



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 7

ECONOMIC RESEARCH

7



7 ECONOMIC RESEARCH

Key decisions concerning monetary policy and financial stability require in-depth knowledge of the interrelationships between the economic, financial and monetary-policy spheres. Analytical activities of Národná banka Slovenska performed by individual specialist departments put strong emphasis on the timeliness and accuracy of information on their specific business. Economic research consists mainly of in-depth research into relations in the economy, focusing mainly on the broader economic and financial issues that require unconventional and comprehensive solutions. The stress is on applied research, with the outcomes being widely used in decision-making processes. Economic research at NBS is conducted by the Research Department. NBS researchers often work in cooperation with experts from other NBS departments and with other researchers from Slovakia and abroad.

The core focus of economic research at NBS is based on the bank's medium-term strategy for research development. Research activities in 2012 centred on the following six areas: monetary policy, fiscal policy, financial stability, the labour market and real economy, economic modelling, and the euro adoption. These topics reflect the information requirements of the bank's management, as well as the foci of professional debates outside the bank and the recommendations of the research committee. A special research committee comprising experts from Slovakia and abroad oversees the quality and professionalism of the research outcomes of individual researchers by regularly monitoring and approving their research targets. International cooperation of the Research Department at various levels ensures that its research reflects current trends in regard to the topics addressed and methods used. NBS is represented at meetings of research department directors of ESCB central banks, and several NBS researchers are active members of international research teams. As a result there is increasing harmonisation between the research activities of the NBS and those of banks in other EU and euro area countries.

In 2012 Národná banka Slovenska was represented in three ESCB expert groups involved in research activities, as well as in an informal research group that is analysing price differences in the euro area on the basis of harmonised detailed data.

One of the experts groups of which NBS is a member is the Household Finance and Consumption Network (HFCN), which examines the financial situation and expenditure of households. Its data is drawn largely from the results of the first round of a unique survey of European households. An initial analysis of the household savings and debt data collected by the survey was published in 2012 and it will be followed up with a series of more in-depth studies that are expected to shed further light on the extent to which different household groups are affected by macroeconomic shocks and by monetary-policy and institutional changes.

The Macro-prudential Research Network (MaRs) is engaged in research in the following areas: macro-financial models linking financial stability and the performance of the economy; early warning systems and systemic risk indicators; and the assessment of contagion risks. As a member of this group, NBS mainly cooperates in the development of early warning systems and systemic risk indicators.

The Competitiveness Research Network (CompNet) seeks to develop a more consistent analytical framework for assessing competitiveness, one which allows for a better correspondence between determinants and outcomes. CompNet is organised into three relatively independent workstreams. The first is focused on improving existing aggregate measures of competitiveness and proposing new ones. The third is „global value chains“. NBS is involved with the second workstream, which examines competitiveness at the firm-level and which is expected to produce the most significant results. The examination of competition in this workstream is based on individual firm-level data sets, hitherto subject to relatively little research, rather than on the aggregated data that has been used to date.

Like researchers in other fields, NBS researchers contribute to broader professional debates by presenting their research at specialist seminars and scientific conferences. They also give thematic lectures on their work to undergraduates and secondary-school pupils; these are held at the NBS headquarters and at universities and secondary schools. The Research Department holds a weekly research seminar at NBS, which plays a key role in the exchange of knowledge. In addition, together with the Department of Economic Policy at the University of Economics in Bratislava



and with the Centre for Economics and Finance at the Faculty of Mathematics, Physics and Informatics at Comenius University in Bratislava, the NBS Research Department organises a cycle of seminars called the “Bratislava Economic Seminars”. These seminars provide a forum for researchers from Slovakia and abroad to present the fruits of their research and acquire value feedback, often in advance of the official publication of their work. The most important event organised by the NBS Research Department in 2012 was an international research conference entitled “Fiscal Policy and Coordination in Europe”, at which more than 30 speakers presented new research and findings concerning fiscal policy and the debt crisis, as well as proposals for addressing the issues identified and predictions of how these issues will develop. The keynote speakers at this event were two highly regarded foreign economists, Charles A. Goodhart and Daniel Gros. Also in 2012 NBS co-financed the Input-Output Conference in Bratislava, which attracted more than 350 foreign participants. Furthermore, NBS cooperated with the University of Economics in Bratislava and Comenius University in Bratislava in organising the Young Economists’ Seminar, providing an informal environment in which doctoral students could discuss their research.

The most notable outcomes of NBS research in 2012 were published in economics journals. The more extensive works appeared in the form of reviewed working papers (WPs), and specialist analyses in one of the following forms: policy paper (PP), occasional paper (OP) or discussion paper (DP). The Research Department’s published reports, papers and analyses are available on the NBS website.²¹

The Research Department published two peer-reviewed working papers and two specialist analyses in 2012, and in cooperation with other NBS depart-

ments it also drafted and published two editions of the Financial Stability Report. NBS researchers also worked with colleagues from other euro area national central banks on joint research and analysis projects, with their key outcomes being published as ECB papers. One such publication assessed the financial stability of EU candidate countries,²² while another analysed factors behind the labour market situation in euro area with a focus on the repercussions of the financial and economic crisis.²³

The results of the Eurosystem-wide Household Finance and Consumption Survey (HFCS) were processed in 2012. The initial findings of the HFCS in Slovakia, concerning household wealth and indebtedness, were published in a separate NBS working paper. Further research into the wealth of Slovak households was provided by a paper analysing the determinants of housing wealth and its effect on household consumption. This confirmed, inter alia, that older households are characterised by lower returns to human capital, but also by higher housing wealth.

The periodical analysis of the convergence of EU economies stated that the Slovak economy, despite growing far more slowly than in the past, was continuing to converge towards the EU average level. In 2012 the majority of countries assessed, including Slovakia, reported an excessive deficit or an inflation rate above the reference value.

New findings about determinants of inflation in new EU Member States show that cost-push factors are to the fore in several countries while demand-full factors prevail in other countries. For monetary-policy decisions to be appropriate, they must above all take into account the existing monetary-policy regime. Structural reforms, however, support price stability independent of the monetary-policy regime selected.

Box 1

PAPERS AND ANALYSES PUBLISHED IN 2012

Jarko Fidrmuc and Matúš Senaj Human capital, consumption and housing wealth in transition

This paper focuses on human capital and housing wealth in Slovakia during the economic reforms of the last two decades. We compare households that entered the labour market before and after the Revolution in 1989. The returns to education for different household cohorts are examined, as are the determinants of housing wealth and its

impact on consumption. The results show that older cohorts are characterised by lower returns to human capital and consumption levels, but also by higher housing wealth.

Tibor Lalinský Analysis of the Slovak economy’s convergence in 2012

The Slovak economy’s real convergence remained favourable in 2011, and its pace of growth

21 <http://www.nbs.sk/en/publications-issued-by-the-nbs/working-papers> and <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/financial-stability-report>

22 Occasional Paper No 136: *Financial Stability Challenges for EU Acceding and Candidate Countries*.

23 Occasional Paper No 138: *Euro Area Labour Markets and the Crisis*.



continued to be one of the strongest among EU countries. Employment increased moderately and the unemployment rate declined slightly. The balance of payments current account was in surplus. Nevertheless, Slovakia, like a majority of EU Member States and candidate countries, did not fulfil the fiscal and inflation criteria for nominal convergence. The outlook is for the economic situation in Europe to deteriorate in 2012 and then improve in 2013. In several countries (including Slovakia) there could be a recovery in nominal convergence, too.

Matúš Senaj, Tibor Zavadil

The financial situation of Slovak households – survey results

In 2010 Národná banka Slovenska conducted a household finance and consumption survey in Slovakia, the first such survey focused on the wealth and indebtedness of Slovak households. This formed part of the ECB-coordinated Household Finance and Consumption Survey, a project in which all euro area countries are participating. This paper describes that project, its implementation in Slovakia, and its most important outcomes.

Martina Alexová

Inflation drivers in new EU members

This paper focuses on the determinants of inflation in new EU Member States. The results show that cost-push factors are to the fore in half of the countries while demand-pull factors prevail in the rest of the countries. An appropriate monetary strategy to control inflation should be implemented in euro area countries in accordance with the ECB's monetary strategy. Lithuania, Latvia and Bulgaria should maintain a credible currency peg to the euro. In inflation-targeting countries, the priorities should be to maintain price stability and avoid overheating pressure. Appropriate structural adjustments – particularly in labour markets and production capacity – could help maintain a stable price level in all the countries.

Financial Stability Report – May 2012

The report noted that conditions for financial stability in Slovakia deteriorated in 2011 as a consequence of the debt crisis. In financial markets, strains and elevated uncertainty remained present in the first months of 2012. The Slovak economy showed relatively strong resilience to headwinds from abroad owing to its

macro-financial stability and growth in industrial production destined for export. Based on stress test results, the financial sector is expected to maintain its stability. The report includes an annex on indebtedness and its impact on economic growth, which points out that high debt ratios are reducing the efficacy of anti-cyclical policies. In order to restore robust growth in advanced economies, both private and public balance sheets need to be repaired. Another annex looks at macroeconomic imbalances and shows that current imbalances are the result of long-term differences in the structure of euro area economies and that current account imbalances have fed through to the funding structure of the balance of payments capital account. Export performance is stabilising Slovakia's position with the rest of the world, and Slovakia is not among the countries that have risky macroeconomic imbalances.

Financial Stability Report – November 2012

The report noted that the most acute manifestations of systemic crisis in euro area financial markets had abated due to the ECB's non-standard measures. The domestic economy proved resilient to headwinds from abroad, but considering the worsening economic situation in other countries and the effects of fiscal consolidation at home, growth projections for the Slovak economy have been revised down. Consequently, the expectations regarding conditions for domestic financial stability have deteriorated moderately. Nevertheless, the domestic financial sector remains in a strong position to face tougher conditions and mounting risks. One annex of the report assessed the emerging banking union and its potential benefits and risks to bank supervision in Slovakia. The banking union may be seen as a necessary, but not in itself sufficient, step towards ending the negative feedback loop between the solvency of banks and sovereigns. The second annex focuses on real income developments in the Slovak economy from the view of income generation. It draws attention to factors that restrict real income growth, identifying them as one of the reasons for low domestic demand. The third annex examines how bank liquidity is affected by the business cycle as well as by the structure of banks' balance sheets. It confirms the impact of the business cycle and selected balance-sheet items on the net liquidity position of banks.