Developments in selected CESEE countries

Coronavirus sends CESEE region into a deep recession[1, 2, 3]

1 Regional overview

Steepest decline of economic activity since the start of transition in several countries

The spread of coronavirus and the ensuing pandemic sent large parts of the world economy into a deep contraction in the first half of 2020, and the economies of Central, Eastern and Southeastern Europe (CESEE) were no exception. In the second quarter of 2020, in fact, several CESEE countries reported the largest quarterly decline in economic activity since the early years of transition in the 1990s.

Recession still less severe than in the euro area

Despite the depth of the GDP decline, the CESEE region reported more benign growth figures than the euro area (–7.3% compared to –11.8% in the second quarter of 2020, quarter on quarter, see table 1). The more gradual spread of the pandemic eastward in spring and the quick reaction by local authorities prevented the type of public health crises that were observed in e.g. Italy or Spain and enabled CESEE to start lifting restrictions on public life and the economy at a comparatively early stage. This led to a somewhat smaller contraction of domestic demand (especially investments) in many countries, which explains some of the growth advantage vis-à-vis the euro area. The regional average was also heavily influenced by the rather small GDP contraction of the Russian economy (–3.2% in the second quarter, quarter on quarter). Russia benefited from a large positive growth contribution of net exports, as low domestic demand and ruble depreciation depressed imports. At the same time, export volumes of certain key products started to increase already in the spring, thanks in part to the rapid recovery of the Chinese economy.

At the same time, Croatia and Hungary were among the countries in Europe that were hit most severely by the COVID-19 pandemic in terms of GDP loss. This underlines the heterogeneity of current economic developments in the region. In Croatia, the sharp decline was mostly driven by tourism, which accounts for around one-quarter of the country's GDP (including indirect contributions). In Hungary, car production, tourism and transportation services weighed on growth.

In general, contact-intensive sectors (hospitality, travel and tourism) and those with complex value chains (electronics and automobiles) suffered the most throughout CESEE. Restricted cross-border mobility tremendously lowered hotel occupancy rates over the summer. In the automobile sector, factory shutdowns led to a decline of European car production by more than one-third in the first half of 2020 (when compared to a year earlier). This imposed a heavy burden on several CESEE countries where the automobile sector accounts for a large share of industrial production (besides Hungary also the Czech Republic, Romania and Slovakia).

[1] *Compiled by Josef Schreiner with input from Katharina Allinger, Stephan Barisitz, Markus Eller, Clara de Luigi, Mathias Lahnsteiner, Thomas Reininger, Tomáš Slačík and Zoltan Walko.*

[2] *Cutoff date: October 7, 2020. This report focuses primarily on data releases and developments from April 2020 up to the cutoff date and covers Slovakia, Slovenia, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Turkey and Russia. The countries are ranked according to their level of EU integration (euro area countries, EU member states, EU candidates and potential candidates and non-EU countries). For statistical information on selected economic indicators for CESEE countries not covered in the main text (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Ukraine), see the statistical annex in this issue.*

[3] *All growth rates in the text refer to year-on-year changes unless otherwise stated.*

Table 1

Real GDP growth

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Period-on-period change in %, seasonally and working day adjusted								
Slovakia	3.0	3.9	2.4	0.6	0.4	0.4	0.6	–5.2	–8.3
Slovenia	4.8	4.4	3.2	0.9	0.0	0.8	0.4	–4.7	–9.9
Bulgaria	3.5	3.1	3.4	1.0	0.7	0.7	0.8	0.3	–10.0
Croatia	3.1	2.7	2.9	1.1	0.6	0.6	0.4	–1.3	–14.9
Czech Republic	5.2	3.2	2.3	0.5	0.5	0.5	0.4	–3.3	–8.7
Hungary	4.3	5.1	4.9	1.9	0.8	0.9	0.7	–0.4	–14.5
Poland	4.9	5.3	4.1	1.4	0.7	1.2	0.2	–0.4	–8.9
Romania	7.1	4.4	4.1	1.5	0.6	0.5	1.2	0.3	–12.3
Turkey	7.5	3.0	0.9	1.3	1.2	0.4	1.9	0.6	–11.0
Russia	1.8	2.5	1.3	–0.5	2.4	–0.9	–0.7	–0.9	–3.2
CESEE average[1]	4.0	3.2	2.1	0.5	1.5	0.0	0.3	–0.6	–7.3
Euro area	2.5	1.9	1.2	0.5	0.1	0.3	0.1	–3.7	–11.8

Source: Eurostat, national statistical offices.

[1] *Average weighted with GDP at PPP.*

Private consumption severely impaired by COVID-19 containment measures

A look at the expenditure side of GDP shows that all countries of the region reported a notable reduction of domestic demand (see chart 1). Private consumption suffered from deteriorating sentiment, movement restrictions, (temporary) closures of nonessential shops and social distancing measures to contain COVID-19 infections. Furthermore, incipient labor market weaknesses also impacted on consumer spending, as furlough schemes and reduced working hours weighed on disposable income and unemployment was on the rise. The average unemployment rate of the region increased from 6.3% at the end of 2019 to 7.7% in August 2020, the highest level in five years.

This figure, however, still underestimates the current slack in the labor market. It is based on the International Labour Organization's standard definition of unemployment, which counts as unemployed people without a job who have been actively seeking work in the last four weeks and are available to start work within the next two weeks. The COVID-19 outbreak and the measures applied to contain it have impacted on both the ability to seek work (e.g. due to a lockdown) and the availability to start work (e.g. due to care obligations toward family members). Furthermore, active measures to contain employment losses have led to absences from work rather than dismissals (e.g. in the case of furlough schemes).

Labor market conditions are worsening

An indicator of the actual labor market slack provided by Eurostat (not available for Russia) reveals that persons with an unmet need for employment[4] accounted for an average of 13.5% of the extended CESEE labor force in the second quarter of 2020. This figure was up 2.6 percentage points from the first quarter of 2020, which represented the strongest increase since the start of the series in 2008.

In the second quarter of 2020, absences from work more than tripled against the first quarter, amounting to a total of more than 3.8 million people in the CESEE region (again excluding Russia). As a percentage of total employment, the figure was especially high in Slovakia, Slovenia and Turkey (21.7%, 27.3% and 30.7%,

[4] *This includes unemployed and underemployed persons, persons available for the labor market but not seeking employment, as well as persons seeking employment but not available for the labor market.*

Chart 1

GDP growth and its main components

Percentage points, GDP growth in % (year on year)

Source: Eurostat, national statistical offices.

respectively, in the second quarter of 2020). In the other countries, however, it remained below the EU average of 21.8%.

General economic environment not conducive to investment

After capital spending had already been impaired by rising uncertainty concerning the further spread of coronavirus and a weak absorption of EU funds at the beginning of the year, it declined notably in the second quarter of 2020. This was related to generally weak demand conditions (internationally and at home), the disruption of international production chains and a sharp drop in corporate profits and capacity utilization. Furthermore, growth of credit to corporations decelerated strongly in the review period.

Public consumption was the only part of domestic demand that delivered (moderately) positive growth contributions in most countries of the region in the second quarter of 2020 against the background of large fiscal support for households and companies (see below).

Net exports mostly weigh negatively on growth

Some regional heterogeneity could be observed in external sector developments. The closing of borders, travel restrictions and the economic malaise in large parts of the world led to a strong decline in exports. At the same time, however, imports declined notably as well, mirroring weak demand conditions at home. Consequently, net exports often weighed negatively on GDP growth in many countries. In Slovakia, Slovenia, Bulgaria and Romania the negative growth contribution was only moderate. However, in the Czech Republic and Turkey, net exports reduced GDP growth more strongly than domestic demand did. In contrast, in Poland and – as mentioned above – Russia, they contributed positively to growth.

Comprehensive policy support

Simultaneously with other European countries, the CESEE countries deployed large fiscal packages to support vulnerable households and firms, eased monetary policy to support the flow of credit and tackle financial market disruptions and adopted macroprudential measures that cushioned the impact of the crisis on both banks and borrowers.

Fiscal policy relies on a broad set of measures

Direct fiscal measures to mitigate the economic fallout from the coronavirus crisis included tax cuts, subsidies for wages and social security contributions, compensation for people in quarantine and firms affected by shutdown measures, higher allowances (e.g. for children) and bonuses (e.g. workers in health care), higher minimum wages and/or some sort of furlough schemes subsidizing wages and shorter work hours. The latter was imperative in preventing a sharper deterioration in labor market conditions. Furlough schemes covered up to 15% of the workforce in Slovenia, Turkey and Slovakia, up to 20% in Romania and about one-third in Croatia at their maximum usage.

Indirect fiscal measures included guarantees and deferrals for tax payments and social security contributions. Furthermore, all countries introduced moratoria on the repayment of loans to alleviate financial strains for borrowers. Concerning the latter, no more than 15% of borrowers renegotiated loan repayments in most CESEE countries. Even in countries where blanket moratoria were imposed by law (Hungary, Romania), penetration remained below 50% of private-sector loans. This is a sign that the remaining borrowers were able to service their debt amid falling interest rates and borrowing costs and despite the economic downturn.

The announced fiscal support was largest in the Czech Republic, with a package worth more than 20% of GDP. Rather large packages have also been deployed in Slovenia, Croatia, Hungary and Poland (of around 10% of GDP and more). The stimulus was comparatively moderate in Slovakia, Romania and Russia (at around 5% of GDP or below). As these numbers include direct as well as (in some cases very sizable) indirect measures (mainly guarantees and tax deferrals), the actual fiscal stimulus will crucially depend on the effective utilization of the available funds. Estimates of utilization by mid-September 2020 point to an already high usage in Turkey, Croatia, Hungary, Romania and Russia, while utilization remains more muted in the other countries. In addition to domestic spending, CESEE EU member states can make use of loans provided under the EU's SURE instrument (Support to mitigate Unemployment Risks in an Emergency) that was designed to tackle sudden increases in public expenditure for the preservation of employment.

Central banks slash policy rates and resort to unconventional policy tools

Monetary support in CESEE took the form of rate cuts, liquidity provision, quantitative easing and/or exchange rate stabilization. Since the escalation of the crisis in March, key policy rates were slashed throughout the region (in the Czech Republic by 200 basis points to 0.25%, in Poland by 140 basis points to 0.1%, in Hungary by 30 basis points to 0.6%, in Romania by 100 basis points to 1.5%, in Russia by 175 basis points to 4.25% and in Turkey by 250 basis points to 8.25%). To provide the banking sector with sufficient liquidity, central banks adjusted reserve requirements (e.g. in the Czech Republic, Croatia, Turkey), launched longer-term refinancing operations (e.g. in Croatia) and introduced new foreign currency-providing operations (e.g. in Turkey). New arrangements with the ECB need to be mentioned, in particular. The central banks of Hungary and Romania agreed on new repo lines (EUR 4 billion and EUR 4.5 billion, respectively, until the end of June 2021) and the central banks of Croatia and Bulgaria agreed on new swap lines with the ECB (EUR 2 billion until the end of June 2021 and EUR 2 billion until the end of 2020). Furthermore, several central banks purchased bonds of their respective governments on the secondary market (e.g. in Poland, Hungary, Croatia, Romania and Turkey). Monetary authorities in Croatia and Russia also intervened in foreign exchange markets to ease depreciation pressures.

Banking sector regulation on liquidity, nonperforming exposures and reporting requirements was softened in many countries. Countercyclical capital and other mandatory capital buffers were reduced in the Czech Republic, Slovakia, Poland and Hungary. Several regulators also called on banks not to pay out dividends (e.g. in Hungary, Slovenia, Croatia and Bulgaria) and the Czech Republic adjusted its tool kit of borrower-based macroprudential measures.

COVID-19 crisis weighs on credit growth…

Concerning general banking sector developments, the coronavirus pandemic brought about a reversal of previous years' trends. Most importantly, a slowdown in credit growth was observed in nearly all countries of the region (see chart 2). The only notable exception was Turkey, where (mostly state-owned) banks boosted consumer lending in an attempt to mitigate the general economic contraction. In the other CESEE countries, weaker demand and worsening credit supply conditions impacted on credit dynamics. Demand suffered from the faltering general economic momentum and deleveraging needs in the private sector. Supply was negatively affected by the local and international macroeconomic environment, local capital constraints, groups' funding and nonperforming exposures. While nonperforming loans (NPLs) have not yet embarked on an upward trend (also reflecting the policy measures outlined above), surveys among banks show that the quality of loan applications is expected to deteriorate sharply across the client spectrum and that NPLs are expected to increase markedly in the future.

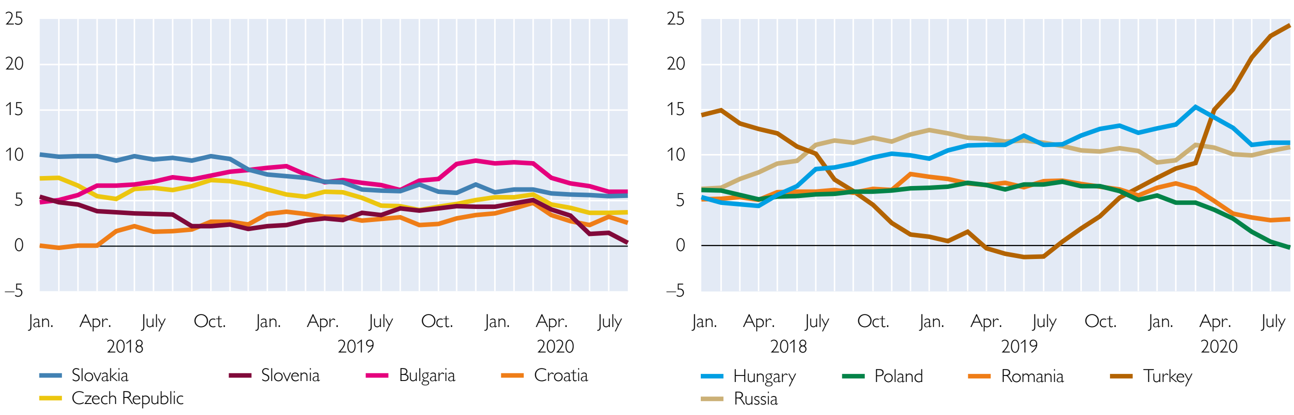
…and negatively impacts banking sector profitability

The crisis has already had a notable impact on the profitability of the CESEE banking sectors. The average return on assets in mid-2020 was roughly 50% lower than a year earlier; in Slovenia and Hungary, it dropped to a quarter of the value

Chart 2

Growth of credit to the private sector

Year-on-year percentage change, adjusted for exchange rate changes



Source: National central banks.

seen a year before. Rising loan loss provisions in response to the recession were a main driver of lower profits. Profitability will remain under pressure in the coming quarters, as eased regulatory requirements and loan moratoria only temporarily sheltered banking sectors from some of the COVID-19-related impact. Moratoria affect the timing of banks' interest income and the net present value of loans in countries where no interest can be charged on deferred payments. Central bank rate cuts put additional pressure on net interest margins and lower loan growth will weigh on operating income. Deteriorating profitability, coupled with rising NPLs, will likely weigh on banks' capital ratios. As of mid-2020, however, most CESEE banking sectors continued to report substantial capital buffers.

Inflation mostly surprises on the upside

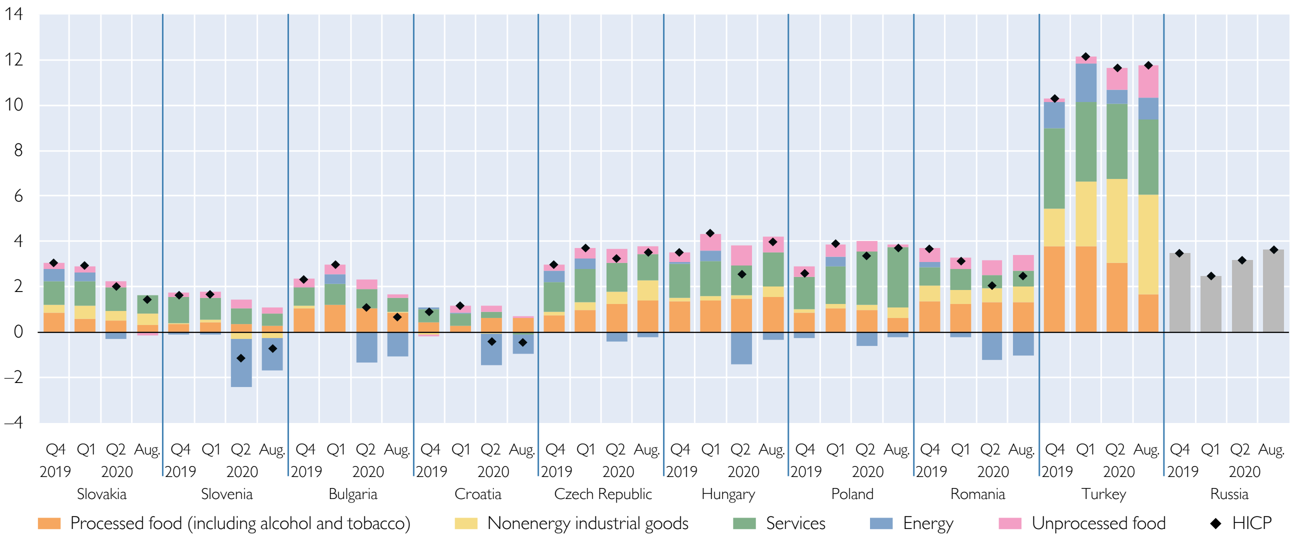
Inflation has surprised on the upside since the gradual reopening of CESEE economies in the second quarter of 2020 in many countries (including the Czech Republic, Hungary, Poland, Romania, Turkey and Russia) – despite the strong decline in economic activity (see chart 3). As price developments were heavily influenced by deflation in the energy component in recent months, several countries (e.g. the Czech Republic, Hungary and Poland) even reported rising core inflation rates in the midst of a deep recession.

When interpreting these trends, it should be noted that price data collection has been affected by the COVID-19 crisis. During lockdown periods, actual market prices for many goods and services were not available and had to be estimated from close substitutes or historical data. COVID-19 has probably also led to problems with recording seasonal price patterns (e.g. for flights, package holidays and accommodation services, or when seasonal sales in certain retail segments were postponed or canceled). On top of that, the actual consumption basket has likely changed during the pandemic and these changes in consumption patterns are not yet reflected in the HICP.

Chart 3

HICP inflation and its main drivers

Percentage points, contribution to year-on-year change in HICP; HICP in %



Source: Eurostat.

Note: CPI data for Russia. No breakdown according to COICOP available.

Despite these caveats, unabated price pressures can be related to four factors: (1) Several CESEE currencies depreciated notably vis-à-vis the euro from March 2020 and retailers likely failed to reflect the effects of currency weakness in prices during lockdowns. (2) Administered price growth contributed positively to HICP dynamics in many CESEE countries as governments attempted to make up for at least a small part of missing budget revenues. (3) The lifting of the most severe restrictions released some pent-up demand. This sudden increase of demand met with incompletely restored production capacities in certain sectors (partly owing to disrupted supply chains), creating a mismatch between supply and demand (e.g. for certain industrial goods). (4) Capacity constraints related to social distancing measures and stepped up sanitary requirements contributed to price growth in certain service segments. Out of these four factors, currency depreciation has likely had the strongest effect on price growth, since inflation fell significantly in the euro area countries and in countries with a more stable or fixed exchange rate regime.

Price pressures, however, can be expected to moderate in the coming months as looser labor market conditions and weaker wage growth should start to weigh more strongly on core inflation. As of August 2020, inflation ran above the respective central bank targets in the Czech Republic, Hungary and Turkey. While the Czech and the Hungarian central banks expect a return to the target range until the end of 2020, the Turkish central bank expects inflation to remain elevated until late 2021.

Stronger deterioration of the current account balance only in Russia and Turkey

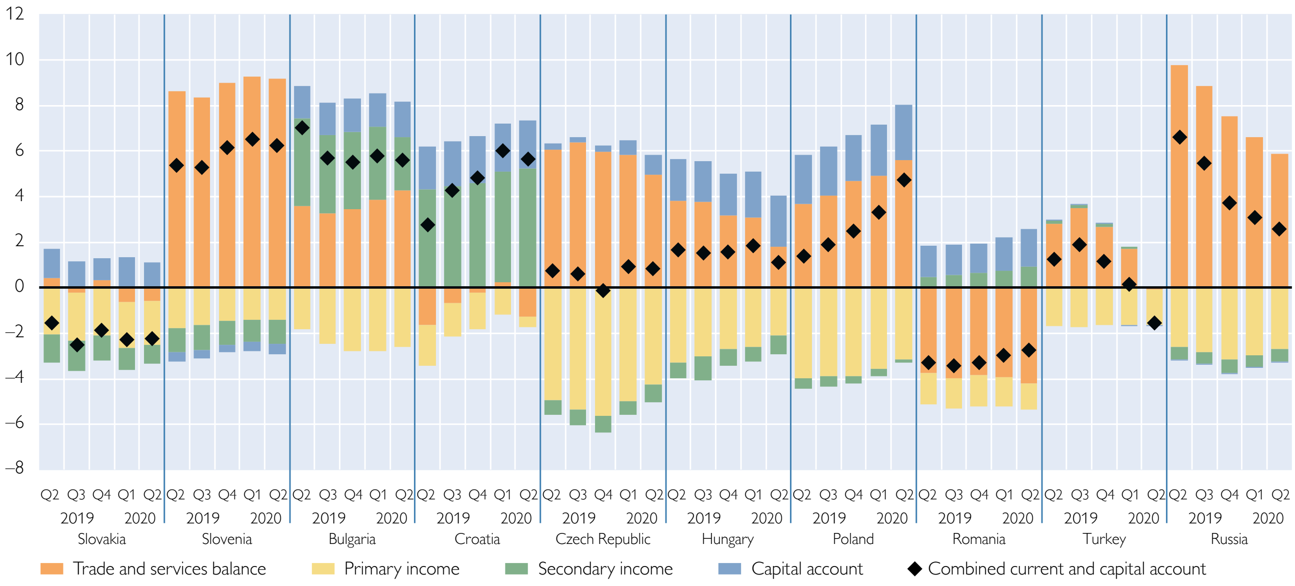
Aggregate current account developments in the CESEE EU member states have so far only been little affected by the COVID-19 pandemic. In most countries, combined current and capital account balances remained broadly stable in mid-2020 when compared to the end of 2019 (see chart 4). Some changes in the composition of the current account, however, were visible. On the one hand, the lockdown-induced recession put a brake on profit outflows via the primary income account. On the other hand, trade and services balances tended to deteriorate somewhat in many countries, as external demand declined more strongly than domestic import demand.

Despite currency weaknesses, Russia and Turkey reported a clear deterioration of their external accounts. In Russia, a notable decline of energy prices – the most important export commodity of the country – pushed nominal export growth deep into the red. In Turkey, the trade and services balance deteriorated already in the first quarter of 2020, as the recovery from the recession of 2018 and 2019 was still gathering steam and fueled import demand. The spread of coronavirus and the subsequent containment measures caused both imports and exports to contract strongly in the second quarter of 2020. While imports held up somewhat better due to government policies aimed at shoring up the economy, exports were severely impacted by the weak international environment and a sharp decline in foreign tourists' arrivals and travel revenues.

Chart 4

Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

Financial stress eased after a short period in late March

Uncertainty at the start of the pandemic has led to currency depreciation, an increase in sovereign spreads and capital outflows from the region but monetary and financial easing in advanced economies contained financial stress and stabilized international markets. High-frequency fund flow data show that outflows from CESEE were mainly concentrated in the second half of March 2020 and that bond flows were far more strongly affected than equity flows. After this short episode, net fund flows hovered around zero until early October 2020. This is also underlined by more comprehensive quarterly financial accounts data. Financial account outflows spiked in the first quarter of 2020 in many countries and retreated again in the second quarter. Besides portfolio outflows, it was especially outflows from other investments that fueled this development. Among the countries of the region, only Russia continued to report a notable capital outflow also in the second quarter of 2020, mainly on account of stubbornly high portfolio outflows.

Uncertainty increased again in September

As the pressure on financial markets eased, also most CESEE currencies made up parts of their earlier losses between April and August 2020. The reacceleration of COVID-19 infections in recent weeks and/or numerous geopolitical concerns (e.g. unrest in Belarus, the poisoning of Russian opposition leader Alexei Navalny, the latest escalation of the Nagorno-Karabakh conflict, disputes around gas sources in the eastern Mediterranean), however, again weighed on currencies from August 2020. Especially the Hungarian forint, the Russian ruble and the Turkish lira lost in external value.

First central banks are (selectively) tightening monetary policy

In Hungary, this coincided with a selective tightening of monetary policy in September 2020, as the central bank raised its one-week deposit rate and its rate on three- and five-year covered loan tenders by 15 basis points to 0.75%.

After the Turkish central bank (TCMB) significantly loosened its monetary policy until June 2020 (see above), it discontinued its repo rate cuts from June onward, mainly because of stubbornly high inflationary pressures. In response to the nearly 7% depreciation of the lira against the euro in August alone, the TCMB progressively tightened monetary policy by canceling its one-week repo auctions and forcing banks to borrow at competitive one-month auctions or via the more expensive overnight markets. However, it left the repo rate unchanged at 8.25%. This policy did not stop the depreciation of the lira and the currency traded at historical lows in September 2020. On September 23, the central bank finally hiked its policy rate to 10.25%. The TCMB justified its rate move on the grounds of inflationary pressures caused by fast economic recovery with strong credit momentum and financial market developments. The depreciation of the lira has not halted at the cutoff date, though.

COVID-19 infections bounce to historical heights in several countries in September

A reacceleration of newly detected COVID-19 infections since September has led to higher risks for general economic developments and the outlook for the CESEE region. Chart 5 shows that COVID-19 infections remained stable and at a rather low level in the CESEE EU member states during spring. Only Russia and Turkey experienced a first spike that more closely resembled the patterns observed throughout Western Europe. Against this background, containment measures were successively relaxed in many countries from mid-April onward.

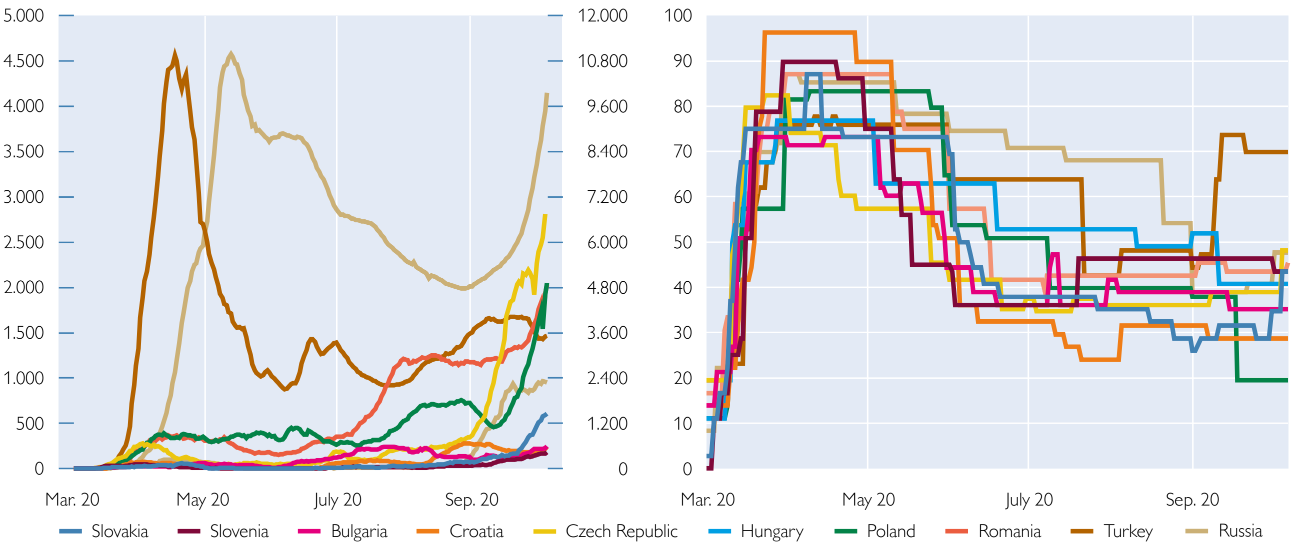
Since early September, however, a clear upward trend in infections can be observed and numbers have bounced up to historical heights in many parts of CESEE. This has led to a tightening of containment measures in selected countries and an increase in uncertainty (as e.g. evidenced by renewed pressure on exchange rates).

Chart 5

COVID-19 cases and government response

Number of newly confirmed COVID-19 cases | **COVID-19 Government Response Stringency Index**

Seven-day moving average, latest observation: October 7, 2020 | *Points*

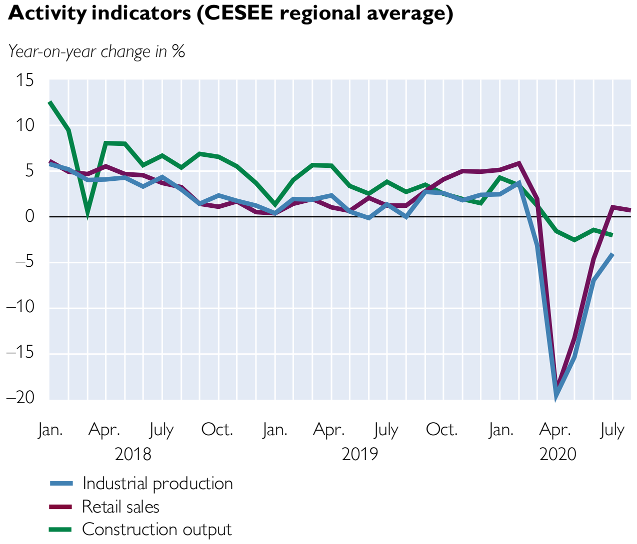


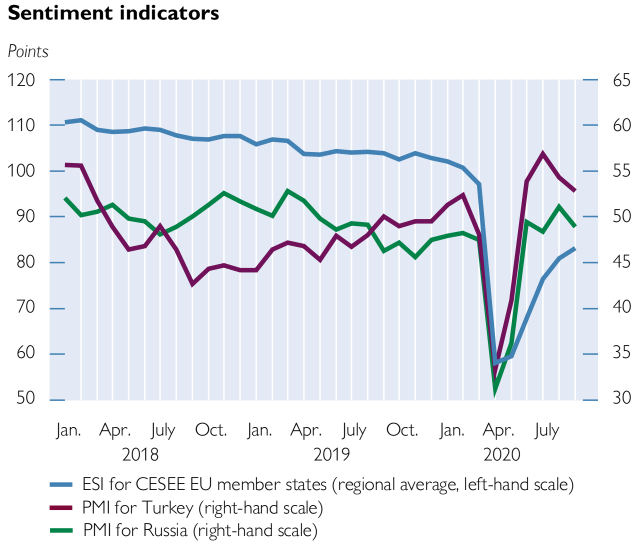
Source: European Centre for Disease Prevention and Control, Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Note: The right-hand scale in den left panel shows the values for Russia.

Chart 6

Leading indicators





Source: Eurostat, wiiw, European Commission, Markit.

High-frequency indicators suggest that the strong recovery after the lockdown could be short lived

After a collapse of partly historical dimensions in April 2020, retail sales and industrial production rebounded quickly in May and June (see chart 6), reflecting pent-up demand but also improving economic conditions in the region's main trading partner countries. Retail trade even returned to positive growth in July 2020. A similar pattern was observed for sentiment indicators, with a historic decline in April and a swift recovery afterward. None of the indicators, however, reached the levels observed before the lockdown.

Improvements, however, have stalled in most recent readings of activity as well as sentiment indicators, suggesting that the recovery could be short lived: Industrial production growth failed to accelerate more notably and remained clearly negative in July. The growth of retail sales remained positive but declined somewhat in August 2020. The growth of production in construction has declined since April, as fewer projects were started after the pandemic hit the region and as some countries scaled back infrastructure spending to make room for anti-crisis support. Readings of the Purchasing Managers' Index (PMI) for Russia and Turkey declined in September. In Russia, the PMI came in at below 50 points, thereby no longer signaling an economic expansion. The Economic Sentiment Indicator for the CESEE EU member states continued to improve throughout the past months, but it remained notably below its long-term average and improvements have successively become smaller. The beginning second wave will without any doubt further weigh on sentiment and endanger a quick and comprehensive recovery from the economic damage resulting from the lockdown in spring 2020. For more information on the outlook and risks for GDP growth please consult the Outlook for selected CESEE countries[5] in the current issue of *Focus on European Economic Integration*.

[5] *Also available online at https://www.oenb.at/en/Monetary-Policy/focus-area-central-eastern-and-southeastern-europe/economic-review-and-outlook.html.*

Box 1

Ukraine: GDP contraction accompanied by current account reversal, IMF program delay after disbursement of first tranche

After GDP had already contracted slightly in the first quarter of 2020, the impact of the COVID-19 crisis fully came to the fore in the spring. In the second quarter, GDP shrank by 11.4% year on year, as domestic demand was hit by quarantine restrictions and uncertainties related to the pandemic. While private consumption declined by about 10% year on year, gross fixed capital formation even shrank by 22%. The drop in external demand hit exports severely, yet the export decline clearly undershot the import decline leading to a substantial positive growth contribution of net exports. The resulting improvement in the trade balance together with a rise in the surplus of the primary income balance (mainly due to losses of foreign investors) led to a reversal in the current account balance. The current account recorded a surplus of 6% of GDP in the first half of 2020 compared to a deficit of about 3% in the first half of 2019.

Following two interest rate cuts in the first quarter of 2020, the National Bank of Ukraine (NBU) continued its monetary easing policy with two further rate cuts in April and June (200 basis points each time), bringing the key policy rate down to 6%. Year-on-year inflation rates averaged about 2.5% in the first eight months of the year and, thus, were clearly below the central bank target range of 5% ±1 percentage point. Yet, the NBU expects inflation to return to the target range in the second half of 2020. Nevertheless, when announcing its decision to keep the key policy rate stable in September, it signaled readiness to react if the adverse impact of the coronavirus pandemic on the economy increases.

In June 2020, the IMF Executive Board approved an 18-month Stand-By Arrangement (SBA) for Ukraine, with a total volume of about USD 5 billion. The program was designed to help Ukraine cope with COVID-19 challenges, while safeguarding the achieved macroeconomic stabilization and reform progress and advancing a small set of key structural reforms. A first tranche of USD 2.1 billion was disbursed immediately after approval. The IMF program was complemented with funding and funding commitments from other official creditors such as the EU and the World Bank. Thanks to official funding flows, a successful eurobond placement in July and NBU foreign currency purchases, foreign currency reserves increased to USD 29 billion at end-August from USD 25 billion at end-March. The end-August level corresponds to about 4.8 months of future imports according to the NBU.

A first review under the SBA was initially scheduled for September. In mid-September, the IMF explained that an effective anti-corruption framework in Ukraine was vital for the IMF and said that there was still no concrete date for the first review. This statement followed a controversial constitutional court ruling with regard to the National Anti-Corruption Bureau (declaring the appointment of its head under the previous president unconstitutional, among other things). Earlier, in July, the IMF Managing Director had called on the Ukrainian political leadership to preserve the independence of the NBU after its governor resigned, citing systematic political pressure. Though the first review has not started yet, the government budget for 2021 has become subject to discussions between the Ukrainian authorities and the IMF. It is worth noting that there has been progress on structural benchmarks under the SBA (e.g. the financial stability council approved an NPL reduction plan at state-owned banks).

Box 2

Western Balkans[6]: GDP drops sharply upon introduction of lockdown measures

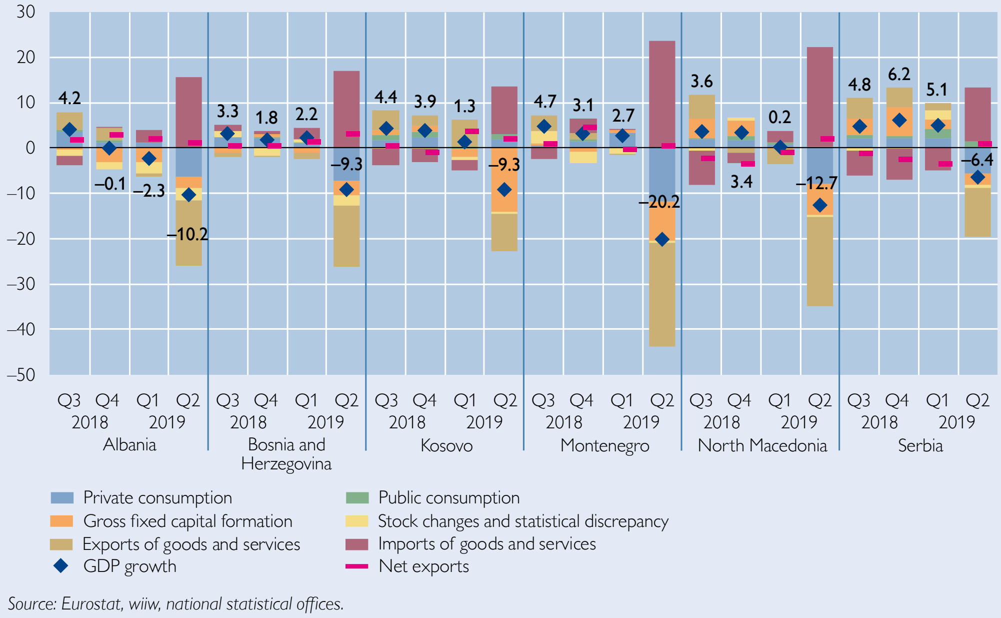
Western Balkan countries have been severely affected by the COVID-19 crisis. GDP dropped sharply in the second quarter of 2020, with contractions ranging between 6.4% in Serbia and 20.2% year on year in Montenegro. The latter country has been hit most strongly in the region due to its reliance on the tourism sector (accounting for more than 20% of GDP). Compared to the previous season, tourism revenues in Montenegro declined by approximately 80% this summer. Albania was the first country in the region showing negative GDP growth as early as in the first quarter of 2020 due to the consequences of the earthquake in November 2019 and the close trade ties to Italy (the first country strongly hit by the pandemic in Europe). By contrast, Serbia has proven to be more resilient to the negative impact of the crisis on the back of solid pre-pandemic GDP growth. Its more diversified production structure, and recent years' consolidation efforts which enabled the government to react with a large support package (the largest among the Western Balkan countries relative to GDP), helped mitigate the negative impact of the crisis.

A large decline in domestic demand contributed to the drop in GDP growth in all Western Balkans in the second quarter of 2020. With the introduction of lockdown measures, total private consumption declined in almost all countries in the region. Serbia's private consumption declined in the second quarter of 2020 by 7.3% year on year. In the other countries the decline was even larger: 10.3% in Albania, 13.4% in North Macedonia and 15.5% in Montenegro on

Chart 1

GDP dropped with the introduction of lockdown measures

Percentage points, year-on-year GDP growth in %



Source: Eurostat, wiiw, national statistical offices.

[6] *The Western Balkans comprise Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation "Kosovo" is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.*

a year-on-year basis. Only in Kosovo, private consumption increased by 2.2% annually in the second quarter of 2020. Investments in gross capital formation have also declined in the region, by more than 20% year on year, on average, compared to the same quarter in the previous year. The decline was driven by a reduction in both public and private investments when the crisis hit. The most modest decline in investments has been observed in Serbia and Albania, with spending in gross fixed capital formation declining by 11.9% and 11.1% year on year, respectively. In the other CESEE countries, the decrease has been larger, reaching –26.3% in Montenegro, –25.6% year on year in North Macedonia (gross capital formation) and even –42% in Kosovo in the second quarter of 2020.

In line with global developments, both imports and exports decreased substantially in the region. In countries most integrated in global supply chains, like Serbia and North Macedonia, the decline in exported goods (amounting to –20.7% year on year in Serbia and –31.3% in North Macedonia) was partially offset by a decline in imports (–19.3% and –29.6% year on year, respectively) in the second quarter of 2020. On the other hand, countries relying on tourism, such as Montenegro, Albania and Kosovo, observed the largest decline in exports in the second quarter of 2020 (–55.9%, –49.9% and –39.7% year on year, respectively). However, due to the decline in imports in all countries, we could observe a narrowing of the trade deficit compared to the second quarter of 2019, reaching –9.5% of GDP in Serbia, –14.6% of GDP in North Macedonia, –21.1% of GDP in Albania, –34.1% of GDP in Kosovo and –44.7% of GDP in Montenegro.

The combined current and capital account deficit as a share of GDP widened in the second quarter of 2020 compared to the same period of the previous year, in all countries except Serbia and Kosovo. The largest increase in the deficit was observed in Montenegro, where it reached –35.1% of GDP, compared to –28.5% in the same quarter in 2019. Remittances experienced a large drop in Serbia and to a lesser extent in the other Western Balkan countries. By contrast, remittances have increased in yearly terms in Kosovo and North Macedonia. Developments in FDI inflows have been heterogenous across the Western Balkans. In Albania, net FDI inflows increased in the second quarter of 2020 compared to the previous year, reaching –7.2% of GDP. In the other countries of the region, FDI inflows decreased in the second quarter of 2020 compared to the same quarter in 2019 but net FDI inflows increased in % of GDP in Kosovo and Montenegro. North Macedonia saw net FDI outflows of 0.6% of GDP in the second quarter of this year. Finally, Serbia also recorded a decline in FDI inflows, both in absolute and in net terms, reaching –6.1% of GDP in the second quarter of 2020.

Despite the severity of the economic downturn, the unemployment rate remained relatively stable compared to 2019 in most countries in the region up to the second quarter of 2020, averaging around 12.6% based on the available data (Bosnia and Herzegovina and Kosovo excluded). Following the downward trend of the previous year, unemployment (according to labor force survey data) decreased from 10.9% in 2019 to 7.7%, year on year, in the second quarter of 2020 in Serbia, and to 16.9% in North Macedonia, compared to 17.5% in the previous year. Nevertheless, labor market participation (especially of women) in the region remains low and the countries continue to experience strong brain drain. Average gross nominal wages in the Western Balkans continue to increase, but at a generally lower speed. Annual change in gross wages averaged 4.4% in the second quarter of 2020 (excluding Kosovo, where no data are available yet), reaching the highest growth rate in Serbia (8.7%, year on year). The slowdown due to the pandemic is likely to pose further challenges for labor markets in the coming months.

Inflation slowed down in almost all countries in the region in the second quarter of 2020, entering negative territory in Bosnia and Herzegovina and in Montenegro. Only Albania experienced an increase in CPI inflation in the beginning of 2020, reaching 1.9% in the second quarter. Higher inflation in Albania is mainly due to the increase in the price of food, nonalcoholic beverages and housing over the past months. On the other hand, Bosnia and Herzegovina, which had experienced a slowdown already before the crisis hit, had shown decreasing inflation in 2019 and even reached a deflation rate of 1.6% in the second quarter of 2020 due to decreasing oil prices and the imposed maximum margins on the local price of gasoline in the Federation of Bosnia and Herzegovina. Exchange rate developments in Albania and Serbia (the only two countries in the region with flexible exchange rate regimes) have been rather stable in recent months. Following temporary pressure on the Albanian lek in March, the central bank has supported the currency, and the exchange rate against the euro has stabilized at a slightly lower level compared to pre-crisis times.

In response to the pandemic, the Western Balkan countries have reacted with lockdown measures and monetary and fiscal policy steps. The National Bank of Serbia has progressively lowered the reference interest rate, from 3% in June 2019 to 1.25% in June 2020. North Macedonia has also decreased the policy rate in several steps, from 2.25% at the beginning of 2020 to 1.5% in May. The Bank of Albania decreased the policy rate from 1% to 0.5% in March. Next to interest rate reductions, all central banks (except the Central Bank of Bosnia and Herzegovina) have provided liquidity to the banking sector and introduced additional easing measures including the suspension of dividend payments of banks and the forbearance of loan repayments. A number of fiscal measures aimed at mitigating the short-run negative effects of the pandemic have been in place in all countries in the region. Economic support measures were often targeted at the most vulnerable households, the health care system, agricultural, tourism and banking sectors, and at employees affected by the crisis. Among other measures, tax payments and loan repayment moratoria were introduced. Additional measures taken by the governments in the region are limits to price hikes (Bosnia and Herzegovina, Serbia and Montenegro) and the lifting of import tariffs (Kosovo). The EU and international organizations like the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD) have been supporting the region with several packages in support of the health care system and with macrofinancial assistance (EU) or rapid financial assistance (IMF) and business competitiveness programs, also favoring energy efficiency technology investments and supporting small- and medium-sized enterprises. Further, the ECB has provided euro liquidity to several countries in the region through repo lines and the newly established Eurosystem repo facility for central banks EUREP[7]*.*

Fiscal positions are rather heterogenous across the Western Balkans. General government debt at the end of 2019 varied between 16.9% of GDP in Kosovo and 77.2% of GDP in Montenegro, with Albania recording the second highest debt ratio (66.1% of GDP). Fiscal positions have deteriorated in all Western Balkan countries due to the COVID-19 crisis and budgetary revisions that now foresee much higher budget deficits. The most recent change of budgetary plans was undertaken in North Macedonia in October 2020. According to the second revision, the government now expects a budget deficit of 8.4% of GDP in 2020 compared to the 6.8% still projected in May 2020 after the first revision.

[7] *Repo lines have been set up with the National Bank of the Republic of North Macedonia and the Bank of Albania (EUR 400 million each) and with the National Bank of Serbia (EUR 1 billion). These arrangements are to remain in place until June 2021.*

Regarding the EU enlargement process, Albania and North Macedonia showed some progress in strengthening democracy and the rule of law. If the conditions set in the EU Council conclusions are met, the two countries are expected to formally start EU accession talks by the end of the year. The 2020 enlargement progress reports also note positive developments in addressing the need for reforms in Bosnia and Herzegovina (which might receive EU candidate status by the summer of next year), but are cautious about the situation in Kosovo due to the limited progress in tackling corruption and in reforming the justice and education system. With respect to Serbia and Montenegro, the EU Commission remains critical about Serbia's progress, especially due to its lack of progress in judiciary reforms, and Montenegro, where challenges in terms of independence, professionalism, efficiency and accountability of the judiciary remain. On a general note, the EU Council stresses the need to focus on fundamental reforms for improving the rule of law, democracy and the respect for fundamental rights in the region. The EU will support the region's political, economic and social transformation, assisting in boosting regional GDP through an Economic and Investment Plan (up to 9 billion euro in grant funding and 20 billion in guarantees), and providing Guidelines for the Implementation of the Green Agenda for the Western Balkans.

2 Slovakia: coronavirus knocked down an already slowing economy

The economy had been slowing down on the back of cooling foreign demand when the pandemic hit

Before recording a historically large drop in GDP in Q2 (–12.1%), the Slovak economy slid into recession already in Q1 2020 (–3.7%). This downturn reflected a continued, gradual cooling of foreign demand, which resulted in a significantly negative contribution of net exports and fixed investment to economic growth.

Coronavirus began to cast dark clouds on the economy in late March after it had spread across Europe, including Slovakia. To slow down the spread of the virus, Slovakia, like the rest of Europe, imposed a broad lockdown of the economy in spring. Hence, while private consumption growth took a significant hit, it was still positive in the first quarter of 2020, partially benefiting from households' stockpiling of food and medicines. In the second quarter, in contrast, household consumption saw a record contraction, a slump in consumer confidence and weakening household income. The decline of fixed investment accelerated in the second quarter, especially in the automotive industry, for various reasons, ranging from firms' depressed liquidity to elevated uncertainty. The worldwide containment measures hit the car industry particularly hard and brought about a massive contraction of exports. Nonetheless, as imports shrank at a similar rate, the contribution of net exports to growth in the second quarter of 2020 was broadly neutral. It is worth mentioning that the automotive industry, which accounts for about 12% of Slovak GDP, took the largest hit from falling exports, but has recovered fast since the relaxation of containment measures in early summer.

A broad fiscal and monetary response aims to mitigate the massive economic damage

The plunge in economic activity has sparked a corresponding reaction in the labor market, which had shown signs of overheating before the crisis hit. The unemployment rate increased from 5.6% in December 2019 to 6.8% in August 2020. A stronger hike in unemployment has been avoided by the introduction of a furlough scheme by the government. Deteriorating labor market conditions have been mirrored by weakening wage growth, which started to show already at the beginning of the year. Wage growth was impaired by a combination of factors such as firm closures and more people on sick or care leave, which also led to a massive decline in the number of hours worked. However, the latter recovered to nearly pre-crisis levels in early summer as economic activity started to normalize. Headline inflation came down from 3.2% in December 2019 to 1.4% in August 2020, owing to lower price rises of food and several services as well as due to declining prices of transportation and energy. The government introduced fiscal measures to counteract the crisis amounting to more than EUR 2 billion (about 2.3% of 2019 GDP). These include wage compensations, rental subsidies and moratoria, higher medical spending, enhanced unemployment, sickness and nursing benefits as well as deferral or waiver of health insurance and social security contributions, some taxes or loan repayments. In addition, several state guarantee schemes (worth up to EUR 4 billion) were adopted. As a result, the general government fiscal deficit is now expected to rise to 6% of GDP in 2020, compared to the December 2019 estimate of 1.6% of GDP, and general government debt is projected to go up to roughly 63% this year. As to monetary policy, Národná banka Slovenska (NBS) has adopted a highly accommodative monetary stance. Apart from the measures it implemented in its role as Eurosystem member, the central bank lowered the countercyclical capital buffer rate from 1.5 to 1.0% as of August 1, 2020, revoking its previous decision to increase it to 2.0%. Moreover, the NBS reduced the capital buffer for systemically important banks for Postova Banka from 1% to 0.25%, effective from January 1, 2021.

Table 2

Main economic indicators: Slovakia

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	3.0	3.9	2.4	3.7	2.5	1.5	2.1	–3.7	–12.1
Private consumption	4.5	4.1	2.1	1.3	3.1	1.9	2.3	1.1	–4.0
Public consumption	1.0	0.2	4.6	3.5	6.0	4.2	4.7	1.1	–10.4
Gross fixed capital formation	3.5	2.6	6.8	3.1	4.2	10.4	8.3	–4.8	–14.6
Exports of goods and services	3.6	5.3	1.7	9.0	–0.9	–0.1	–0.5	–6.8	–26.8
Imports of goods and services	3.9	4.9	2.6	6.5	1.4	3.3	–0.5	–1.5	–27.0
	Contribution to GDP growth in percentage points								
Domestic demand	3.2	3.4	3.1	1.1	4.6	4.5	2.1	1.9	–11.9
Net exports of goods and services	–0.2	0.5	–0.7	2.6	–2.2	–3.0	0.0	–5.4	–0.2
Exports of goods and services	3.4	5.0	1.7	8.9	–0.9	–0.1	–0.5	–7.0	–24.6
Imports of goods and services	–3.5	–4.6	–2.4	–6.3	–1.3	–2.9	0.5	1.5	24.4
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	4.5	3.9	5.9	4.7	7.9	6.5	4.6	8.9	6.6
Unit labor costs in manufacturing (nominal, per hour)	6.5	3.5	5.7	1.7	4.3	7.7	8.7	8.6	20.8
Labor productivity in manufacturing (real, per hour)	1.0	4.7	1.3	7.4	2.6	–2.4	–2.0	–0.7	–11.7
Labor costs in manufacturing (nominal, per hour)	7.5	8.4	6.9	9.2	7.1	5.0	6.5	7.9	6.8
Producer price index (PPI) in industry	2.5	2.4	1.8	2.7	2.9	1.1	0.7	1.7	–1.4
Consumer price index (here: HICP)	1.4	2.5	2.8	2.4	2.6	3.0	3.1	2.9	2.0
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	8.2	6.6	5.8	5.9	5.8	5.9	5.7	6.0	6.7
Employment rate (%, 15–64 years)	66.2	67.6	68.4	68.6	68.1	68.5	68.5	68.0	66.8
Key interest rate per annum (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	10.2	8.4	8.4	7.5	6.2	6.8	6.8	6.2	5.6
of which: loans to households	11.8	11.3	11.3	9.5	8.5	8.1	8.0	7.9	7.0
loans to nonbank corporations	7.6	3.4	3.4	3.9	2.1	4.4	4.4	3.0	3.0
	%								
Share of foreign currency loans in total loans to the non-bank private sector	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.3
Return on assets (banking sector)	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.3	0.3
Tier 1 capital ratio (banking sector)	16.6	16.6	16.6	16.7	16.8	16.6	16.6	17.3	18.0
NPL ratio (banking sector)	3.6	3.0	2.8	2.9	2.8	2.8	2.8	2.8	2.7
	% of GDP								
General government revenues	40.5	40.7	41.5	..	..	..	..	..	..
General government expenditures	41.5	41.8	42.8	..	..	..	..	..	..
General government balance	–1.0	–1.0	–1.3	..	..	..	..	..	..
Primary balance	0.4	0.2	–0.1	..	..	..	..	..	..
Gross public debt	51.3	49.4	48.0	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	60.0	54.6	26.0	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	41.0	42.5	20.2	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	0.7	–0.2	–0.8	1.3	–0.8	–3.1	–0.3	–3.4	0.1
Services balance	1.1	1.0	1.1	0.8	1.6	1.6	0.4	1.3	1.3
Primary income	–2.1	–2.0	–2.1	–1.1	–2.3	–2.4	–2.5	–0.7	–2.0
Secondary income	–1.5	–1.4	–1.1	–1.9	–1.3	–1.1	0.0	–1.4	–0.8
Current account balance	–1.9	–2.6	–2.9	–1.0	–2.8	–5.1	–2.4	–4.2	–1.4
Capital account balance	0.1	1.4	1.0	0.2	1.3	0.0	2.4	1.7	0.3
Foreign direct investment (net)[3]	–2.8	–0.9	–2.2	–0.5	1.0	–2.0	–6.9	–1.6	3.9
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	108.2	113.7	111.9	110.4	112.3	113.4	111.9	112.5	123.5
Gross official reserves (excluding gold)	2.3	3.8	5.3	4.4	4.8	5.6	5.3	5.5	6.7
	Months of imports of goods and services								
Gross official reserves (excluding gold)	0.3	0.5	0.7	0.5	0.6	0.7	0.7	0.7	0.9
	EUR million, period total								
GDP at current prices	84,521	89,606	94,171	21,657	23,667	24,597	24,251	21,485	21,200

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

3 Slovenia: recession lets budget deficit soar and sends banks' profitability into nosedive

GDP severely hit by COVID-19, but gradual recovery has started

Slovenia's GDP contracted by 13.1% year on year during Q2 2020, which brought the decline in economic activity during the first half of the year to around 8% year on year. Domestic demand was heavily hit by the COVID-19 crisis, with both private consumption and investments contracting by more than 16% year on year during Q2 2020. This reflected collapsing economic sentiment, declining employment, a rise in part-time employment and slowing real average wage growth, a sharp drop in capacity utilization and a slowdown in lending to households and corporates. Public consumption increased modestly, reflecting measures taken by the government in response to the pandemic. Net real exports had a negative effect on the overall growth rate, as both exports and imports decreased by roughly 25% year on year. For both exports and imports, services trade collapsed more than trade in goods, as the transportation and tourism sector belonged to those hit most severely by the lockdown measures. High-frequency indicators suggest that the economy started to slowly but steadily recover from May onward. However, confidence indicators as well as the index levels of "hard" data (industrial output, construction, retail sales) continued to be substantially lower than in February.

Government budget to slip into large deficit in 2020

As a result of the pandemic, the general government budget balance turned into a deficit of around 4.7% of GDP during the first half of 2020, compared to a surplus of 0.5% of GDP in the same period of 2019. In late September, parliament adopted changes to the 2020 budget, increasing the deficit target to 9.3% of GDP, as opposed to the original target of a surplus of around 1% of GDP. The large deficit is the result of the fiscal impact of the recession and the government measures taken in response. Compared to the original plan, revenues are expected to drop by around 15% while expenditure is set to rise by 30% .

Nosediving domestic demand and temporary cut in electricity prices drive inflation into negative territory

The sharp contraction of economic activity went hand in hand with slowing price pressures, with inflation remaining in negative territory since April 2020. Deflation was primarily driven by energy prices, not least due to the temporary cut in household electricity prices in response to the pandemic. Core inflation has slowed substantially as well on the back of price developments in services and nonenergy industrial goods.

Slowing credit growth and increased provisioning bites into bank profitability

The growth of credit to the private sector has slowed markedly in recent months (from around 5%–6% in early 2020 to 1%–2% in June 2020), with corporate and retail loans having been affected to a similar extent. Presumably both supply and demand factors have been at work. In the retail segment, housing loans have been least affected, while the growth rate of loans for consumption and other purposes even turned negative. Take-up under the debt service moratorium scheme was very limited, covering only 3.1% of the total number of household loans and 5.6% of the total number of corporate loans by the end of June 2020. Slowing credit activity was mirrored in the decrease in the banking sector's net interest income during the first half of 2020. Net noninterest income fell even more. The deteriorating economic situation resulted in an increase in impairment and provisioning costs. Overall, the banking sector's net profit fell by two-thirds during the first half of 2020. Nonperforming exposures continued to decline both in absolute terms and as a percentage of total exposures. However, classified claims in arrears for more than 90 days increased, indicating some deterioration in the quality of banks' credit portfolios.

Table 3

Main economic indicators: Slovenia

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	4.8	4.4	3.2	4.4	3.3	3.1	2.0	–2.4	–13.1
Private consumption	1.9	3.6	4.8	4.8	6.5	5.8	2.3	–6.4	–17.4
Public consumption	0.4	3.0	1.7	2.5	2.4	2.5	–0.3	4.2	–0.9
Gross fixed capital formation	10.2	9.6	5.8	11.9	9.2	4.8	–1.2	–5.4	–16.5
Exports of goods and services	11.1	6.3	4.1	5.0	5.4	4.9	1.1	–0.9	–23.5
Imports of goods and services	10.7	7.2	4.4	4.8	6.0	7.6	–0.3	–1.9	–24.4
	Contribution to GDP growth in percentage points								
Domestic demand	3.6	4.5	3.1	3.8	3.2	4.6	0.9	–3.1	–11.6
Net exports of goods and services	1.2	–0.1	0.1	0.6	0.1	–1.5	1.1	0.7	–1.5
Exports of goods and services	8.6	5.2	3.5	4.3	4.6	4.1	0.9	–0.8	–20.0
Imports of goods and services	–7.4	–5.3	–3.4	–3.7	–4.6	–5.7	0.3	1.5	18.5
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	1.2	2.8	4.2	3.1	5.6	4.2	3.9	6.9	11.0
Unit labor costs in manufacturing (nominal, per hour)	–2.4	–2.6	0.0	1.5	–0.4	–1.9	0.6	2.8	20.7
Labor productivity in manufacturing (real, per hour)	9.2	6.5	4.0	5.3	4.9	3.8	2.1	1.6	–13.9
Labor costs in manufacturing (nominal, per hour)	6.7	3.7	3.9	6.9	4.5	1.8	2.7	4.4	3.9
Producer price index (PPI) in industry	2.2	2.1	0.6	1.1	0.8	0.3	0.4	–0.1	–0.6
Consumer price index (here: HICP)	1.6	1.9	1.7	1.3	1.7	2.1	1.6	1.6	–1.2
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	6.7	5.2	4.5	4.9	4.3	4.8	4.0	4.6	5.2
Employment rate (%, 15–64 years)	69.3	71.1	71.9	71.3	72.5	72.1	71.6	71.5	70.0
Key interest rate per annum (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	4.9	1.9	1.9	2.8	3.6	3.9	4.3	5.1	1.3
of which: loans to households	6.8	6.4	6.4	6.3	5.9	5.7	5.8	4.1	1.6
loans to nonbank corporations	3.1	–2.2	–2.2	–0.6	1.4	2.1	2.8	6.1	1.1
	%								
Share of foreign currency loans in total loans to the non-bank private sector	2.4	2.0	1.7	1.9	1.8	1.8	1.7	1.6	1.6
Return on assets (banking sector)	1.1	1.3	1.3	1.3	1.8	1.6	1.3	0.6	0.6
Tier 1 capital ratio (banking sector)	17.7	17.6	17.8	17.6	17.6	17.7	17.8	..	..
NPL ratio (banking sector)	3.7	2.3	1.1	2.0	1.5	1.5	1.1	1.1	1.2
	% of GDP								
General government revenues	44.0	44.3	44.2	..	..	..	..	..	..
General government expenditures	44.1	43.6	43.7	..	..	..	..	..	..
General government balance	0.0	0.7	0.5	..	..	..	..	..	..
Primary balance	2.4	2.7	2.2	..	..	..	..	..	..
Gross public debt	74.1	70.4	66.1	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	55.4	51.5	24.4	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	27.1	26.9	12.8	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	3.7	2.5	2.7	3.7	3.6	1.6	2.2	5.1	5.5
Services balance	5.2	5.8	6.3	5.2	6.1	7.4	6.3	4.9	3.8
Primary income	–2.1	–1.8	–1.4	–1.1	–1.9	–1.6	–1.1	–0.9	–2.0
Secondary income	–0.7	–0.9	–1.0	–1.9	–0.8	–1.0	–0.5	–1.5	–1.2
Current account balance	6.1	5.7	6.5	5.9	7.0	6.3	6.8	7.7	6.0
Capital account balance	–0.8	–0.5	–0.3	–0.2	–0.1	–0.2	–0.9	–0.5	–0.2
Foreign direct investment (net)[3]	–1.2	–2.0	–1.4	–3.9	–1.1	–1.0	0.0	–1.7	–1.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	100.4	91.8	91.1	91.1	92.5	93.6	91.1	94.7	102.3
Gross official reserves (excluding gold)	1.5	1.5	1.6	1.6	1.7	1.6	1.6	1.7	1.8
	Months of imports of goods and services								
Gross official reserves (excluding gold)	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
	EUR million, period total								
GDP at current prices	43,009	45,863	48,393	11,252	12,190	12,489	12,462	11,270	10,828

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

4 Bulgaria: severest recession since 1999 amid rising political uncertainty

Slowing economic recovery due to deteriorating COVID-19 situation in summer

Having avoided a severe first wave in spring 2020, Bulgaria saw a substantially faster spread of COVID-19 in July after gradually reopening its economy. As a result, the so-called "epidemic declaration" that succeeded the two-month state of emergency in mid-May has been repeatedly extended.

Due to a sharp fall in external demand and lockdown measures, real GDP dropped by nearly 9% in annual terms in the second quarter of 2020 (the strongest quarterly contraction since 1999). A production-side view reveals that the recession was mainly driven by wholesale and retail trade, transportation, accommodation and industry sectors, while the contribution of information and communication sectors was still positive. HICP inflation fell from 3.1% in February to 0.6% in August 2020, mainly driven by a decline in energy prices. On the other hand, Bulgaria's utilities regulator decided to raise gas prices by 20% as of September 2020 and by another 10% as of October. Compared to the sharp GDP contraction, labor market distortions have been moderate so far, mostly due to government support measures. At end-August, the unemployment rate (seasonally adjusted) stood at 6.2% and was thus about 2 percentage points higher than before the crisis.

Rising COVID-19 cases had a severe impact on tourism, which saw a stronger decline than in most other EU countries. Nights spent by nonresidents in Bulgaria were lower by 96% in June and by 78% in July compared to the same period a year ago. Domestic tourism slowed less severely but still substantially. Preliminary data indicate an even steeper annual decline in August as compared to July.

The so-called 60:40 job retention scheme has emerged as one of the main crisis mitigation measures adopted by the government. Under this scheme, the state supported affected businesses by taking over 60% of gross salaries of employees under the condition that employers retain their staff and pay the remaining 40%. The scheme expired in September, and although the government had signaled its willingness to extend it, no decision had been taken at the time of writing. For the particularly hard-hit hospitality industry, an analogous 80:20 scheme with a duration until the end of 2020 was set up, with discussions going on about extending it until May 2021.

Despite the economic policy measures, the consolidated general government budget remained in surplus through the first eight months of the year, partly reflecting a reprioritization of expenditures and some delay in implementing the measures. So far, the government has been successful in issuing long-term bonds at favorable conditions, exploiting in September already half of the annual borrowing amount.

ERM II accession overshadowed by mass anti-government protests

Marking an important milestone, the Bulgarian lev was included in the exchange rate mechanism ERM II on July 10, 2020, with its existing currency board arrangement in place. The latter remains comfortably backed by a comparatively large share of gross official reserves (excluding gold) of more than 43% of GDP. Also, on October 1, Bulgaria joined the SSM, which implies that the ECB started to directly supervise five banks in Bulgaria; three of these banks are the largest banks of the country and the other two are part of important cross-border groups.

Quite in parallel to ERM II accession, mass anti-government protests erupted in early July and persisted until most recently. These protests are rooted in people's perception of state capture, a lack of judiciary independence and widespread corruption and are calling for a resignation of the government and the chief prosecutor. On a related note, political struggles between the opposition-backed president and the government have intensified.

Table 4

Main economic indicators: Bulgaria

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	3.5	3.1	3.4	4.5	3.6	2.9	2.9	1.2	–8.7
Private consumption	3.8	4.4	5.8	3.8	7.1	7.0	5.3	1.2	–5.8
Public consumption	4.3	5.3	5.5	6.9	1.4	6.1	7.5	2.0	1.1
Gross fixed capital formation	3.2	5.4	2.2	0.2	0.9	0.9	5.6	–7.1	–8.8
Exports of goods and services	5.8	1.7	1.9	4.1	0.3	3.7	–0.3	1.8	–19.6
Imports of goods and services	7.4	5.7	2.4	2.8	1.2	6.3	–0.5	0.3	–18.9
	Contribution to GDP growth in percentage points								
Domestic demand	4.2	5.5	3.6	3.5	4.2	4.0	2.8	–0.1	–8.2
Net exports of goods and services	–0.7	–2.4	–0.3	0.8	–0.6	–1.1	0.1	1.1	–0.6
Exports of goods and services	3.7	1.1	1.3	2.9	0.2	2.5	–0.2	1.3	–12.2
Imports of goods and services	–4.4	–3.6	–1.5	–2.1	–0.8	–3.6	0.3	–0.2	11.6
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	8.4	6.3	3.0	2.9	4.1	1.5	3.3	4.6	10.0
Unit labor costs in manufacturing (nominal, per hour)	6.0	2.0	6.3	2.5	6.5	8.9	7.6	7.8	9.8
Labor productivity in manufacturing (real, per hour)	6.2	7.7	3.7	10.1	2.9	–0.3	3.3	1.2	0.9
Labor costs in manufacturing (nominal, per hour)	12.6	9.8	10.5	12.9	9.7	8.6	11.1	9.1	10.7
Producer price index (PPI) in industry	4.9	4.0	3.0	3.3	2.7	3.4	2.8	1.4	–4.4
Consumer price index (here: HICP)	1.2	2.6	2.5	2.5	2.8	2.2	2.3	3.0	1.1
EUR per 1 BGN, + = BGN appreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	6.3	5.3	4.3	5.1	4.2	3.7	4.1	4.6	6.0
Employment rate (%, 15–64 years)	66.9	67.7	70.1	68.3	70.7	71.4	70.0	68.1	67.4
Key interest rate per annum (%)[1]	..	..	..	..	..	..	..	..	..
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[2]	4.8	8.3	8.3	7.9	6.9	7.2	9.4	9.1	6.6
of which: loans to households	6.1	11.2	11.2	11.0	8.1	9.1	9.5	9.9	8.0
loans to nonbank corporations	4.1	6.6	6.6	6.1	6.2	6.0	9.3	8.7	5.7
	%								
Share of foreign currency loans in total loans to the nonbank private sector	37.9	34.9	33.2	34.1	33.5	33.1	33.2	32.7	32.6
Return on assets (banking sector)	1.2	1.7	1.5	1.2	1.7	1.6	1.5	1.0	0.9
Tier 1 capital ratio (banking sector)	20.9	19.4	19.5	18.3	19.7	20.2	19.5	19.8	22.5
NPL ratio (banking sector)	6.9	5.1	4.2	4.9	4.8	5.0	4.2	4.2	5.2
	% of GDP								
General government revenues	36.0	38.5	38.4	..	..	..	..	..	..
General government expenditures	34.9	36.6	36.3	..	..	..	..	..	..
General government balance	1.1	2.0	2.1	..	..	..	..	..	..
Primary balance	1.9	2.6	2.7	..	..	..	..	..	..
Gross public debt	25.3	22.3	20.4	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	85.2	83.2	76.9	..	..	..	..	..	..
Debt of households and NPISHs[3] (nonconsolidated)	22.6	23.0	21.3	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–1.5	–3.3	–2.8	–2.7	–4.0	–1.6	–2.9	–3.0	–1.1
Services balance	5.9	6.3	6.2	3.1	5.6	12.1	3.5	5.4	4.2
Primary income	–4.4	–1.2	–2.8	–2.9	–3.2	–3.2	–1.8	–2.9	–2.5
Secondary income	3.5	3.5	3.4	4.3	4.7	2.9	2.0	3.6	1.1
Current account balance	3.5	5.3	4.0	1.8	3.1	10.2	0.7	3.1	1.8
Capital account balance	1.0	1.1	1.5	1.5	1.6	1.6	1.2	1.4	2.0
Foreign direct investment (net)[4]	–2.5	–0.6	–1.3	–0.7	–0.8	–2.3	–1.2	–2.1	–0.8
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	71.8	65.9	62.2	65.6	64.5	64.5	62.2	61.2	62.0
Gross official reserves (excluding gold)	42.5	42.1	38.0	41.0	40.1	39.5	38.0	40.3	43.3
	Months of imports of goods and services								
Gross official reserves (excluding gold)	8.1	8.1	7.6	7.9	7.9	7.7	7.6	8.1	9.1
	EUR million, period total								
GDP at current prices	52,310	56,087	60,675	12,711	15,070	16,184	16,710	13,076	14,007

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Not available in a currency board regime.*
[2] *Foreign currency component at constant exchange rates.*
[3] *Nonprofit institutions serving households.*
[4] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

5 Croatia: exports plummet as spring tourist season falls victim to lockdown

Largest GDP contraction in the region in the second quarter

In the first half of 2020, Croatia's GDP contracted by 7.4%, and by as much as 15.1% in the second quarter alone, the largest drop among the CESEE countries covered in this article. The contraction in the first half of 2020 was broadly based with sharp falls in all components. Net exports made a negative contribution as exports contracted more (–21.8% year on year) than imports (–17%), largely due to a sharp drop in service exports: tourist arrivals in the first half of 2020 fell by 80% compared to the same period in 2019. As a result, also the current account deficit widened to 6% of GDP in the second quarter of 2020 (versus 2.6% of GDP a year earlier). On the output side, wholesale and retail trade, transportation, accommodation and food service activities contracted the most (–20% year on year), followed by taxes (less subsidies on products), which decreased by 18%. These categories combined accounted for most of the drop in GDP. Industry contracted, but some sectors continued to grow in the first half of 2020, including construction, ICT and public administration.

Central bank and government policies prevented worse economic contraction

Without a stabilizing monetary policy and substantial government support measures, the slump could have been much worse. Government packages amounted to an estimated 11% of GDP and included mainly state guarantees for loans, tax deferrals and write-offs. Most of direct fiscal spending was for the wage support scheme for enterprises affected by COVID-19. The scheme was recently extended until end-2020, but eligibility criteria were tightened over time. Since the peak in May, the number of workers for which employers received wage support declined from around 550,000 (more than 30% of Croatia's labor force) to around 57,500 at end-July. In August, the unemployment rate was 8.3%, 1.8 percentage points higher compared to August 2019.

The Croatian central bank (HNB) was very active in the early stages of the pandemic, conducting foreign currency interventions and liquidity operations and establishing a swap line with the ECB (agreed until June 2021). Foreign currency interventions led to a temporary decline of international reserves to EUR 15.7 billion in May, but reserves had returned to their end-2019 level of around EUR 18 billion by end-July (approximately 9 months of imports). In April, monthly HICP inflation turned negative and stood at –0.4% in August, largely due to a strong contraction in energy prices. Core inflation also declined but remained positive at 0.5% in August 2020.

Banking sector profits halved, NPL ratio still unchanged

The HNB reported that the banking sector's return on assets in the first half of 2020 halved to 0.76% compared to last year. Four out of twenty banks were recording losses. The tier 1 capital ratio stood at a high level of 24% in mid-2020, and the ratio of nonperforming loans (NPL ratio) was 5.5%, both roughly unchanged compared to end-2019. The rise in NPLs was prevented by regulatory easing, but IFRS 9 "stage 2" loans increased strongly. As of June 10, 2020, 8% of the banking sector's credit volume was covered by a moratorium, according to the HNB. 76% of moratoria were granted to households, while corporates accounted for the bulk of the volume (71% of the total).

Fiscal imbalances and debt indicators worsen due to COVID-19

The fiscal response to the crisis has led to a sharp increase of the already high level of sovereign debt, which reached 85.3% of GDP in the second quarter of 2020 versus 73.2% of GDP in 2019, and the budget deficit stood at 7.5% of GDP in the first half of 2020. Croatia's external debt increased to 79.7% of GDP in the second quarter of 2020 from 75.8% at end-2019.

Table 5

Main economic indicators: Croatia

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	3.1	2.7	2.9	4.1	2.4	2.9	2.5	0.4	–15.1
Private consumption	3.1	3.2	3.5	4.3	2.7	3.0	4.0	0.8	–13.8
Public consumption	2.2	1.3	3.3	3.1	3.9	2.9	3.5	4.8	0.7
Gross fixed capital formation	5.1	4.1	7.1	11.5	8.2	5.0	4.0	3.1	–14.7
Exports of goods and services	6.8	3.7	4.6	4.1	3.3	5.1	5.6	–3.0	–40.6
Imports of goods and services	8.4	7.5	4.8	6.5	8.3	4.3	0.1	–5.8	–28.1
	Contribution to GDP growth in percentage points								
Domestic demand	3.8	4.5	3.1	6.4	5.2	1.0	0.4	–2.0	–10.6
Net exports of goods and services	–0.6	–1.8	–0.1	–2.1	–2.7	1.6	2.2	2.1	–4.6
Exports of goods and services	3.3	1.8	2.3	1.5	1.6	3.6	2.3	–1.1	–19.8
Imports of goods and services	–3.9	–3.7	–2.5	–3.6	–4.3	–2.0	–0.1	3.2	15.2
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	1.1	6.5	11.4	8.0	11.3	12.2	14.5	5.4	6.7
Labor productivity in manufacturing (real, per hour)	3.6	2.2	–7.2	–0.1	–9.3	–8.1	–10.3	–5.1	–6.2
Labor costs in manufacturing (nominal, per hour)	4.6	9.0	3.6	7.9	0.9	3.2	2.7	0.0	0.1
Producer price index (PPI) in industry	2.0	2.2	0.8	1.4	1.6	–0.2	0.3	–0.1	–5.4
Consumer price index (here: HICP)	1.3	1.6	0.8	0.8	0.8	0.7	0.9	1.2	–0.4
EUR per 1 HRK, + = HRK appreciation	0.9	0.6	0.0	0.2	–0.3	0.3	–0.3	–0.9	–2.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	11.3	8.6	6.7	7.6	6.2	5.8	7.3	7.1	6.5
Employment rate (%, 15–64 years)	58.9	60.7	62.1	61.2	61.8	63.0	62.2	61.4	62.2
Key interest rate per annum (%)	..	..	..	..	..	..	..	..	..
HRK per 1 EUR	7.5	7.4	7.4	7.4	7.4	7.4	7.4	7.5	7.6
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	0.6	2.4	2.4	3.5	2.8	2.3	3.4	4.7	2.3
of which: loans to households	2.2	4.7	4.7	5.9	6.0	6.3	6.7	5.3	3.0
loans to nonbank corporations	–1.6	–0.8	–0.8	0.2	–1.6	–3.3	–1.3	3.9	1.2
	%								
Share of foreign currency loans in total loans to the non-bank private sector	56.9	54.7	51.5	54.4	53.0	51.9	51.5	51.5	51.4
Return on assets (banking sector)	0.9	1.2	1.4	1.3	1.5	1.4	1.4	1.0	0.8
Tier 1 capital ratio (banking sector)	22.3	22.1	24.0	21.6	22.2	22.0	24.0	22.7	24.0
NPL ratio (banking sector)	8.8	7.6	5.5	7.4	7.3	6.0	5.5	5.4	5.5
	% of GDP								
General government revenues	46.1	46.5	47.5	..	..	..	..	..	..
General government expenditures	45.3	46.3	47.1	..	..	..	..	..	..
General government balance	0.8	0.2	0.4	..	..	..	..	..	..
Primary balance	3.5	2.5	2.6	..	..	..	..	..	..
Gross public debt	77.8	74.7	73.2	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	93.8	92.2	88.0	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	34.2	34.1	32.5	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–17.2	–18.7	–19.4	–21.8	–22.3	–15.8	–18.4	–20.9	–17.1
Services balance	17.9	17.9	19.2	1.9	17.5	43.6	8.2	3.4	4.2
Primary income	–1.4	–1.6	–1.6	–1.5	–2.7	–1.6	–0.6	0.6	0.2
Secondary income	4.2	4.3	4.6	3.8	5.0	3.6	6.0	5.1	6.7
Current account balance	3.5	1.8	2.7	–17.5	–2.6	29.8	–4.8	–11.9	–6.0
Capital account balance	1.1	1.4	2.1	1.7	2.8	1.5	2.4	1.9	3.1
Foreign direct investment (net)[3]	–2.3	–1.6	–2.0	–4.3	0.6	–2.3	–2.4	–2.8	–1.6
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	89.0	82.7	75.8	83.7	85.1	80.6	75.8	74.7	79.7
Gross official reserves (excluding gold)	32.0	33.8	34.4	35.0	37.7	38.2	34.4	30.5	33.5
	Months of imports of goods and services								
Gross official reserves (excluding gold)	7.8	7.9	7.9	8.1	8.6	8.7	7.9	7.1	8.0
	EUR million, period total								
GDP at current prices	49,105	51,631	53,943	11,871	13,542	15,271	13,259	12,045	11,171

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

6 Czech Republic: economy in worst doldrums in country's history

COVID-19 crisis has magnified the earlier economic slowdown

GDP growth turned negative in the first quarter of 2020 (–1.6% year on year), given a steep decline in investment exacerbated by suddenly stalling private consumption. The latter suffered noticeably from the large-scale lockdown that was introduced to contain the spread of COVID-19 in mid-March. Fixed investment as well as net exports suffered from a sharp deterioration of global economic sentiment and external demand. In the second quarter the government declared a state of emergency that lasted until mid-May. Consumer and business sentiment indicators plummeted to historic lows. 90% of the automobile industry –accounting for more than 8% of GDP – had to stop or restrain production for nearly two months. As a result, and despite highly accommodative monetary and fiscal policies, the economy experienced the largest quarterly crash since the beginning of transition in the early 1990s (nearly 11% year on year). Both domestic and external demand provided an almost equal negative contribution to this slump, whereas public consumption was the only component to contribute positively to economic growth, not least owing to higher expenditures on health care.

With regard to the balance of payments, the COVID-19 crisis has led to a significantly lower outflow of dividends. As a consequence, the deficit of the primary income balance was unusually low in the six months to June 2020 so that the current account recorded a significant surplus. The originally envisaged general government deficit of CZK 40 billion (0.7% of GDP) for 2020 has been revised three times to currently CZK 500 billion (around 9.3% of GDP). Public debt is projected to rise accordingly, to about 37% of GDP in 2020. Until the outbreak of the crisis, GDP growth was held back by a tight labor market characterized by labor shortages, buoyant wage growth and record low unemployment. As the crisis started to unfold, the unemployment rate rose only modestly from a low of 2% in February to 2.7% in August. A more significant rise in unemployment has been prevented (or delayed) by the government's job retention scheme as well as the fact that some foreign and older workers pulled out of the labor force. Despite the resulting lower pressure on wages and a significant drop in the oil price, inflation (averaging 3.5% in the first eight months of 2020) remains above the central bank's tolerance band (2% ±1 percentage point). This is due to a weaker koruna, higher food and administered prices as well as increased costs for firms due to supply restrictions and new sanitary requirements.

Sustained vigorous economic policy response to counteract the economic slump

The country's favorable fiscal position provided the government with ample space to introduce a large set of measures to mitigate the economic damage caused by the pandemic. Hence, a job retention scheme, benefit payments to self-employed, income support to workers caring for children and deferrals of taxes, loan and rent repayments were put in place. In addition, a loan and guarantee program worth 16% of GDP was launched to preserve the liquidity of firms. While a fiscal package totaling more than 20% of GDP is rather generous by international standards, the disbursements recorded so far suggest that actual anti-crisis support is likely to turn out notably lower. The Czech central bank eased its monetary policy in the reporting period by cutting its policy rate by 200 basis points to 0.25% between end-March and end-May. Moreover, the central bank further reduced the countercyclical capital buffer, broadened the range of eligible collateral, introduced liquidity-providing operations with longer maturities and relaxed regulatory limits for mortgages.

Table 6

Main economic indicators: Czech Republic

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	5.2	3.2	2.3	2.5	2.1	3.0	1.7	–1.6	–10.8
Private consumption	4.0	3.5	3.1	2.8	3.2	3.3	3.0	0.0	–7.3
Public consumption	1.8	3.8	2.3	1.9	2.7	3.2	1.5	4.4	1.8
Gross fixed capital formation	4.9	10.0	2.2	2.8	–0.3	1.9	4.0	–3.8	–4.6
Exports of goods and services	7.2	3.7	1.3	1.1	1.8	4.3	–1.7	–1.5	–23.1
Imports of goods and services	6.3	5.8	1.4	1.9	0.7	2.2	0.7	–1.3	–18.4
	Contribution to GDP growth in percentage points								
Domestic demand	3.9	4.4	2.3	3.1	1.3	1.4	3.4	–1.3	–5.7
Net exports of goods and services	1.2	–1.2	0.0	–0.5	0.9	1.6	–1.8	–0.3	–5.1
Exports of goods and services	5.7	2.9	1.0	0.9	1.4	3.1	–1.3	–1.2	–17.4
Imports of goods and services	–4.5	–4.1	–1.0	–1.4	–0.5	–1.5	–0.5	0.9	12.4
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	3.5	6.2	4.1	4.6	4.7	3.1	4.2	5.7	9.4
Unit labor costs in manufacturing (nominal, per hour)	1.4	4.7	7.7	8.2	7.6	6.8	8.1	3.2	16.0
Labor productivity in manufacturing (real, per hour)	6.5	3.9	–0.8	–1.0	–0.7	0.1	–1.7	3.6	–8.3
Labor costs in manufacturing (nominal, per hour)	8.0	8.8	6.8	7.1	6.8	6.8	6.3	6.8	6.3
Producer price index (PPI) in industry	0.8	0.7	1.7	3.1	2.5	1.2	0.1	0.1	1.0
Consumer price index (here: HICP)	2.4	2.0	2.6	2.3	2.4	2.6	3.0	3.7	3.3
EUR per 1 CZK, + = CZK appreciation	2.7	2.7	–0.1	–1.1	–0.3	–0.1	1.1	0.3	–5.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	2.9	2.3	2.1	2.1	1.9	2.2	2.1	2.0	2.4
Employment rate (%, 15–64 years)	73.6	74.8	75.1	75.0	75.0	75.2	75.3	74.8	74.1
Key interest rate per annum (%)	0.2	1.1	1.9	1.8	1.9	2.0	2.0	2.0	0.6
CZK per 1 EUR	26.3	25.6	25.7	25.7	25.7	25.7	25.6	25.6	27.1
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	6.9	6.8	6.8	5.4	5.3	3.9	5.0	5.6	3.7
of which: loans to households	7.5	7.5	7.5	7.0	6.6	6.3	6.1	6.3	6.1
loans to nonbank corporations	6.2	5.8	5.8	3.6	3.9	1.2	3.8	4.8	0.7
	%								
Share of foreign currency loans in total loans to the non-bank private sector	13.3	14.1	14.5	14.9	14.8	15.3	14.5	16.9	16.1
Return on assets (banking sector)	1.1	1.1	1.2	1.0	1.2	1.2	1.2	0.7	0.7
Tier 1 capital ratio (banking sector)	18.7	19.1	20.8	19.1	19.8	19.8	20.8	20.9	22.5
NPL ratio (banking sector)	4.1	3.1	2.4	3.0	2.7	2.5	2.4	2.3	2.4
	% of GDP								
General government revenues	41.0	42.2	42.1	..	..	..	..	..	..
General government expenditures	39.5	41.2	41.9	..	..	..	..	..	..
General government balance	1.5	0.9	0.3	..	..	..	..	..	..
Primary balance	2.2	1.8	0.9	..	..	..	..	..	..
Gross public debt	34.7	32.6	30.8	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	57.4	55.9	53.3	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	32.2	31.6	30.1	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	5.0	3.7	4.2	5.5	5.5	3.4	2.4	4.7	2.4
Services balance	2.5	2.3	1.8	2.6	2.6	1.4	0.8	2.7	2.1
Primary income	–5.0	–4.8	–5.6	–3.1	–6.2	–8.2	–4.8	–0.3	–3.2
Secondary income	–0.9	–0.7	–0.7	–2.0	–0.1	–0.9	0.0	–1.6	–0.8
Current account balance	1.6	0.4	–0.4	3.0	1.8	–4.3	–1.5	5.5	0.6
Capital account balance	0.8	0.3	0.2	–0.5	0.6	0.1	0.7	1.4	1.6
Foreign direct investment (net)[3]	–0.9	–0.9	–1.1	–0.3	–2.0	–1.8	–0.1	0.0	–3.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	88.0	81.4	77.0	79.8	79.1	78.2	77.0	72.8	75.3
Gross official reserves (excluding gold)	63.3	58.9	59.4	59.5	59.4	59.8	59.4	58.6	61.7
	Months of imports of goods and services								
Gross official reserves (excluding gold)	10.6	10.0	10.5	10.1	10.2	10.4	10.5	10.6	11.4
	EUR million, period total								
GDP at current prices	194,418	210,846	223,955	51,705	56,097	57,132	59,021	52,808	49,438

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] Foreign currency component at constant exchange rates.

[2] Nonprofit institutions serving households.

[3] + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

7 Hungary: despite deep recession inflation among the highest in the EU

V-shaped recovery becomes unlikely

After holding up fairly well in the first quarter of 2020, GDP slumped by almost 14% year on year in the second quarter. Net real exports were the biggest source of this decline as the pandemic hit exports much more severely than imports. This also showed in a marked widening of the current deficit in the second quarter in year-on-year terms. Investment activity declined due to the worsening of global growth prospects, the sharp fall in capacity utilization, the notable deceleration of the growth of credit to corporates and the likely deterioration in corporate profitability as a result of COVID-19. Private consumption declined heavily as well, mirroring the sharp deterioration in consumer confidence, the fall in full-time-equivalent employment and the deceleration in real wage growth. High-frequency indicators suggest that the economy hit bottom in April and May 2020 and started to recover in the third quarter. However, sentiment indicators suggest that the pace of recovery slowed in August and September, not least due to the reintroduction of border restrictions at the beginning of September and increased uncertainty upon the resurgence of new COVID-19 infections.

Budget deficit and government debt set to skyrocket in 2020

According to preliminary data, the budget showed a deficit of 5.1% of GDP in the year up to mid-2020 (compared to a deficit of 1.3% in the same period of 2019). Given these unfavorable developments, the finance ministry now expects the budget deficit to soar to a level of 7% to 9% of GDP in 2020 (compared to a forecast level of 3.8% to 4.0% in the spring).

MNB maneuvers to sustain funding to the economy but keep inflation inside its target band

After temporarily retreating in the second quarter, inflation reaccelerated to around 4% in July and August, the highest rate in the EU. Core inflation (excluding unprocessed food and energy prices) picked up as well to just above the 3% ±1 percentage point target range set by Magyar Nemzeti Bank (MNB). Notwithstanding the acceleration of inflation, the MNB strived to sustain credit to the economy by expanding its various funding programs. Also, in June and July, it lowered its base rate from 0.9% to 0.6%. It also relaxed provisioning rules in July, and in September, the government decided to prolong the debt service moratorium for vulnerable clients until mid-2021 (as of September 2020, the moratorium, which was implemented as an opt-out scheme, covered 40% to 50% of loans to the private sector). Despite these efforts, credit growth to the corporate sector faltered between March and July 2020. By contrast, the growth rate of credit to households remained roughly unchanged during the same period, as the expansion of highly preferential "baby loans" more than compensated for the slowdown in loans for housing and other purposes.

Amid a fresh wave of forint weakness, the MNB decided in September to reimpose fines for banks' breaches of their mandatory reserve requirements and their obligation to pay no interest or its effective O/N deposit rate (currently at –0.05%), whichever is lower, on banks' excess reserves on their reserve accounts. Furthermore, to ease tensions on the foreign currency market, it relaunched short-term weekly foreign currency swaps, supplying euro to banks. For the refinancing of these swaps, the MNB can resort to its foreign currency swap and repo arrangements concluded with major central banks (including the ECB and the BIS) earlier in 2020 in the magnitude of around EUR 10 billion. With effect of October 1, 2020, the MNB also took back the tightening of its foreign exchange funding adequacy ratio and foreign exchange coverage ratio, thus easing banks' access to foreign exchange funding. As these measures did not yield sufficient results, the MNB raised the interest rate at its one-week deposit and three- and five-year covered loan tenders by 15 basis points to 0.75% in late September.

Table 7

Main economic indicators: Hungary

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	4.3	5.1	4.9	5.3	4.9	5.0	4.5	2.2	–13.6
Private consumption	4.7	4.8	5.1	5.0	5.0	4.8	5.3	4.9	–8.1
Public consumption	2.4	0.9	1.7	0.3	0.5	1.3	4.6	1.7	–2.7
Gross fixed capital formation	18.7	17.1	15.3	24.9	17.8	16.1	7.0	–2.6	–13.5
Exports of goods and services	6.9	4.3	6.0	7.3	3.7	10.2	3.3	–0.5	–24.0
Imports of goods and services	8.2	6.8	6.9	7.1	4.6	10.2	5.9	1.3	–15.8
	Contribution to GDP growth in percentage points								
Domestic demand	4.8	6.7	5.4	4.9	5.4	4.7	6.4	3.8	–5.8
Net exports of goods and services	–0.5	–1.7	–0.4	0.5	–0.5	0.3	–1.9	–1.6	–7.7
Exports of goods and services	6.0	3.8	5.1	6.6	3.3	8.2	2.7	–0.5	–20.3
Imports of goods and services	–6.4	–5.4	–5.6	–6.1	–3.7	–7.9	–4.6	–1.1	12.6
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	4.5	3.5	6.0	5.5	7.5	5.6	5.6	4.4	15.1
Unit labor costs in manufacturing (nominal, per hour)	5.4	7.3	6.4	7.0	8.9	3.6	6.3	5.6	25.7
Labor productivity in manufacturing (real, per hour)	2.5	1.6	4.2	5.0	2.5	6.7	2.9	2.9	–12.0
Labor costs in manufacturing (nominal, per hour)	8.0	9.0	10.9	12.4	11.6	10.6	9.4	8.7	10.5
Producer price index (PPI) in industry	3.3	5.6	2.2	3.2	2.3	1.2	2.1	4.1	2.8
Consumer price index (here: HICP)	2.4	2.9	3.4	3.2	3.8	3.1	3.5	4.4	2.5
EUR per 1 HUF, + = HUF appreciation	0.7	–3.0	–2.0	–2.1	–1.8	–1.2	–2.7	–6.3	–8.2
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	4.2	3.8	3.5	3.6	3.4	3.5	3.4	3.8	4.7
Employment rate (%, 15–64 years)	68.2	69.3	70.1	69.9	70.0	70.3	70.3	69.7	68.7
Key interest rate per annum (%)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
HUF per 1 EUR	309.3	318.8	325.2	317.9	322.9	328.2	331.9	339.1	351.7
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	4.3	9.9	9.9	11.0	12.1	12.2	12.4	15.3	11.1
of which: loans to households	1.3	5.8	5.8	7.7	7.6	12.7	15.4	18.0	18.5
loans to nonbank corporations	6.8	13.1	13.1	13.5	15.4	11.8	10.3	13.5	6.2
	%								
Share of foreign currency loans in total loans to the non-bank private sector	23.5	24.0	23.8	23.8	24.1	24.0	23.8	25.6	24.4
Return on assets (banking sector)	1.8	1.4	1.2	1.4	1.3	1.3	1.2	0.2	0.3
Tier 1 capital ratio (banking sector)	21.1	17.8	16.4	16.3	16.8	15.8	16.4	15.6	15.8
NPL ratio (banking sector)	3.7	2.2	2.6	3.4	3.1	3.0	2.6	2.5	2.9
	% of GDP								
General government revenues	44.5	44.5	44.0	..	..	..	..	..	..
General government expenditures	47.0	46.7	46.1	..	..	..	..	..	..
General government balance	–2.5	–2.1	–2.0	..	..	..	..	..	..
Primary balance	0.2	0.2	0.2	..	..	..	..	..	..
Gross public debt	72.9	70.2	66.3	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	65.7	65.4	59.1	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	18.5	17.6	15.9	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	1.4	–1.3	–2.1	–0.7	–1.0	–3.3	–3.0	–0.6	–2.6
Services balance	5.5	5.8	5.3	5.0	5.9	6.0	4.1	4.5	2.1
Primary income	–4.0	–3.7	–2.7	–2.3	–3.6	–2.5	–2.4	–1.7	–1.6
Secondary income	–0.9	–0.5	–0.7	–1.6	–0.1	–1.1	–0.2	–1.2	–0.8
Current account balance	2.0	0.3	–0.3	0.5	1.2	–0.9	–1.6	1.0	–2.8
Capital account balance	0.9	2.2	1.8	1.0	1.3	1.3	3.5	1.8	2.2
Foreign direct investment (net)[3]	–1.6	–2.0	0.1	–1.3	2.2	0.6	–1.2	–1.8	–0.9
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	84.1	80.8	73.6	82.3	81.6	78.0	73.6	71.8	77.8
Gross official reserves (excluding gold)	18.5	19.7	18.8	19.3	18.6	19.1	18.8	16.9	20.7
	Months of imports of goods and services								
Gross official reserves (excluding gold)	2.8	2.9	2.8	2.9	2.8	2.8	2.8	2.5	3.2
	EUR million, period total								
GDP at current prices	125,575	133,661	143,701	32,093	35,854	36,706	39,049	31,876	30,294

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

8 Poland: comprehensive policy response as monetary policy focuses on the medium term

Import slump contained GDP contraction and lifted current account surplus

GDP contracted by 3.1% in the first half of 2020, after having grown by 4.1% in 2019. The second quarter registered a year-on-year contraction of –7.9%. Total final demand dropped by 5.3% in the first half-year, with foreign demand decreasing substantially more than domestic demand, while imports fell even more than export growth. Hence, the net export contribution to GDP growth remained positive, corresponding to an increase in the goods and services balance to 6.7% of GDP in the first half of 2020. Coupled with a lower primary balance deficit, the current account surplus rose markedly, to 4.6% of GDP in the same period. The capital account surplus and net FDI inflows remained at about 2% of GDP. Public consumption provided a positive contribution to growth (0.7 percentage points) and public fixed investment likely helped contain total fixed investment's year-on-year decline close to that of private consumption. Residential investment in terms of the number of dwellings under construction continued to grow, albeit at a lower rate. The decline of inventory buildup lowered GDP growth by about 1 percentage point. Private consumption contraction stemmed primarily from lockdown measures, the confidence slump and increased precautionary savings, as the real wage sum declined far less and real pension payments even increased. From June to August, real retail sales were increasingly above 2019 levels.

In the first half-year of 2020, given the fall in labor productivity, annual growth of nominal ULC in manufacturing accelerated in both Poland and the euro area and reached double-digit levels in mid-2020. The slightly higher ULC rise in Poland was more than offset by the 6% depreciation of the złoty to 4.50 per euro from February to April 2020. The złoty remained close to this value until October 2020. Annual headline inflation declined from a peak of 4.1% (HICP) and 4.7% (national CPI) in February to 3.7% and 2.9% (CPI), respectively, in August 2020. By contrast, core inflation increased due to services prices from 3.6% in February 2020 (both HICP excluding energy and unprocessed food and CPI excluding energy and all food) to 4.6% and 4.0% (core CPI), respectively, in August 2020.

Monetary and fiscal policy responses to the COVID-19 impact

On May 29, 2020, the Monetary Policy Council (MPC), pursuing an inflation target of 2.5% ± 1 percentage point (CPI), continued its comprehensive easing measures of March and April by cutting the main policy rate further to 0.1% from 0.5%. At the same time, it cut the Lombard rate to 0.5% from 1.0%, but maintained its deposit rate at 0.0%, preferring an asymmetric band to negative rates. On October 7, 2020, the MPC declared to continue its outright purchases of government(-guaranteed) debt securities in the secondary market to ensure the liquidity of these markets and to strengthen the monetary transmission mechanism. Moreover, the MPC declared that it would offer bill discount credit aimed at refinancing loans granted to enterprises by banks. In parallel, commercial banks' moratoria options to households and SMEs were prolonged.

Regarding fiscal policy, Polish authorities expect the headline deficit to rise to about 12% of GDP in 2020 (from 0.7% in 2019) and to decline to about 6% of GDP in 2021. General government gross debt is projected to rise to 62% of GDP in 2020 (from 46% at the end of 2019) and further to 64% of GDP at the end of 2021. Recently, Poland received EU support to mitigate unemployment risk during an emergency (SURE) of about EUR 11 billion, which might partly finance the job protection component (amounting to EUR 7 billion) of the March economic support package (EUR 46 billion, 8.5% of GDP).

Table 8

Main economic indicators: Poland

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	4.9	5.3	4.1	4.9	4.2	4.3	3.4	1.7	–7.9
Private consumption	4.5	4.5	3.8	3.7	4.0	3.9	3.6	0.8	–11.0
Public consumption	2.9	3.7	4.9	7.5	3.9	5.7	3.3	3.9	4.3
Gross fixed capital formation	4.0	9.4	7.2	12.0	9.3	4.1	5.9	0.8	–11.1
Exports of goods and services	9.5	7.0	4.7	8.5	3.6	5.0	1.9	0.6	–14.3
Imports of goods and services	9.8	7.6	2.7	5.9	4.0	3.2	–2.1	–0.1	–18.2
	Contribution to GDP growth in percentage points								
Domestic demand	4.7	5.4	2.9	3.2	4.2	3.2	1.3	1.2	–9.2
Net exports of goods and services	0.3	0.0	1.2	1.7	–0.1	1.1	2.0	0.4	1.3
Exports of goods and services	5.0	3.8	2.6	4.9	2.1	2.8	1.0	0.4	–8.2
Imports of goods and services	–4.7	–3.8	–1.4	–3.2	–2.1	–1.7	1.0	0.0	9.5
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	2.1	3.1	3.1	2.9	2.3	3.4	3.9	5.9	11.5
Unit labor costs in manufacturing (nominal, per hour)	2.8	4.7	4.2	2.5	4.7	5.5	4.3	6.3	15.3
Labor productivity in manufacturing (real, per hour)	3.5	3.1	2.4	3.5	2.4	1.7	2.2	2.1	–7.8
Labor costs in manufacturing (nominal, per hour)	6.4	8.0	6.8	6.1	7.2	7.3	6.6	8.5	6.3
Producer price index (PPI) in industry	2.7	2.1	1.3	2.6	1.6	0.8	0.3	0.3	–1.2
Consumer price index (here: HICP)	1.6	1.2	2.1	1.2	2.2	2.5	2.6	3.9	3.4
EUR per 1 PLN, + = PLN appreciation	2.5	–0.1	–0.9	–2.9	–0.5	–0.4	0.3	–0.5	–4.9
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.0	3.9	3.4	4.0	3.3	3.2	2.9	3.2	3.2
Employment rate (%, 15–64 years)	66.1	67.4	68.2	67.2	68.2	68.9	68.5	68.4	67.9
Key interest rate per annum (%)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	0.4
PLN per 1 EUR	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.5
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	6.2	6.4	6.4	6.9	6.7	6.6	5.0	4.7	1.5
of which: loans to households	4.8	5.6	5.6	5.6	5.9	6.1	5.6	5.1	2.9
loans to nonbank corporations	8.7	7.6	7.6	9.2	8.2	7.3	4.1	4.1	–0.9
	%								
Share of foreign currency loans in total loans to the non-bank private sector	21.3	20.8	19.2	20.6	19.8	20.0	19.2	20.2	19.8
Return on assets (banking sector)	0.8	0.7	0.7	0.6	0.8	0.8	0.7	0.3	0.3
Tier 1 capital ratio (banking sector)	17.2	17.1	17.0	17.0	16.9	17.0	17.0	16.3	17.9
NPL ratio (banking sector)	6.8	6.8	6.6	6.8	6.8	6.8	6.6	6.6	6.9
	% of GDP								
General government revenues	39.8	41.3	41.3	..	..	..	..	..	..
General government expenditures	41.2	41.5	42.0	..	..	..	..	..	..
General government balance	–1.5	–0.2	–0.7	..	..	..	..	..	..
Primary balance	0.2	1.2	0.7	..	..	..	..	..	..
Gross public debt	50.6	48.8	46.0	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	47.2	45.1	42.8	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	35.6	34.7	33.0	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–0.1	–1.3	0.2	0.1	0.0	–0.1	0.7	0.8	3.3
Services balance	3.8	4.3	4.5	4.7	4.6	4.5	4.1	4.9	4.4
Primary income	–4.0	–4.0	–3.9	–2.6	–4.3	–4.6	–3.8	–1.5	–2.5
Secondary income	0.0	–0.3	–0.3	–0.9	–0.2	–0.3	–0.1	–0.6	0.5
Current account balance	–0.3	–1.3	0.5	1.3	0.2	–0.5	1.0	3.6	5.6
Capital account balance	1.3	2.1	2.0	0.7	2.2	1.9	3.0	1.8	3.0
Foreign direct investment (net)[3]	–1.4	–2.6	–1.6	–4.8	0.5	–2.6	0.0	–3.6	–0.5
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	68.4	63.7	59.7	62.3	61.6	60.7	59.7	56.4	57.1
Gross official reserves (excluding gold)	19.5	19.6	19.8	19.1	18.5	19.4	19.8	18.6	19.7
	Months of imports of goods and services								
Gross official reserves (excluding gold)	4.6	4.5	4.6	4.4	4.2	4.5	4.6	4.4	4.9
	EUR million, period total								
GDP at current prices	467,607	497,394	529,101	121,284	127,992	131,029	148,797	127,709	116,567

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

9 Romania: investments cushion COVID-19-induced economic plunge, while trade deficit widens

Economic activity fully hit by COVID-19 in the second quarter

In the first quarter of 2020, the Romanian economy still grew at a moderate rate on the back of robust domestic demand. Yet, the tide turned abruptly in the second quarter, as the economy was hit by the COVID-19 crisis through various channels. Exports suffered from plummeting external demand and the temporary shutdown of key export companies (e.g. within the car industry). Despite the considerable import drop, the contribution of net exports remained clearly negative, as the decline in imports fell short of the export decline. Private consumption was hit by movement restrictions, containment measures affecting the services sector (such as restaurants), income losses under furlough schemes and deteriorating consumer confidence. The unemployment rate went up somewhat, but government-supported furlough schemes prevented a more pronounced rise. While investment activity was also negatively affected by the crisis, especially construction activity in tandem with public investments contributed to a slightly positive year-on-year growth rate of gross fixed capital formation in the second quarter. In addition to the construction sector, gross value added also rose markedly in the information and communication sector, while the drought in the spring had a negative impact on agricultural output.

Trade deficit widens, global liquidity conditions facilitate budget financing

Despite the economic contraction, Romania's trade deficit widened noticeably in the first half of 2020. In the run-up to the crisis, Romania's unit labor costs in the manufacturing sector had increased markedly. The nominal exchange rate vis-à-vis the euro depreciated only a little in the course of 2020. Yet, the current account deficit narrowed slightly, as income balances improved. Better EU fund absorption led to an increase in the capital account and, hence, the net borrowing position from the current and capital accounts declined somewhat. A reduction in intercompany lending caused net FDI outflows in the first quarter of 2020. In the second quarter, modest equity and net FDI inflows combined with a reduction of foreign assets led to positive net FDI inflows again. The bulk of financing in the financial account stemmed from net portfolio inflows, as the government accessed international markets to fund the budget deficit, benefiting from favorable global liquidity conditions. The government estimates the budget deficit to rise to 8.6% of GDP this year. In addition to domestic and international bond issuances, the government can make use of loans in the amount of EUR 4 billion provided under the EU's SURE instrument, which was designed to tackle sudden increases in public expenditure for the preservation of employment.

Agreement on repo line between ECB and NBR

To address possible euro liquidity needs during the COVID-19 crisis, the National Bank of Romania (NBR) set up a repo line with the ECB in May. The arrangement was initially planned to remain in place until end-2020 but was prolonged until mid-2021 in August. Under the repo line, the NBR has the possibility to borrow up to EUR 4.5 billion from the ECB in exchange for adequate euro-denominated collateral. Meanwhile, the NBR carried on with its policy response package launched in March 2020 by continuing repo transactions and purchases of leu-denominated government securities on the secondary market. After a 50-basis point rate cut in March 2020, the NBR further cut its key policy rate in two 25-basis point steps to 1.5%. Consumer price inflation, which is relevant for monetary policy, stood at 2.7% year on year in August and has been relatively close to the mid-point of the NBR's target band of 2.5% ± 1 percentage point in recent months.

Table 9

Main economic indicators: Romania

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	7.1	4.4	4.1	5.0	4.4	3.0	4.3	2.4	–10.5
Private consumption	9.9	7.2	5.9	7.4	5.1	4.3	7.2	3.8	–13.3
Public consumption	4.5	3.1	7.1	2.4	11.4	2.2	9.4	3.5	4.7
Gross fixed capital formation	3.5	–1.0	17.9	3.2	20.5	25.6	15.7	13.1	1.8
Exports of goods and services	7.8	5.9	3.8	2.9	3.0	3.2	6.2	–1.6	–28.7
Imports of goods and services	10.7	9.2	8.3	11.5	5.5	9.1	7.3	2.2	–21.5
	Contribution to GDP growth in percentage points								
Domestic demand	8.5	5.9	5.8	7.4	5.6	5.7	4.8	4.6	–7.9
Net exports of goods and services	–1.4	–1.4	–1.7	–3.5	–1.3	–2.3	–0.3	–2.6	–2.4
Exports of goods and services	3.1	2.6	1.9	2.0	1.4	1.8	2.3	–0.4	–11.9
Imports of goods and services	–4.5	–4.0	–3.6	–5.5	–2.7	–4.1	–2.6	–2.2	9.5
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	9.9	9.1	4.5	5.3	3.3	3.5	5.8	6.7	10.4
Unit labor costs in manufacturing (nominal, per hour)	5.6	7.0	12.7	8.0	14.0	14.4	14.4	13.2	27.9
Labor productivity in manufacturing (real, per hour)	8.3	5.5	–0.8	4.1	–1.9	–2.2	–2.6	–2.7	–4.9
Labor costs in manufacturing (nominal, per hour)	14.3	12.8	11.9	12.5	11.9	11.9	11.4	10.2	21.7
Producer price index (PPI) in industry	3.5	5.0	4.0	4.6	4.5	3.5	3.2	2.7	–1.4
Consumer price index (here: HICP)	1.1	4.1	3.9	3.8	4.3	3.9	3.7	3.1	2.1
EUR per 1 RON, + = RON appreciation	–1.7	–1.8	–1.9	–1.7	–2.0	–1.8	–2.2	–1.3	–1.9
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.1	4.3	4.0	4.2	3.9	4.0	4.0	4.4	5.5
Employment rate (%, 15–64 years)	63.9	64.8	65.8	64.2	66.4	66.7	66.0	65.4	65.2
Key interest rate per annum (%)	1.8	2.4	2.5	2.5	2.5	2.5	2.5	2.4	1.9
RON per 1 EUR	4.6	4.7	4.7	4.7	4.7	4.7	4.8	4.8	4.8
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	4.4	7.9	7.9	6.8	6.4	6.8	5.5	6.2	3.1
of which: loans to households	7.1	9.1	9.1	7.3	6.3	6.6	6.7	7.1	5.3
loans to nonbank corporations	2.5	6.6	6.6	6.3	6.5	7.1	4.2	5.3	0.6
	%								
Share of foreign currency loans in total loans to the non-bank private sector	37.2	34.0	32.4	34.2	33.4	33.4	32.4	32.8	32.2
Return on assets (banking sector)	1.3	1.6	1.4	1.6	1.2	1.5	1.4	1.3	1.1
Tier 1 capital ratio (banking sector)	18.0	18.6	20.1	17.9	17.7	17.9	20.1	18.5	20.7
NPL ratio (banking sector)	6.4	5.0	4.1	4.9	4.7	4.6	4.1	3.9	4.4
	% of GDP								
General government revenues	30.8	31.9	31.7	..	..	..	..	..	..
General government expenditures	33.5	34.8	36.0	..	..	..	..	..	..
General government balance	–2.6	–2.9	–4.3	..	..	..	..	..	..
Primary balance	–1.4	–1.8	–3.1	..	..	..	..	..	..
Gross public debt	35.1	34.7	35.2	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	35.1	32.8	29.4	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	15.8	15.8	14.1	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–6.5	–7.2	–7.8	–8.7	–7.7	–7.3	–7.7	–9.7	–9.3
Services balance	4.4	4.1	3.9	4.2	4.4	3.4	3.8	4.9	4.9
Primary income	–1.4	–1.8	–1.4	1.4	–3.2	–2.6	–0.7	1.8	–2.8
Secondary income	0.8	0.6	0.7	0.5	0.1	0.7	1.2	0.9	0.8
Current account balance	–2.8	–4.4	–4.6	–2.6	–6.3	–5.8	–3.3	–2.1	–6.4
Capital account balance	1.2	1.2	1.3	1.6	0.9	0.9	1.7	2.6	1.7
Foreign direct investment (net)[3]	–2.6	–2.4	–2.4	–2.9	–2.8	–2.8	–1.4	0.9	–3.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	51.9	48.8	47.3	47.7	49.6	49.7	47.3	47.9	50.6
Gross official reserves (excluding gold)	17.8	16.2	14.7	15.3	15.3	16.3	14.7	15.1	15.9
	Months of imports of goods and services								
Gross official reserves (excluding gold)	4.8	4.3	4.0	4.1	4.1	4.4	4.0	4.1	4.5
	EUR million, period total								
GDP at current prices	187,540	204,637	223,259	42,842	51,618	61,388	67,411	45,022	46,355

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

10 Turkey: low level of international reserves increasingly limits space for crisis response

Sharply rising external deficit, sizable currency depreciation and very low foreign currency reserves

GDP contracted by 2.3% in the first half of 2020, after having grown by 0.9% in 2019. Over the past years, the quarterly profile of annual GDP growth resembled a roller coaster, from a boom of almost 7.5% in the fourth quarter of 2017 and a slump of –3% in the fourth quarter of 2018 to booming 6.4% in the fourth quarter of 2019 and another slump of about –10% in the second quarter of 2020. Total final demand showed a similar, but even more pronounced pattern, but neither its export component nor domestic fixed investment contributed to booming growth at the end of 2019 and early 2020. However, particularly exports contributed disproportionately to the contraction thereafter. Hence, the boom of total final demand around end-2019 and early 2020 stemmed exclusively from private consumption on the back of sharp policy-induced credit expansion and implied inventory change. The private consumption boom led to double-digit import growth in these two quarters, and the ensuing COVID-19-induced final demand contraction implied import compression, by far smaller, however, than the fall in exports. Hence, net export contribution to annual GDP growth was highly negative in the three quarters to mid-2020. Thus, in the first half-year, the goods and services balance was negative at –4.6% of GDP, compared to a surplus of 1.8% a year earlier, and the current account deficit reached 6.2% of GDP, from a balanced position in the first half of 2019, while net FDI inflows declined to 0.6% of GDP. The authorities responded by raising customs duties on many products and hiked taxes on most imported cars at end-August. Still, by end-September, official foreign currency reserves apart from gold had declined to less than the foreign currency amount borrowed via swaps. A strong contraction in exports in the second quarter of 2020 apparently did not stem from manufacturing ULC growth, which further moderated (toward the euro area level). The lira lost a quarter of its value against the euro between February and October 2020. Given considerable demand contraction, the strong lira depreciation has not (yet) translated into higher inflation. Both headline and core HICP inflation were only marginally higher in June than in February and even declined by roughly 1 percentage point in August, with national indices not indicating a strong rise in September either.

Monetary and fiscal policy response to the COVID-19 impact

In addition to launching a comprehensive set of liquidity-enhancing measures in March, the Turkish central bank cut its one-week repo rate, the main policy rate, by another 100 basis points on April 22, 2020, and by 50 basis points to 8.25% on May 21. However, in response to year-on-year industrial production and retail sales figures turning positive in July and given continued and sizable lira depreciation, the central bank started to tighten liquidity in early August and hiked the policy rate by 200 basis points to 10.25% on September 24, noting inflation expectations containment as the main reason. Between March and October, wage support for short-time work schemes were in place. In April, parliament approved a ban on layoffs until November, which will possibly be extended until mid-2021. On April 25, the Turkish government doubled its COVID-19-related economic support package to 4.4% of GDP, including deferrals of taxes and social insurance payments by six months for all companies in particularly affected industries, support to export companies, benefits for senior citizens and new funds for low-income families. In early October, the authorities published the actual general government deficit figure of end-August, which was 2.4% of annual GDP.

Table 10

Main economic indicators: Turkey

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	7.5	3.0	0.9	–2.6	–1.7	1.0	6.4	4.4	–9.9
Private consumption	5.9	0.5	1.6	–3.9	–0.5	2.0	8.2	4.0	–8.5
Public consumption	5.0	6.6	4.4	7.3	3.4	6.3	1.6	3.3	–0.8
Gross fixed capital formation	8.3	–0.3	–12.4	–14.2	–20.9	–14.0	0.6	–0.3	–6.1
Exports of goods and services	12.4	9.0	4.9	9.1	6.2	4.7	0.6	0.3	–35.3
Imports of goods and services	10.6	–6.4	–5.3	–29.6	–18.6	3.6	27.8	21.9	–6.4
	Contribution to GDP growth in percentage points								
Domestic demand	6.7	1.1	–2.0	–5.5	–6.2	–1.8	5.1	2.8	–6.6
Net exports of goods and services	0.2	3.6	2.3	9.6	5.7	0.5	–5.5	–4.0	–7.5
Exports of goods and services	2.7	2.0	1.2	2.0	1.4	1.2	0.1	0.1	–8.7
Imports of goods and services	–2.5	1.5	1.2	7.6	4.3	–0.7	–5.6	–4.1	1.2
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	4.0	18.0	22.0	24.7	25.1	22.5	15.7	15.7	13.2
Labor productivity in manufacturing (real, per hour)	6.3	1.7	1.6	–0.4	2.5	0.9	3.4	4.2	13.8
Labor costs in manufacturing (nominal, per hour)	10.5	20.4	23.8	24.2	28.1	23.6	19.7	20.5	28.9
Producer price index (PPI) in industry	15.8	27.0	17.6	30.7	27.9	12.0	4.4	8.9	6.1
Consumer price index (here: HICP)	11.1	16.3	15.2	19.9	18.0	13.5	10.3	12.1	11.7
EUR per 1 TRY, + = TRY appreciation	–18.9	–27.7	–10.4	–23.2	–20.9	4.7	–2.1	–9.4	–12.7
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	11.1	11.1	14.0	15.0	13.1	14.3	13.5	13.9	13.1
Employment rate (%, 15–64 years)	51.6	52.0	50.3	49.3	50.7	51.0	50.2	47.6	45.9
Key interest rate per annum (%)	8.0	15.5	20.6	24.0	24.0	20.3	14.3	11.0	8.8
TRY per 1 EUR	4.1	5.7	6.4	6.1	6.6	6.3	6.4	6.7	7.6
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector	20.7	12.0	11.2	12.9	6.7	–2.2	11.2	15.2	29.1
of which: loans to households	16.3	3.2	15.9	1.5	–0.6	3.7	15.9	23.4	36.4
loans to nonbank corporations	22.3	15.0	9.8	16.6	8.9	–3.8	9.8	12.9	27.0
	%								
Share of foreign currency loans in total loans to the nonbank private sector	33.0	38.5	35.1	38.6	38.2	35.5	35.1	34.9	31.6
Return on assets (banking sector)	1.6	1.5	1.1	1.2	1.2	1.1	1.1	1.3	1.2
Tier 1 capital ratio (banking sector)	13.6	13.4	13.9	12.6	13.1	13.9	13.9	13.3	14.8
NPL ratio (banking sector)	3.1	4.1	5.7	4.3	4.7	5.3	5.7	5.3	4.7
	% of GDP								
General government revenues	31.4	32.3	32.8	..	..	..	..	..	..
General government expenditures	34.1	35.1	35.8	..	..	..	..	..	..
General government balance	–2.8	–2.8	–3.0	..	..	..	..	..	..
Primary balance	–0.6	0.1	0.5	..	..	..	..	..	..
Gross public debt	28.2	30.4	33.1	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs[1] (nonconsolidated)	..	..	..	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–6.8	–5.1	–2.2	–1.6	–2.4	–2.1	–2.6	–5.5	–5.7
Services balance	3.0	4.0	4.9	2.6	4.9	7.4	4.1	2.5	–0.4
Primary income	–1.3	–1.5	–1.6	–1.3	–2.2	–1.5	–1.6	–1.3	–1.7
Secondary income	0.3	0.1	0.1	0.1	0.0	0.2	0.2	–0.1	0.0
Current account balance	–4.7	–2.5	1.1	–0.2	0.3	4.0	0.2	–4.5	–7.9
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)[2]	–1.0	–1.2	–0.7	–1.2	–0.6	–0.6	–0.6	–1.0	–0.1
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	50.6	57.3	54.3	60.6	59.5	58.7	54.9	53.5	52.6
Gross official reserves (excluding gold)	9.3	9.6	10.3	10.4	10.3	10.6	10.3	8.1	6.3
	Months of imports of goods and services								
Gross official reserves (excluding gold)	3.7	3.7	4.1	4.0	4.0	4.2	4.1	3.2	2.5
	EUR million, period total								
GDP at current prices	758,255	662,351	679,154	151,445	155,685	183,630	188,394	159,309	137,692

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] Nonprofit institutions serving households.

[2] + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

11 Russia: partial recovery of oil price, sizable fiscal stimulus and strong buffers help the economy to overcome the recession

Lockdown combined with oil price plunge triggers economic contraction

The coronavirus crisis pushed Russia into recession in Q2 2020, while Q1 had still seen positive year-on-year economic growth. The lockdown, combined with the plunge of the oil price (–65% on average between April and May 2020 against April to May 2019) on top of the OPEC+ production limitation agreement, triggered a sizable decline of economic activity, resulting in an overall decrease of GDP by –3.2% in the first half of 2020. In the following months, the oil price recovered partially (to –28% in July and August 2020 year on year). Unemployment rose sharply from 4.7% in March to 6.4% in August 2020 (ILO methodology).

Given low inflation, CBR modifies its policy stance to accommodative

The Russian currency has so far not declined as much as it had during the crises of 2008–09 and 2014–15. This contributed to reducing the contraction of imports, and, to some degree, stabilizing the banking sector. Overall, from January to August 2020, the average exchange rate of the ruble lost about 7% against the U.S. dollar and 6% against the euro (year on year). Given that prior to the coronavirus crisis, consumer price inflation had already been clearly below the 4% target of the Central Bank of Russia (CBR) and given the strong compression of demand due to the lockdown measures, the CBR swiftly switched from its previously restrictive monetary policy stance to an accommodative stance, cutting its key rate in three steps by a total of 175 basis points to 4.25%. In August, inflation stood at 3.6%.

Federal anti-crisis budget expenditures expand by over a fifth, financed by domestic debt

Russia's federal budget moved into the red in the second quarter of 2020, resulting in a deficit of about 2% of GDP in the first six months of the year. However, the shortfall would have been higher by about 2 percentage points of GDP had it not been for the large one-off transfer related to payments received by the CBR from the government for Sberbank shares. Until April 2020, the majority of shares had belonged to the CBR, the transfer was paid out of the National Welfare Fund (NWF). Under the National Plan for Economic Recovery, federal expenditure has been rising strongly since early 2020. A large part of this rise is due to increased health and social spending as well as support for enterprises. Moreover, tax deferrals and benefits have played an important role. The budget shortfall is largely being financed by placement of domestic debt. The NWF's volume stood at 12% of GDP (at end-August 2020), two-thirds of which made up by liquid assets.

Current account surplus shrinks, while international reserves remain at near-record level

The much lower prices and quantities of oil and gas exports, coupled with the relatively modest depreciation of the ruble, contributed to the sharp contraction of the current account surplus to EUR 20.9 billion from January to August 2020, against EUR 43.5 billion in the corresponding period of 2019. Private net capital outflows rose to EUR 31.2 billion in the first eight months of 2020. Russia's gross foreign debt slightly declined to EUR 424 billion (as of mid-2020), largely on account of cross-border banking sector deleveraging. Limited foreign exchange sales to support the ruble coupled with exchange rate changes contributed to a modest erosion of the country's international reserves to EUR 498 billion in late September 2020.

Credit activity weakens against backdrop of regulatory lenience

The coronavirus crisis and regulatory lenience is reflected in a still relatively high, but not sharply increasing, NPL ratio (end-June 2020: 17.4%). On a year-on-year basis (until end-June 2020), loans to enterprises continued to grow modestly (+5% in real terms and exchange rate-adjusted), while retail lending was stronger (+12%) but losing momentum, partly due to CBR regulatory restrictions against unsecured consumer credit. As of mid-2020, 7% to 8% of loans had reportedly been restructured.

Table 11

Main economic indicators: Russia

	2017	2018	2019	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Year-on-year change of the period total in %								
GDP at constant prices	1.8	2.5	1.3	0.4	1.1	1.5	2.1	1.6	–8.0
Private consumption	3.7	3.3	2.5	2.6	2.5	2.5	2.5	3.4	–22.1
Public consumption	2.5	1.3	2.2	2.0	2.1	2.3	2.3	1.4	1.6
Gross fixed capital formation	4.7	0.2	1.5	–2.3	5.1	–1.1	2.9	1.8	–11.7
Exports of goods and services	5.0	5.5	–2.3	–0.6	–5.3	–0.8	–2.5	–3.4	0.3
Imports of goods and services	17.3	2.6	3.4	–2.0	–0.2	4.5	10.1	1.1	–22.2
	Contribution to GDP growth in percentage points								
Domestic demand	3.9	1.9	2.7	0.2	2.4	2.7	4.9	2.6	–13.4
Net exports of goods and services	–2.3	0.9	–1.4	0.3	–1.4	–1.3	–3.0	–1.2	5.5
Exports of goods and services	1.3	1.5	–0.6	–0.2	–1.5	–0.2	–0.7	–1.0	0.1
Imports of goods and services	–3.6	–0.6	–0.8	0.5	0.1	–1.1	–2.3	–0.3	5.4
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per person)	17.9	1.8	4.5	2.9	6.3	4.2	4.7	7.1	13.4
Labor productivity in manufacturing (real, per person)	7.4	4.9	3.0	3.5	2.2	3.6	2.8	0.8	–8.1
Labor costs in manufacturing (nominal, per person)	26.7	6.6	7.7	6.5	8.6	8.0	7.7	8.0	4.1
Producer price index (PPI) in industry	7.7	12.1	2.3	9.3	6.6	–1.0	–5.7	–2.4	–12.1
Consumer price index (here: CPI)	3.6	3.0	4.6	5.3	5.1	4.4	3.5	2.5	3.2
EUR per 1 RUB, + = RUB appreciation	12.6	–11.0	2.2	–6.6	2.0	6.2	7.7	1.6	–8.9
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.2	4.8	4.6	4.8	4.5	4.4	4.6	4.7	6.0
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	9.1	7.4	7.3	7.8	7.7	7.3	6.6	6.1	5.5
RUB per 1 EUR	65.9	74.1	72.5	74.9	72.6	71.8	70.5	73.7	79.7
	Nominal year-on-year change in the period-end stock in %								
Loans to the domestic nonbank private sector[1]	5.7	12.3	12.3	11.9	11.6	10.5	10.4	11.1	10.0
of which: loans to households	12.7	22.2	22.2	23.5	22.8	20.7	18.5	17.7	12.5
loans to nonbank corporations	3.1	8.3	8.3	7.2	6.9	6.1	6.7	8.0	8.7
	%								
Share of foreign currency loans in total loans to the non-bank private sector	14.7	13.6	11.4	12.2	11.6	11.4	11.4	13.1	11.9
Return on assets (banking sector)	1.0	1.5	2.2	2.5	2.2	2.1	2.2	2.4	1.6
Tier 1 capital ratio (banking sector)	8.5	8.9	9.2	9.6	9.2	9.4	9.2	10.1	10.6
NPL ratio (banking sector)	19.1	18.0	17.1	18.0	18.0	17.7	17.1	16.9	17.4
	% of GDP								
General government revenues	33.8	35.7	35.5	..	..	..	..	..	..
General government expenditures	35.3	32.8	33.6	..	..	..	..	..	..
General government balance	–1.5	2.9	1.9	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	12.6	12.0	12.3	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	..	..	..	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	7.3	11.7	9.6	12.4	9.6	8.5	8.5	8.6	4.8
Services balance	–2.0	–1.8	–2.1	–1.6	–2.2	–2.6	–2.1	–1.8	–0.7
Primary income	–2.7	–2.5	–3.1	–1.3	–4.8	–3.1	–3.2	–0.6	–3.7
Secondary income	–0.6	–0.5	–0.6	–0.7	–0.2	–0.4	–1.0	–0.3	–0.5
Current account balance	2.1	6.9	3.8	8.9	2.4	2.4	2.2	5.8	–0.2
Capital account balance	0.0	–0.1	0.0	0.0	–0.1	0.0	–0.1	0.0	–0.1
Foreign direct investment (net)[3]	0.5	1.4	–0.5	–0.3	–0.3	–1.5	0.0	1.2	–0.5
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	31.2	28.2	29.2	29.5	29.7	29.8	29.2	27.5	30.1
Gross official reserves (excluding gold)	21.3	23.6	26.0	25.0	25.5	26.2	26.0	26.4	26.8
	Months of imports of goods and services								
Gross official reserves (excluding gold)	12.3	13.7	15.0	14.4	14.8	15.2	15.0	15.2	15.6
	EUR million, period total								
GDP at current prices	1,392,185	1,410,411	1,521,628	333,112	363,984	401,915	422,618	343,514	292,334

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

[1] Foreign currency component at constant exchange rates.
[2] Nonprofit institutions serving households.
[3] + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).
– = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).