

January 2023

CESEE Research Update

Central, Eastern and Southeastern Europe Section

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The CESEE Research Update is released quarterly by the Central, Eastern and Southeastern Europe Section of the Oesterreichische Nationalbank (OeNB). The aim of this newsletter is to inform readers about OeNB analysis and research output on the CESEE region as well as related events.

Central, Eastern and Southeastern Europe, Section
OeNB



Dear readers,

A Happy New Year to you all! We hope that 2023 will bring only pleasant surprises and a return to times of peace and prosperity.

The past year brought a number of crises for the world in general, and for Central, Eastern and Southeastern Europe (CESEE) in particular. The COVID-19 pandemic continued to strain health systems and prompted lockdowns in the CESEE region. And what proved even more disruptive was Russia's invasion of Ukraine. This is not only an enormous human tragedy but also poses unforeseen obstacles and challenges to both the European and the global economy.

The OeNB's Central, Eastern and Southeastern Europe Section has been examining closely the effects of these crises, observing and analyzing their economic consequences very carefully.

We hope that our publications and analyses, the OeNB Euro Survey and our CESEE-related events will continue to draw your attention also in the New Year.

Yours sincerely,

Julia Wörz
Head of CESEE Analysis Section

Summary: Conference on European Economic Integration 2022

Economic and monetary policy under wartime conditions – implications for CESEE



After two years of being a fully virtual event, the Conference on European Economic Integration (CEEI) was held in November 2022 in-person and online. More than 400 participants from various countries inside and outside of Europe participated – most of them in-person at the premises of the OeNB – in the conference and discussed challenges arising from the concurrence of crises: the war in Ukraine and the ongoing recovery from COVID-19 on top of the effects of climate change. While differing very much in nature, these crises all have a decisive effect on economic and monetary policy. Aim of the CEEI 2022 was to develop a deeper understanding of how these transformational crises are likely to impact the economies of Central, Eastern and Southeastern Europe (CESEE) in the short and medium term.

OeNB's Governor Robert Holzmann opened the conference and acknowledged that economic sanctions have left not as deep a mark on the aggressor's economy as was largely expected. Looking at the European economy, even though it has fared better than expected so far in 2022 the Governor cautioned that economic consequences of the conflict have darkened the short-term economic outlook and pushed up inflation.



Governor Holzmann moved on to stress that while the war has pushed other enormous challenges the mankind has been facing, namely the pandemic and the climate change, somewhat in the background, they will have to be put on a front burner soon. The host of the conference

concluded his introductory statement on a positive note. He believes that despite the widespread doom-mongering, there is no compelling reason to be too pessimistic about global developments in future. No matter how improbable it may seem today, it is well possible – and in fact necessary – that the West and (hopefully a new) Russia will find a way to coexist peacefully, while meeting the security needs of both Ukraine and Russia.



In the ensuing keynote lecture Graciela L. Kaminsky from George Washington University compared the current triple crisis in the form of the pandemic, global economic crisis and war on European soil with past crisis episodes (particularly) in CESEE. The current economic malaise was not preceded by massive current account deficits. Moreover, there was no credit bonanza prior to the current crisis. She concluded her lecture by saying that even though the impact of the crisis is likely to be less severe this time there are still risks that need to be kept closely monitored looking ahead. In particular, the rising global economic uncertainty, mounting financial fragilities and sovereign risk need to be kept a close eye on.

Gerhard Fenz, Head of Section at OeNB, chaired session 1 on economic prospects beyond the war. The first speaker in this session, Elenea Flores Gal, Deputy Director General, European Commission, highlighted that EU economies were coming out of the Covid-19 crisis, when Russia's war against Ukraine started. Some challenges were already present, such as signs of emerging



inflation. The war brought about rising commodity prices, further supply chain disruptions and uncertainty. Subsequently, Franziska Ohnsorge, Manager of the Prospects Group at the World Bank, gave a global perspective on the outlook for growth and inflation. The third speaker of this session Mario Holzner, Executive Director, The Vienna Institute for International Economic Studies, focused on CESEE. He highlighted the region's dwindling importance in the world economy. With regard to the upcoming economic slowdown, he argued that the EU recovery and resilience facility (RRF) will act as an important shock absorber.

In opening the (Vice-)Governors' panel discussion, OeNB Governor Robert Holzmann pointed to continuously high and still rising inflation and high uncertainty and invited his colleagues from two inflation targeting countries, Poland and Romania, to explain how they assess the role of global policy spillovers and what role exchange rate developments play in their conduct of monetary policy.



Deputy Governor Leonardo Badea from the National Bank of Romania (NBR) noted that spillovers from euro area policy are felt primarily in exports, but nevertheless

the NBR puts its focus primarily on inflation rather than on the exchange rate. Marta Kightley, First Deputy Governor of the National Bank of Poland (NBP), explained the current high inflation level in Poland (almost 18%) by the rather successful performance of the country in the pandemic. Given a high share of variable loans in Poland and the strong impact on the economy, this hiking cycle has now been paused and the peak of inflation is expected to be passed soon. Prompted on comparatively lower inflation in Albania, Governor Gent Sejko from the Bank of Albania referred to two factors: lower energy prices as a result of low import dependence for electricity as well as a strong exchange rate which results from capital inflows related to FDI, tourism and remittances. In contrast, the rather high inflation in the Baltic countries is ascribed to the special consumption basket in the region with above-average weights for heating and fuels according to Governor Gediminas Šimkus from the Bank of Lithuania. Referring to Lithuania's exposed position, he emphasized the advantage of being a member of the EU, NATO and the euro area. Governor Holzman inquired about the role of ECB liquidity lines to the region during the pandemic which were likely helpful in stabilizing capital flows and asked about potential remaining pockets of risks in local housing markets or from the fiscal side capitalized.

In Session 2, chaired by Soňa Muzikářová, Macroeconomist and Policy Advisor, three panelists discussed the topical issues of flight and migration, brain drain and population ageing in the CESEE region.



Olga Popova, senior researcher at the Leibniz Institute for East and Southeast European Studies, drew attention to the high share of people with migration intentions in CESEE countries. She further touched upon employment gaps between immigrants and refugees in the EU:

Refugees start with a larger disadvantage in terms of employment probability than (economic) immigrants. Isilda Mara, senior economist at The Vienna Institute for International Economic Studies, highlighted changing mobility patterns in CESEE. While most countries in the region were net senders of migrants, more recently some had turned into net receivers. Róbert Iván Gál, senior researcher at the Hungarian Demographic Research Institute, focused on demographic developments in the region.

Amid the overall gloomy and highly challenging outlook which was at the heart of many discussions, the day ended on a positive note when Sanja Tomicic, Executive Director, Hrvatska narodna banka, delivered the dinner speech reviewing Croatia's successful integration process, which will culminate in the adoption of the Euro as of January 1, 2023. She expressed gratitude for the support that Croatia has received from the EC, the ECB and not least from the OeNB through a bilateral informal dialog that had started back in 2005.

Birgit Niessner, Director of the OeNB's Economic Analysis and Research Department, opened the second day of the conference by referring to the fast-changing nature of Europe's energy dependency.



Guntram Wolff, Director and CEO of the German Council on Foreign Relations, started his speech by pointing to the important role of gas for Europe. While prices rose sharply in response to supply shortages, the industry reacted very flexibly by relocating energy intensive parts of production. In the medium-term Europe must build on projects of common interest with a strong focus on Southern and Southeastern European counties. In the ensuing discussion he clarified that this does not mean that Europe should re-shore energy supply and production processes entirely. However, diversification of sourcing countries is key.

The third session chaired by Bernhard Grossmann, Head of the Office of the Fiscal Advisory Council and Productivity Board at OeNB, focused on what fiscal policy can do to alleviate the negative impact of high inflation and commodity price surges on the economy in the short run. Baida Busbarde, Chief Economist of the Macroeconomic Analysis Division at Latvijas Banka discussed the short-term fiscal policy response of Latvia that aims at both protecting all vulnerable low- and middle-income households against extreme price increases and retaining incentives to save energy.



Only households that have insufficient disposable income after deducting all necessary housing and heating expenses are eligible for direct benefits. Belma Colakovic, Chief Economist at the Central Bank of Bosnia and Herzegovina emphasized the role of country-specifics in tailoring short-term fiscal policy responses to the energy crisis in CESEE. For instance, Western Balkan countries have a comparably higher share of vulnerable households with little savings and very low incomes. Zsolt Darvas, Senior Fellow at Bruegel, agreed that the current situation warrants government support to vulnerable households.

Session 4 under the title "Addressing long-term supply challenges via structural policies and green transition" was chaired by Julia Wörz, Head of OeNB's Central, Eastern and Southeastern Europe Section. Veronika Grimm, Member of the German Council of Economic Experts, and Professor at Erlangen-Nürnberg spoke of a gas price tsunami that had already started before the war and will not disappear before 2024. EU policies, however, should ease the subsidy pressure with new energy supplies mobilized through common gas procurement, expansion of renewables, temporary reactivation of nuclear power sources and coal, and energy efficiency.



Elena Paltseva, Associate Professor at the Stockholm Institute of Transition Economics, asked whether the EU gas crisis is mobilizing the green transition. Thomas Reininger, Senior Principal at OeNB, spoke about the green transition in CESEE EU member states, most of which have lagged behind in terms of reducing their carbon intensity relative to GDP per capita.

The CEEL concluded with a second panel discussion titled “Banks in transition: is there a need for rescoping toward sustainable markets and products?” which was chaired by the OeNB’s Vice-Governor Gottfried Haber.



Elena Carletti, Professor at Università Bocconi, pinpointed three key elements of the current uncertainty: geopolitical instability in Europe, significant divergence between monetary and fiscal policy (in striking contrast to the pandemic during which economic policies were largely aligned), and difficulties to assess the spill-over effects of the war on banks. Turning to the issue of high interest rates, Professor Carletti explained why they are boon

and bane for banks at the same time. Gunter Deuber, Head of Research at Raiffeisen Bank International, emphasized that RBI is conducting banking under war conditions, which has only been possible thanks to thousands of employees in Russia, Ukraine and Belarus. He moved on to point out that Western banks have been de-risking and shifting away from Eastern European countries towards more predictable EU markets since 2014. Yet a turning point has occurred not only on the geopolitical level but also on the funding side. This is because times of ample deposit funding are coming to an end and at the same time bond market funding has become more expensive. There will be a certain competition for deposits. Boštjan Jazbec, board member of the Single Resolution Board, played - in his own words - the devil’s advocate by pointing out that despite significant efforts there is still not much of a European banking system. On a positive note, Jazbec stated that we have managed to build rather resilient banking systems and that despite recent major shocks the prophecies of doom about the next financial crisis have not materialized. This is not least due to the stricter regulatory and supervisory framework which, however, at the same time is reaching the point where it obstructs banks profitability and business models.

In the lively ensuing discussion, the panelists agreed that the main – though not the only – obstacle to green investment is the lack of policy credibility and the regulatory risk. This starts with the taxonomy, which not only keeps changing but is also being watered down by political compromises. The issue of the incomplete banking union also resonated a lot in the discussion. While Gunter Deuber argued that his bank has contributed a lot to banking market integration, Boštjan Jazbec countered that this is just reaching out to non-banking union jurisdictions when what we need is a common banking system in the EU. Jazbec sees one reason for the fragmented banking market in the lack of trust as there is a strong instinct to resolve ailing banks on the national level. National resolution authorities have a lot of power in contrast to supervisory authorities.

The presentations and the videos are available at [Conference on European Economic Integration 2022 - Oesterreichische Nationalbank \(OeNB\)](#).

Visiting research stay



[Mikko Mäkinen](#), Senior Economist at the Bank of Finland Institute for Emerging Economies (BOFIT), visited the Foreign Research Division in the OeNB during October 3-14, 2022. Dr. Mäkinen is also Editor-in-Chief of the BOFIT Policy Brief series. His own research focuses on banking, labor markets and emerging economies. During his stay in Vienna, he worked on a research paper examining the association between the levels of individual trust and individual economic performance. In the study he distinguishes between generalized trust, a proxy for beliefs about others' trustworthiness, and within-firm trust, i.e. trust in firm management and trust in colleagues. Using rich individual-level panel data from a low-trust country, Russia, and

Mincerian wage regressions with a broad set of controls, the preliminary findings imply: (i) the high level of generalized trust is negatively associated with wage; (ii) the levels of trust in colleagues (horizontal trust) are both individually and jointly insignificantly associated with wage; and (iii) while the levels of trust in firm management (vertical trust) show a positively monotonic relationship with wage, this association does not hold if the sample is split into low- and high-wage groups. Overall, the well-organized visit provided an excellent opportunity to discuss research projects as well as topical developments in emerging economies.

Save the Date

Presentation of the World Bank Global Economic Prospects report: Prospects for the Global Economy

Speakers

Franziska Ohnsorge
Manager, Prospects Group
The World Bank

Valerie Mercer-Blackman
Lead Economist, Prospects Group
The World Bank

Patrick Kirby
Senior Economist, Prospects Group
The World Bank

Moderator

Julia Wörz
Head of Section, CESEE Analysis
Oesterreichische Nationalbank

Date and time

Tuesday, January 17, 2023, 2:30 p.m. (CET)
in-person and hybrid event

World Bank Global Economic Prospects, January 2023

Global growth is expected to decelerate sharply, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. The United States, the euro area, and China are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies (EMDEs). The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and raise corporate defaults in many countries. Further negative shocks – such as higher inflation, even tighter policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions – could push the global economy into recession.

More information is available at [Presentation of the World Bank Global Economic Prospects report - Oesterreichische Nationalbank \(OeNB\)](#)

Save the Date II

91st East Jour Fixe

Working title: Property Markets in Austria and CESEE

Thursday, June 1, 2023, 9:00 a.m. (CEST)

OeNB Euro Survey



The OeNB Euro Survey has been conducted since 2007 in ten Central, Eastern and Southeastern European (CESEE) countries. Its central focus is on exploring different dimensions and drivers of currency holdings and households' saving and borrowing behavior. The main results of the OeNB Euro Survey are published on the OeNB's website at <https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey/Main-Results.html>. The charts are available for download in different file formats and the underlying data can be exported as CSV files.



The field work of the 2022 wave of the OeNB Euro Survey was recently completed successfully. Data quality checks are ongoing and results will be published in early summer 2023.

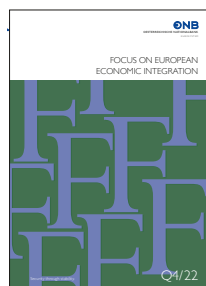
Against the current background of rising consumer prices and interest rates, a recent study based on the OeNB Euro Survey studies debt-at-risk of households in nine CESEE countries (see Enzinger, Koch, Riedl (2022) Financial stability report 44, 25-44).

On how to access Euro Survey Data:



Focus on European Economic Integration Q4/22

(full version)



Economic trends and outlook

[Economic trends in CESEE](#)

Box 1: Ukraine: war is hitting the economy hard – continued international support vital

Compiled by Josef Schreiner

[Outlook for selected CESEE countries and Russia](#)

Compiled by Julia Wörz

Spotlight on the Western Balkans

[Special feature Property rights and homeownership in the Western Balkans](#)

Compiled by Elisabeth Beckmann, Antje Hildebrandt and Tomáš Slačák

Study

[Is it easy to hide money in the crypto economy? The case of Russia](#)

Armin Ahari, Johannes Duong, Jakob Hanzl, Elsa Maria Lichtenegger, Lukas Lobnik, Andreas Timel

Upcoming Events

The following events are organized by the OeNB and i. a. cover CESEE relevant topics.

Please note that attendance is by invitation only. If you are interested in participating in one or more of the events, please send an e-mail to event-management@oenb.at.



January 17, 2023	Presentation of the World Bank Global Economic Prospects report:
June 1, 2023	91 st East Jour Fixe Working title: Property Markets in Austria and CESEE

OeNB Courses at the Joint Vienna Institute (JVI) 2022

The JVI resumed classroom training in June. All participants have to follow the JVI's COVID-19 Guidelines.

For the most up-to-date information on JVI training courses, please click the following link:

[Course Schedule 2023 \(jvi.org\)](https://www.jvi.org/Course-Schedule-2023)

Upcoming OeNB courses 2023

Title	Organization	Date
Financial Stability and Supervisory Stress Testing for Banking Systems	Oesterreichische Nationalbank	January 16–19, 2023
Financial Education	Oesterreichische Nationalbank	February 20–24, 2023
Monetary Policy Implementation	Oesterreichische Nationalbank in cooperation with the JVI and the Deutsche Bundesbank	February 27–March 3, 2023
HR Issues and Compliance	Oesterreichische Nationalbank in cooperation with the Deutsche Bundesbank	March 13–17, 2023
Macrofinancial Stability in Central, Eastern and Southeastern Europe	Oesterreichische Nationalbank in cooperation with the JVI and the National Bank of Slovakia	April 17–26, 2023
Euro Area Integration	Oesterreichische Nationalbank	May 8–12, 2023
Climate Change and Green Finance	Oesterreichische Nationalbank	June 26–30, 2023
Diversity and Inclusion	Oesterreichische Nationalbank	November 6–8, 2023

For more information please follow this link: <https://www.jvi.org/home.html>