

Research Update

Economic Analysis and Research Department

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Upcoming Highlights

37th Economics Conference 2009: "Beyond the Crisis: Economic Policy in a New Macroeconomic Environment", May 14 and 15, 2009 (see page 6)

Editorial



by Peter Mooslechner
 Director of the Economic Analysis and Research Department

"Yesterday, all my troubles seemed so far away, now it looks as though they're here to stay...." (The Beatles, 1965)

The "financial crisis, formerly known as financial turmoil" as a colleague characterized the current economic situation in a policy discussion some time ago, has now (i) spread across the whole world and (ii) arrived in the real world to an unexpected extent. As The Beatles appear to have anticipated already in 1965, judging from the most recent international forecasts, the unprecedented challenges for economic policy will most likely stay with us for some time.

What can economic research reasonably be expected to deliver in a situation like this, when policymakers are under pressure to react very quickly and to swiftly decide on measures which will lead us out of these uncomfortable circumstances as quickly as possible. In reality and in real time, not very much, I suppose: First, what we face is a complete regime shift, which means that old recipes and instruments will not work under these conditions like in normal times; second, understanding what is going on, analyzing the mechanics of the current crisis and developing new recipes and strategies does take time.

Nevertheless, this new issue of our quarterly newsletter intends to inform you about a number of recent attempts we have undertaken to cope with these challenges and to acquire a better understanding of some of the puzzles we are confronted with. The topics we address range from the most recent results of the OeNB's Short-Term Indicator to a number of issues dealing with the specifics of financial and economic interdependence in an enlarged Europe. Of course, and of particular importance from an Austrian point of view, we review the impact of the financial crisis on Eastern and Southeastern Europe from a number of different angles.

To close on an optimistic note, I would like to draw your attention to the OeNB's annual Economics Conference, which will take place here in Vienna on May 14 and 15, 2009. This year's conference comes under the title "Beyond the Crisis." Hopefully, we will be able to meet many of you at the conference and, hopefully, we will be able to detect some light at the end of the tunnel on this occasion.

Austria's Economic Contraction Accelerates in the First Quarter of 2009 March 2009 Update of the OeNB's Short-Term Indicator

The spillover effects of the global economic crisis 2009 on the Austrian economy deepened in early 2009. As implied by the latest update of the OeNB's short-term indicator, real GDP is likely to shrink by 1.5% (seasonally and working day-adjusted, on a quarterly basis) in the first quarter of 2009, and by 0.7% in the second quarter of 2009. These projections indicate that the economic slowdown has turned into a pronounced contraction since the fourth quarter of 2008, when output shrank by 0.2% according to preliminary national accounts data. The contraction is likely to bottom out in the first half of 2009, as tax reform and economic stimulus measures are expected to contribute to stabilization in the second half of the year.

At the previous release of OeNB short-term indicator results, GDP had been projected to decline by 0.5% in the first quarter of 2009. But the global recession has deepened substantially since then, and this has had an adverse effect on Austria. Being a small, open economy, it is highly dependent on developments in international markets, as is evidenced by the performance of exports and industrial production, where growth rates have dropped sharply since last October. As yet, these developments have not been reflected fully in the

national accounts data for the fourth quarter of 2008. The decline in GDP of 0.2% (on a quarterly basis) determined for the fourth quarter of 2008 is, therefore, likely to be revised downward in subsequent revision cycles.

The sharp downturn in external orders points to a further drop in exports in the first quarter of 2009. The marked decline in freight transport on Austrian roads – which is highly correlated with goods exports – measured in January and February would confirm this diagnosis. Furthermore, the labor market has been hit hard by the economic downturn. By February, the number of unemployed had risen by 58,000 above the corresponding 2008 figure. This increase was broadly based across sectors and came very quickly. In earlier downturn episodes, the labor market reacted at a much slower pace.

In line with further downward revisions of growth forecasts worldwide, the Austrian economy is projected to keep contracting in the second quarter of 2009, but less sharply than in the first quarter.

The next update of the OeNB's short-term indicator is scheduled for July 2009.

Facts and Figures on Economic Developments and the Financial Sector in an Increasingly Integrated Europe

- In the course of the global financial and economic crisis, the Eastern European EU Member States have been facing both a sharp deterioration of large export markets and tighter financing conditions.
- A recession in Eastern Europe would immediately affect all Western European economies that have close trade and investment relations with the region.
- One-third of euro area exports (EUR 440 billion) go to Eastern Europe. Over the last few years, the EU-15 recorded foreign direct investment (FDI) of EUR 320 billion in the region. Particularly Germany, Austria, Italy, France, the United Kingdom, Sweden,

Belgium and the Netherlands are strongly involved in Eastern Europe.

- In the banking sector, three-quarters of Austria's exposure to Eastern Europe concentrates on the new EU Member States.
- Austria accounts for only one-fifth of EU-15 exposure to Eastern Europe; other countries account for four-fifths.
- Eastern Europe does not have a homogeneous economy => Different markets involve different risks.
- Unlike the exposure of other countries active in the region, Austria's exposure to Eastern Europe is strongly diversified across regions, as confirmed by the International Monetary Fund (IMF).

- The majority of loans granted by Austrian banks' subsidiaries are financed by local deposits.
- Austrian banks are committed to their activities in Eastern Europe and have continued to provide their subsidiaries with sufficient liquidity also during the crisis.
- The extensive Austrian bank rescue package contributes to stabilizing banks' business in Eastern Europe.
- The problem is by no means limited to the banking sector, however, as a recession will cause widespread unemployment and income losses. If the catching-up process in Eastern Europe comes to a halt, the growth momentum from the most important European growth region will be endangered.
- In its own interest, Europe must now take joint action, not least to prevent a renewed division of our continent.

SUERF Workshop and Special OeNB East Jour Fixe *Current Trends in the Russian Financial System*

On January 23, 2009, the OeNB hosted a one-day workshop on "Current Trends in the Russian Financial System" that was jointly organized by SUERF – The European Money and Finance Forum and the OeNB. More than 100 Austrian and international participants followed the presentations of high-profile international speakers. The major contributions and results will be published in the SUERF Studies series 2009/2 within the next months.

The event was opened by OeNB Governor Ewald Nowotny and SUERF Vice President Philipp Hartmann (European Central Bank). Governor Nowotny stressed the impact of developments in the CESEE region on the rest of Europe and addressed the challenges that the region currently faces in the context of the global financial crisis. Hartmann introduced SUERF and outlined the key issues to be discussed in the course of the workshop

Russian Finance: Drag or Booster for Future Growth?

In the introductory keynote session chaired by Ernest Gnan, Head of the OeNB's Economic Analysis Division, Pekka Sutela, Head of the Bank of Finland Institute for Economies in Transition (BOFIT), gave a speech on Russian finance and its implications for future economic growth.

Banking Sector Development and Financial Deepening in Russia

The first session, chaired by Otto Lucius, CEO of the Austrian Society for Bank Research, addressed the structural issues of the Russian banking sector and provided facts for the process of financial deepening during the last two decades. Stephan Barisitz, economist at the OeNB's Foreign Research Division, surveyed the development of

Russian banking in recent years. In his speech on the role the banking system played in Russia's growth spurt until mid-2008, Alexander Lehmann, Senior Economist and Country Economist for Russia at the European Bank for Reconstruction and Development (EBRD), said that domestic banks' credit growth had a limited effect on the financing of investment. He also pointed out that the impact of the current credit crunch may constitute an opportunity for banking sector consolidation in Russia. Cyril Pineau-Valencienne, CEO at CPV Conseil in Paris, spoke about Russian financial institutions, oil and gas sector funding and the related recycling of oil and gas revenues.

The Role of Ownership for the Performance of Russian Banks

The second session, chaired by Doris Ritzberger-Grünwald, Head of the OeNB's Foreign Research Division, investigated the role of ownership in the performance of Russian banks. Both presenters in this session, Zuzana Fungáčová, economist at BOFIT, and Koen Schoors, Professor at Ghent University in Belgium, provided econometric results for data on quarterly balance sheets and profit and loss accounts of most banks operating in Russia, compiled by the CBR and covering the period from 1999 to 2007.

Impact of the Global Financial Crisis on Russia – Keynote & Panel

The third session, chaired by Morten Balling, SUERF and Aarhus School of Business, Denmark, took a more up-to-date perspective and discussed the impact of the ongoing global financial crisis on Russia. In his keynote speech, Zeljko Bogetić, Lead Economist and Country Sector Coordinator for Russia at the World Bank, highlighted that Russia's

economy had been able to decouple from the global financial distress only until mid-2008, when the decline of oil prices and the sudden stop of capital inflows – the twin engines of Russian growth – induced a sharp liquidity crisis and substantially worsened the macroeconomic outlook for 2009. Bogetić highlighted the limited response to the monetary and fiscal policy measures taken so far and, as Russia apparently has room for extra government spending, advocated an additional fiscal stimulus of about 3% of GDP (coming from the Reserve Fund). In the accompanying panel discussion, Peter Havlik, Deputy Director and Senior Economist at The Vienna Institute for International Economic Studies (wiiw), contrasted Russia's previous achievements – such as the comparatively strong rise in incomes, wages and employment; the improvement of living standards; the strong increase in foreign exchange

reserves and FDI inflows; and the repayment of external debt – to the country's massive dependence on the energy sector and the economy's need for diversification and modernization. Debora Revoltella, Head of CEE Strategic Analysis at UniCredit Group Bank Austria, stated that, compared to other CESEE countries' domestic banking sectors, the Russian banking sector played a smaller role in driving economic growth and she identified credit quality as the next challenge for the Russian financial sector. Gintaras Shlizhyus, CEE Senior Expert at Raiffeisen Zentralbank, Vienna, pointed to the necessity of “letting the ruble go”, of reducing foreign currency interventions and of adopting inflation targeting, and thus sparked a debate on changes that might be necessary in the Russian exchange rate policy. Morten Balling finally closed the event.

Vienna Economic Talks: “The Financial Market Crisis: Effects and Implications for Southeastern Europe” (February 27, 2009, Vienna)

The most recent Vienna Economic Talks took place on February 27, 2009 in the Oesterreichische Nationalbank (OeNB) and were dedicated to the effects and implications of the global financial market turmoil for Southeastern Europe.

The meeting was opened by Peter Zöllner, Executive Director of OeNB, who in his welcome statement highlighted the significant presence of Austrian banks in Southeastern Europe (SEE) and emphasized that home countries share a particular responsibility with respect to the stability of national financial markets and financing structures in the region. Moreover, Zöllner pointed to the need of strong and coordinated efforts of national authorities, the EU, international institutions as well as private sector entities.

In the first session, Erhard Busek, President of Vienna Economic Forum, stressed that appropriate reactions to the crisis lie in a common European strategy for energy issues and the enforcement of public infrastructure investments, where SEE has still a strong recovery potential and EU regional funds could be used more efficiently. Rudolf Bretschneider, Director of GfK Austria, argued that SEE will recover quickly as these markets are flexible, still unsaturated and were able to manage a lot of different crises in

the past. Philip Reading, Director of OeNB's Financial Stability and Bank Inspections Department, stressed that Austrian banks have the most diversified loan portfolio across the region. The total exposure of Austrian banks in CESEE amounts to 201.2 bn EUR, what makes for about 20% of EU-15 banks' total exposure in CESEE and is primarily concentrated on CESEE EU member states.

In the second session, Debora Revoltella, Head of CEE Strategic Analysis at UniCredit Group Bank Austria, argued that the current correction of macroeconomic imbalances is at least good news. The steady rise of loan-to-deposit ratios in recent years is considered as a key constraint for guaranteeing sufficient funding at the moment. Markus Eller, economist at the OeNB's Foreign Research Division, showed that private sector credit growth was largely connected to economic fundamentals in recent years, with some overshooting tendencies in Latvia, Bulgaria, and Croatia until end-2007. Finally, Balázs Égert, economist at the OECD's Economic Department, presented research on cycles and policy procyclicality in OECD countries to address the issue of length and asymmetry of economic crises.

In the afternoon's panel discussion, Fritz Breuss, Professor for European Affairs at the Vienna University of Economics and Business Administration, first stressed the political dimension of the integration process of the SEE region. He described the status quo of the region's EU integration process by differentiating between the various stages of progress made so far. With a view to the candidate countries, he highlighted the unsettled political conflicts as a potential stumbling block for further integration. Thereafter, he stressed the growth potential of the region due to low GDP per capita levels and further trade integration and creation. Karl Fink, General Director of Vienna Insurance Group (VIG), presented key performance indicators for the CESEE-engagement of VIG. Most notably, VIG is the largest international insurance group in CESEE and generated in 2008 for the first time more than 50% of its total premiums in this region.

Following conclusions can be drawn from the round table with SEE central bank governors (Governor Ivan Iskrov, Bulgarian National Bank; Governor Ardian Fullani, Bank of Albania; Governor

Petar Goshev, National Bank of the Republic of Macedonia; Vice Governor Victor Cibotaru, National Bank of the Republic of Moldova; Governor Ljubiša Krgovic, National Bank of Montenegro): a more differentiated and long-term view on the region is needed; banking sectors have proven to be stable so far given their high capitalization and profitability; a better cooperation and coordination in cross-border supervision is needed; the countries were hit by the turmoil not only via the exchange rate channel or a reduction of foreign trade, but also through deposit withdrawals. Finally, from an Austrian perspective, Governor Ewald Nowotny (OeNB) emphasized the clear policy to stay in the region and to continue lending. Nowotny pointed to the role of EU regional funds being an important buffer for stabilizing the region in the medium term, advocated an upgrading of the EU's neighborhood policy and promoted a new banking business model that is less based on rapid credit growth and foreign exchange lending.

Seminar on the Baltic and SEE Countries

The Seminar "Recent Developments in the Baltic Countries - What Are the Lessons for Southeastern Europe" took place on March 23 in Vienna. The motivation for this seminar was that the three Baltic countries and four South-eastern European (SEE) countries (Bosnia-Herzegovina, Bulgaria, Croatia and FYR of Macedonia) share some key economic features. All countries have exchange rate regimes with low or zero nominal flexibility and are small, open economies. Although the countries have also considerable differences, it is thus likely that the SEE countries can draw lessons from the experience in the Baltics.

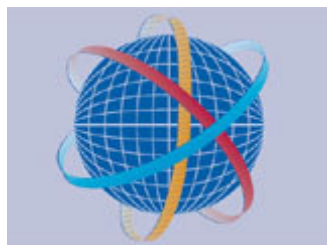
The seminar started with the presentation of the background paper, prepared by Reiner Martin and Claudia Zauchinger (OeNB), which gave a horizontal overview of recent economic and financial developments in the seven countries covered in the workshop. Subsequently, Dubravko Mihajek (BIS), presented new estimates of the Balassa-Samuleson (BS) effect. He finds that although the peaks of inflation in 2008 were mainly triggered by high oil prices, a poor crop and high wage growth, the BS-

effect can not be disregarded and that analyses of the BS-effect can also help to understand competitiveness issues. Max Watson (University of Oxford) presented a paper on 'Financial stability in a brave new world', focusing on adjustment needs and adjustment options in the Baltic and SEE countries.

In the 'Baltic session' representatives of the Baltic central banks presented the economic situation in their countries. The afternoon session was dedicated to the SEE countries with low nominal exchange rate flexibility. Both sessions were followed by general discussions about the growth and convergence process of these countries and how they should react to the current crisis. Issues covered were e.g. the role of the government, the effectiveness of fiscal measures, adequate regulatory frameworks as well as euro area entry as an exit strategy. During their presentations and the ensuing discussions the participants of the Baltic and SEE central banks emphasised their determination to defend their currency regimes.

37th Economics Conference 2009:

Beyond the Crisis: Economic Policy in a New Macroeconomic Environment, May 14 and 15, 2009



The speakers include Ewald Nowotny (Governor, Oesterreichische Nationalbank), Werner Faymann (Austrian Federal Chancellor), Lucas D. Papademos (Vice-President, European Central Bank) and Dominique Strauss-Kahn (Managing Director, International Monetary Fund)

OeNB Conference of Eastern European Integration 2007:

Currency and Competitiveness in Europe



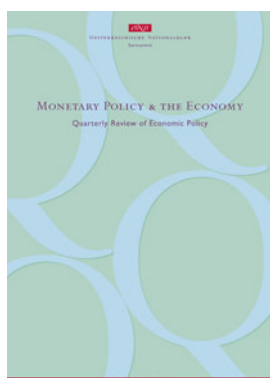
Edward Elgar, Cheltenham (UK) and Northampton, MA (USA), 2008

This book raises the understanding of exchange rate dynamics and analyses the role of exchange rates in reinforcing economic competitiveness. The overall focus is on the link between currency developments and the real side of the economy. From a regional perspective, the contributions highlight developments in Central, Eastern and South-eastern Europe and thus put a special emphasis on aspects of transition and convergence. Combining contributions from academics, professionals and central bankers, the book addresses key issues of global imbalances, the role of fundamentals in exchange rate economics as well as the significance of qualitative and quantitative aspects of competitiveness, and related policy challenges.

http://www.e-elgar.co.uk/bookentry_main.lasso?id=13224

OeNB Periodical Publications

http://www.oenb.at/en/presse_pub/period_pub/publications.jsp



Monetary Policy & the Economy, Q1/09

Using Freight Transportation Activity to Construct a Leading Export Indicator for Austria (Gerhard Fenz and Martin Schneider)

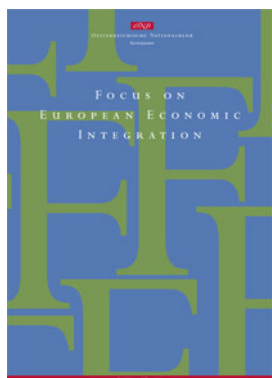
Economic Country Risks Emanating from Austria's International Exposure (Matthias Fuchs)

Group-Specific Inflation Rates for Austrian Households (Friedrich Fritzer and Ernst Glatzer)

The Effectiveness of Fiscal Growth and Stimulus Measures in Times of Crisis (Walpurga Köhler-Töglhofer and Lukas Reiss)

Monetary Policy Implementation in Times of Crisis (Clemens Jobst)

Austria's Exports to Eastern Europe: Facts and Forecasts and Likely Impact on Austrian GDP Growth (Christian Ragacs and Klaus Vondra)



Focus on European Economic Integration 1/2009

Trade and Wages: Winning and Losing Sectors in the Enlarged European Union (Éva Katalin Polgár and Julia Wörz)

The Distributional Effects of Trade on Austrian Wages (Wolfgang Pointner)

Rationality of Post-Accession Migration (Katarzyna B. Budnik)

Southeastern Europe: Financial Deepening, Foreign Banks and Sudden Stops in Capital Flows (Adalbert Winkler)

Focus on European Economic Integration 2/2009

European and Non-European Emerging Market Currencies: Forward Premium Puzzle and Fundamentals (Peter Backé and Franz Schardax)

The 2008 Fall Wave of the OeNB Euro Survey in Central, Eastern and Southeastern Europe - A First Glimpse into Households' Reactions to the Global Financial Crisis (Sandra Dvorsky, Thomas Scheiber and Helmut Stix)

monetary policy has become more effective by successfully influencing private sector expectations.

OeNB Working Papers

http://www.oenb.at/en/presse_pub/research/020_workingpapers/working_papers_2009.jsp

Working Paper 149

“Expected Monetary Policy and the Dynamics of Bank Lending Rates” (January 30, 2009) by Claudia Kwopil and Johann Scharler

In this paper we explore empirically to what extent expected monetary policy matters for the dynamics of bank lending rates in the U.S., the U.K. and Germany. We find that banks have increasingly behaved in a forward-looking fashion by taking expected changes in monetary policy rates into account when setting lending rates. We document that along with the shifts in monetary policy regimes towards inflation targeting, expected monetary policy has become more important as a determinant of bank lending rates. Overall, our results provide support for the hypothesis that

Working Paper 150

“How to find plausible, severe, and useful stress scenarios” (February 5, 2009) by Thomas Breuer, Martin Jandačka, Klaus Rheinberger and Martin Summer

We give a precise operational definition to three requirements the Basel Committee on Banking Supervision specifies for stress tests: Plausibility and severity of stress scenarios as well as suggestiveness of risk reducing actions. The basic idea of our approach is to define a suitable region of plausibility in terms of the risk factor distribution and search systematically for the worst portfolio loss over this region. One key innovation compared to the existing literature is the solution of two open problems. We suggest a measure of plausibility that is not prone to the problem of dimensional dependence of maximum loss and we derive a way to consistently deal with situations where some but not all risk factors are stressed. Among the various approaches used for partial scenarios, plausibility is maximised by setting the

non stressed risk factors to their conditional expected value given the value of the stressed risk factors.

Working Paper 151

“Why did we fail to predict GDP during the last cycle? A breakdown of forecast errors for Austria” (February 11, 2009) by Martin Schneider and Christian Ragacs

This paper proposes an informal taxonomy to break down forecast errors of institutional forecasts. This breakdown is demonstrated for the forecasts of the Oesterreichische Nationalbank (OeNB) for Austrian GDP. The main result is that the largest part of the forecast errors can be explained by erroneous projections of the international environment. Data revisions also substantially contribute to the forecasting error for the forecast of the current year. Domestic exogenous variables play a minor role only. The inclusion of judgement improves the forecasting performance.

Working Paper 152

“Are Banks Different? Evidence from the CDS Market” (February 16, 2009) by Burkhard Raunig and Martin Scheicher

This paper uses regression analysis to compare the market pricing of the default risk of banks to that of other firms. We study how CDS traders discriminate between banks and other type of firms

Workshop No. 14

International Trade & Domestic Growth: Determinants, Linkages and Challenges

Global Integration and the Importance of Trade for Growth (Ralf Kronberger, Michael A. Landesmann, Peter Mooslechner)

Firm Heterogeneity, Exporting and Foreign Direct Investment (David Greenaway, Richard Kneller)

Trade and Growth: “South-North” Integration, Outsourcing and Skills (Michael A. Landesmann, Robert Stehrer)

and how their judgement changes over time, in particular, since the start of the recent financial turmoil. We use monthly data on the Credit Default Swaps (CDS) of 41 major banks and 162 non-banks. By means of panel analysis, we decompose the CDS premia into the expected loss and the risk premium. Our primary result is that market participants indeed viewed banks differently and that they drastically changed their mind during the recent turmoil that started in August 2007.

Working Paper 153

“The Impact of Reference Norms on Inflation Persistence When Wages are Staggered” (March 11, 2009) by Markus Knell and Alfred Stiglbauer

In this paper we present an extension of the Taylor model with staggered wages in which wage-setting is also influenced by reference norms (i.e. by benchmark wages). We show that reference norms can considerably increase the persistence of inflation and the extent of real wage rigidity but that these effects depend on the definition of reference norms (e.g. how backward-looking they are) and on whether the importance of norms differs between sectors. Using data on collectively bargained wages in Austria from 1980 to 2006 we show that wage-setting is strongly influenced by reference norms, that the wages of other sectors seem to matter more than own past wages and that there is a clear indication for the existence of wage leadership (i.e. asymmetries in reference norms).

Endogenous Export Modes – Trade Intermediation versus Wholesale FDI in General Equilibrium (Gabriel J. Felbermayr, Benjamin Jung)

Service Sector Linkages: The Role of Services in Manufacturing 8Joseph Francois, Julia Woerz)

Synchronization of Business Cycles of Germany and Austria 8Gerhard Fenz, Martin Schneider)

Factors Driving Import Demand in Central and Eastern European EU Member States (Thomas Reininger)

Estimates of Gains from Further Multilateral Trade Liberalisation: Should They Differ? (Przemyslaw Kowalski)

External Publications by Staff Members

Cross-border trade and FDI in services

Carmen Fillat Castejón, Joseph Francois, Julia Woerz

CEPR Discussion Paper No. 7074 and wiiw Working Paper No. 49

Working with a panel dataset of of OECD countries over the decade 1994-2004, we examine linkages between cross-border trade and FDI in the service sectors. We first develop a consistent analytical framework for the application of the gravity model jointly to services trade and commercial presence (i.e. FDI), using a composite model of delivery that offers testable hypotheses about the roles of different modes of services supply as complements or substitutes. We further link our estimates to policy variables measuring market regulations that may act directly or implicitly as barriers to trade. We find robust evidence of complementary effects in the short-run, which is reinforced in the long run by an increased potential for cross-border imports based on previous FDI inflows. A detailed analysis by individual service sectors highlights business, communication and financial services as showing the largest potential for cross-border trade when market regulations are reduced and when commercial presence increases.

'Attract FDI' - A universal golden rule? Empirical evidence for OECD and selected non-OECD countries

Robert Stehrer, Julia Woerz

European Journal of Development Research (2009) 21, 95-111.

In this paper we investigate the host-country effects of foreign direct investment (FDI). We extend the abundant existing literature on this topic in three ways. First, we explicitly acknowledge a potential endogeneity in the relationship between a country's economic performance (measured by labour productivity) and FDI by estimating a system of simultaneous equations. Second, we consider direct and additional indirect effects, which can be tracked through the system of equations when deriving our conclusions. Third, we base our

estimations on a sample including OECD as well as selected non-OECD countries for seven manufacturing industries over the period 1981-2000. The results suggest a positive relationship between FDI and output as well as productivity and export growth, whereas there is also evidence for a downward pressure on wage growth as a result FDI. However, the magnitude of effects is surprisingly small.

Detecting ARCH Effects in Non-Gaussian Time Series

Burkhard Raunig

Journal of Financial Econometrics, 6(2), 2008, 271-289.

Engles ARCH test has become the standard test for ARCH effects in applied work. Under non-normality the true rejection probability of this test can differ substantially from the nominal level, however. Bootstrap and Monte Carlo versions of the test may then be used instead. This paper proposes an alternative test procedure. The new test exploits the empirical distribution of the data and an extended probability integral transformation. The test is compared with the former tests in Monte Carlo experiments. Under normality the new test works as well as the conventional Monte Carlo test and the bootstrap. Under non-normality the test tends to be more accurate and more powerful than the bootstrapped ARCH test. The procedure is then used to test for ARCH effects in S&P 500 returns sampled at different frequencies. In contrast to the standard- and the bootstrapped ARCH test the new test detects ARCH effects in the transformed low frequency returns.

The Predictability of Exchange Rate Volatility

Burkhard Raunig

Economics Letters, 98(2), 2008, 220-228.

The model-free test procedure used in this paper suggests that exchange rate volatility is hard to predict more than one month ahead with time series methods. Moreover, predictability declines rather quickly with horizon.

A Value at Risk Analysis of Credit Default Swaps

Burkhard Raunig (jointly with Martin Scheicher)

European Central Bank Working Paper Series No 968, November 2008.

We investigate the risk of holding credit default swaps (CDS) in the trading book and compare the Value at Risk (VaR) of a CDS position to the VaR for investing in the respective firm's equity using a sample of CDS – stock price pairs for 86 actively traded firms over the period from March 2003 to

October 2006. We find that the VaR for a stock is usually far larger than the VaR for a position in the same firm's CDS. However, the ratio between CDS and equity VaR is markedly smaller for firms with high credit risk. The ratio also declines for longer holding periods. We also observe a positive correlation between CDS and equity VaR. Panel regressions suggest that our findings are consistent with qualitative predictions of the Merton (1974) model.

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 econ.newsletter@oenb.at

April 17, 2009	Friday Seminar: Sales and Monetary Policy, held by Kevin Sheedy, London School of Economics (LSE)
May 7, 2009	Global Economy Lecture held by Tony Atkinson
May 8, 2009	Friday seminar: Systemic risk as renegotiation breakdown, held by Alfred Lehar, University of Calgary
May 14-15, 2009	OeNB Economics Conference
May 22, 2009	Friday seminar: Information and Bubbles - Results from a Beauty Contest Experiment, held by Urs Birchler, Schweizerische Nationalbank
June 5, 2009	Friday seminar: Anatomy of financial crashes: an agent based model of the leverage cycle, held by Stefan Thurner, Universität Wien
June 8, 2009	Economic Forecast for Austria
November 16-17, 2009	OeNB Conference on Eastern European Integration
<i>Recent Events:</i>	SUERF - Special East Jour Fixe on Russia
January 23, 2009	Current trends in the Russian Financial System
January 23, 2009	“Wage Setting Patterns and Monetary Policy: International Evidence” Friday seminar with Silvana Tenreyro (LSE)
February 27, 2009	Vienna Economic Talks: “The Financial Market Crisis: Effects and Implications for Southeastern Europe”
March 23, 2009	Recent Developments in the Baltic Countries – what lessons for South Eastern Europe?

OeNB Courses at the Joint Vienna Institute (JVI)

April 27 - 30, 2009	Institutional Challenges for SEE Countries on the Road to the EU and EMU
May 25 - July 31, 2009	Applied Economic Policy (AEP) Course The segment "Financial Sector Issues" is taught by the OeNB
August 31 - September 4, 2009	OeNB Summer School "The current financial crisis - what can structural models tell us?"
September 21 - 25, 2009	Inflation, Exchange Rate Stability and Credit Growth: Challenges for EMU
October 5- 8, 2009	Cash Circulation and Payment Systems in Austria
November 9 - 13, 2009	Monetary and Financial Statistics Collected and Compiled by the ESCB
November 23 - 26, 2009	Economic and Monetary Integration in Europe
November 30 - December 2, 2009	Translation in a Central Bank Setting

For further details see: http://www.jvi.org/fileadmin/jvi_files/JVI_Program2009.pdf

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