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Joint Vienna Institute

From left to right: Boris Vujčić (Governor, Croatian National Bank), Zoran Stavreski (Minister of Finance, FYR Macedonia), Prof. Jeffrey Sachs (Director, Earth Institute, Columbia University), Poul Thomsen (Director of the European Department, IMF), Ewald Nowotny (Governor, OeNB), Božidar Đelić (Managing Director, Lazard)

Dear JVI Alumni,

Raising economic growth in a sustainable and equitable manner remains a key priority. Many of the recent JVI training courses, seminars, and contributions to high-level events and outreach activities focused on policies necessary to achieve this. Clearly, we want to avoid what IMF Managing Director Christine Lagarde has called the 'low-low, high-high' scenario: the risk that low growth-low inflation and high debt-high unemployment persist. Our courses and joint undertakings covered a broad spectrum of macroeconomic, financial and structural policies to enhance growth and reduce vulnerabilities.

Let me also draw your attention to an interview with three JVI training directors and to our updated Alumni network, accessible from the JVI home page.

Enjoy reading this Newsletter.

Norbert Funke, Director, JVI

The Western Balkans – 15 Years of Economic Transition

The International Monetary Fund (IMF), the Oesterreichische Nationalbank (OeNB), and the JVI co-hosted a conference on 15 years of economic transition in the Western Balkans at the OeNB in Vienna on March 10, 2015.[1] It brought together senior policymakers from Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, and Slovenia (including six central bank governors and five ministers); representatives from the European Commission, the European Central Bank, the World Bank, and the European Bank for Reconstruction and Development (EBRD); and academics from the region. As background to the conference, the IMF published analytical papers in its Regional Economic Issues series,[2] and staff of the World Bank, EBRD, JVI, and OeNB gave analytical presentations at the conference.

Conference "The Western Balkans – 15 Years of Economic Transition"

The discussion was lively and frank. There was broad agreement that while substantial progress has been made, incomplete reforms were holding the region back. A return to broad-based and sustainable growth was seen as a priority, supported by private sector job creation that would reduce the very high unemployment in the region, especially for the young and for women. Entrenched vested interests still frustrate reform efforts. Lack of entrepreneurship among the young, brain drain, and skills mismatches are other major obstacles to creating a vibrant private sector. Conference participants identified low export bases and wide trade deficits as serious vulnerabilities for the Western Balkans that heightened reliance on remittances and foreign direct investment. Policies that improve institutions, the business environment, and infrastructure were seen as necessary to attract green-field FDI inflows to tradable sectors and reduce the region's external imbalances. Further economic openness and more intra-regional trade are also needed for sustained economic growth.

The role of foreign ownership in local banking sectors was seen as generally very positive. However, the prevalence of high nonperforming loans (NPLs) requires comprehensive regulatory, legal, and resolution measures, and may benefit from a regional approach. On the structural side, high collateral requirements were seen to be a major obstacle for access to credit by small and medium-sized enterprises. Inadequate property rights, gaps in the rule of law, and the structure of financial institutions raise additional hurdles in building up financial sectors.

Some participants called for development of nonbank financial markets and for institutional investors to fill financing gaps by fostering private equity investment to replace borrowing.

The conference concluded with a high-level panel, chaired by Poul Thomson, Director of the IMF European Department, featuring former Serbian Deputy Prime Minister Božidar Djelić (currently with Lazard Freres), OeNB Governor Ewald Nowotny, Professor Jeffrey Sachs of the Earth Institute and Columbia University, Macedonian Finance Minister Zoran Stavreski, and Croatian National Bank Governor Boris Vujčić. Echoing the earlier discussions, the panel agreed that it is critical for countries to continue to fight vested interests and persist with reforms, which would also help shift perceptions of the region.

Zuzana Murgasova, Advisor, European Department, IMF
Ivanna Vladkova Hollar, Deputy Division Chief, European Department, IMF

1 All presentations can be found on the conference website at: https://www.imf.org/external/np/seminars/eng/2015/vienna/.

2 Available at: https://www.imf.org/external/pubs/ft/reo/2015/eur/eng/pdf/erei_sr_030915.pdf

Peer-to-Peer Workshop on Monetary and Exchange Rate Policy and Operations in the Caucasus and Central Asia

On November 5-7, 2014, the IMF Middle East and Central Asia Department (MCD), in cooperation with the Swiss State Secretariat for Economic Affairs (SECO) and the Swiss National Bank (SNB), organized a two-day Monetary Policy Peer-to-Peer Workshop and a one-day Forum for Central Bank Governors from the Caucasus and Central Asia. Both were held in Zurich at the SNB. Norbert Funke and Asel Isakova represented the IMF Institute for Capacity Development (ICD) and the JVI.

The program started with a two-day peer-to-peer workshop for CCA central bank specialists. In their opening remarks, Mr. Werner Hermann (SNB), Ms. Rosmarie Schlup (SECO), and Mr. Mark Horton (MCD) all noted the impressive progress CCA central banks have made in the past two decades in building up their monetary and exchange rate policies, achieving lower inflation and interest rates, and deepening the financial sector. However, they noted that there is scope for further gains by enhancing monetary and exchange rate strategies, modernizing forecasting tools, instruments and operations, and improving communication.

The four workshop sessions dealt with issues currently confronting central bankers. Mr. Funke spoke on monetary and exchange rate policy. He analyzed the pros and cons of a variety of strategies and explained the benefits from moving to more flexible exchange rate regimes and to inflation targeting. Ms. Isakova spoke on the objectives and tools of central bank communication and how they might be used to support inflation targeting. She emphasized that communication can enhance transmission of monetary policy, help reduce inflation and exchange rate volatility, and support financial stability.

Mr. Tommaso Mancini Griffoli from the IMF Monetary and Capital Market Department discussed monetary policy operations, and Mr. Ben Hunt, advisor in the IMF Research Department, explained how to design a structured forecasting and policy analysis system and the role that macro models play in policy deliberation and communications. All four lectures were followed by presentations by country representatives and guest discussants.

During the session on peer learning networks, Ms. Monika Rubiolo (SECO) and Mr. Natan Epstein (MCD) discussed establishing such a network—a community of practitioners working on monetary and exchange policy and operations issues at CCA central banks. Members of such a community, they

Peer-to-Peer Workshop on Monetary and Exchange Rate Policy and Operations in the Caucasus and Central Asia, Zurich
Photo: Pit Fischer, Artograph

pointed out, could exchange information, gain and build knowledge, and thus learn how to promote institutional and policy changes. Mr. Epstein noted that the IMF, SECO, and the SNB plan to foster development of such a network among monetary and exchange policy experts in CCA.

During the Governors' Forum that followed the workshop, guest discussants described the experiences of the Czech Republic, Hungary, Israel, Russia, and Serbia in establishing monetary and exchange rate frameworks. The event provided an opportunity for lively discussions among participants from the region, the guest speakers, and the organizers. It was also an excellent opportunity for the JVI to contribute to a current policy debate in the region, to meet both alumni and likely future course participants, and to support our IMF colleagues in building a regional platform for continuing peer-to-peer knowledge exchange and cooperation.

Asel Isakova, Junior Economist, JVI

Policy Debates – Outreach

Now Is the Time: Fiscal Policies for Sustainable Growth

On April 17, 2015, the JVI hosted a presentation and discussion of the latest *Fiscal Monitor*, a biannual publication by the International Monetary Fund's (IMF) Fiscal Affairs Department, focusing on the role that fiscal policy can play in supporting sustainable growth. Mr. Xavier Debrun, Deputy Division Chief at the IMF, presented the main results; Mr. Alfred Katterl, Director for Economic Policy at the Austrian Federal Ministry of Finance (BMF), acted as discussant; and Mr. Franz Nauschnigg, Head of European Affairs and International Financial Organizations at the Oesterreichische Nationalbank (OeNB), chaired the event. Mr. Martin Schindler, JVI Deputy Director, delivered a short welcome speech and introduced the speakers. The event was also part of the course on "Integration in Europe: European Union (EU) and Eurasian Economic Union (EEU)" organized jointly by the OeNB and the BMF (see page 12 of this Newsletter).

Xavier Debrun, IMF

Mr. Debrun presented the main messages of the *Fiscal Monitor*. In reviewing recent fiscal developments (the "conjunctural" chapter), he noted that despite the economic recovery in advanced economies, fiscal risks still remained significant for both advanced and emerging markets. However, record low nominal bond yields provided some breathing space in terms of lower interest payments: in the euro area, the IMF estimates that in 2015 and 2016 quantitative easing by the ECB could lead to cumulative savings on funding costs of about 0.45 percent of GDP. With real interest rates in advanced economies expected to fall short of expected annual GDP growth through 2020 by a full percentage point, public debt-to-GDP ratios are set to decline. However, a reversal of this differential to its historical average of 1.2 percent would imply an increase in the debt-to-GDP ratio.

Policy Debates – Outreach

In emerging markets, the average deficit for the group as a whole increased, driven largely by the drop in revenues for oil exporters, mainly because of lower oil prices, but also by worsening public finances in some large oil importers, such as Brazil, Thailand and Turkey. The IMF recommends that countries should seize the moment created by lower oil prices to reform energy taxation and eliminate costly and inefficient subsidies

Mr. Debrun then presented the findings of the "analytical" chapter, which deals with how fiscal policy can contribute to sustainable economic growth. Based on a sample of 85 countries over 1980-2013, the study finds evidence that fiscal stabilization—i.e., where fiscal policy is more strongly countercyclical—moderates output volatility and increases medium-term economic growth. The conclusion holds especially true for advanced economies, which make more use of automatic stabilizers. The chapter recommends a larger role for automatic stabilizers and letting them play out freely and symmetrically over the economic cycle, including in particular by strengthening fiscal frameworks to constrain discretionary spending in good times.

Mr. Katterl confirmed that the fiscal situation in advanced economies is challenging and that there is considerable uncertainty about future economic growth. In his view, the IMF's emphasis on a stabilization role for fiscal policy might be a more politically acceptable and thus easier way to support growth than the structural reforms that many countries crucially need. He also noted that various other factors influence the effectiveness of fiscal policy, including an economy's trade openness and the size of its government.

The discussion that followed covered, among other topics, how household behavior influences the impact of fiscal policy on the economy; how fiscal policy can act as a mechanism to insure against business cycle fluctuation; the difficulty of reforming fiscal stabilizers; and how important it is to have the fiscal framework both properly designed and well-anchored in legislation.

Adam Geršl, Senior Economist, JVI

Emerging Markets and Fear of the Fed

Deutsche Bank's chief economist for emerging markets (EMs), Robert Burgess, gave a stimulating talk at the JVI on March 27, 2015 entitled "Emerging Markets and Fear of the Fed." Mr. Burgess pointed out that the importance of US monetary policy decisions for how investors appraise EMs is readily apparent every Friday in the eager wait on trading floors for release of the US payroll report – an eagerness unrivalled for any release of EM data. A good report for the US, such as a strong rise in employment, is typically bad news for EMs because it means that a hike in the US federal funds rate may be imminent. Higher US interest rates raise the cost of borrowing for EMs and tend to make EM assets less attractive to global investors.

The Fed, Mr. Burgess said, is now in unprecedented territory because in recent decades interest rates have never been so low and because it has been a very long time (3,192 days as of the day of the lecture) since the last hike. Thus, many investors have forgotten what happened last time, making it difficult to draw parallels and devise possible scenarios to cope with it.

Many investors are concerned that there will be a new wave of EM debt crises if the tightening is pronounced. EM growth has already slowed and in many countries structural reforms have stalled. In general, macroeconomic conditions are far less favorable than in the previous interest rate cycle of

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the 2000s. However, Mr. Burgess also thinks that such vulnerabilities should not be overplayed. EMs in general have less debt than advanced countries. They also have high reserve cover and government borrowing is now less dependent on borrowing in foreign currency. One major weakness, however, is that many EM businesses are more highly leveraged, with significant debt denominated in foreign currency. Moreover, in many cases such borrowing is not naturally hedged. Where increases in corporate dollar funding are intermediated through local banks, bank exposure to unhedged foreign debt indirectly raises systemic banking risk. While exchange rate overvaluation is not a problem in most EMs today, current account deficits are still somewhat high. All in all, Deutsche Bank sees the next few years as a period of difficult adjustment for EMs but one that is unlikely to result in systemic crises as happened in previous decades.

A key point Mr. Burgess made is that adjustment efforts should be mainly directed to structural policies. To illustrate, he presented a new heat map chart that makes it possible to gauge relative magnitudes by country and stressed the need to combine the heat map of macro vulnerabilities usually employed by the IMF with such a structural vulnerability heat map.

Robert Burgess, Deutsche Bank

The audience had many questions. They ranged from reasons for the US to raise interest rates to the likely impact of the decision on oil markets and on growth developments in particular countries. When asked for his own forecast for US interest rates, Mr. Burgess said that his "best bet" would be an average between what markets expect and the path suggested by the minutes of Fed Board Governors meetings, which is that by early 2018 the rate would rise by about 200 basis points.

Luis Catão, Senior Economist, JVI

The Fiscal Challenges Facing Europe

On February 2015, the Joint Vienna Institute hosted a policy discussion on "Fiscal Challenges in Europe." Mr. Torsten Arnswald from the German Federal Ministry of Finance and Professor Paolo Manasse from the University of Bologna in Italy presented their views on the current fiscal situation in the European Union and the challenges ahead.

Mr. Arnswald began by acknowledging how much progress European economies have made in recent years in achieving better fiscal outcomes and a more favorable macroeconomic environment. As areas still to be dealt with, however, he cited high levels of debt (both public and private), low competitiveness, and poor implementation of institutional rules. Mr. Arnswald emphasized that further fiscal consolidation should go hand in hand with structural changes, and that reforms could help European governments tackle inefficiencies in labor and product markets, improve market regulation, and enhance the quality of public services. He also recommended that the new investment plan for Europe have a clear focus

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Audience at the discussion on Fiscal Challenges in Europe

Torsten Arnswald, German Federal Ministry of Finance

on the quality of investment projects and their sustainability. The example of Germany would show that increased public investment could be accompanied by fiscal consolidation.

While supporting the current fiscal regime in Europe and its clear fiscal rules, Mr. Arnswald emphasized the need for more determined political commitment and better governance. He noted that fiscal union in Europe remained a long-term project. The Eurozone, he suggested, would benefit from more clear-cut institutions and mechanisms, more bottom-up solutions, and more emphasis on privatization and creating a favorable environment for private investment.

Prof. Manasse summarized his latest research on fiscal convergence in Europe. He found that in recent years stronger fiscal convergence had led to economic divergence among European economies— while as a group EU countries have made good progress in fiscal consolidation, the macroeconomic challenges they currently face are different; divergences in unemployment levels, growth rates, and investment positions have come to the fore. Prof. Manasse argued, for instance, that the economic data support the evidence that countries that grew fast in 2008 have continued to grow fast since the crisis, while in those that had low growth rates, growth has not sped up. He attributed this divergence at least in part to the current fiscal framework within Europe. His empirical investigations support the idea that in Europe fiscal policy was mainly procyclical and thus led to diverging economic performance in countries within the Eurozone.

Prof. Manasse agreed on the importance of the structural reforms recommended in the New Guidelines of the Stability and Growth Pact but doubted that the new investment plan would be effective. In his view, there is a need for promoting private rather than public investment. Moreover, undergoing the Excessive Deficit Procedure in a number of countries would be an obstacle to the realization of the investment plan.

The presentations were followed by a Q&A session. One concern expressed by the audience was the cost of reforms for society and public finance, and how reforms could help fiscal consolidation. Both speakers agreed that reforms were needed and could come with significant social and political costs. However, in the long run these potential costs would be compensated by the elimination of major market inefficiencies and rigidities.

Asel Isakova, Junior Economist, JVI

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Designing a European Fiscal Union

Does the European Union need tighter fiscal integration? What has been the practice of existing fiscal federations? On December 17, 2014, the JVI hosted a discussion of a new book on "Designing a European Fiscal Union: Lessons from the Experiences of Fiscal Federations," edited by Carlo Cottarelli and Martine Guerguil. Ms. Guerguil, Deputy Director of the IMF Fiscal Affairs Department, presented the findings of the book; Mr. Anton Matzinger, Head of Division, Intergovernmental Fiscal Relations, Austrian Federal Ministry of Finance, acted as discussant; and Mr. Martin Schindler, the JVI Deputy Director, moderated the event.

The book details fiscal arrangements in 13 federated countries and compares them with the current arrangement in the European Union (EU). The sample includes both developed countries and emerging market economies, some of which had previously suffered debt crises that originated at the sub-national level. As Ms. Guerguil explained, the comparisons in the book are based on three factors: (1) the role of centralized fiscal policies and the relative size of centralized taxes and outlays; (2) the institutional arrangements between central and subnational budget authorities; and (3) the financial links between federal and subnational governments, and how the federations have handled subnational debt crises.

On the first factor, Ms. Guerguil noted that the EU budget relative to member country governments is much smaller than that of the central government in any of the fiscal federations considered. There, the shares of the central governments in general government revenues and expenditures are quite large, ranging for example from 45 to almost 90 percent for revenue. By contrast, the EU budget accounts for only about 2 percent of total government spending by EU members. Defense, social protection, income taxation, and stabilization, Ms. Guerguil pointed out, are usually the responsibility of the central government—none of these areas are assigned to the EU, although the new banking union may increase the scope for central stabilization.

Regarding the second factor, both the EU and most federations impose fiscal constraints or rules on the lower-tier governments. However, Ms. Guerguil noted that important differences existed, including in particular, the higher degree of complexity but lower degree of stringency of EU rules.

As for the third factor—the financial links between federal and subnational governments—there are both similarities and differences between the EU and the fiscal federations, Ms. Guerguil said. First, in the federations, the central government usually holds most of the public debt, but central borrowing on behalf of subnational governments is not widespread. In the EU, proposals for shared financial instruments, such as European bonds or rainy-day funds, are only at the discussion stage. And second,

From left to right: Anton Matzinger, Federal Ministry of Finance; Martin Schindler, Joint Vienna Institute; Martine Guerguil, International Monetary Fund

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a permanent framework for resolving subnational debt crises is quite rare in federations, and in 16 debt crises identified in the book, ad hoc interventions by the central government were the norm. In the EU a permanent resolution framework was established during the last debt crisis, with the European Central Bank having provided (indirect) support to troubled governments.

In his comments Mr. Matzinger praised the authors of the book for bringing together a wealth of country-specific experience. He pointed out that decentralization is a highly political issue, and some member countries oppose the increasing role of the EU. The process of fiscal integration does continue, Mr. Matzinger concluded, but as in any of the countries mentioned in the book, it is subject to complex negotiations by numerous stakeholders.

During the discussion audience members noted that resistance to delegating fiscal powers in the EU is reinforced by the absence of a political union. And one big question is still to be answered: What are the essential features of a fiscal federation that make it successful? The project will be continued to shed light on this question, Ms. Guerguil concluded.

Maksym Ivanyna, Economist, JVI

Austria's Economic Outlook and the Role of the Austrian Fiscal Advisory Council

On December 5, 2014, Prof. Bernhard Felderer, President of the Austrian Fiscal Advisory Council, gave a wide-ranging lecture on Austria's economic outlook and Austrian fiscal institutions. The public event at the Joint Vienna Institute (JVI) was part of the Austrian Federal Ministry of Finance (BMF) course on Administrative Reform in a Global Environment (ARG).

Prof. Bernhard Felderer, President of the Austrian Fiscal Advisory

The Austrian Fiscal Advisory Council is an independent institution established in 2013, as successor organization of the Government Debt Committee, to promote sustainable public finances and intensify fiscal discipline throughout Austria. The Council's mandate is to monitor government compliance with the numerical fiscal rules in line with the new governance framework of the European Union, issue recommendations on fiscal policy, carry out fiscal policy studies, and shape public opinion on public finance matters.

Prof. Felderer began by discussing some of the factors that have held back a stronger recovery in the euro area after the economic and financial crisis:

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continuing high private and public debt levels, high unemployment, and delays in structural and institutional reforms. The international environment, especially geopolitical tensions (e.g., in Ukraine), energy prices, and exchange rates, have created additional uncertainties in relation to economic activity in Austria.

Concerning the debate about infrastructure investment in the euro area, Prof. Felderer urged that despite its fiscal constraints, Austria should provide funding for investment- and growth-enhancing measures at all levels of government—central, regional, and local. However, he noted that public investment, which currently accounts for 10–15 percent of total investment, could not be scaled up enough to compensate for low private investment and innovation. He called for measures to boost private investment to help get the growth engine restarted, including by providing incentives for investing in profitable projects in R&D and energy efficiency. He emphasized that in the long run, if potential output in Europe is to be boosted, structural reforms are unavoidable.
By fostering transparency and promoting a culture of stability, independent public institutions can facilitate the application of fiscal policy rules, improve incentives, and close technical loopholes through independent expertise. Since such agencies are compulsory in the new European fiscal governance framework, the main tasks of the Austrian Fiscal Advisory Council reflect both national coordination needs (analyzing the sustainability and the quality of fiscal policies) and the requirements imposed by the European fiscal framework (providing recommendations on the medium-term budget objectives in the Stability and Growth Pact (SGP)).

Prof. Felderer concluded with a summary assessment of Austria's fiscal policy. He explained that since 2011, fiscal consolidation had consisted mainly of discretionary measures. Moreover, the costs of rescuing banks have been high, with a budgetary impact in 2014 of up to €4.1 billion. Moreover, he estimates that it could take about 12 years to reach the medium-term SGP debt target of 60 percent of GDP, assuming a balanced structural budget and nominal annual GDP growth of 3.4 percent.

The presentation was followed by a lively Q&A session that demonstrated the huge interest among JVI countries in learning more about independent agencies that help promote sound fiscal policies.

Irina Bunda, Economist, JVI

Course News

OeNB Course on Macro-Financial Stability in Central, Eastern and Southeastern Europe

In cooperation with the European Central Bank (ECB), the Oesterreichische Nationalbank (OeNB) held its annual seminar on "Macro-Financial Stability in Central, Eastern and Southeastern Europe" on October 13–17, 2014, at the Joint Vienna Institute (JVI).

The OeNB Foreign Research Division has organized the one-week course since 2012. It addresses economic policy questions confronting Central, Eastern and Southeastern European (CESEE) countries in a challenging domestic and global environment; it emphasizes the macro-financial stability issues that are of most concern to central bankers. The program is designed to help participants better understand the interactions between the real economy and the financial sector, the related role of fiscal policy, and

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how to assess financial stability risks in the region.

For the first three days of the course, lectures provide analytical background, discussing surveillance tools that the OeNB and international institutions use. Contributing are not only OeNB staff economists, but also lecturers from institutions like the ECB, the European Commission, the EBRD, Banque de France, selected CESEE central banks, and the Slovak Council for Budget Responsibility. The lectures covered cross-border banking issues, capital and housing market developments, fiscal adjustment experiences, practical assessment of balance-of-payment and exchange rate risks, evaluation of systemic financial sector risks, and models used for stress testing, economic forecasting and the examination of cross-country spillovers.

The last two days of the seminar, which build on the analytical tools presented in the lectures, are devoted to group work that is a vital element of the course. This year's group work was designed as Troika negotiations, in which participants took on roles as country officials, such as minister of finance or central bank governor, and international authorities, such as representatives of the European Commission, the ECB, or the International Monetary Fund (IMF). The groups were asked in three rounds of negotiations to draw up an adjustment program supported by the necessary policy measures for three countries suffering from macro-financial stress. The participants benefited considerably from detailed feedback at various stages of the negotiation from the ECB representative, who was involved in the actual Troika negotiations with Cyprus.

Attending the course were 30 experts and mid-level officials from CESEE countries' central banks and ministries of finance, economy, and European integration. The seminar feedback was highly positive and participants appreciated the analytically oriented lectures as well as the group work.

Markus Eller, Economist, OeNB
Krisztina Jäger-Gyovai, Economist, OeNB

This year's seminar is scheduled for
September 14–18, 2015;
the application deadline is June 14, 2015.

Macro-Financial Stability in Central, Eastern and Southeastern Europe, October 13-17, 2014

Course News

Integration in Europe: European Union and Eurasian Economic Union – A Newly Designed Seminar at the JVI

The Oesterreichische Nationalbank and the Austrian Ministry of Finance designed a new one-week seminar at the Joint Vienna Institute on "Integration in Europe: European Union and Eurasian Economic Union", which took place for the first time last October and was successfully held again during April 13-17, 2015.

Faculty

This innovative seminar responds to the creation of the Eurasian Economic Union (EEU), which came into being on January 1, 2015. The EEU is an economically integrated region and currently has four member countries – Russia, Belarus, Kazakhstan and Armenia, with a fifth one – Kyrgyzstan – joining in May 2015. The EEU was designed according to the model of the European Union (EU). Whereas it took the latter about 40 years to get from initial ideas of cooperation until actual creation in 1993, the Eurasian Economic Union project was realized much faster, being set up within just 20 years. The big challenge today is to bridge these two economically integrated regions and thus to create benefits for both of them.

The seminar was targeted at participants from the Commonwealth of Independent States (CIS) countries working at central banks, ministries of finance or economy, and ministries/secretariats in charge of European integration.

It started with a general introduction to the topic, including a historical overview of the European integration process, the latest economic developments in the EU and euro area after the crisis, the European Banking Union and financing mechanisms by the EU, IMF, EIB, EBRD, World Bank, Eurasian Development Bank and other institutions for countries in macroeconomic crisis.

The second part of the seminar was devoted to EU issues and covered mainly the European Neighbourhood Policy (ENP), its policy strategy, institutional framework and financial instruments, and the evaluation of EU association agreements. A panel discussion on regional cooperation between the EU and EEU, including country case presentations, gave practical insight into the topic.

A third part of the seminar was dedicated to the EEU, which gave a general overview of the regional cooperation within the Union, including its independent evaluation and practical in-depth insights through country presentations. A discussion on the existing and prospective relations between the EU and the EEU rounded up the debate. The final part of the course focused on capital account liberalization and capital flow management measures.

Participants

Both courses concluded with an open panel discussion on issues that are relevant to the current economic situation. In October 2014, the topic was "Energy Relations in Europe", while in April 2015, the debate focused on "Fiscal Policies for Sustainable Growth" (see a separate article on page 4 in this Newsletter).

Andrea Hofer, OeNB

Course News

Course on Macroprudential Tools

The Bank of England's Centre for Central Banking Studies (CCBS) and the Joint Vienna Institute (JVI) jointly conducted a one-week course on Macroprudential Tools during October 27-31, 2014. The course featured lecturers from the CCBS, the JVI, and the Oesterreichische Nationalbank (OeNB); those attending came from central banks, ministries of finance, and regulatory agencies.

The course explored the macroprudential policy tools that policymakers can use to mitigate systemic risk along both the time and the cross-sectional dimensions. CCBS lecturers dealt with general financial stability issues, use of contingent claims analysis to assess systemic risk, the Bank of England's macroprudential policy framework and instruments, and the interaction between monetary and macro policy. JVI economists analyzed in detail such tools as countercyclical capital buffers, caps on loan-to-value (LTV) and debt-to-income (DTI) ratios, dynamic provisioning, and surcharges for systemically important financial institutions (SIFIs); reviewed how external liabilities relate to crisis risk; and discussed the use of capital controls to complement policy. OeNB experts talked about macroprudential policy in the EU.

The lectures on the four macroprudential tools were complemented by workshops. In those on countercyclical capital buffers and on dynamic provisioning, participants used EViews and Excel to calibrate the two tools for different countries. In those on LTV/DTI caps and on surcharges for SIFIs, participants were split into three groups to design optimal policies for dealing with a credit-funded real estate boom and to identify systemically important banks. In a final plenary session, the workshop groups defended their recommendations to the entire class.

To promote peer-to-peer learning, in a special session participants from Croatia, Latvia, Poland, and Slovenia shared their countries' experiences with macroprudential policy.

Participants appreciated the topical nature of the course, as macroprudential tools are increasingly part of most countries' policy toolkits. Another area of keen interest is how macroprudential tools can complement other policy areas. In this context, the JVI and the CCBS have agreed to organize a joint event every year, alternating between financial stability and monetary policy as topics.

Adam Geršl, Senior Economist, JVI

The next joint course will focus on the Interaction of Monetary and Financial Stability Policies and is scheduled for Nov. 23-27, 2015; the application deadline is September 13, 2015.

Macroprudential Tools, October 27-31, 2014

Course News

Financial Education

On December 1-3, 2014, the Oesterreichische Nationalbank (OeNB) organized for the first time a course on Financial Education at the JVI. One of the course directors, Ms. Maria Silgoner, Senior Expert in the OeNB Economic Analysis and Research Department, was happy to answer a few questions.

Maria, is financial education gaining more importance now, since the global financial crisis?

Yes, I absolutely believe so. In recent decades people have been confronted with increasingly complex financial products and economic relationships. The financial crisis was reinforced by the lack of understanding of basic financial concepts on the part of consumers and investors and by their underestimation of risk. At the same time financial activities start at ever-younger ages. Consumers with more financial knowledge are better able to make sound investment and financing decisions, which means they are less likely to fall into a debt trap.

Who are the participants your course targeted, and what did it emphasize?

The target group consisted of medium- to high-level experts at central banks, ministries, and other agencies in charge of coordinating financial education activities for their institutions. We learned during this first offering of the course that how financial education is organized and anchored within institutions can differ substantially, ranging from separate units to informal networks. The three-day course gave an overview of concepts, measures, empirical findings, and new strands of financial literacy and education. But it also devoted a lot of time to discussions and practical examples of initiatives in Austria, the countries of the participants, and beyond at the international level.

In your view, what is the role of central banks, and other public institutions, in financial education?

Central banks in many countries are important providers of financial education and there are good reasons for that. On the one hand, greater financial knowledge among the public supports central banks in fulfilling their mandate of ensuring price stability and the smooth functioning of financial markets.

Maria Silgoner, OeNB

A better-informed population will be better able to understand central bank decisions, will in general support sustainable economic policies, and will have better control over their financial future. On the other hand, central banks are independent entities that are seen as reliable and neutral expert institutions without commercial interests. This makes them natural leaders in financial education. In many countries, central banks indeed play a pivotal role in defining a national strategy for financial education. However, we also learned during the course that the specific setting and division of labor among national institutions can differ substantially from country to country.

Is international cooperation in financial education crucial? And how can it be improved?

Financial education requires economists and financial market experts to cooperate with experts in communications and education strategies. Designing new financial education programs can thus be very challenging and time-consuming. It is our intention to promote collaboration between central banks and to stimulate a fruitful and mutual exchange of experiences. This may also lead to the transfer of successful measures to other countries. The OeNB course at the JVI on Financial Education can help to build new networks. What was interesting for us, too, was that the course not only promoted interaction between participants but also between speakers. Even at the level of euro area countries, there is a lot of scope for closer cooperation!

Adam Geršl, Senior Economist, JVI

In 2015, the OeNB course on Financial Education will be organized during Nov. 16-18; the application deadline is Aug. 16, 2015.

Course News

EIB Course on Investment and Investment Finance

The European Investment Bank (EIB) became a contributing member of the JVI in December 2013. The EIB is the largest multilateral borrower and lender by volume and the central institution to support sound and sustainable investment inside and outside the EU, thus playing a pivotal role in Europe's recovery and growth. As a contributing member, the EIB contributed for the first time to the JVI curriculum in 2014 and offered a 3-day-course during November 4-6 titled "Investment and Investment Finance - Guiding Principles and the EIB Group Expertise". The course featured lecturers from the Economics, Operations and Projects Departments of the EIB as well as from the European Investment Fund which acts as part of the EIB Group as a specialist provider of risk finance to small and medium-sized enterprises across Europe.

The course discussed the role of the EIB Group in financing investment and EIB Group experts presented best standards and practices in terms of investment and investment finance. The lectures elaborated on, inter alia, infrastructure and SME financing, the EIB's Results Measurement Framework, concepts and practice of cost-benefit analyses or EIB's project advisory and capacity building for EU Cohesion Funding. In practical sessions participants were asked to evaluate the viability of a simple project or to determine which public policies can help overcome market failures.

The course provided a unique opportunity to strengthen operational links between the EIB Group and some of its partner countries while at the same time disseminating best practices and standards in line with EIB priorities. Course participants have the potential to become EIB entry points in their respective administrations. Therefore, an additional purpose of the training was to support development and convergence in partner countries through an increased visibility of the EIB and possible joint business opportunities.

The demand for the course was very high. The participants came from 20 JVI target countries, mostly from ministries of finance or economy, central banks, national guarantee and development banks, and think-tanks. Overall, the course was very well received. Participants especially appreciated the practical focus of most sessions as well as the detailed explanation of EIB activities and projects.

Tomas Slacik, European Investment Bank

The EIB is will offer this course again in the week of November 2-6, 2015. In light of the participants' comments the EIB will allow for even more practical sessions, hands-on exercises, and case studies.

EIB Course on Investment and Investment Finance, November 4-6, 2014

Course News

National Accounts Compilation Workshop: A Peer Learning Event

The Statistics Department (STA) of the International Monetary Fund (IMF) organized a workshop on compiling national accounts at the JVI during October 27–31, 2014, for 26 statisticians from nine Eastern and South-Eastern European countries: Albania, Belarus, Bosnia and Herzegovina, FYR of Macedonia, Kosovo, Moldova, Montenegro, Serbia, and Ukraine. The purpose of the workshop was to provide hands-on training on national accounts compilation issues. The training was part of the project for Capacity Building for Sustainable Compilation of Real Sector Statistics in Eastern Europe, funded by the Government of Japan.

The workshop organizers tested peer learning, a nontraditional approach to training. There were no formal lectures or workshops; instead, all participants presented data compilation case studies. These were prepared in advance in consultation with staff of STA's Real Sector Division. In five sessions, 21 case studies were presented, on (1) quarterly national accounts sources and methods; (2) reconciliation of GDP by production and by expenditure approaches; (3) volume measures of GDP; (4) adoption of new activity classifications; and (5) implementation of the *2008 SNA/ESA 2010*. Each session was followed by a round table discussion and a summary of key lessons.

As the very high overall rating showed, participants were enthusiastic about the new approach. Sharing experience and learning from peers seems to be an effective method for training statisticians from countries where compilation issues are similar and compilers have previously received formal training. Participants suggested more such workshops in the future, with a focus on sharing experience and hands-on-training. The workshop was conducted in English and Russian, with interpretation provided by the JVI.

Maria Mantcheva, Statistics Department, IMF

IMF Workshop on National Accounts Compilation Issues, October 27-31, 2014

Partners in Knowledge Building

Training and Development in the South Caucasus Region

In this Newsletter, we continue our series of interviews on training and development with representatives of country authorities. This time, we posed a few questions to three JVI Training Directors in the South Caucasus Region (ordered alphabetically by their surnames): **Mr. Vugar Ahmadov (VA)**, Director of the Research and Development Center at the Central Bank of the Republic of Azerbaijan; **Ms. Tamar Japaridze (TJ)**, Director of the Academy of the Ministry of Finance in Georgia; and **Ms. Nune Kirakosyan (NK)**, Head of External Relations and Training Department at the Central Bank of Armenia.

How does JVI training help your organization develop?

VA: Courses and seminars organized by the JVI make a major contribution to the development of the required core competences and skills of staff at the Central Bank of the Republic of Azerbaijan (CBRA). A well-balanced skill set is obtained via training at the JVI. This consists mainly of policy analysis tools and latest research that are relevant to the effective conduct of monetary, financial stability, and prudential policies, as well as to the development of payment systems. The JVI also provides networking opportunities that have been capitalized into close partnerships with other central banks and financial regulators.

Vugar Ahmadov, Central Bank of Azerbaijan

TJ: JVI training covers topics that have immediate policy relevance for Georgia. Being taught by experts and exchanging experiences with peers facilitates the learning and development of our employees and builds up the capacity of our ministry. The Chief Economist at the Ministry of Finance once said that courses offered by the JVI played an important role in his professional and individual growth and enabled him to get acquainted with modern tools and practical skills for his work.

Tamar Japaridze, Ministry of Finance of Georgia

NK: The continuous training and development of staff has been always a high priority for the Central Bank of Armenia (CBA). More than 20 years of effective cooperation with the JVI has contributed significantly to our goal of staff development. The seminars and workshops organized by the JVI and conducted by high-level professionals have enriched the skills and knowledge of our personnel in various fields. This is why the JVI is considered one of the CBA's most effective and appreciated partners in HR development.

Can you give any concrete examples of how your organization benefits from the skills and knowledge obtained by staff at JVI training?

TJ: Staff members who have been trained at the JVI can be distinguished by their greater motivation, enhanced interest in their work, deeper knowledge, and better skills for executing the tasks in their areas. It also gives them more confidence when proposing policy measures for our country. One staff member at our ministry commented, "JVI training has been a great help in starting my pathway to a successful career. I have learned a variety of practical tools for analyzing budgetary processes to guide my future work. I also made many wonderful creative friends at the JVI."

NK: Professionals from the monetary policy, financial stability and statistics departments of CBA have mostly benefited from training provided by the JVI. In particular, it has helped our staff compile better statistics, conduct more effective and detailed mon-

Partners in Knowledge Building

etary policy analysis, and assess the risks in the financial system, including their possible economic impacts. This of course enhanced the CBA's ability to fulfil its primary objective of price and financial stability.

VA: Let me mention three concrete areas. First, courses at the JVI have contributed to the design of effective monetary policy instruments and informed policy implementation at the CBRA. Second, the knowledge and skills staff have gained, including for example at the course on macroeconomic diagnostics, help our monetary policy team to produce high-quality diagnostic reports for key stakeholders, especially the central bank Monetary Policy and Financial Stability committees. Additionally, the course on monetary policy analysis helped form the basis for a robust policy analysis model that uses the foundations of New Keynesian theory and a forecasting instrument for filtering rich data in a multivariate framework. Third, skills gained in the fields of financial stability and macroprudential policy laid the theoretical and empirical foundations for continuing financial and prudential research as well as diagnostics at our central bank.

Who determines how much training your staff needs?

NK: The training needs of CBA staff are determined according to our annual strategy, with annual training plans, which consider objectives, identification of critical activities, as well as global economic and policy challenges, formulated by CBA management.

VA: The CBRA emphasizes the improvement of institutional capacity. We encourage staff to participate in seminars and training sessions that will help them successfully complete their short-term and long-term job tasks. At the same time, participation in various training events is through a competitive process that is based on the strategic targets for every functional department or division. Managers of a department, in close collaboration with human resources department staff, produce a development plan for each staff member that also covers training needs. In the last five years, members of our staff have attended 96 seminars at the JVI.

Nune Kirakosyan, Central Bank of Armenia

TJ: Training needs are determined by our Human Resources Department in consultation with the heads of departments and their staff. The process is often facilitated by the Academy of the Ministry of Finance of Georgia. Identified training needs are evaluated against the goals of the specific department and the Ministry as a whole and a draft training plan is prepared, which is then approved by the Deputy Minister. While the Ministry's Academy addresses many of our needs, it also actively encourages staff to take courses at the JVI, where participants are offered more policy-oriented courses that reflect global economic challenges and are taught by the best specialists in their fields. When they are at the JVI, away from their workplace, staff members are more focused on learning, enjoying the study process and establishing useful contacts with colleagues from other countries.

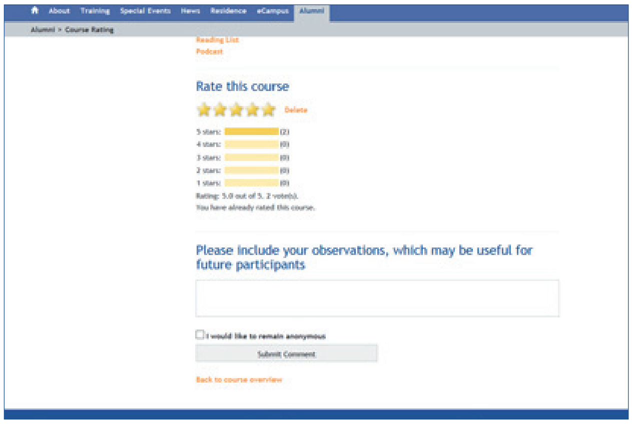
Tamara Tsikhistavi, Program Officer and Alumni Relations, JVI
Adam Geršl, Senior Economist, JVI

JVI Alumni Website Goes Live

We are delighted to announce that the revised JVI Alumni site is now live! It is designed for JVI Alumni from both our 30 target countries, as well as those from elsewhere. Over 1,800 have already signed up, and with about 2,000 participants visiting the JVI each year, we hope that many more will join the network.

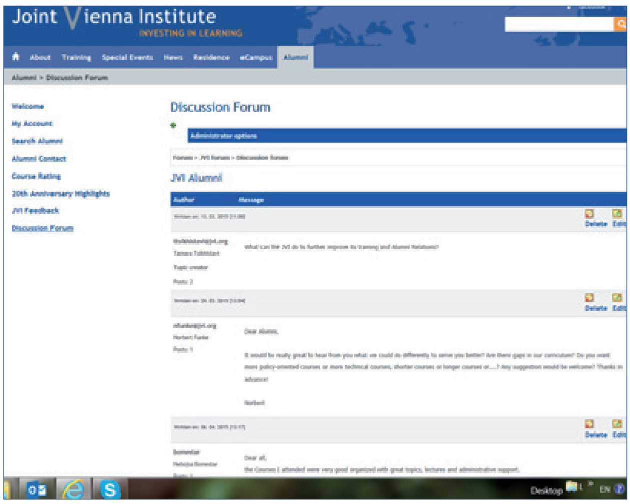
You may already be using one or several other social media platforms, such as Facebook, LinkedIn, or Twitter—so what is the value added of the JVI Alumni site?

First, our site is more focused and specialized, exclusively for JVI Alumni, and therefore mostly for public sector officials. It brings together the network you started to build in the classroom in one place, and allows you to find those you have already met, making it easy to further expand your network with like-minded officials facing similar challenges. As registered Alumni, you can search for other registered users by first or last name, country, affiliation, or by one of the 30 specialized "areas of expertise." The search system helps JVI Alumni identify colleagues from other countries that work in the same field, with the ability to contact them directly.



Second, you are able to give feedback on courses, rating them using one to five stars, as well as leaving written comments. While the JVI always seeks feedback at the end of each course to help improve our course program, the feedback here is mostly intended to help other Alumni better select which course to apply for next.

Finally, the site includes a discussion forum where Alumni can initiate a discussion by starting a new topic or pose questions on training or economic issues, helping you benefit from the collected wisdom of the JVI network. At the same time, it is closed to the non-JVI public, facilitating an open exchange.



The Alumni site is very easy to navigate, and we look forward to many new registrations and staying connected with the JVI Alumni community worldwide!

Tamara Tsikhistavi, Program Officer and Alumni Relations, JVI

JVI Course Schedule May – Dec 2015

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
May 18 - 22	JVI/BdF	**(FSP)**	Financial Stability Policy of Central Banks: Recent Trends, Interactions with Other Policies, and Key Challenges	1 week	E	Application by Mar 8, 2015
May 18 - 22	OeNB	**(CEU)**	Institutional Challenges for Candidate and Potential Candidate Countries on the Road to the EU and EMU	1 week	E	Application by Feb 8, 2015
May 25 - 29	IMF	**(MF-A)**	Advanced Macroeconomic Forecasting **(JV15.14)**	1 week	E	Application by Dec 26, 2014
May 26 - Jul 17	JVI	**(AEP)**	Applied Economic Policy	8 weeks	E	Application by Mar 1, 2015
Jun 1 - 5	IBRD	**(DGDM)**	Designing Government Debt Management Strategies	1 week	E	By invitation
Jun 1 - 12	IMF	**(FMN)**	Financial Markets and New Financial Instruments **(JV15.15)**	2 weeks	E	Application by Jan 2, 2015
Jun 8 - 12	IBRD	**(IGDM)**	Implementing Government Debt Management Strategies	1 week	E	By invitation
Jun 15 - 19	IMF	**(MSF)**	Mortgage Markets and Financial Stability **(JV15.16)**	1 week	E	Application by Jan 16, 2015
Jun 22 - 26	IMF	**(LAIF)**	Legal Aspects of International Financial Institutions **(JV15.17)**	1 week	E/R	Application by Mar 31, 2015
Jun 22 - 26	WTO	**(TP1)**	Trade Policy	1 week	E	By invitation
Jun 29 - Jul 10	IMF	**(NAS)**	National Accounts Statistics **(JV15.18)**	2 weeks	E/R	By invitation
Jul 13 - 24	IMF	**(FSLF)**	Central Banking and Financial Sector Legal Frameworks **(JV15.19)**	2 weeks	E/R	Application by Apr 30, 2015
Jul 20 - 24	IMF	**(PACP)**	Prudential Asset Classification and Provisioning and the IFRS **(JV15.20)**	1 week	E	Application by May 20, 2015
Jul 27 - Aug 7	IMF	**(FAF)**	Fiscal Analysis and Forecasting **(JV15.22)**	2 weeks	E/R	Application by Feb 27, 2015
Jul 27 - Aug 7	IMF	**(MS)**	Macro-Financial Surveillance **(JV15.21)**	2 weeks	E	Application by Feb 27, 2015
Aug 10 - 21	IMF	**(CBS)**	Core Elements of Banking Supervision **(JV15.23)**	2 weeks	E	Application by Mar 13, 2015
Aug 10 - 21	IMF	**(MFS-I)**	Introductory Course on Monetary and Financial Statistics **(JV15.24)**	2 weeks	E/R	Application by May 30, 2015
Aug 24 - 28	IMF	**(AML)**	Implementing the Revised International AML/CFT Standards **(JV15.25)**	1 week	E	By invitation
Aug 31 - Sep 11	IMF	**(MRC)**	Macroeconomic Management in Resource Rich Countries **(JV15.26)**	2 weeks	E/R	Application by Apr 3, 2015
Aug 31 - Sep 11	JVI*	**(SR)**	Structural Reforms	2 weeks	E	Application by May 31, 2015
Sep 14 - 18	OeNB	**(MFS)**	Macro-Financial Stability in Central, Eastern and Southeastern Europe	1 week	E	Application by Jun 14, 2015
Sep 14 - 18	WTO	**(TP2)**	Trade Policy	1 week	E	By invitation
Sep 14 - 25	IMF	**(BPS)**	Practical Aspects of Balance of Payments Statistics Compilation **(JV15.27)**	2 weeks	E/R	Application by Jul 10, 2015

JVI Course Schedule May – Dec 2015

DATES	ORG.	ID	TITLE	LENGTH	LANG.	ATTENDANCE
Sep 21 - 25	AA	**(FDI)**	Foreign Direct Investment Policies	1 week	E	Application by Jun 21, 2015
Sep 28 - Oct 2	IMF	**(MPP)**	Macroprudential Polices **(JV15.29)**	1 week	E	Application by May 1, 2015
Sep 28 - Oct 9	IMF	**(FMA)**	Financial Market Analysis **(JV15.28)**	2 weeks	E	Application by May 1, 2015
Oct 5 - 9	EBRD	**(EB3)**	To be announced	1 week	E	By invitation
Oct 5 - 16	IMF	**(MDS)**	Macroeconomic Diagnostics **(JV15.30)**	2 weeks	E	Application by May 8, 2015
Oct 12 - 14	OeNB	**(CCPS)**	Cash Circulation and Payment Systems in Austria	3 days	E	Application by Jul 5, 2015
Oct 19 - 23	OeNB	**(IEEU)**	Integration in Europe: European Union and Eurasian Economic Union	1 week	E	Application by Jul 12, 2015
Oct 19 - 30	IMF	**(FPP)**	Financial Programming and Policies **(JV15.31)**	2 weeks	E/R	Application by May 22, 2015
Oct 26 - 30	IMF	**(FI)**	Financial Inclusion **(JV15.32)**	1 week	E	Application by May 29, 2015
Nov 2 - 6	IMF	**(FSI)**	Financial Soundness Indicators **(JV15.33)**	1 week	E/R	Application by Aug 5, 2015
Nov 2 - 13	AA/IMF	**(TPIG)**	Tools and Policies for Inclusive Growth	2 weeks	E	Application by Aug 2, 2015
Nov 3 - 5	EIB	**(IIF)**	Investment and Investment Finance: Guiding Principles and EIB Group Expertise	3 days	E	By invitation
Nov 9 - 13	EBRD	**(EB4)**	To be announced	1 week	E	By invitation
Nov 9 - 20	IMF	**(MERP)**	Monetary and Exchange Rate Policy **(JV15.34)**	2 weeks	E/R	Application by Jun 12, 2015
Nov 16 - 18	OeNB	**(FE)**	Financial Education	3 days	E	Application by Aug 16, 2015
Nov 16 - 20	AA	**(PPP)**	Public Private Partnership	1 week	E	Application by Aug 16, 2015
Nov 23 - 27	IMF	**(MTBF)**	Medium-Term Budgetary Frameworks, Fiscal Rules and Fiscal Councils: Options to Ensure Fiscal Sustainability **(JV15.35)**	1 week	E/R	Application by Sep 23, 2015
Nov 23 - 27	JVI/CCBS	**(IMFS)**	Interaction of Monetary and Financial Stability Policies	1 week	E	Application by Sep 13, 2015
Nov 30 - Dec 3	OeNB	**(BFT)**	Building New Skills in Financial Translation	4 days	E	Application by Aug 23, 2015
Nov 30 - Dec 4	AA	**(ARG)**	Administrative Reform in a Global Environment	1 week	E	Application by Aug 30, 2015
Dec 7 - 18	IMF	**(EXV-EWE)**	External Vulnerabilities and Early Warning Exercise **(JV15.37)**	2 weeks	E	Application by Jul 10, 2015
Dec 7 - 18	IMF	**(MFMA)**	Macro-Fiscal Modeling and Analysis **(JV15.36)**	2 weeks	E	Application by Jul 10, 2015

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 | MANAGING EDITOR: Adam Geršl | COORDINATION: Tatiana Arnhold | ADVISORS: Martin Schindler, Michèle Burlington-Green
EDITING / PROOFREADING: Anne Grant, Daniel Stirrat, James McCracken, Esteban Clavijo
PHOTOS: Fotostudio Ludwig Schöpp, Konstantin Reyer Photography, Roland Zygmunt | GRAPHIC DESIGN: Sibylle Gieselmann