Countries (Julia Wörz, Nadja Walch)

Non-Price Competitiveness Gains of Central, Eastern and Southeastern European Countries in the EU Market (Julia Wörz, Konstantin Benkovskis)

Banking Sector Concentration and Firm Indebtedness: Evidence from Central and Eastern Europe (Marija Hake)

71st East Jour Fixe—Slovenia: The First Five Years in Monetary Union (Jarmila Urvova)

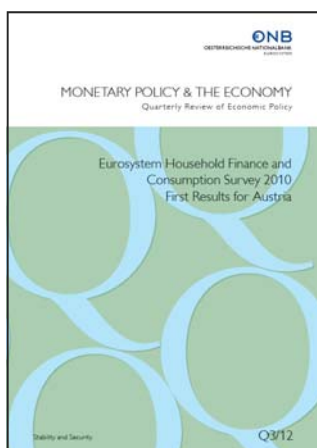


Financial Stability Report 23

Risk Buffer Profiles of Foreign Currency Mortgage Holders (Nicolas Albacete, Pirmin Fessler, Martin Schürz)

Intra-Group Cross-Border Credit and Roll-Over Risks in CESEE – Evidence from Austrian Banks (Markus Hameter, Mathias Lahnsteiner, Ursula Vogel)

Ukrainian Banks Face Heightened Uncertainty and Challenges (Stephan Barisitz, Ulrich Gunter, Mathias Lahnsteiner)



Household Finance and Consumption Survey: A special Issue of Monetary Policy and the Economy Q3/12

Link to the Household Finance and Consumption Survey in Austria: www.hfcs.at

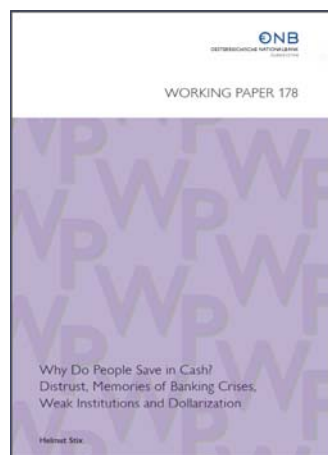
Link to the ECB Household Finance and Consumption Survey: www.ecb.int/home/html/researcher_hfcn.en.html

Sovereign Debt Crisis Delays Economic Recovery (Gerhard Fenz, Isabella Moder, Maria Silgoner)

Eurosystem Household Finance and Consumption Survey 2010. First Results for Austria (Pirmin Fessler, Peter Mooslechner, Martin Schürz)

OeNB Working Papers

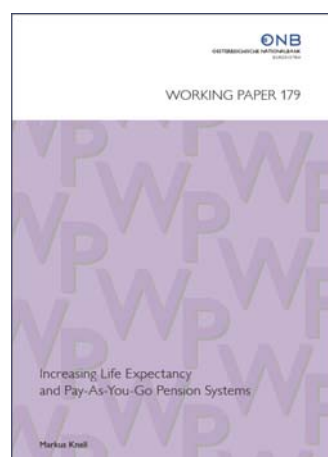
http://www.oenb.at/de/presse_pub/research/020_workingpapers/working_papers_2012.jsp#tcm:14-173297



Why Do People Save in Cash? Distrust, Memories of Banking Crises, Weak Institutions and Dollarization

Helmut Stix (Working Paper 178)

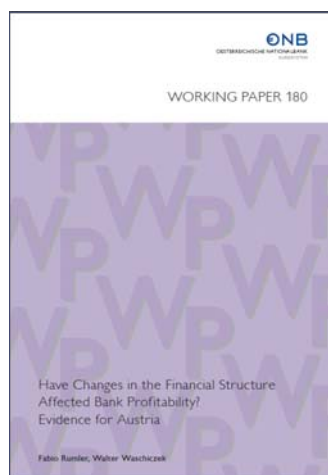
The paper studies why households hold sizeable shares of their assets in cash at home rather than at banks - a phenomenon that is widespread in many economies but for which information is scarce. Using survey data from ten Central, Eastern and Southeastern European countries, I document the relevance of this behavior and show that cash preferences cannot be fully explained by whether people are banked or unbanked. The analysis reveals that a lack of trust in banks, memories of past banking crises and weak tax enforcement are important factors. Moreover, cash preferences are stronger in dollarized economies where a “safe” foreign currency serves as a store of value.



Increasing Life Expectancy and Pay-As-You-Go Pension Systems

Markus Knell (Working Paper 179)

In this paper I study how PAYG pension systems of the notional defined contribution type can be designed such that they remain financially stable in the presence of increasing life expectancy. For this to happen two crucial parameters must be set in an appropriate way. First, the remaining life expectancy has to be based on a cross-section measure and, second, the notional interest rate has to include a correction for labor force increases that are only due to rises in the retirement age which are necessary to “neutralize” the increase in life expectancy. It is shown that the self-stabilization is effective for various patterns of retirement behavior and also – under certain assumptions – if life expectancy reaches an upper limit.



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.

External Publications by Staff Members

Households' foreign currency borrowing in Central and Eastern Europe

Fidrmuc, J., Hake, M., Stix, H. (2012), *Journal of Banking and Finance*, <http://dx.doi.org/10.1016/j.jbankfin.2012.06.018>.

Foreign currency loans represent an important feature of recent financial developments in CEECs. This might pose a serious challenge for macroeconomic stability. Against this background, we study the determinants of foreign currency loans of households, using data on the behavior of households in nine CEECs. Our results reveal that foreign currency loans are driven by households' lack of trust in the stability of the local currency and in domestic financial institutions. Moreover, special factors including remittances and expectations of euro adoption play an important role in selected regions. The financial crisis reduced foreign currency borrowing, but there is some indication this effect might be only temporary.

Credit Risk in General Equilibrium

Eichberger, J., Rheinberger, K., Summer, M. (2012) ECB Working Paper Nr. 1445, June 2012, *Macroeconomic Research Network*

Credit risk models used in quantitative risk management treat credit risk analysis conceptually like a single person decision problem. From this perspective an exogenous source of risk drives the fundamental parameters of credit risk: probability of default, exposure at default and the recovery rate. In reality these parameters are the result of the interaction of many market participants: They are endogenous. We develop a general equilibrium model with endogenous credit risk that can be viewed as an extension of the capital asset pricing model. We analyze equilibrium prices of securities as well as equilibrium allocations in the presence of credit risk. We use the model to discuss the conceptual underpinnings of the approach to risk weight calibration for credit risk taken by the Basel Committee.

Network Models and Systemic Risk Assessment

Elsinger, H., Lehar, A., Summer, M. (2012) *THE HANDBOOK OF SYSTEMIC RISK*, J-P. Fouque & J. Langsam, eds., Cambridge University Press,

During the last years a number of network models of interbank markets were developed and applied to the analysis of insolvency contagion and systemic risk. In this chapter we survey the concepts used in these models and discuss their main findings as well as their applications in systemic risk analysis. Network models are designed to address potential domino effects resulting from the failure of a financial institution. Specifically they attempt to answer the question whether the failure of an institution will result in the subsequent failure of others. Since in banking crisis authorities usually intervene to stabilize the banking system failures and contagious failures by domino effects are very rarely observed in practice. Empirical analysis is thus difficult and as a consequence most studies of insolvency contagion built on simulation models. In this chapter we describe in some detail how such simulations are designed and discuss the main insights that have so far been obtained by applications to the complex network of real world exposure data of banking systems.

Commercial Finance in Europe, 1700-1815

Jobst, C., Nogues Marco, P. (2013). In: Caprio, G. (ed.), *Elsevier Encyclopedia of Financial Globalization*.

Commercial finance in the eighteenth century was international, yet restricted to a few cities specialized in international trade. The basic instrument of settlement was the bill of exchange that also allowed evading domestic usury regulation. As a result, foreign exchange markets constituted the benchmark money market. A mapping of exchange relations reveals a considerable degree of integration and multilateralism organized around a few leading centers serving as vehicles for international settlements. Commercial interest rates in these centers were low and at comparable levels, suggesting that a transnational capital market resulting from the commercial revolution predated the British Financial and Industrial Revolutions of the eighteenth century.

Price, Wage and Employment Response to Shocks: Evidence from the WDN Survey

Bertola, G., Dabusinskas, A., Hoeberichts, M., Izquierdo, M., Kwapil, C., Montornes, J., Radowski, D. (2012) *Labour Economics*, 19(5), 783-791

We analyse the relative intensity and character of price vs. cost and wage vs. employment firm-level adjustment to cost-push shocks in the European System of Central Banks Wage Dynamics Network (WDN) survey data set. The results document several statistically significant and theoretically sensible relationships: price increases are less likely when product market competition is more intense, and more likely when collective wage agreements or employment protection legislation constrain firm-level reactions. We discuss how changes of such structural and institutional features of firms and of their environment may underlie the evolution of macroeconomic adjustment mechanisms in Europe.

Forecast Combination and Bayesian Model Averaging—A Prior Sensitivity Analysis

Feldkircher, M. (2012) *Journal of Forecasting*, 31 (4), 361-376

In this study the forecast performance of model averaged forecasts is compared to that of alternative single models. Following Eklund and Karlsson (2007) we form posterior model probabilities - the weights for the combined forecast - based on the predictive likelihood. Extending the work of Fernández et al. (2001a) we carry out a prior sensitivity analysis for a key parameter in Bayesian model averaging (BMA): Zellner's g . The main results based on a simulation study are fourfold: First the predictive likelihood does always better than the traditionally employed 'marginal' likelihood in settings where the true model is not part of the model space. Secondly, and more striking, forecast accuracy as measured by the root mean square error (rmse) is maximized for the median probability model put forward by Barbieri and Berger (2003). On the other hand, model averaging excels in predicting direction of changes, a finding that is in line with Crespo Cuaresma (2007). Lastly, our recommendation concerning the prior on g is to choose the prior proposed by Laud and Ibrahim (1995) with a hold-out sample size of 25% to minimize the rmse (median model) and 75% to optimize direction of change forecasts (model averaging). We finally forecast the monthly industrial production output of six Central Eastern and South Eastern European (CESEE) economies for a one step ahead forecasting horizon. Following the aforementioned forecasting recommendations improves the out-of-sample statistics over a 30-period horizon beating for almost all countries the first order autoregressive benchmark model.

Non-price Competitiveness of Exports from Emerging Countries

Benkovskis, K., Wörz, J. (2012). . BOFIT Discussion Papers 19/2012.

This analysis of global competitiveness of emerging market economies accounts for non-price aspects of competitiveness. Building on the methodology pioneered by Feenstra (1994) and Broda and Weinstein (2006), we construct an export price index that adjusts for changes in the set of competitors (variety) and changes in non-price factors (quality in a broad sense) for nine emerging economies (Argentina, Brazil, Chile, China, India, Indonesia, Mexico, Russia and Turkey). The highly disaggregated dataset covers the period 1999–2010 and is based on the standardized 6-digit Harmonized System (HS). Unlike studies that use a CPI-based real effective exchange rate, our method highlights notable differences in non-price competitiveness across markets. China shows a huge gain in international competitiveness due to non-price factors, suggesting that China critics may be over-stressing the role of renminbi undervaluation in explaining China's competitive position. Oil exports account for strong improvement in Russia's non-price competitiveness, as well as the modest losses of competitiveness for Argentina and Indonesia. Brazil, Chile, India and Turkey show discernible improvements in their competitive position when accounting for non-price factors. Mexico's competitiveness deteriorates regardless of the index chosen.

The rise of China and its implications for emerging markets – Evidence from a GVAR model. Feldkircher, M. Korhonen, I. (2012). BOFIT Discussion Papers 20/2012

This paper studies empirically the role of China in the world economy. We examine both the way the Chinese economy reacts to selected exogenous macroeconomic shocks and the repercussions for the world economy of a shock emanating from China. With regard to the latter, we focus on the responses of emerging markets, in particular those in Europe. Based on a global VAR (GVAR) model and a new data set that excels in country coverage and covers the most recent time period including the global financial crisis, our results are threefold: First, we show that a +1% shock to Chinese output translates to a permanent increase of 1.2% in Chinese real GDP and a 0.1% to 0.5% rise in output for most large economies. The countries of Central Eastern Europe (CEE) and the former Commonwealth of Independent States (CIS) also experience an output rise of 0.2%, while countries in South-Eastern Europe see a permanent 0.1% reduction in output. Secondly, to benchmark the shock to Chinese output, we examine the response to a +1% shock to US GDP. The results show that the US economy remains dominant in the world economy despite the rapid rise of China in recent years. In this vein, output rises in advanced economies by 1% to 1.4% and in the CIS and CEE regions by 1.5% and 0.7% respectively. By contrast China seems to be little affected by the US shock. Finally, we examine the effect of a +50% hike in oil prices on China and emerging economies. As one of the largest oil exporters, Russia's real output increases by about 6%. In contrast, the surge in oil prices puts a drag on Chinese output, amounting to 4.5% in the long run.

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

October 11-12, 2012	Working Group on General Economic Statistics
October 22, 2012	Global Economy Lecture—Vortragender: John van Reenen, London School of Economics“Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity
November 16, 2012	Linda Goldberg (The Federal Reserve Bank of New York). Liquidity management of US global banks: Internal capital markets in the great recession
November 19, 2012	Vortrag von Dr. Thomas Wieser im Rahmen der Vortragsreihe der Österreichischen Statistischen Gesellschaft (OSG)
November 23, 2012	Julian Kolm (Universität Wien), Securitization, Shadow Banking, and Bank Regulation.
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
Dezember 7, 2012	Ernesto Villanueva (Banco de Espana), Consumption and Initial Mortgage Conditions: Evidence from survey data
Dezember 21, 2012	Gael Giraud (L'Université Paris 1 Panthéon-Sorbonne), Financial Crashes versus Liquidity Trap: The Dilemma of Monetary Policy
January 11, 2013	Stefano Battiston (ETH Zürich), Global Network of Corporate Control
January 25, 2013	Jochen Mankart (Universität St. Gallen), Bank defaults and credit supply over the business cycle
March 15, 2013	Tarun Ramadorai (Said Business School University of Oxford), How do Regulators influence Mortgage Risk? Evidence from an emerging Market

Recent

October 4-5, 2012	10th Emerging Markets Workshop
September 28, 2012	VOSTA Research Workshop- Financial Markets and Real Economic Activity
July 9, 2012	East Jour Fixe of the OeNB; Slovenia – the First Five Years in Monetary Union
June 18, 2012	2012 SUERF Annual Lecture and SUERF/OeNB Workshop; The Interaction of Political, Fiscal and Financial Stability: Lessons from the Crisis
June 1, 2012	Cars Hommes (Universität Amsterdam) TBA
June 1, 2012	Conference of the Verein für Sozialpolitik

OeNB Courses at the Joint Vienna Institute (JVI)

For further details see: http://www.jvi.org/fileadmin/jvi_files/JVI_Program2012-1_11.pdf

November 19 – 23, 2012	Macro-Financial Stability in Central, Eastern and Southeastern Europe
January 21-24, 2013	Financial Stability Stress Testing for Banking Systems: An Introduction
March 11 - 15, 2013	Institutional Challenges for Candidate and Potential Candidate Countries on the Road to the EU and EMU

Upcoming ... Upcoming ... Upcoming ... Upcoming ... Upcoming



Conference on European Economic Integration (CEEI) 2012

“Achieving Balanced Growth in the CESEE Countries”

Jointly organized by the Oesterreichische Nationalbank (OeNB)
and Suomen Pankki – Finlands Bank

November 26 and 27, 2012, Helsinki, Finland, *By invitation only*

Conference Aspects

Following last year's successful cooperation, the annual Conference on European Economic Integration (CEEI) will once more be organized jointly by Suomen Pankki – Finlands Bank and the Oesterreichische Nationalbank (OeNB). The setting will be exceptional, as the OeNB has accepted the return invitation of Suomen Pankki to hold the CEEI abroad at the Hilton Helsinki Strand Hotel in Finland.

Governor Marek Belka (Narodowy Bank Polski), Governor Ardo Hansson (Eesti Pank), Vice Governor Diana Dragutinić (National Bank of Serbia), Deputy Governor Karolina Ekholm (Sveriges Riksbank), Director Debora Revoltella (European Investment Bank), Professor Anne Sibert (Birkbeck College, London) and Professor Konstantin Sonin (New Economic School, Moscow) among others have accepted our invitation to speak at the CEEI.

The main conference theme highlights the importance of sustainable economic policies and of institutions promoting such policies in times of economic crisis in several European countries. The CEEI 2012 provides a forum for policymakers as well as academic and institutional experts to discuss the prerequisites of balanced and sustainable economic development with a special focus on the CESEE region. The topics covered range from fiscal issues and the most recent challenges for the banking sector to the unwinding of large external imbalances.

For more information please visit BOFIT at http://www.suomenpankki.fi/bofit_en/tutkimus/tyopajat/Pages/CEEI2012.aspx

Highlights of the Recently Published CESEE Research Update



- The latest issue of the OeNB's quarterly publication “Focus on European Economic Integration” has just been released.
- The **71st East Jour Fixe**, hosted by the OeNB on July 9, 2012, reviewed Slovenia's first five years in the euro area and looked at the possible effects on its ability to cope with the recent crisis
- The Joint Vienna Institute celebrated its 20th anniversary with the conference “The Way Forward: Central, Eastern & Southeastern Europe” in Vienna on July 12 and 13, 2012
- Recent results from the OeNB Euro Survey show a deterioration of trust in the euro, while respondents in eight out of ten CESEE countries currently assess the U.S. dollar to be more stable than the euro
- The OeNB invites applications from external researchers to take part in a Visiting Research Program established by the OeNB's Economic Analysis and Research Department
- The CEEI 2012 “Achieving Balanced Growth in the CESEE Countries,” to be held in November, will focus on the importance of sustainable economic policies in times of

The CESEE Research Update is released quarterly by the Foreign Research Division of the 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.

Please, note that you have to register once if you want to receive further issues of this newsletter and other CESEE relevant information on OeNB CESEE publications, analyses and events. To register please send an email to: ceec@oenb.at

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.

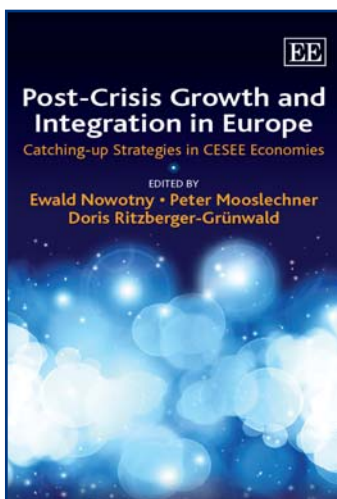
Applications (in English) should include

- 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 November 1, 2012 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 May 1, 2013.

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



Post-Crisis Growth and Integration in Europe

Edited by Ewald Nowotny, Peter Mooslechner and Doris Ritzberger-Grünwald

Cheltenham, UK, Northampton, MA, Edward Elgar

Against the backdrop of the financial crisis that unfolded in 2008, this book deals with policy challenges going forward, focusing in particular on the ongoing catching-up process in Central, Eastern and South-Eastern European (CESEE) countries.

Whilst having emerged relatively unscathed from the crisis, the CESEE economies nonetheless need to adjust to the new external conditions they will encounter. In this respect, decision-makers are faced with multiple sources of uncertainty: will post-crisis growth be the same as pre-crisis growth? What will be the future role of financial integration, growth financing and exports? What are the particular challenges facing monetary policy-makers and the banking sector in the region? On these issues and related topics, the book provides a multi-disciplinary assessment, combining the views of high-ranking central bankers and other policy-makers, commercial bankers and academics.

Economists and students of economic policy and European integration from central, commercial and investment banks, governments, international organizations, universities and research institutes will find this book of great interest and importance, especially those working on Central, Eastern and South-Eastern Europe.

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