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Ms. Christine Lagarde, Managing Director of the International Monetary Fund (IMF), Austrian Vice Chancellor and Minister of Finance Michael Spindelegger (second on the left), Oesterreichische Nationalbank Governor Ewald Nowotny (on the right), and Deputy Governor Andreas Ittner (on the left) at the signing ceremony.

Dear JVI Alumni,

It is my pleasure to share with you our sixth Alumni Newsletter, with some of the recent highlights and the schedule of upcoming courses.

The IMF and Austria reconfirmed their strong commitment to the JVI during the 2014 Spring Meetings of the IMF and the World Bank Group.

In December 2013, the European Investment Bank joined the JVI as a Contributing Member, followed by its first high-level policy debate at the JVI in March. Other cutting-edge policy discussions and presentations complemented a busy training program, with new courses in the financial sector area and on competitiveness and growth. In September, the JVI's members will for the first time offer jointly a new two-week course on structural reforms, leveraging the synergies of the JVI's multilateral approach to training. We hope to see many of you again during one of our upcoming courses.

Norbert Funke, Director, JVI

IMF and Austria Sign Agreement on the Extension of the JVI

During the 2014 Spring Meetings of the IMF and the World Bank Group in Washington DC, Ms. Christine Lagarde, Managing Director of the International Monetary Fund (IMF), the Austrian Vice Chancellor and Minister of Finance Michael Spindelegger, Oesterreichische Nationalbank Governor Ewald Nowotny and Deputy Governor Andreas Ittner signed on April 11 an addendum to the Memorandum of Understanding between the IMF and Austria on the continuation of the Joint Vienna Institute (JVI). The previous memorandum, signed in 2010, called for a review every four years. The IMF and the Austrian Autho-

rities have reviewed the MOU and concluded that it remains appropriate to the needs and circumstances of the JVI.

"This is an important moment for capacity building in Central, Eastern, and Southeastern Europe, the Caucasus, and Central Asian countries, as we cement our joint commitment to the region", Ms. Lagarde noted at the signing ceremony. "The partnership between Austria and the IMF has allowed the JVI to respond flexibly and effectively to changing needs, new economic challenges, and developments at the frontier of economic analysis and capacity building."

"Building on the vision of the JVI's founders to help strengthen economic policies and institutions in former transition economies, much has been achieved since the founding of the JVI in 1992," Vice Chancellor and Minister of Finance Spindelegger stressed. "Over 30,000 course participants in more than 1,100 courses and seminars since its inception, speak for themselves. Countries in the region have moved up the income ladder and many are now part of the European Union or part of other regional groupings".

Photos of the signing ceremony by Georges Schneider, photonews.at and IMF.

"With fast changes in the external environment, it is even more important than in the past to stay ahead of the training and capacity development curve and to engage in an ongoing dialogue with country authorities. Much of today's work on capacity development is about "multi-way" communication and creating and sustaining networks. With its international partners, the JVI is well placed to continue to implement the vision of its founders", Governor Nowotny stated.

At the signing ceremony, on behalf of the JVI and in particular officials from the JVI's target regions, I thanked the Austrian Authorities and the IMF for their continued trust, support, and generosity. Austria's and the IMF's "Investment in Learning" has helped build economic skills, share knowledge, and facilitate learning from peers. While it is difficult to quantify the return on investment in capacity development, founding the JVI was arguably one of the best investments decisions taken.

With its partners, JVI staff is committed to ensure that the return on investment will continue to stay very high to the benefit of the countries in the region.

Norbert Funke, Director, JVI

Policy Debates – Outreach

EIB: How to Overcome Europe's Investment Crisis?

Michael Landesmann (WIIW), Doris Ritzberger-Grünwald (OeNB), Wilhelm Molterer (EIB), Debora Revoltella (EIB), Norbert Funke (JVI)

On March 10, 2014, the European Investment Bank (EIB) presented its new report on *Investment and Investment Finance in Europe*. The report documents a historical decline in investment and concludes that increased crisis-related uncertainty rather than the supply of finance was the main cause. To reverse this trend, the report calls for policy actions aimed at institutional reforms and providing investment finance where financing gaps may exist.

Mr. Wilhelm Molterer, Vice-President of the EIB, started the presentation by highlighting that despite clear signs of recovery, Europe was still experiencing a serious investment crisis, which exerted a considerable drag on potential growth. Reviving investment is therefore a crucial task going forward. The normal investment process is currently complicated as governments follow fiscal austerity measures and banks restructure their portfolios to meet tighter prudential rules. International financial institutions like the EIB could play a more active role in restoring investment and growth, he said.

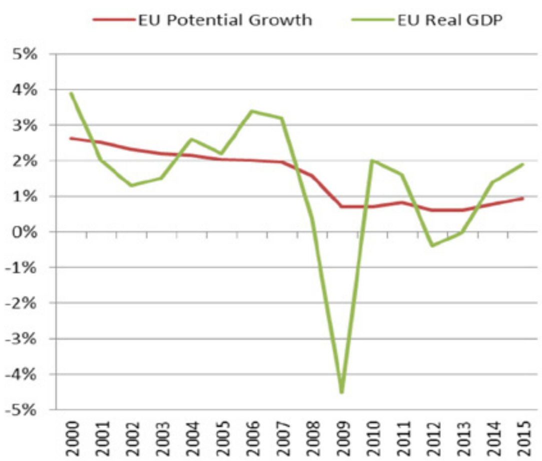
Ms. Debora Revoltella, Director of the Economic Department at the EIB, emphasized that a future agenda needs to build on answers to two questions. First, what held investment back? And second, what policies are necessary to boost investment? While she recognised that long-term potential growth is a variable extremely difficult to estimate, she also showed that the decline in potential growth estimated by the EC for the EU between 2007 and 2013 is to a large extent explained by lower capital accumulation. There is, however, a substantial degree of heterogeneity across the Union. For the new member states (NMS), the decrease in employment was another, no less critical, factor.

Although the investment crisis in Europe was rather pronounced, it was unevenly distributed. The correction was deeper in vulnerable countries that had experienced a boom in residential and non-residential construction.

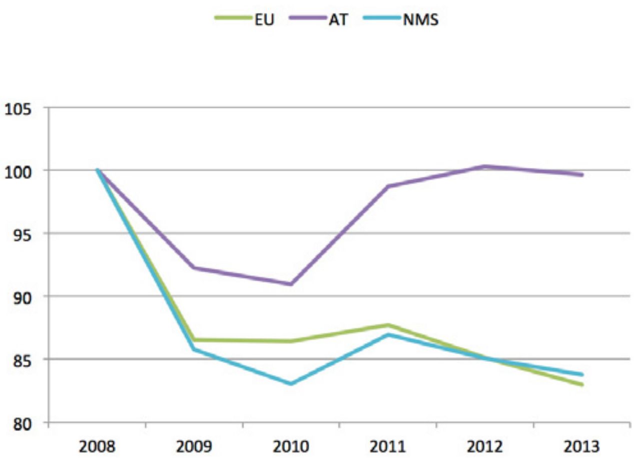
As to the causes of the investment crisis in the EU, Ms. Revoltella pointed out that the return on investment was not a key factor, although it had declined. She identified the level of uncertainty regarding economic policy as the most important force, which until now remains stubbornly high. The availability of finance does not seem to be the major constraint across the board, but it might have been a relevant factor in some countries and for some firms. Intra-EU capital flows collapsed after the crisis and countries had to rely more on domestic sources of funding. This trend was reflected in a stronger link between saving and investment rates.

To address high uncertainty and declining investment, policy efforts should be concentrated on EU institutional reforms, including establishing the banking union. Public policy also has to be proactive in covering the existing financing gaps, enhancing bank lending and alternative finance. In a num-

EU real and potential GDP growth



Evolution of EU growth and investments (2008 = 100)



ber of countries where the return on investment is low, structural reforms should promote allocating resources to more productive sectors.

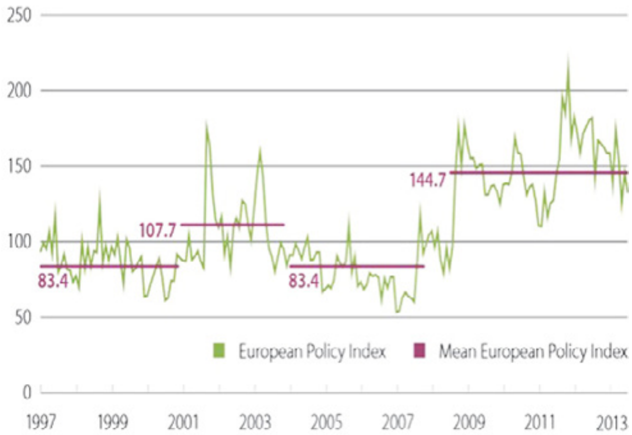
Vice-President Molterer continued by pointing out that public policy should include "targeted interventions to ease financing of infrastructure and innovation." The EIB stands ready for the challenge: it increased its lending from €55bn in 2012 to €75bn in 2013. EIB investment is gradually shifting from the traditional strategic infrastructure investment to innovation, energy efficiency, and financing SMEs.

Ms. Doris Ritzberger-Grünwald, Director of the Economic Analysis and Research Department at the Oesterreichische Nationalbank and a discussant of the EIB report, outlined important differences in the investment and growth dynamics in Austria compared to the rest of the EU. "Austria stands on a brighter side", she noted, with a relatively low rate of unemployment and a stable investment rate of about 22 percent of GDP (vis-à-vis 17 percent in the EU). Austria was benefiting from a strong competitive position, limited investment in unproductive capacity before the crisis, a well-diversified production structure and strong foreign trade. Austria also enjoyed a relatively balanced structure of investment with a higher share in machinery and equipment and, respectively, a lower share in construction. The private sector played a large and stabilizing role through its traditionally strong investment in R&D with easier access to financing for SMEs also helping to avoid the investment crisis.

Participants discussing the lecture during a coffee break

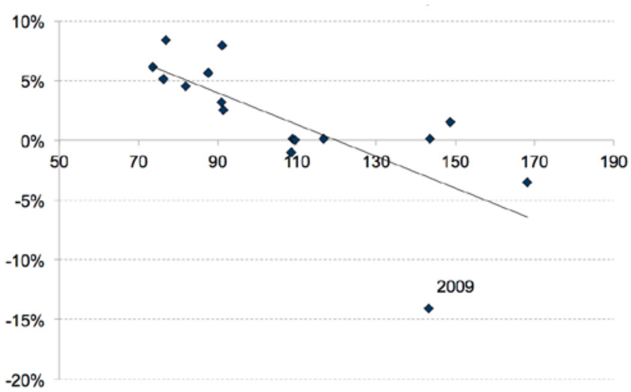
The other panelist, Prof. Michael Landesmann, Director of Research at the Vienna Institute for International Economic Studies, pointed to two key factors at the present juncture: a fear of prolonged stagnation and doubts about restarting convergence in Europe. He noted, it is important to investigate the specific causes of the broad economic policy uncertainty which – in his view – the report did not sufficiently specify. At the same time, he said, a number of "certainties" that currently have an adverse effect on investment and long-term growth need revisiting: e.g., the existence of an austerity bias in public finances, and the still relatively limited attention paid to the tradable sector and competitiveness. Prof. Landesmann acknowledged the importance of investment in innovations but at the same time argued that the EU's R&D policy was focused too much on the "core" EU countries and did not sufficiently take into consideration the specific requirements for an 'innovation policy' of low-/medium-income and transition economies in a post-crisis phase where foreign direct investment flows are diminished. Structural policies that go well beyond creating the banking union, he noted, may be needed

Economic policy uncertainty in Europe



Source: Baker, Bloom, and Davis at www.PolicyUncertainty.com
Notes: Red lines plot the estimated coefficients of the index on a constant and two dummy variables. All estimates are statistically significant at 1 per cent.

Annual rate of change of business fixed investment against an index of economic policy uncertainty (1997-2012)



Source: Baker, Bloom, and Davis at www.PolicyUncertainty.com and Eurostat

to spur investment, as one of the foremost needs is the strengthening of export capacities in economies that have been undergoing deindustrialization processes over extended periods of time. This lies at the root of longer-term structural balance-of-payments problems of a considerable number of Europe's peripheral economies.

The panelists' presentations were followed by a general discussion and questions from the audience. Ms. Revoltella concurred with Prof. Landesmann that it would be desirable to pinpoint key factors that drive the uncertainty. She also agreed that innovation is an important issue for all EU members, including the new member states and the "periphery." Vice-President Molterer stressed that the EIB is an investment bank and as such does not act as a business creator or as a policy-making body. However, the EIB business model allows for mobilizing the expertise of EIB staff and providing funds for sectors that are paramount for future growth and investment in Europe.

The key findings of the EIB report Investment and Investment Finance in Europe can be found on the EIB website:
http://www.eib.org/attachments/efs/investment_and_investment_finance_in_europe_key_findings_en.pdf.

For the full report, follow the link:
http://www.eib.org/attachments/efs/investment_and_investment_finance_in_europe_en.pdf .

Mikhail Pranovich, Economist, JVI

Wilhelm Molterer,
Vice-President of the EIB,
addresses the audience

Policy Debates – Outreach

Fiscal and Financial Stability in Europe

Open Lecture by Thomas Wieser

On February 21, Thomas Wieser, the President of the Euro Working Group, gave a public lecture at the Joint Vienna Institute on "Fiscal and Financial Stability in Europe: Recent Experience and Challenges Ahead."

Overall, Mr. Wieser called for better and stronger coordination between EU countries to deal with the present crisis and to prevent such crises in the future. In his presentation, Mr. Wieser explained the roots of various crises, starting from the global financial crisis to the euro area debt crisis, and outlined desirable policies going forward. He stressed that weak financial regulation and supervision had contributed to the unfolding financial crisis. He strongly supported a banking union within the euro area, open to other EU countries, to strengthen coordinated financial surveillance.

Mr. Wieser argued that the recent crisis was not only a euro area crisis but could be traced to the acceleration in globalization processes. It started in advanced economies, then transmitted to emerging markets. More competition had caused unemployment and inequality to increase in mature industrialised economies around the world. Mr. Wieser suggested that most developed countries felt reluctant to accept these facts and initiated policies that led to mounting debt levels. Mostly, policies that increased public debt/GDP became steadily more important, but in some economies incentives to encourage borrowing by private households in order to keep up consumption were more important. But the end results were more or less the same: Over the years, this policy led to the accumulation of private and public debt in advanced economies.

In the euro area, Mr. Wieser explained, the lack of constraints on the current account and the inability to adjust the exchange rate allowed competitiveness to rapidly decline, and external imbalances increased steadily. Interest rate convergence and ineffective banking oversight led to excessive lending in certain sectors and countries. Insufficient global

Thomas Wieser, President of the Euro Working Group

monetary policy action to deal with financial bubbles, and poor banking regulation and supervision contributed to the global financial crisis in 2008, and the crisis quickly transmitted to Europe. The financial system distress in the EU was followed by the debt crisis in some of the euro area members.

Mr. Wieser noted that while fiscal policy had to play an important role, the existing fiscal rules did not work adequately and the degree of accountability of governments had declined. He pointed to a clear policy disconnect between Brussels and national governments.

As an antidote, Mr. Wieser supported further strengthening of policy coordination within Europe. He argued that stronger financial integration in Europe requires a single supervisor and a single resolution mechanism. In his view, had closer financial integration existed during the crisis, the EU would have forced banks to clean up their balance sheets more vigorously and to restructure already in 2009-2010. A more rigorous clean-up of banks' balance sheets actually happened in the U.S., and as the economic situation improved in 2011, the U.S. banks were again in a position to provide new credit to the real economy, unlike in Europe.

To ensure financial stability in the future, a banking union is currently being established with the

Policy Debates – Outreach

ECB assuming the role of the single supervisor, and a new model of bank resolution is to come into effect in 2016. A single resolution fund of €55 billion will contribute to paying the resolution cost of banks. Mr. Wieser explained that another important aspect - for the future - was creating a fiscal union to move closer to joint fiscal policy making. Achieving a common fiscal policy would, however, take a longer time.

Finally, Mr. Wieser shared his views on the EU's prospects for the coming years. He said that external and internal imbalances would start unwinding although it might take some time. In his opinion, reviving economic growth in Europe in the context of a strong competitive environment and deleveraging would require massive structural reforms. At the same time, governments would need to reconsider the structure of their spending to support growth-enhancing areas, such as human capital and innovations.

The lecture was followed by a lively Q&A session. The audience was interested in the prospects of the banking union as well as the fiscal union. Some questioners were skeptical as to whether a single resolution fund would have enough capacity to deal with a Europe-wide banking crisis, while others asked how a single fiscal policy would deal with different economic realities across countries. Mr. Wieser agreed that building a banking union and a fiscal union would not be easy. He emphasized, however, that closer policy coordination across European countries and the outside world would ultimately be essential and would need to be pursued despite those difficulties.

Asel Isakova, Junior Economist, JVI

Ireland's EU/IMF Economic Adjustment Program

Open Lecture by Peter Breuer

The successful completion of Ireland's EU/IMF-supported program in December 2013 has left the country in a much stronger position than when its program began back in November 2010. On March 21, Mr. Peter Breuer, the Resident Representative of the IMF in Ireland, presented a compelling lecture about Ireland's financial crisis and its adjustment program. The public event was part of the IMF course on Financial Programming and Policies (FPP).

Ireland's economy was widely seen for some time as one of the most successful in the world, benefitting from high FDI inflows, yet it had been among the hardest hit by the global financial crisis. Its growth dynamic changed fundamentally in the 2000s: high growth rates were increasingly based on the rapid expansion of credit and build-up of property-related indebtedness by Irish households and SMEs.

Peter Breuer, IMF Resident Representative in Ireland

Policy Debates – Outreach

Mr. Breuer started by explaining how rising property prices led to the financial sector bubble and to reinforcing dynamics between banks and the real economy. The credit-fuelled property bubble collapsed soon after the international financial crisis erupted in mid-2007. This had a huge adverse impact on growth and employment, leading to a further deterioration of households', SMEs', and banks' balance sheets. At the same time, government finance deteriorated, given the cyclical nature of tax revenues and the large costs of recapitalizing banks. The government issued a blanket guarantee of banks' liabilities, to prevent the crisis from becoming systemic.

Although the government began to implement austerity measures designed to restore sustainability, during 2010 international investors became worried about the impact of escalating bank losses on the government's balance sheet. The financial sector crisis resulted in the loss of market access for the sovereign. An EU/IMF program was negotiated in November 2010.

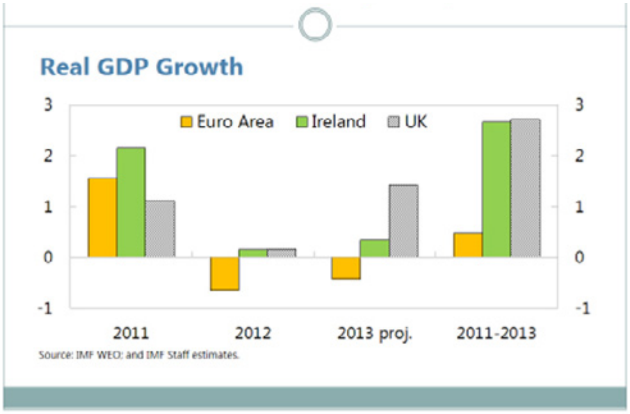
Given that the crisis in Ireland was primarily a banking crisis, the immediate priority was to recapitalize and stabilize the banking system, thus stemming the outflow of deposits, explained Mr. Breuer. He emphasized that protecting economic growth was the main objective of Ireland's economic program.

The program mainly focused on financial sector policies to restore its healthy functioning (i.e., bank restructuring, deleveraging, loan resolution, supervision, etc.) and on frontloaded and phased fiscal consolidation, to contain procyclicality. One difficulty came from the fact that in 2012-13, the euro area crisis turned out worse than initially expected, dampening exports and delaying the reduction of uncertainty. Despite growth shortfalls, the fiscal deficit was kept on track and the sovereign regained access to markets in mid-2012.

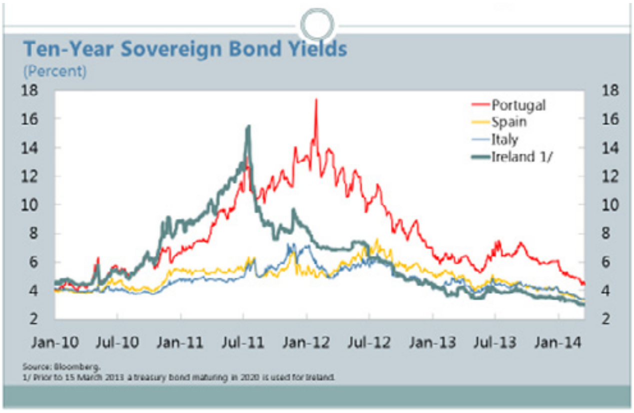
Much has been achieved, but given the severity of the problems, some challenges remain, noted Mr. Breuer. Further efforts will be needed in the years ahead to complete the fiscal consolidation, ensure robust lending to the economy, revive domestic demand, and reduce unemployment.

Irina Bunda, Economist, JVI

Growth in Ireland above the euro area



Declining bond yields



Policy Debates – Outreach

U.S. Monetary Tapering and Emerging Markets: A Financial Market Perspective

Open Lecture by David Hauner

On March 28, 2014, Mr. David Hauner, Head of Emerging EMEA Economics & FI/FX Strategy at Bank of America Merrill Lynch, delivered a thought-provoking presentation on the performance and prospects of emerging markets (EM) in the wake of the recent tightening in global financing.

The lecture started with the following question: what performed better over the past six months? Emerging market (EM) debt or the Standard & Poor's 500? To the surprise of many, the answer is EM debt. Mr. Hauner used this answer to highlight the bottom-line of his presentation: while there is a widespread perception that EMs are going through a correction in asset prices of (near) bubble-bursting dimensions in the wake of monetary tightening in the US, reality tells a different story.

Mr. Hauner noted that two main arguments support a more sanguine view. One is that financial conditions for emerging markets have been tighter in 2013-14 than during the 2008-09 crisis; so, if a major crisis were to happen, it should have happened already. Instead, because EM currencies are now generally undervalued for the first time in years, growth performance is being boosted through exports. Domestic credit growth has also remained robust and, with the possible exception of China, there are no obvious signs of a credit collapse in the offing. Reserve accumulation is likely strong – with countries like Turkey gaining rather than losing reserves in recent months – thus placing EM central banks in a good position to shore up domestic liquidity.

The second pillar of the more sanguine view is that tighter global financing is giving EMs an impetus to undertake much needed structural reforms. Mr. Hauner argued that declining potential growth in many EMs has been a problem for years, and easier financing associated with the U.S. quantitative easing (QE) policies has increased challenges by fostering complacency. Investors have now become

David Hauner, Bank of America Merrill Lynch

more selective and are demanding clear structural improvements. Furthermore, he claimed it is a myth that investors are pulling out of EMs as an asset class. Most of the outflows are related to the behavior of "retail" investors, while most EM investors are long-term/wholesale investors (e.g., pension funds, governments). What has changed is that bond yields across EM countries are now more tightly related to fundamentals, unlike a year or so ago, when EM bond yields were abnormally low compared to the strength of fundamentals.

Mr. Hauner recognized, however, that there has been considerable divergence in EMs' performance. On the positive side, India and Indonesia have responded with substantially stronger export growth than elsewhere, and depreciations have been favorable to those countries where foreign currency debt is lower. In the Central and Eastern European region, Poland has performed well throughout. On the other hand, political developments have increased uncertainty in some countries. The presentation ended with questions and answers from the floor, which focused on a range of topics, including the impact of uncertainties and developments outside Europe.

Luis Catão, Senior Economist, JVI

Book Presentations

From Fragmentation to Financial Integration in Europe

On December 17, 2013, the JVI hosted a book launch event for the new IMF book *From Fragmentation to Financial Integration in Europe*. The book is an outgrowth of the first supra-national Financial Sector Assessment Program (FSAP) undertaken by the IMF for the European Union as a whole in late 2012, assessing region-wide financial stability in Europe. It documents the tension between national fragmentation and EU-wide solutions, not least in the on-going debate on a full-fledged banking union.

The event was introduced by Mr. Norbert Funke, Director of the JVI, and chaired by Ms. Doris Ritzberger-Grünwald, Director of the Economic Analysis and Research Department of the OeNB. In her introductory remarks, Ms. Ritzberger-Grünwald praised the book for showing clearly how difficult, and yet how important, it is to build an integrated financial system and establish effective oversight in Europe. Fragmentation is an issue not only in financial services, but also in monetary policy for the euro area, as evidenced by differences in credit conditions across countries. While in monetary policy the ECB is trying to overcome the fragmentation via its unconventional monetary operations, implementation of the banking union in Europe should help integration because the single European supervisor would treat the EU financial market as one market and harmonize supervisory practices.

Mr. Luc Everaert, Assistant Director in the IMF's Monetary and Capital Markets Department, and Ms. Jianping Zhou, Senior Economist in the same department – who edited the book together with Charles Enoch and Thierry Tressel of the IMF – jointly presented the content of the book and its key findings. The first part of the book, "From Integration to Crisis Management", describes the EU's progress in integrating its financial system before the global financial crisis, including its institutional framework, and describes how Europe coped with the global financial crisis. The second part of the book on "Underpinning Financial Stability" discusses necessary features of a proper banking union in the EU, including its legal background, the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), and common deposit insurance. It also tackles specific issues regarding, for example, governance and transparency of EU regulatory and supervisory institutions, stress testing,

Daniel Hardy (Austrian FMA), Jianping Zhou (IMF), Doris Ritzberger-Grünwald (OeNB), Luc Everaert (IMF)

bailing in private creditors in case of bank failures, and the regulation of nonbank financial institutions and infrastructure. The final part of the book "Beyond the Crisis" reviews some structural issues related to the new European financial architecture.

Key findings of the book can be summarized as follows. First, the pre-crisis EU institutional features and the absence of an EU-wide crisis management amplified the crisis. Lack of authority at the level of the EU institutions contributed to negative sovereign-banking loops and financial fragmentation. Thus, a regional EU-wide approach to financial stability is needed to safeguard a single market for financial services, and is all the more important in the single currency area.

Second, important steps have been taken. Banks have boosted their capital adequacy ratios, although partly through deleveraging. Unconventional monetary operations of the ECB have enhanced liquidity, and new tools for addressing financial stability have been introduced, including coordinated stress tests. Supra-national sovereign support was established via the European Stability Mechanism (ESM). The newly established European Supervisory Authorities (ESAs) as well as the new EU macroprudential body, the European Systemic Risk Board (ESRB), are

Book Presentations

making their marks. Progress has been made with bank resolution and restructuring, and market confidence was enhanced with the agreement that was reached in December 2012 to establish the SSM for the euro area, but open also to non-euro area members. However, gaps remain. The EU institutions (ESAs, ESRB) are still evolving, and confidence in European banks is not fully restored, as market concerns about the quality of bank assets remain. Vulnerabilities are exacerbated by the still-fragmented financial system, regulatory and policy uncertainty, and the major gaps in the policy framework that still need to be filled.

The book presents three main recommendations. First, the repair of the banks' balance sheets should be completed. Full repair would need to be underpinned by a proper supervisory assessment, asset quality review, and firm stress tests within the new SSM, as well as by implementing fully regulatory reforms and enhancing disclosure. Second, the banking union should be swiftly completed. The ECB should be assigned adequate authority and resources, and a single resolution mechanism with common backstops should be established. Third, better coordination should be established amongst the various agencies, and an integrated crisis management system should be set up. The role of ESAs and ESRB should be refocused to support and complement the banking union's SSM and SRM.

Mr. Daniel Hardy from the Austrian Financial Market Authority (currently on leave from the IMF), served as a discussant. He mentioned that in Austria, financial integration is an important issue given Austrian banks' large cross-border exposures and Austria's role as a host to institutions from other European countries. He emphasized that the book does not cover only banks, but also other financial intermediaries such as insurance companies. He stressed the benefits of a functioning banking union and single supervision in Europe, but noted that many challenges and risks remain on the way to their full implementation, and that the book's recommendations are complementary. In particular, integrated regulation and supervision requires, and is required by, effective crisis management with burden sharing.

A rich discussion followed, touching upon: the possible costs and benefits of financial integration in Europe; the differences between the type of financial integration in Central and Eastern Europe (based on foreign ownership of banks) and that in Western Europe (based mainly on debt flows); the role of government-sponsored bad banks as crisis management tools; and the proper regulatory treatment of sovereign risk. Other questions that were discussed included: whether the EU also needs a fiscal union or whether the ESM was sufficient to provide a credible backstop mechanism; whether deposit insurance needed to be unified in the EU; and whether the SSM would lead to improved conduct of supervision, given that the single supervisor may be better protected from national regulatory capture.

Adam Gersl, Senior Economist, JVI

New Lenses for a Hard Job: Understanding European Unemployment

With unemployment in much of the euro area near post-war highs, time could not be riper for a new book sifting through its possible causes, the prospects for recovery, and how policies can help strengthen this recovery. On February 6, 2014, the JVI hosted a presentation about the new IMF book on *Jobs and Growth: Supporting the European Recovery* as part of a launch across several European capitals. Two of the authors and editors, Messrs. Martin Schindler and Antonio Spilimbergo of the IMF's European Department, presented key findings.

Book Presentations

In motivating the book, Mr. Schindler quoted Spain's Finance Minister Luis de Guindos who noted, upon his country's first positive quarterly growth outcomes in 2013, that "Spain is technically out of the recession, but at unemployment of over 25%, it is not yet out of the crisis." This quote illustrates the harsh reality faced by many European economies.

The reasons are multifold, but a few factors stand out. One is the high level of indebtedness in both public and private sectors across the euro area. Regarding the private sector, the authors showed that countries with greater "balance sheet distress" at the onset of the crisis recovered much more slowly than countries with healthier private balance sheets. What is also different this time compared to past recessions is the more limited scope available for supportive fiscal policies due to high public debt in many countries.

As Mr. Schindler pointed out, there is a non-trivial catch-22: higher output and employment growth help deleveraging but faster growth does not come easily when leverage is high. Escaping this trap requires strategic sequencing: go slower on public sector deleveraging where country conditions allow, but faster on private sector deleveraging, while ensuring that full-fledged structural reforms are implemented. As structural reforms foster growth, deleveraging is made easier.

But partial structural reforms can sometimes have unintended consequences. Mr. Spilimbergo noted that in response to the "IT revolution" of the 1990s and globalization challenges, many countries implemented only partial reforms. The resulting "Mediterranean" labor market model has been particularly problematic, in its duality between high levels of employment protection for those on permanent contracts and the proliferation of temporary contracts without protection. This has led to the striking paradox that those who kept their jobs during the crisis worked longer hours while unemployment soared. The rise in youth unemployment is particularly worrisome as it can have a negative impact on lifetime careers and earnings paths.

Another "big" topic was the still limited participation by many Eurozone exporters in global supply-chains. While this participation is high for some countries and sectors, notably Germany as a "hub" and others, such as the Czech Republic or Slovakia as intermediate suppliers, it is very low for much of the euro area periphery. Since the euro area is essentially trade-friendly and countries are close to each other, prospects are rosier and the benefits of greater supply-chain integration seem obvious. Mr. Schindler noted that some of the same structural policies that help growth will also improve competitiveness and the ability to benefit from cross-border supply chains.

Martin Schindler addressing members of parliament from Eastern Europe

A few questions from the floor followed the presentation. Just to pick one – namely, on the relationship between growth and inequality – Mr. Spilimbergo noted that it depends on the labor market "model": inequality would likely increase in countries with a dual labor market, as those with protected jobs will benefit from rising wages which are less likely to materialize for the unemployed or the under-employed.

Luis Catão, Senior Economist, JVI

Course News

Competitiveness, Growth and Crisis

Triggered by the financial and economic crisis and the arising worldwide imbalances, particularly in Europe, the issue of competitiveness of countries moved into the center of attention for policy makers and analysts. This debate also triggered various efforts aiming at providing various and partly newly developed indicators, to allow the comparison of competitiveness across countries and the attempts at providing competitiveness rankings, which highlight the many dimensions of this concept when applied at a national level. This course therefore was devoted to providing an overview of the various indicators used to measure competitiveness, to stress underlying data and conceptual issues, and to assess the usefulness of these when applied to understand competitiveness issues at the national level.

The first day of the course started with a general discussion concerning the idea of "competitiveness of nations" triggered by Paul Krugman's quote as this being a "dangerous obsession". In that respect several definitions of competitiveness of nations as well as concepts and measurement issues were overviewed. Then participants were invited to follow a lecture on "Investment and Investment Finance in Europe" by representatives of the European Investment Bank (EIB). The afternoon was then devoted to comparing competitiveness indicators and the relationship between competitiveness and macro-economic imbalances. The second day focused on the somewhat standard indicators of competitiveness, such as unit labor costs and trade-related measures, with applications to Central and Eastern European and Western Balkan countries. The afternoon sessions were devoted to some practical data collection exercises and calculations of various indicators. The third day started with a detailed introduction on productivity indicators, such as labor and total factor productivity, measurement issues related to them and their trends, which were followed by presentations focused on non-price competitiveness indicators and competitiveness pressures as derived from detailed trade data. On the fourth day the importance of national and global production linkages and its implications for trade statistics, specialisation patterns and implications on competitiveness were highlighted. This was followed by a presentation focused on industrial competitiveness and its evolution over time and across a large set of countries. Finally, the last day was devoted to the role of industrial policies as pursued in the EU and the role of institutions in relation to competitiveness issues.

Given the many dimensions of competitiveness when applied at the country or national level, participants were invited to give short presentations of issues related to competitiveness in their own countries. These contributions highlighted a number of further and more detailed and highly relevant aspects concerning competitiveness ranging from private sector issues and cluster policies, the role of finance, political instability to issues of competition policies and general policy reforms.

Robert Stehrer, Deputy Director of Research
The Vienna Institute for International Economic Studies, wiiw

Austrian Authorities Course on Competitiveness, Growth and Crisis (March 10-14, 2014)

Course News

Macroeconomic Policy Analysis: An Example of Successful Cooperation

Course on Macroeconomic Policy Analysis in Danilovgrad, Montenegro (January 20-24, 2014)

The JVI, in cooperation with the Center of Excellence in Finance (CEF) in Slovenia, the Regional School of Public Administration (ReSPA) in Montenegro, and the IMF, conducted a course on *Macroeconomic Policy Analysis* during January 20 - 24, at the ReSPA in Danilovgrad, Montenegro.

The course, which was delivered as part of the CEF's Strategic Planning and Budgeting (SPB) project, was funded by the European Union. The learning objectives centered on familiarizing participants with practical diagnostic and analytical tools and on strengthening skills for preparing various European Commission (EC) surveillance reports, in particular *Pre-Accession Economic Programmes* (PEPs) for candidate countries and *Economic and Fiscal Programmes* (EFPs) for potential candidate countries.

The course program was developed and designed to help participants prepare a consistent macroeconomic framework as a basis for PEPs and EFPs, discuss relevant policies (growth, fiscal, monetary, external, financial sector) and familiarize participants with analytical tools. Lectures and several case studies had been developed or adjusted to the specific needs of the participants of the eight participating countries — the newest EU member state (Croatia), EU candidate countries (Macedonia, Montenegro, Serbia, Turkey), and potential candidate countries (Albania, Bosnia & Herzegovina, Kosovo).

Lectures and workshops also aimed at helping address common weaknesses of existing reports, which the EC had identified in its assessments. For example, the course elaborated on the consistency of the macroeconomic scenario and the fiscal framework (e.g., plausibility of revenue and expenditure projections), risks and obstacles to growth, the need for a comprehensive description of medium-term measures in the fiscal framework, the analysis of external sustainability and competitiveness, and alternative scenarios. Participants received spreadsheet tools and data to perform or replicate analysis for their own countries in the areas of growth, debt sustainability, exchange rate assessment and in the banking sector. In other areas, such as the calculation of structural fiscal balances and monetary analysis, the workshops familiarized participants with various methodologies, which will need to be adjusted further to country-specific circumstances.

Made possible by the financial support of the European Union, overall the course provided a successful example of cooperation between several institutions, which aim at strengthening economic policies in the region. By focusing on topics particularly relevant for the preparation of EC reports, the course also provided a step towards bridging the gap between technical assistance and training.

Norbert Funke, Director, JVI
Adam Gersl, Senior Economist, JVI
Mikhail Pranovich, Economist, JVI

Course News

IMF Course on Financial Programming and Policies:

What did participants think about the IMF's first online (FPPx) course, with a follow-up residential segment offered at the JVI?

Course on Financial Programming and Policies (FPP) March 10-21, 2014

The course was the first residential FPP course for which the online FPPx was a prerequisite.

The FPP course draws on the IMF's experience in economic surveillance, the design of financial programs, and the provision of advice to member countries.

It includes a series of workshops in which participants (divided into groups), under the guidance of counselors, develop sectoral forecasts and prepare macroeconomic policy programs for a case study country.

Delivered to a global audience, the course had 31 participants from 28 countries: Africa (8), Asia and Pacific (3), Central Asia and Caucasus (5), Europe (9), Middle East (3), and Western Hemisphere (3). All participants have successfully completed the online FPPx course.

Yasmine H. Abdel Razek, Deputy Debt Manager, Ministry of Finance of Egypt: *FPPx has been structured to pave the way for the face-to-face course by introducing the main concepts and macro-economic linkages. I think that online learning has great potential because of its wider reach, which not only allows more participants to acquire valuable knowledge and skills but also introduces them to professionals from all over the world.*

Svetlana Mustea, Economist, National Bank of Moldova: *Participation in the online FPP course provides the opportunity to study and perform assignments in my free time or after work, which is very convenient and allows to plan the time for study without affecting the regular work.*

Tarisayi Admire Chirume, Economist, Reserve Bank of Zimbabwe: *The online learning segment has been a wonderful experience, to say the least. The lecture notes were thoroughly prepared and it was so easy to follow concepts and apply knowledge and understanding not only to answering the online questions, but to solve lots of puzzles in daily work.*

Course News

Nguyen Thi Hong Loan, Economist, the State Bank of Vietnam: *The FPP online course is great. I really like doing tests by multiple choice questions. In this way I have to know well each account such as external sector or monetary sector to choose the right answers.*

Tatiana Ivanicichina, Head of Unit, Ministry of Finance of Moldova: *Online learning can target a much broader audience, and it can be followed in periods when it is impossible to leave the work place. It also allows spending as much time as necessary with each topic, making it more effective to control the study time. As different persons have a different background, the online course helps to bring them to the same level of covered topics.*

Muath Qoran, Palestine Monetary Authority, West Bank and Gaza strip, Palestine: *I liked the help and the guidance provided to me by the distinguished team throughout the online course and the residential course. Through the online learning, there was actually room for more knowledge, forum discussions, practical assignments, weekly quizzes, lecture videos and relevant materials as well. In E- learning the team was able to illustrate the theory with relevant examples from the economics literature to show how economists are applying the techniques learned.*

Konstantin Baratashvili, Leading Specialist, Parliament of Georgia: *In my point of view, the online learning segment is a very flexible part of the whole course and this is its strength and advantage as compared to other forms of learning. The future belongs to online learning offers.*

Online FPPx Course

ICD's first online course for government officials, Financial Programming and Policies (FPPx), concluded on December 23, 2013.

This five-week course presented the accounts of the main sectors of the macroeconomy, the interrelations between them, and basic analysis of these accounts. The course comprised short lecture videos interspersed with practice questions, activities, and graded assignments. A discussion forum allowed participants to discuss course content and share experiences and practices in their own countries. The course was hosted by edX, the online learning initiative founded by Harvard University and the Massachusetts Institute of Technology.

A few key facts:

- 368 participants from 80 countries around the world took the online FPPx course
- 87 percent successfully completed the online course
- 31 participants from 28 countries in the first residential segment at the JVI.

Introducing the New JVI Website and New Alumni Website

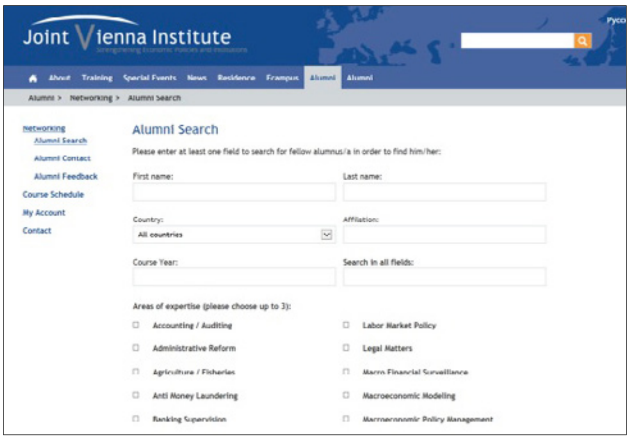
As we are happy to announce the upcoming launch of the new JVI website, including more advanced features in the alumni section, we are talking to Mr. Daniel Stirrat, Administrative/HR Assistant, and Ms. Tamara Tsikhistavi, Alumni Relations Officer.

The new homepage highlights the latest JVI news, events and courses.

Daniel, what are the reasons for replacing the old website?

DS: As many of our readers will know, technology improves incredibly quickly and so in order to keep up with the times one has to constantly update. The same is of course true for websites. Initially we only wanted to make a few changes to the most important features but quickly realized that it would be quicker, easier and more cost effective to redesign the whole website. This in turn gave us the opportunity to improve the functionality of the site, including a new search feature, a much enhanced course schedule, and a dedicated news page; improvements that would otherwise have been impossible.

Tamara, the alumni section of the site will also offer some innovative features. As you coordinate JVI alumni relations, could you very briefly describe what those updates are?



New improved alumni search feature

TT: When we created the alumni website in 2011, the idea was to find ways of reaching out to former course participants in order to stay in touch, connecting participants from JVI target regions and selected other countries. As we continue to pursue this same goal, the new site offers upgraded participant profiles, which now includes areas of expertise, plus an improved search system.

Daniel, what inspired you to re-think the concept of the website and upgrade it?

DS: In the last year our outreach activities have increased considerably and so it was important to add a news feature that allowed us to present our special events and news items easily. We have also recently updated our course database and so the online course schedule had to be updated accordingly, which allowed us to include additional functions, such as uploading course programs, reading lists and podcasts, something which was not really possible with the old site. The whole website is now searchable and the navigation has been greatly improved, meaning that it is much more user-friendly. In time, we intend to add more and more information to the website, making it quicker to find information about the JVI and its activities.

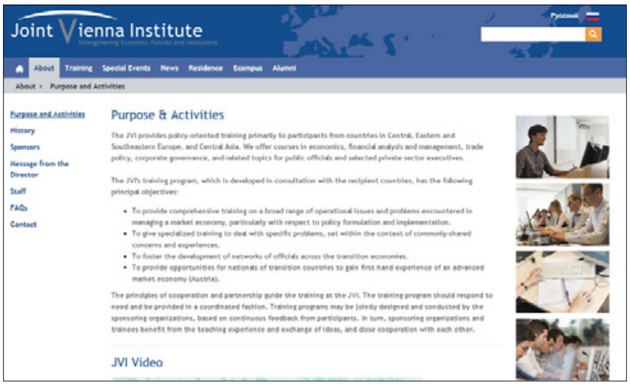
Tamara, how easy is it for alumni to discover and enjoy the alumni section of the website?

TT: I think making the alumni site simple and easy to navigate is indeed an important feature: just accepting the terms of use and filling out a registration form is enough to obtain access to the improved alumni site.

And how will JVI alumni benefit from the site?

TT: A key new component is the specialized search system that helps participants identify experts working in some 30 specialized fields, including areas such as banking supervision, debt management, macroeconomic modeling, and statistics.

Furthermore, we are planning another contest that will be open exclusively to JVI alumni.



The improved navigation and the new search feature make for a user-friendly experience.

I would like to take this opportunity to encourage JVI participants to register on the alumni website in order to join the alumni community and receive JVI news.

Welcoming New Staff

Luis Catão joined the JVI in December 2013. He was previously a Senior Economist and acting Deputy Division Chief in the IMF Research Department. At the IMF, Mr. Catão worked on a wide range of assignments, including on countries with large IMF financial support programs. Prior to joining the IMF, he was assistant professor (tenure track) at the University of London and Fellow of the Institute of Latin American Studies of the same university. He has published in the American Economic Review, Journal of Monetary Economics, Journal of Development Economics, and other specialized journals. His work has been regularly presented at high-level academic and policy conferences and received press coverage by The Economist, The Financial Times, The Herald Tribute, The Washington Post, and Valor Econômico, among others. He holds a BSc in Electrical Engineering and a BA with honors from the Federal University of Rio de Janeiro, as well as an MPhil and a PhD from the University of Cambridge.

Arkadiy Chaykovskiy joined the JVI as a staff interpreter in April 2014. He brings a wealth of practical knowledge and experience to his new job. Arkadiy previously worked as a contractual interpreter for a number of international institutions, most notably the International Monetary Fund and the World Bank. Since the early 1990s, he extensively travelled in the Caucasus and Central Asia Region on a full range of assignments, including technical assistance missions, training courses, program negotiations, regional and international conferences, top-level meetings, and the IMF/WB Annual and Spring Meetings. Arkadiy is a graduate of the Moscow Linguistics University, he is married and has two children.

JVI Course Schedule, May – December 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
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
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

JVI Course Schedule, May – December 2014

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
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

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