Alumni Newsletter No 5

JOINT VIENNA INSTITUTE NOVEMBER 2013

CONTENTS

Joint Vienna Institute

Governor Ewald Nowotny, Oesterreichische Nationalbank - Annual Lecture

Dear JVI Alumni,

I hope you enjoy reading the 5th edition of the JVI Alumni News, which focuses on key economic policy issues – monetary policy, competitiveness, developments in Europe – and innovations in training.

In addition to a busy course program, one clear highlight during the past few months was the Annual Lecture by Governor Nowotny on "The Future of Monetary Policy". The event was well attended by many ambassadors and officials from JVI target countries, private sector representatives, academics, the press, and included live-streaming to JVI alumni (see next article). The full speech and presentation are available on our website.

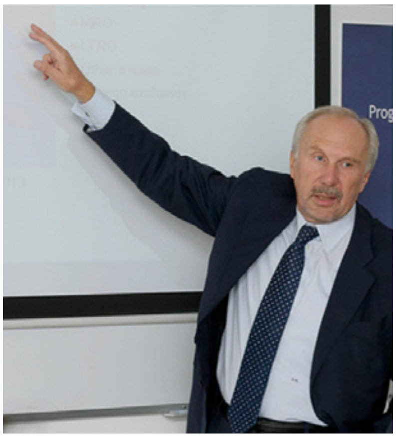
Next year's training program is also now available online, which includes several innovations related to new courses and course delivery methods. I am sure you will find the right course for you and am looking forward to welcoming you (again) at the JVI.

Norbert Funke, Director, JVI

The Future of Monetary Policy

JVI Annual Lecture by Governor Ewald Nowotny

Prof. Ewald Nowotny, the Governor of the Oesterreichische Nationalbank, delivered this year's JVI Annual Lecture on September 24, 2013. He spoke about the key challenges that monetary policy is facing in the wake of the financial crisis of 2008, and how these will affect the conduct of monetary policy in the future. "Monetary policy … faces a double challenge," Governor Nowotny emphasized. "In the short run, stability has to be restored while in the long term an enduring framework has to be established that is capable of preventing the recurrence of a crisis as the one seen in 2008." The major central banks, he explained, cannot expand their balance sheets forever, so sooner or later they will have to exit from their current policies. Determin-



ing the right timing and strategy for the exit policies, as well as clearly communicating them to the public, remain the biggest challenges for the monetary authorities in the medium term. At the same time, recent policy innovations, such as the tighter coordination between prudential policies and monetary policies, as well as increased international cooperation, will likely remain part of the monetary policy framework in the future.

Governor Nowotny outlined the new challenges that the 2008 financial crisis presented for central bankers all around the world. Before the crisis, a consensus had emerged that monetary policy should be delegated to an independent agency with the single objective of price stability. Fiscal, prudential, and monetary policies were thought to operate separately, and hence required a minimum of coordination. While the consensus worked fine for some time in the U.S. and Europe – resulting in stable output growth combined with low inflation – the events in 2008 disproved it. Prudential policy had not been able to prevent the financial crisis. "A key lesson of the crisis," the Governor noted, "was … that in the absence of financial stability, monetary policy can be severely hampered and fiscal policy pushed off track."

Using the Central Banks' Balance Sheets

To re-establish financial stability and growth, the central banks in the U.S. and Europe switched from interest rate policies, which were no longer effective, to balance sheet policies, Governor Nowtony explained. The U.S. Federal Reserve first expanded its balance sheet through new lending programs for troubled banks. Subsequently, it bought mortgage-backed securities and longer-term US Treasury securities to reduce long-term interest rates. The ECB expanded its balance sheet mainly through regular refinancing operations that provided liquidity to banks against collateral. The Swiss National Bank's (SNB) foreign exchange market interventions to hold back the appreciation of the Swiss franc boosted its balance sheet considerably. As a result of these unconventional monetary policies, the Governor indicated that the Fed's balance sheet grew four-fold between 2007 and 2013, the ECB's balance sheet had more than doubled at its peak in 2012, and the SNB's balance sheet increased five-fold.

The balance sheet policy of the central banks was complemented by forward guidance, he noted. Central banks had begun to explicitly communicate their future policy intentions to the public – both regarding balance sheet operations and interest rates – in order to anchor market expectations and reduce uncertainty about the future course of monetary policy.

Eventual Exit from Unconventional Policies

In the medium term, the central banks will eventually have to phase out the unconventional measures. This poses several formidable challenges for policymakers, Governor Nowotny stressed. First, they must find the appropriate timing and sequence of exit policies. According to the Governor, "…exiting too early or too fast may create risks to economic growth and employment … exiting too late or too slowly may create risks to price stability, both over the short and the medium term, and distort the private sector's incentives to continue balance sheet repair." At the same time, exit strategies will need to respond flexibly to changing economic conditions and should involve gradual and steady rather than occasional and disruptive action.

The second key challenge is to carefully communicate the exit strategy to the public. The Governor explained that striking the right balance between clarity and transparency of the forward guidance can prove especially difficult, given that the exit process will unlikely be short and will need to be altered along the way as economic conditions change. "We need to choose forward guidance practices carefully from the start, so that sizeable revisions do not become necessary later," he emphasized.

The third challenge, Governor Nowotny explained, was that monetary authorities must take into account the potential international liquidity spillovers from their policies. Continuing the accommodative stance of the monetary policy for too long may contribute to the build-up of systemic risks. Exiting too early and too sharply may, however, cause sudden reversals of the capital flows and disruptions in emerging markets.

A New Monetary Policy Framework

In the long term, it is unlikely that monetary policy will return to its pre-crisis framework, the Governor noted. Considering the tight links between financial stability and macroeconomic stability, one policy innovation that is likely to survive is the coordination of prudential policy and monetary policy. The new Single Supervisory Mechanism within the ECB is a step in that direction. At the same time, he cautioned that taking over the supervisory role may expose central banks to additional reputational risks.

"In my view," Governor Nowotny said, "no central banker with an adequate survival instinct will seek actively a larger role in banking supervision."

Another innovation that will probably remain part of the future monetary policy framework is closer international cooperation. International arrangements, such as swap lines between central banks, can prevent shortages of foreign currency liquidity and can thus reduce the precautionary incentives to hold costly foreign exchange reserves, the Governor noted.

Questions from the Audience

The lecture was followed by a lively discussion. For example, one questioner noted that recent messages from the Fed about potential monetary tightening caused massive capital outflows from the emerging markets. Didn't that suggest that international cooperation was not working? Governor Nowotny responded that even if the guidance of monetary policy were extremely cautious, international spillovers are still unavoidable. He stressed that emerging markets have to manage international capital flows and need to be aware of possible reversals, especially if these capital flows are short-term. Another questioner asked whether the ECB is ready to prevent deflation should that become necessary. Price stability, defined as keeping inflation below, but close to, two percent, remains the mandate of the ECB, Governor Nowotny responded. If needed, he emphasized, ECB is ready to act against deflation – in general a harder task than dealing with inflation. He noted, however, that as of now "… at the ECB, we are not in this territory" [of deflation].

For the full text of the Governor's speech at the OeNB website, follow the link: http://www.oenb.at/en/presse_pub/reden/nowotny/re_20130924_jvi_annual_lecture.jsp#tcm:16-257857

Maksym Ivanyna, Economist, JVI

Policy Debates – Outreach

Towards a Genuine EMU

Public Lecture by Peter Bekx

One of the highlights of the OeNB course on Macro-Financial Stability in Central, Eastern and Southeastern Europe (October 14-18, 2013) was the public lecture by Peter Bekx (Director for International Economic and Financial Relations and Global Governance, DG ECFIN, European Commission, and JVI Board Member) on "Towards a Genuine EMU".

Mr. Bekx gave a very informative assessment on recent and future economic developments in the EU and highlighted various reforms which have shaped the architecture of the Economic and Monetary Union (EMU) since the outbreak of the sovereign debt crisis. Based on this overview, he outlined the further reform steps which are required to realize a *genuine* EMU.

In his assessment of the current economic situation, Mr. Bekx stressed that weak global activity appears to be bottoming out, though some downside risks remain as large emerging markets have recently lost growth momentum. As regards the EU, moderate optimism and easing financial market tensions are the result of the major policy measures taken since 2012 and the ongoing adjustment of internal and external imbalances. Nonetheless, tight credit and labor market conditions are viewed as crucial stumbling blocks to a swift and pronounced economic recovery.

The European sovereign debt crisis revealed an awkward feedback loop between banks, public finances and the real economy. Mr. Bekx emphasized that the policy measures that have been implemented since 2012 had the primary intention of breaking this vicious cycle. First, in order to reinforce the banking sector, banks were recapitalized while the ECB implemented several measures to enhance liquidity provision. Second, on the side of the public sector, he explained that the programs implemented in vulnerable countries were well on track and firewalls against future sovereign financing problems had been built up – most importantly the European Stability Mechanism. To improve fiscal discipline, the Stability and Growth Pact was reformed and the Fiscal Compact was launched. Third, to foster economic growth, the Compact for Growth and Jobs was adopted, whereby further deepening of the internal market and provision of additional financing to enterprises are key ingredients.

In this context, Mr. Bekx addressed the potential conflict between fiscal austerity and economic growth enhancement. He underlined that cross-country differentiation is crucial. Those countries that have some fiscal space should let automatic stabilizers operate freely. Moreover, the important role of structural deficits in the Fiscal Compact should allow for more fiscal leeway in years with poor economic performance.

A *genuine* EMU would consist, according to Mr. Bekx, of a fully integrated financial framework ("banking union"), an integrated budgetary framework ("fiscal union"), an integrated economic framework and, ultimately, of a political union to ensure democratic control and political accountability. Recently, there has been considerable progress in adopting the Single Supervisory Mechanism (SSM) that transfers the responsibility for supervision of credit institutions to the ECB (starting in November 2014). Mr. Bekx stressed that it would be equally important to pave the way for an integrated banking resolution framework which is still under discussion. Finally, he emphasized that decisions on public budgets lie at the heart of parliamentary democracies and thus advocates a strong role of the European Parliament (EP) in the reformed EMU architecture. Among others, the single supervisor should be accountable to the EP, which should be involved in reform contracts in the context of the integrated budgetary framework.

Markus Eller, Economist, OeNB

Policy Debates – Outreach

Crisis in Europe: What's Next?

Public Lecture by Professor Illing

On May 30, 2013, the Joint Vienna Institute (JVI) hosted an open lecture by Professor Gerhard Illing from the Ludwig Maximilian University of Munich on the topic "Crisis in Europe: What's Next?"

The two main messages of Prof. Illing's lecture were that design problems are at the heart of the euro area crisis and that the future development of the eurozone largely depends on adequate changes in institutional design and political governance.

Prof. Illing suggested that faulty design of the euro area is among the main reasons for the eurozone's current troubles. By delegating monetary policy to an independent central bank without creating a central fiscal counterpart, the eurozone has suffered from the lack of endogenous stabilization mechanisms for regional shocks. The currency union has been hit by divergence among member states in terms of government debt and government bond spreads; current account and capital flows; and productivity and competitiveness. These trends were triggered by massive capital flows and uncontrolled expansion of loans to the periphery, which increased its financial fragility and encouraged inefficient bubbles with sudden reversals.

Professor Illing noted that during the 2008-2013 financial crisis, the European Central Bank (ECB) was forced to act as a substitute for the missing central fiscal authority - on the border between liquidity provision and government finance. This, however, has not eliminated distrust among banks. And, despite the expansion of the monetary base, periphery countries still suffer from shrinking money supply and credit to the private sector.

The lack of a central fiscal counterpart triggered tensions about how to share the burden of implicit fiscal risks. The best way to break the vicious circle between government and bank debt is to create a fiscal union with safe central assets and centralized financial supervision. In his view there are only two viable options: either a regime shift to restore trust or the break-up the euro area. Hopes to restore stability to the eurozone by relying on minimum fiscal coordination via tightening the Maastricht Treaty, the Stability and Growth Pact and the Fiscal Compact would be elusive and non-sustainable.

Professor Illing emphasized that the ECB's current actions to save the currency union will not be sufficient unless accompanied by stronger political integration. Short-term "muddling-through" strategies, such as continued ECB lending, will provide only temporary relief and risk reinforcing the vicious circle of government and bank debt, dampen incentives for governance reform, create moral hazard, and exacerbate collateral crunch.

The current crisis should be taken as a chance to re-design governance rules in Europe. In order to ensure long-run sustainable growth, the euro area, according to Prof. Illing, needs stronger political integration that would transfer some taxation authority to a central government with democratic legitimacy and power to enforce rules and sanctions.

The lecture was followed by a lively discussion with the audience. The main issues raised included: sustainability of the common fiscal policy without common taxation; improvements in the surveillance of potential EU candidates; the role of the Vienna Initiative in the financial stabilization of Central and Eastern Europe during the global financial crisis; the role of the ECB in the crisis adjustment mechanism; the importance of a fiscal union in preventing future crises and increasing productivity in periphery countries.

Eugenia Shevtsova,
Junior Economist, JVI (until September 2013)

Conference

Meeting of the Competitiveness Research Network (CompNet)

Vienna, September 19–20, 2013

In late September 2013, the OeNB hosted the quarterly meeting of the ESCB Competitiveness Research Network (CompNet) in the facilities of the Joint Vienna Institute (JVI). About 90 economists participated in the conference and discussed their ongoing research projects related to competitiveness. OeNB Executive Director Peter Mooslechner delivered a welcome address on the first conference day. The two keynote speeches were delivered by Michael Peneder (WIFO) and Marcel Timmer (University of Groningen) and focused on the various "faces" of industrial policy and on the increasing importance of global value chains.

Given that both, the OeNB and the JVI have a focus on Central, Eastern and Southeastern Europe (CESEE), also the Vienna CompNet Meeting started with a session devoted to this region: Doris Ritzberger-Grünwald, Director of the Economic Analysis and Research Department, chaired a session on services trade in CESEE with Jörn Kleinert (University of Graz), Magdolna Sass (Hungarian Academy of Sciences), Olga Pindyuk (wiiw) and Beata Smarzynska Javorcik (University of Oxford) as panelists. The speakers emphasized the importance of services as inputs for the production of export goods as well as their importance for aggregate productivity growth. Stronger economic growth can therefore be achieved by service liberalization. The second session focused on the impacts of credit constraints, which may lower productivity, especially for small firms, while output from all three workstreams within CompNet was presented in the third session.

CompNet is chaired by Filippo di Mauro, Senior Adviser in the ECB's Directorate General Research. The network was founded in 2011 with the aim of developing a more consistent analytical framework for assessing competitiveness. About 150 economists from the ECB and the national central banks of the EU participate in the network activities, as well as numerous researchers from international institutions such as the European Commission, the World Bank, the OECD or the UNIDO. In this way, CompNet provides a unique forum for discussing different approaches toward and measures of competitiveness. Three OeNB economists are regular

members of CompNet and are among the most active participants in terms of research output.

CompNet is organized into three workstreams. The first aims at developing new measures of competitiveness at the individual country level and tests their explanatory power by linking indicators to outcomes. It covers both price and non-price factors of competitiveness and draws on information from highly disaggregated trade data. Currently, this workstream is compiling a compact toolkit for measuring competitiveness, which will introduce various new indicators of competitiveness and provide guidance for competitiveness assessments of single countries.

The second workstream has developed a procedure for working with national firm-level data in spite of their high confidentiality status. This approach makes it possible for data to be processed directly at their source – the national central banks and the national statistical offices – with a standardized procedure. A first analysis of the results delivered to the ECB confirms the result that successful exporters tend to be larger, more innovative and more productive than more inward-oriented firms.

The third workstream analyzes newly available databases on global value chains, compiled from national input-output statistics, such as TiVA (OECD and WTO) or WIOD (a European Commission-funded project). The decomposition of value added into domestic and foreign components helps to better understand the complexity of internationalized production processes as well as the role of services. Recent research has revealed that international division of labor and outsourcing need not lead to labor shedding but may actually imply additional jobs, especially in services, and a move-up along the value chain toward higher skilled activities with larger value-added.

The fruitful cooperation between the JVI and CompNet will go on beyond this very successful conference. CompNet research output will provide the basis for a newly designed training course on issues of competitiveness. This course will be jointly offered by the Austrian Authorities in cooperation with the ECB. The course will be targeted at junior- to mid-level officials from central banks and government agencies from non-EU countries and will address issues related to the various facets of competitiveness, its macroeconomic implications and how to measure it comprehensively in an economically strongly integrated world.

Julia Woerz, Expert, *Maria Silgoner*, Economist
Oesterreichische Nationalbank

Course News

JVI and the Implementation of the *GFSM 2001* in CESEE Countries

In March 2010, the IMF Executive Board approved the *Government Finance Statistics Manual 2001 (GFSM 2001)* as the standard for presenting the Fund's fiscal data and is expected to review implementation by year end. What is the current status among JVI target countries?

An updated data presentation, emphasizing that fiscal analysis is about portfolio management rather than a single analytical balance, is the first step in moving toward full implementation of the GFS framework.

The GFS framework makes statistics for the general government sector more consistent with other macro-economic datasets (national accounts, monetary and financial statistics, balance of payment and international investment position, etc), and permits comprehensive balance sheet analysis.

Except for minor differences, the GFS system is aligned with the *2008 SNA* (and, previously, the *1993 SNA*, as well as *ESA*). This represents a major improvement over the "old" 1986 methodology:

- the main balance for government operations in the *GFSM 2001* presentation **"Net Lending (+)/ Borrowing (–)"** is closely related, but not identical, to the "old" overall balance. In particular, it excludes the traditional IMF variable "Lending minus Repayments", which is now treated as a financial asset that may increase (or in turn reduce) government financial net worth from a balance sheet perspective.

- Another set of changes aims at a clean separation of **Expense** and the **Net Acquisition of Fixed Assets** (investment which determines the capital stock). Thus, **'Capital' Transfers** are re-categorized as expense, because the government gets nothing in exchange for them and because they decrease net worth.

- The final category of changes regroups **financing items** to show transactions in each type of financial asset (and, conversely, in liabilities). This regrouping is important for understanding how the government's financing choices affect its balance sheet, and for developing an asset/liability management strategy.

By providing a "common language" to handle complex events and by eliminating the need for "ad hoc"

Figure 1: Fiscal Presentation Based on GFSM 2001

Table 1: Government Operations (Generic Version)

Revenue *Less* Expense(≈ current expenditure) *Equals* Operating balance *Less*
Net investment in nonfinancial assets
Equals
Net lending/borrowing
(financed by)
Transactions in financial assets
Less
Transactions in liabilities

Table 2: Government Integrated Financial Balance Sheet (Generic Version)

(Opens Year t)			(Opens Year t+1)
Opening net financial worth	**Net lending/ borrowing**	**Change in net financial worth from other economic flows**	**Closing net financial worth**
	(financed by)		
Opening financial assets	Transactions in financial assets	Other economic flows in financial assets	Closing financial assets
Less	*Less*	*Less*	*Less*
Opening liabilities	Transactions in liabilities	Other economic flows in liabilities	Closing liabilities

Course News

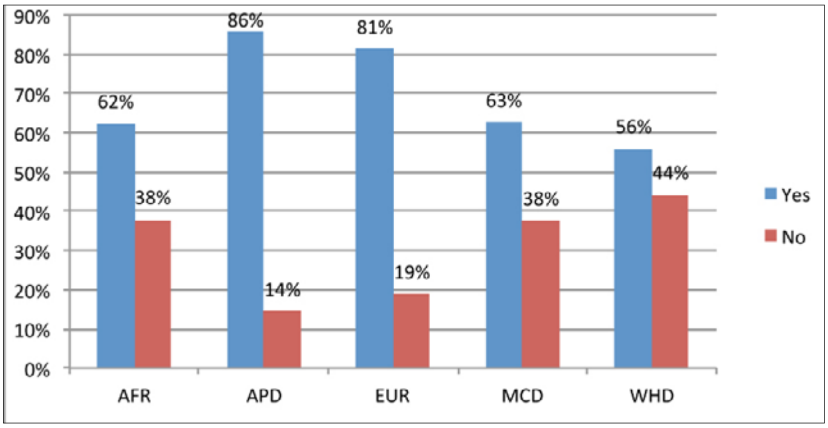


Figure 2:
GFS Presentation Status by Area Department, End of July 2013

adjustments (e.g., privatization, debt assumption), the GFS system enhances fiscal transparency and comparability. As a result, a more nuanced fiscal presentation that integrates short-term liquidity issues with long-term sustainability analysis is obtained.

Among IMF member countries, good progress has been made in transitioning to a GFS presentation in the Article IV Staff Reports, with over 80% having transitioned overall (excluding program countries) by July 2013.

JVI target countries are well represented. It is important to note that several (11) are also EU member states. For these countries, the mandatory reporting of fiscal data aligned with European requirements has necessitated their adopting a GFS-type approach. For the remaining JVI target countries, the ability to obtain training through the JVI has proven to be instrumental. To date, twelve of these countries report general government transactions following the *GFSM 2001* methodology. And eight of these are also providing balance sheet information.

Difficulties in furthering the implementation process, particularly in the area of improved data on assets and liabilities and the integrated presentation of stocks and flows, continue to require attention. The move towards accrual recording by governments, while challenging, also serves as the basis for a renewed push for greater fiscal transparency. This, in turn, will help to address institutional and transactions coverage, as well as classification issues that limit the scope of GFS in some countries.

Since the *GFSM 2001* was issued, the JVI has provided an essential forum for its target countries to increase their familiarity with GFS methodology, associated concepts and the value added that an integrated presentation of government operations can bring to fiscal analysis.

The IMF Statistics Department plays a key role in promoting technical capacity – and in mitigating resistance to change both within and externally to the Fund – and has used the forum provided by the JVI to identify where technical assistance continues to be needed. In turn, these activities combine to strengthen in-country fiscal reporting standards to reflect the lessons of the recent economic crisis and to identify and eliminate gaps in countries' published fiscal information in countries at all income levels.

Gary Steven Jones,
Senior Economist, Statistics Department, IMF

Course News

Risk-Based Supervision

The course Risk-Based Supervision was offered for the third time at the JVI in 2013. It has evolved as issues about banking supervision and regulation have arisen.

"Risk-Based Supervision" or "Supervision-by-Risk" are terms that have had different meanings to different people. Some portrayed RBS as a method to construct a comprehensive, aggregate risk or financial soundness score for a bank that offers multiple services, produces them jointly, and faces many exogenous, endogenous, and correlated risks. They argued that it was necessary to introduce RBS as contemporary supervision had been either compliance-based or uniform in its application of prudential supervision. Others viewed it as adding S to the CAMEL rating.[1] The course emphasizes that many supervisory frameworks need to return to fundamentals and that RBS is already inherent in appropriately structured examinations (both on- and off-site) cycles. RBS under Basel II with its heavy focus on capital and charges to capital based on different risks, is subject to measurement errors for required capital and places less emphasis on other supervisory enforcement techniques that are more appropriate for certain areas of supervision. RBS is not a substitute for a CAMEL-based type of approach to supervision, but it has great value as an addition to the CAMEL type of approach. In fact, as it has evolved it has embraced evaluation of more types of risk, assessment of how banks control different aspects of risk, and more formalizes supervisors' planning for on- and off-site examination of banks.

The first day of the course covers a brief history of banking supervision and offers context for present-day frameworks and workings. Sample bank balance sheet and earnings data are provided so that students can understand from where key financial ratios come, how they might be organized for off-site analysis, and how they are used in analysis. Simple basic static stress testing is demonstrated using the case data. The second day focuses on the supervisory framework – from licensing to failed-bank supervisory intervention – and, credit risk. Students use case studies not only on how to evaluate bank loans made, but also on how bankers make loans. The third day covers market risk and its assessment as well as construction of off-site CAELS ratings.[2] The fourth day is devoted to operational risk assessment and an introduction to more advanced stress testing. The third and fourth days cover numerous modeling approaches used in banking supervision. The final day offers a summary of all the material covered and holds a panel with the instructors and students discussing issues in banking supervision and regulation. Policy topics such as Basel II and III, international accounting standards, and appropriate provisioning for bad loans are frequently those raised for debate.

Philip F. Bartholomew, Senior Economist,
Monetary and Capital Markets Department, IMF

1 CAMEL is the term used in many countries for an aggregate supervisory rating based on assessments of a bank's capital adequacy (C), asset quality (A), management quality (M), earnings performance (E), and liquidity (L). The S rating was introduced as a supervisory measure of a bank's sensitivity to market risk (i.e., interest rate and foreign exchange risks) changing CAMEL to CAMELS.

2 As off-site banking supervision cannot rate management quality (M), it's score is confined to the other assessment aspects – CAELS.

Course News

Intensive Trade Negotiations Simulation Skills Course

Interview with Professor Dickson Yeboah, Head, Intensive Trade Negotiations Skills Unit, World Trade Organization.

You just finished a course on intensive trade negotiation skills. What exactly is this course about?
Many countries engage often in trade negotiations with other countries, bilaterally, multilaterally, or when applying for membership in the WTO. Typically these negotiations are lengthy and complex, and it takes good skills to find common ground. For example, you need to agree on a set of trade liberalizing measures. This intensive course on trade negotiation skills is designed to provide participants with the knowledge, strategies, and tactics for conducting such negotiations and with techniques of systematic decision analysis for monitoring and managing the negotiating process. It contributes directly to the objectives of WTO negotiations by improving, deepening, and enhancing participants' understanding. The core of the course encompasses all the stages in trade negotiations from consultation to actual negotiations, involving real give-and-take.

What case studies do you use?
The case studies relate to major players in the global economy: the European Union, the United States, Japan, Brazil, China, and India. To give you a concrete example, in one case study, participants need to negotiate a deal encompassing trade in services, agriculture, and industrial products – a challenging task because an entire array of trade-liberalizing modalities have to be applied.

Anne Vittori, Logistics Unit, WTO and Prof. Dickson Yeboah, WTO

Can you give any tips for those who could not participate in the course or who want to advance their skills?
They should follow the WTO online courses in preparation for this kind of course. They are available on the WTO website (https://etraining.wto.org). They should also read more about negotiations. I would suggest that they search online for François de Calière, a famous French diplomat who wrote a book in 1716 entitled "How to Negotiate with the Princess" (De la manière de négocier avec les souverains). The substance of this book is still valid for today's negotiators.

What makes a good negotiator?
A set of attributes which Francois de Calière referred to in his book :
A negotiator should
- not be emotional at the negotiating table;
- focus on interests, not personalities;
- harmonize the interests of the negotiating partner;
- bring out prominently the common advantages of any proposal and link those advantages so that they appear equally balanced to both parties;
- not lose sight of cultural differences;
- know his or her own limitations and those of the negotiating partner;
- prepare her or his one case carefully; and
- listen as well as talk.

Participants of the WTO Regional Advanced Trade Negotiations Simulation Skills Course for the CEECAC Region

Partners in Knowledge Building:

The Role of JVI Training at the National Bank of the Republic of Macedonia (NBRM)

Interview with Mrs. Ana Mitreska, Head of the NBRM Research Department

Tell us your Bank's motto about knowledge building.

J.M. Clark, an American economist, said, "Knowledge is the only instrument of production that is not subject to diminishing returns." That is a great thought that illustrates well the maxim that the NBRM continuously follows. The management of the Bank strongly encourages training for its employees.

How do you choose courses and participants?

We follow a very rigorous selection process and build a training profile for each employee, which forms the basis for our effective use of training opportunities. First, we survey the preferences of each employee, and then we match them with the actual needs and the assessed experience and skills of the employee. For example, the Research Department has a general policy that employees should first attend broader and more fundamental courses, like the one on Financial Programming and Policies and the one on Applied Economic Policies. Afterwards, an individual training path is devised that responds to the main tasks and personal strengths of the employee.

While employees are generally encouraged to attend training related to their core areas of expertise, we also use training to prepare employees for new responsibilities and more generally to strengthen their knowledge. Ideally, we like to give our employees a chance over time to participate in a mix of policy-oriented and more technical courses. Let me also say that more young economists generally start with a solid economic background, which of course opens up the possibility to target more advanced courses for them even at an early stage.

What happens after an employee has attended a course?

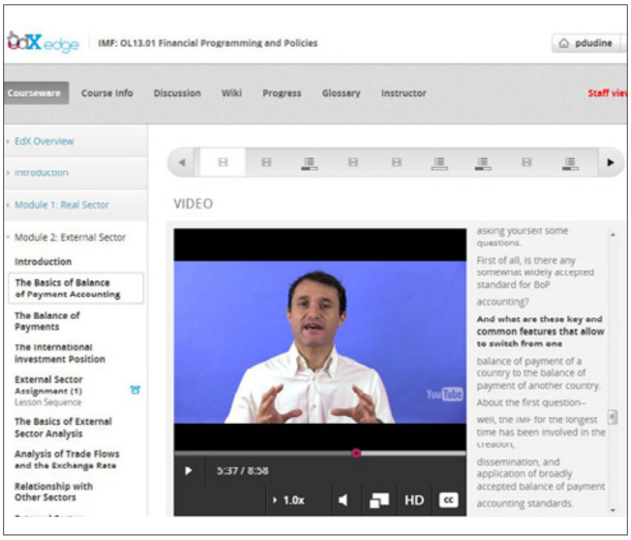
After employees return from a course, they always share the experience within the department, and we discuss how it can be actively used to enhance our day-to-day work. There are many examples of new concepts and models that have been adjusted and adopted this way as projects at the central bank, such as debt sustainability frameworks, application of different econometric techniques learned at courses to the day-to-day work, a forthcoming small fiscal model, estimation of fiscal multipliers, and so on. As most of the readings and workshop materials are available electronically, we have set up an internal Course E-library that is available to all the employees in the department, thus giving more people access to the materials. This system works quite well.

How does training at the JVI benefit your department?

For me, the positive experiences with JVI courses are based on a symbiosis of the quality of the courses offered and the JVI staff, our personal efforts, and our very careful building of the training profile of each employee. But let me also note that one of the most important benefits that training centers like the JVI yield is the networking and the opportunities to discuss policy issues with peers. The "open window" that we very often have with the other participants after the courses is a large gain, which nourishes us constantly.

The IMF Joins the MOOC Revolution

The IMF is entering an exciting new phase in its training program, with the adoption a new online learning program designed in partnership with edX, the nonprofit online learning initiative founded in 2012 by Harvard University and the Massachusetts Institute of Technology. With this partnership, and generous financial support from the government of Belgium, the IMF aims to expand the reach of its training program to member country officials and to offer access to a wider audience through so-called massive open online courses (MOOCs). The JVI is playing a central role in this initiative, hosting the first two residential courses in 2014 that will be offered only to eligible officials who have successfully completed the new online Financial Programming and Policies (FPPx) course.



Instructor Paolo Dudine lectures on the balance of payments in the FPPx course.

Roots in Distance Learning

Since its launch in 2000, the IMF has trained 1,600 officials in its Financial Programming and Policies through Distance Learning (DL-FPP) course. In that course, officials studied at a distance during an eight-week period, working through study guides and other materials shipped to them in advance, and submitting assignments via e-mail to their instructors. Those participants who successfully completed the distance portion of the course were invited to a two-week residential segment to learn more about policy formulation and implementation through a combination of lectures and hands-on workshops. The JVI has been an important host for these residential segments in recent years.

The DL-FPP was well-received and yielded many benefits: it gave access to in-depth training for busy officials who could not be away from their jobs for extended periods; it allowed participants to learn at their own pace and review difficult material; and it helped to ensure that participants would arrive well-prepared for the two-week residential segment of the course.

But the DL-FPP, like IMF face-to-face courses, was only able to reach a limited number of country officials in the face of resource constraints. Even the distance segment of the DL-FPP was difficult to scale up due to the individualized feedback on assignments provided by instructors to participants. During 2009-13, the IMF had to turn away about two-thirds of the applicants (almost 4,000 officials) to its FPP courses.

Expanding Training through MOOCs

In order to meet some of this excess demand for training, the IMF is collaborating with edX, a leading innovator in online learning. Partnering with over twenty global institutions, edX has developed an open-source online learning platform to host massive open online courses (MOOCs), providing interactive education free of charge wherever there is internet access.

While the bulk of IMF training will continue to be delivered through its traditional face-to-face courses, this new online program will permit a dramatic scaling up of delivery while retaining a high level of interactivity and interchange among participants.

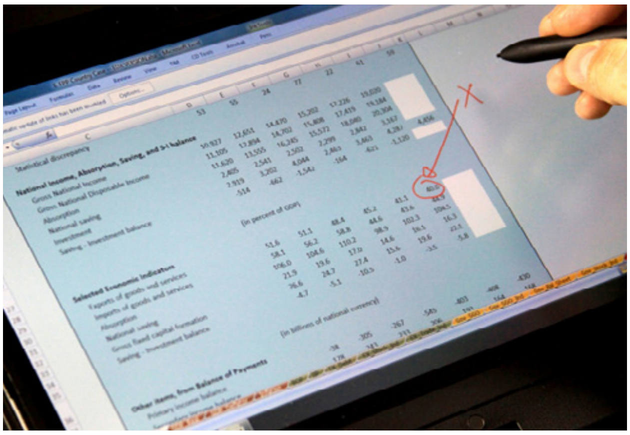
The new courses will be designed with short video segments interspersed with quizzes and hands-on exercises, and will include a discussion forum to allow participants to network and discuss course content. Weekly assignments will be computer-graded, minimizing instructor time and thereby permitting significantly larger enrollments than in previous IMF distance learning courses.

The IMF's first online course, the five-week FPPx, provides an introduction to financial programming, presenting the principal features of the accounts of the four main sectors that comprise the macroeconomy (real, fiscal, external, and monetary) and their interrelations. The course may be taken as a standalone introduction to the macroeconomic accounts, and will also serve as a prerequisite for eligible officials who apply to the two-week residential FPP course, where the focus shifts to policy issues and the design of a financial program.

Continuing the tradition of supporting distance learning at the IMF, the JVI will host in March 2014 the first residential course for eligible officials who have successfully completed the FPPx course.

"Working on this course has been extremely exciting and rewarding," said Paolo Dudine who is leading the course development team. "It is a completely new way of thinking about training: on the one hand, you can reach thousands, instead of dozens; on the other, you feel like you are communicating directly with each and every individual participant. In some sense, it becomes a more intimate, and personalized type of training."

During 2014, the IMF plans to translate the FPPx course to other languages, beginning with Russian and French, and to introduce additional courses (including on debt sustainability analysis and energy subsidy reform). Finally, taking advantage of the massive scalability of the edX platform, the IMF plans to begin offering its online courses as MOOCs, opening access to anyone with an internet connection, with the aim of promoting greater understanding of economic policy issues among the general public.



Images on the screen are being captured as part of the lecture FPPx video sequence as the instructor guides students through the macroeconomic accounts of a case study country.

Ellen M. Nedde, Senior Economist,
Institute for Capacity Development, IMF

The FPPx course development team includes

- Paolo Dudine (team lead and instructor);
- Adolfo Barajas, Nan Li, Jorge Restrepo, Eric Verreydt, and Luisa Zanforlin (instructors);
- Ghanshyam Kumar (technical lead);
- Matthew Di Carlo, Ranae Jabri, Herbert Lui, Natalia Malysheva, and Jewel Perry (technical team)

all from the Institute for Capacity Development at the IMF.

Related Links:
IMF-edX Press Release
IMF Survey Article
FPPx Course Description

In Memory of Dmitri Gloukhovtsev

JVI Interpreter, September 1992 – August 2013

It was early autumn 1992 in the Customs Training School, where the JVI was originally housed. I heard footsteps, looked up, and saw a tall, young man striding purposefully down the corridor. He had a mop of blond hair and was impeccably dressed. Before I could speak, he uttered the words “May I introduce myself – Dmitri Gloukhovtsev, interpreter”. We shook hands quite formally and I told him who I was. I remember being struck by his crisp English accent that would not have been out of place in a P.G. Wodehouse novel. *He then smiled broadly, which lit up his face and put me at my ease.* It was the start of a lifelong friendship.

Dmitri – known by his friends and colleagues as Dima – was an eminently qualified interpreter whose early career included five years working for the UN in Geneva and traveling the globe to interpret at conferences covering issues from human rights to disarmament. He also spent four years at the USSR/Russian Ministry of Foreign Affairs, where he often interpreted for government leaders at press conferences.

Interpreting was his true vocation. He was passionate about his work and adhered to the highest standards. The 21 years that he worked at the JVI saw demanding changes in interpretation as the courses were aligned to the changing economic situation. Courses became shorter, more technical, and the terminology more complex. His natural thirst for knowledge meant he always kept abreast of the latest developments in the field of economics.

Dima was one of the founding members of a team of interpreters that continues to play a key role in maintaining the JVI’s renowned reputation in the training of country officials, from a region spanning Eastern Europe to Central Asia. As one of our former directors, Lindsay Wolfe, wrote: “I remember Dmitri as the youngest-looking of the four musketeers, who made the JVI teaching program accessible to hundreds, indeed thousands of students over nearly two decades. It is a legacy that will take some following.” Indeed it will.

Dima’s untimely passing on August 24, 2013, after an 11-month illness, was followed by a flood of tributes. All cited his professionalism and dedication, as well as his charming and personable manner. Like so many others, I feel privileged to have known him and to have worked with him. He was a very dear friend and colleague whose sometimes *seemingly* outward reserve hid a sparkling wit, a sharp mind, and a mischievous sense of humor. He will be sorely missed, but never forgotten.

Michèle Burlington-Green, Chief of Administration, JVI

You can remember him and only that he is gone
Or you can cherish his memory and let it live on
Adapted exerpt from a 1981 poem by David Harkins - Silloth, Cumbria, UK

Welcoming New Staff

Asel Isakova joined the JVI as a Junior Economist in October 2013. Asel previously worked as a Senior Economic Analyst at the Office of the Chief Economist of the European Bank for Reconstruction and Development in London. She has a Master's degree from the Pierre-Mendes France University in Grenoble, and a Ph.D. in Economics from the Charles University in Prague.

Asel's research interests lie in the area of macroeconomics, monetary policy, trade and regional economic integration. She has authored and co-authored a number of articles and working papers on various subjects including monetary policy efficiency, dollarization and inflation, regional trade cooperation, business environment and managing natural resource endowment in resource-rich countries.

Upcoming Courses

The 2014 JVI course program is available online at www.jvi.org. Reflecting on feedback from country authorities and Alumni, it incorporates the following innovations:

- Global challenges: With economic growth still well below pre-crisis levels, increasing competitiveness, advancing structural reforms, and addressing income inequalities are becoming more central. These are areas where we can draw upon the expertise of JVI Primary and Contributing Members and other partners to cooperate in the delivery of new courses. On this year's program you will find a course on competitiveness, organized by the Austrian Authorities in cooperation with the ECB's Competitiveness Research Network, and a course on structural reforms. The joint course on inclusive growth will again be offered.

- Financial sector issues: Demand in this area is particularly high. Therefore we refined and added courses on banking supervision, financial stability, central bank financial strength, and bank resolution, including in cooperation with national central banks.

- More specialized courses: While training needs differ by region, demand for specialized courses is rising almost everywhere. You can benefit from new courses on the macro implications of fiscal policy and on advanced macroeconomic forecasting. We will also continue to adjust our lectures and workshops to the latest developments, for example in the areas of exchange rate assessment and debt sustainability analysis.

- Mode of delivery: The JVI is putting even more emphasis on hands-on workshops, interactive activities, participant presentations, and presentations by experts in order to make the training more effective and also to help bridge gaps between technical assistance and training. To supplement face-to-face learning, we are expanding on the first JVI experience with integrating online learning modules. For some courses, short online learning modules are being made available, and the IMF will introduce a new online course on financial programming. Successful completion of the online course will be a prerequisite for the residential course.

JVI Course Schedule 2014

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
Jan 13 - 24	IMF	(MFP)	Macroeconomic Management and Fiscal Policy (JV14.01)	2 weeks	E/R	Application by Oct 18, 2013
Jan 16 - 17	IBRD/ WB CFRR	(AECP)	Accounting Education Community of Practice Workshop	2 days	E/A/ BCS	By invitation
Jan 20 - 23	OeNB	(STB-A)	Advanced Course on Financial Stability Stress Testing for Banking Systems	4 days	E	By invitation
Jan 27 - Feb 7	IMF	(BPS)	Balance of Payments Statistics (JV14.03)	2 weeks	E/R	Application by Oct 25, 2013
Jan 27 - Feb 7	IMF	(MFMA)	Macro-Fiscal Modeling and Analysis (JV14.02)	2 weeks	E	Application by Oct 25, 2013
Feb 10 - 21	BMF/IMF/ JVI/OeNB	(SFI)	Sound Fiscal Institutions: The Basis for Stability, Growth, and Prosperity	2 weeks	E	By invitation
Feb 10 - 21	IMF	(MMF)	Macroeconomic Management and Financial Sector Issues (JV14.04)	2 weeks	E/R	Application by Nov 15, 2013
Feb 11 - 13	IBRD/ WB CFRR	(ATT)	Audit Training-of-Trainers	3 days	E	By invitation
Feb 24 - 28	IBRD/WB	(JDA)	Jobs Diagnostic Analysis	1 week	E	By invitation
Feb 24 - Mar 7	IMF	(MDS)	Macroeconomic Diagnostics (JV14.05)	2 weeks	E	Application by Nov 18, 2013
Mar 3 - 7	IMF	(BSO)	Introduction to Banking Supervision for Non-Supervisors (JV14.35)	1 week	E	Application by Nov 20, 2013
Mar 10 - 14	AA	(CGC)	Competitiveness, Growth and Crisis	1 week	E	By invitation
Mar 10 - 21	IMF	(FPP)	Financial Programming and Policies (JV14.06)	2 weeks	E	Application by Dec 23, 2013
Mar 17 - 21	EBRD	(EB1)	To be announced	1 week	E	By invitation
Mar 17 - 21	IBRD/WB	(SFDM)	Subnational Fiscal and Debt Management	1 week	E	By invitation
Mar 24 - 28	IBRD/WB	(MTDS)	Medium-Term Debt Management Strategy	1 week	E	By invitation
Mar 24 - 28	JVI	(MPCM)	Macroeconomic Policies in Times of High Capital Mobility	1 week	E	By invitation
Mar 24 - Apr 4	IMF	(EFS)	Economic Policies for Financial Stability (JV14.07)	2 weeks	E	Application by Dec 10, 2013
Mar 31 - Apr 4	IMF	(CB)	Central Bank Financial Strength and Independence in the Post Crisis Environment (JV14.36)	1 week	E	Application by Dec 6, 2013
Apr 7 - 11	IMF	(PACP)	Prudential Asset Classification and Provisioning versus IFRS (JV14.37)	1 week	E	Application by Dec 13, 2013
Apr 7 - 18	IMF	(MMNR)	Macroeconomic Management and Natural Resource Management (JV14.08)	2 weeks	E/R	Application by Dec 27, 2013
Apr 14 - 18	IBRD/WB	(DeMPA)	Government Debt Management Performance Assessment Tool	1 week	E	By invitation
Apr 14 - 18	IMF	(MF-A)	Advanced Macroeconomic Forecasting (JV14.09)	1 week	E	Application by Dec 20, 2013
Apr 21 - May 2	IMF	(MF)	Macroeconomic Forecasting (JV14.10)	2 weeks	E	Application by Dec 24, 2013
Apr 22 - May 1	IMF	(FSMP)	Financial Stability, Systemic Risk, and Macroprudential Policy (JV14.11)	1 ½ week	E	Application by Dec 30, 2013

JVI Course Schedule 2014

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
May 5 - 9	AA	(PGS)	Public Governance and Structural Reforms	1 week	E	By invitation
May 5 - 16	IMF	(FPP)	Financial Programming and Policies (JV14.12)	2 weeks	E	Application by Mar 7, 2014
May 8 - 9	IMF	(CHI)	European Corporate and Household Insolvency (JV14.13)	2 days	E	By invitation
May 12 - 16	OeNB/BMF	(ICS)	Institutional Challenges for EU Candidate and Potential Candidate Countries on the Road to the EU and EMU	1 week	E	By invitation
May 19 - 23	EBRD	(EB2)	To be announced	1 week	E	By invitation
May 19 - 23	IMF	(LAIF)	Legal Aspects of International Financial Institutions (JV14.14)	1 week	E/R	Application by Jan 24, 2014
May 20 - 23	BDF/JVI	(FSP)	Financial Stability Policy of Central Banks: Recent Trends, Interactions with Other Policies, and Key Challenges	4 days	E	Application by Mar 21, 2014
May 26 - Jun 6	IMF	(MFP)	Macroeconomic Management and Fiscal Policy (JV14.15)	2 weeks	E/R	Application by Jan 31, 2014
May 26 - Jul 18	JVI	(AEP)	Applied Economic Policy Course	8 weeks	E	Application by Mar 1, 2014
Jun 2 - 6	IBRD/WB	(DGDM)	Designing Government Debt Management Strategies	1 week	E	By invitation
Jun 9 - 13	IBRD/WB	(IGDM)	Implementing Government Debt Management Strategies	1 week	E	By invitation
Jun 9 - 20	IMF	(FMN)	Financial Markets and New Financial Instruments (JV14.16)	2 weeks	E	Application by Feb 7, 2014
Jun 16 - 20	WTO	(TP)	Trade Policy	1 week	E	By invitation
Jun 23 - 27	BIS/FSI	(CBSI)	Banking Supervision: Core Banking Supervisory Issues	1 week	E	By invitation
Jun 23 - 27	IMF	(MSF)	Mortgage Markets and Financial Stability (JV14.17)	1 week	E	Application by Feb 21, 2014
Jun 30 - Jul 11	IMF	(MIF)	Macroeconomic Implications of Fiscal Issues (JV14.18)	2 weeks	E/R	Application by Mar 7, 2014
Jun 30 - Jul 11	IMF	(MIF)	Macroeconomic Implications of Fiscal Issues (JV14.18)	2 weeks	E/R	Application by Mar 7, 2014
Jul 14 - 25	IMF	(FSLF)	Central Banking and Financial Sector Legal Frameworks (JV14.19)	2 weeks	E/R	Application by Mar 21, 2014
Jul 21 - 25	IMF	(BR)	Bank Restructuring and Resolution (JV14.38)	1 week	E	Application by Feb 21, 2014
Jul 28 - Aug 1	IMF	(MTBF)	Medium-Term Budgetary Frameworks, Fiscal Rules, and Fiscal Councils: Options to Ensure Fiscal Sustainability (JV14.20)	1 week	E/R	Application by Apr 4, 2014
Jul 28 - Aug 8	IMF	(MS)	Macro-Financial Surveillance (JV14.21)	2 weeks	E	Application by Apr 4, 2014
Aug 4 - 8	IMF	(AML)	Implementing the Revised International AML/CFT Standards (JV14.22)	1 week	E	By invitation
Aug 11 - 22	IMF	(CBS)	Core Elements of Banking Supervision (JV14.34)	2 weeks	E	Application by Apr 14, 2014

JVI Course Schedule 2014

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
Aug 18 - 29	IMF	**(MFS-A)**	Advanced Course on Monetary and Financial Statistics **(JV14.23)**	2 weeks	E/R	Application by Apr 18, 2014
Sep 1 - 12	IMF	**(FPP)**	Financial Programming and Policies **(JV14.24)**	2 weeks	E/R	Application by Jun 27, 2014
Sep 1 - 12	IMF	**(MF)**	Macroeconomic Forecasting **(JV14.25)**	2 weeks	E	Application by May 2, 2014
Sep 8 - 12	WTO	**(TP)**	Trade Policy	1 week	E	By invitation
Sep 15 - 17	OeNB	**(CCPS)**	Cash Circulation and Payment Systems in Austria	3 days	E	By invitation
Sep 15 - 26	JVI	**(SR)**	Structural Reforms	2 weeks	E	By invitation
Sep 22 - 26	AA	**(FDI)**	Foreign Direct Investment Policies	1 week	E	By invitation
Sep 29 - Oct 10	IMF	**(FMA)**	Financial Market Analysis **(JV14.27)**	2 weeks	E	Application by May 16, 2014
Sep 29 - Oct 10	IMF	**(FPP)**	Financial Programming and Policies **(JV14.26)**	2 weeks	E/R	Application by Aug 1, 2014
Oct 13 - 17	EBRD	**(EB3)**	To be announced	1 week	E	By invitation
Oct 13 - 17	OeNB	**(MFS)**	Macro-Financial Stability in Central, Eastern and Southeastern Europe	1 week	E	By invitation
Oct 13 - 24	IMF	**(MDS)**	Macroeconomic Diagnostics **(JV14.28)**	2 weeks	E	Application by May 30, 2014
Oct 20 - 24	OeNB/BMF	**(EMIE)**	Economic and Monetary Integration in Europe	1 week	E	By invitation
Oct 27 - 31	JVI/CCBS	**(MT)**	Macroprudential Tools	1 week	E	By invitation
Nov 3 - 14	BMF/EBRD/ IMF/JVI	**(TPIG)**	Tools and Policies for Inclusive Growth	2 weeks	E	By invitation
Nov 3 - 14	IMF	**(MERP)**	Monetary and Exchange Rate Policy **(JV14.29)**	2 weeks	E/R	Application by Jun 6, 2014
Nov 10 - 14	EBRD	**(EB4)**	To be announced	1 week	E	By invitation
Nov 17 - 21	IMF	**(FSI)**	Financial Soundness Indicators **(JV14.39)**	1 week	E/R	Application by Jun 20, 2014
Nov 17 - 21	OeNB	**(MFSC)**	Monetary and Financial Statistics Collected and Compiled by the ESCB	1 week	E	By invitation
Nov 24 - 28	AA	**(PPP)**	Public Private Partnership	1 week	E	By invitation
Nov 24 - 28	IMF	**(QNAM)**	Quarterly National Accounts Manual **(JV14.30)**	1 week	E	By invitation
Dec 1 - 2	OeNB	**(FE)**	Financial Education in Central Banks: Initiatives and Activities	2 days	E	By invitation
Dec 1 - 5	BMF/JVI	**(ARG)**	Administrative Reform in a Global Environment	1 week	E	By invitation
Dec 8 - 12	IMF	**(MPP)**	Macroprudential Policies **(JV14.32)**	1 week	E	Application by Jul 11, 2014
Dec 8 - 19	IMF	**(EXV-EWE)**	External Vulneralibilities and Early Warning Exercise **(JV14.33)**	2 weeks	E	Application by Jul 11, 2014

PUBLISHER: Joint Vienna Institute, Mariahilfer Straße 97, 1060 Vienna, Austria, T: +43 (0)1 798 9495, F: +43 (0)1 798 0525, jvi@jvi.org, www.jvi.org | DIRECTOR: Norbert Funke | COORDINATION: Tatiana Arnhold | EDITING: Burkhard Drees, Michèle Burlington-Green, Daniel Stirrat
PHOTOS: Fotostudio Ludwig Schöpp | GRAPHIC DESIGN: Sibylle Gieselmann