

November 2021

# CESEE Research Update

Foreign Research Division

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## Content

OeNB-BOFIT Outlook for selected CESEE economies ..... 1

Summary: 88th East Jour Fixe: Household financial vulnerabilities in CESEE: what impact has COVID-19 had and how to best measure the changes? ..... 2

Summary: 26th Global Economy Lecture: Partha Dasgupta on "Viewing the future from the population-consumption-environment nexus" ..... 5

Focus on European Economic Integration Q3/21 ..... 10

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<http://cesee.oenb.at>

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

Foreign Research Division  
OeNB

## Highlight of this Issue

**OeNB-BOFIT Outlook for selected CESEE economies  
CESEE-6: broad-based recovery amidst heightened  
uncertainties – Russia: from rebound back to moderate  
growth, large risks persist**

Taking into account the sharp economic rebound observed in the second quarter of 2021, we revised our GDP projections for the **CESEE-6** countries (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania) upward to 5.1% p.a. for the full year. GDP growth in the CESEE-6 will remain strong and settle at 4.5% and 3.8% in 2022 and 2023, respectively. Croatia, Romania and Hungary exhibit the strongest growth dynamics in 2021, while the rebound is muted in Czechia. Domestic demand remains strong, albeit with a somewhat declining contribution to overall growth over the projection horizon. The composition will shift from private consumption this year toward gross fixed capital formation backed by EU funds from 2022 onward.

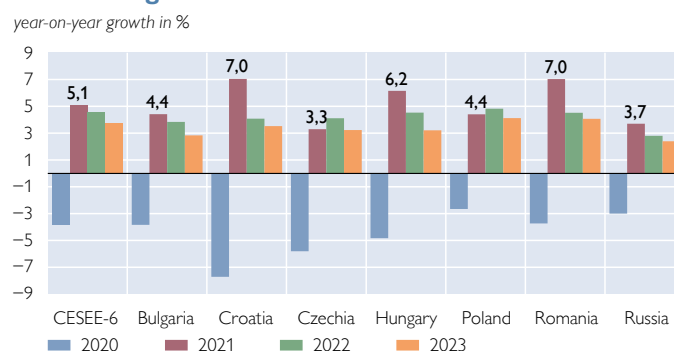
With double-digit growth of both exports and imports in 2021 – the latter in line with strong internal demand – and continued solid dynamics thereafter, the net contribution of exports will remain negative over the forecasting horizon, with a few exceptions. The positive growth differential toward the euro area will re-emerge only in 2023 (+1.7 percentage points), given the strong rebound assumed for the euro area in 2021 and 2022. One and a half year into the pandemic, our forecast continues to be surrounded by considerable uncertainty, with the balance of risks tilted to the downside, depending on the pandemic and developments in international supply chains.

We now see Russia's GDP recovering from last year's comparatively mild 3% dip to rise to more than 3.5%, before it will ease to slightly over 2.5% p.a. on average in 2022/2023. We have thus raised our economic forecast for Russia of last spring to reflect improved prospects for global economic growth and hence exports, coupled with already high oil prices that are expected to rise even further in 2022. Meanwhile, significant uncertainties surround our outlook. Moreover, we do not see Russia's

long-term growth exceeding 1.5% to 2.0% p.a., because no broader systemic adjustments can be expected that would improve the functioning of markets and boost economic activity in the forecast period.

Chart 1

### Real GDP growth in selected CESEE economies



Source: Eurostat, Rosstat, OeNB, BOFIT.

Note: realized values for 2020, OeNB-BOFIT projections for 2021 to 2023.

For more information see <https://www.oenb.at/en/Monetary-Policy/focus-area-central-eastern-and-southeastern-europe/economic-review-and-outlook.html>

## Summary: 88<sup>th</sup> East Jour Fixe: Household financial vulnerabilities in CESEE: what impact has COVID-19 had and how to best measure the changes?

Households across the globe have lost income in the wake of the COVID-19 pandemic. However, some households have been hit harder than others, with big variations across countries. The OeNB's most recent East Jour Fixe on October 12, 2021, highlighted these heterogeneities and explored to what extent income vulnerabilities already existed before the pandemic or emerged amid the pandemic.

## A case study from the UK: Tracking labour market and financial inequalities through the crisis with the UK Understanding Society Covid-19 Study and lessons learned



In the keynote lecture, chaired by Birgit Niessner (OeNB), Thomas Crossley (European University Institute) shared insights from “A year of COVID-19: Tracking labour market and financial inequalities through the crisis with the Understanding Society Covid-19 Study.” While prior to the pandemic, research-oriented surveys often took several years to complete, the pandemic created a need for rapid processing and data release. A particular challenge of event-triggered, high-frequency surveys is to understand how the short field periods and restricted mode of surveys affect nonresponse and sample-to-population inferences. The Understanding Society Covid-19 study<sup>1</sup>, conducted in the UK from April 2020, builds on a pre-existing longitudinal survey and is derived from a probability sample. Tom Crossley shared important details on the survey design (to avoid selection bias, deal with non-response and concerning weighting) before he presented results on how UK household finances have been affected by the pandemic: Large income losses were more common at the lower end of the permanent income distribution and increased in the top half, thus exacerbating pre-existing inequalities. Yet, above the 30<sup>th</sup> percentile of the permanent income distribution, wealth gains outnumbered wealth losses. Moreover, self-reported financial satisfaction did not worsen during the first year of the pandemic, and the marginal propensity to consume has remained remarkably flat across the income distribution. Debt repayment is a priority for those who were hit harder by the pandemic, while the

fraction of those who would save more increases with affluence. Crossley concluded by stressing the advantages of building on an existing panel study for a high-frequency survey. He also emphasized the value of taking frequent measurements during a crisis, as the initial shock will often differ from the longer-term impact.

## Financial vulnerabilities: international comparison



Session 1, chaired by Peter Lindner (OeNB), kicked off with a presentation of the Austrian Corona Panel project by Fabian Kalleitner (University of Vienna).



The Austrian Corona Panel project is an ongoing survey tracking individuals and their economic risks in Austria during the pandemic. Early in the pandemic, the perception of economic risks was found to be especially high, showing some correlation with the actual COVID-19 incidence figures. Home office not only varied considerably across industries but also showed higher variance across time in industries with higher shares of people working from home. Kalleitner especially stressed the importance of keeping up the survey work to better understand home office phenomena, as register data do not usually cover such information. Next, Zsoka Koczan (European Bank for Reconstruction and Development) asked “Not all in this together? Early estimates of the unequal effects of Covid-19.” She compared advanced and emerging economies with regard to the economic effects of the pandemic. Labor market effects have been much more severe in emerging markets. Two important explanations are the share of jobs that can be done at home as well as the size of the fiscal stimulus used to mitigate the crisis. Also, the

<sup>1</sup> See <https://www.understandingsociety.ac.uk/>

likelihood of a job loss decreased at a faster rate with income in advanced economies than in emerging markets. Generally, job losses have been more widespread among the young and women during the pandemic than during the global financial crisis.



Alfonso Rosolio (Banca d'Italia) rounded off the picture with a simulation of the potential crisis effects across Europe using data from the Household Finance and Consumption Survey (HFCS). He combined income and liquid wealth in a single measure for the ability

to absorb an income shock. The results show substantial increases in the share of poor households in the COVID-19 scenario. Austrian households were found to be at the lower end with regard to both existing and pandemic-related vulnerabilities. Rosolio also stressed the importance of taking into account rigidity with regard to consumption. Given the same income stream and household size, the share of income that is committed, e.g., for debt service or housing rents makes a big difference. In concluding he stressed that the HFCS had proven to be an extremely relevant policy tool that needed to be consolidated and expanded further.

## Financial vulnerabilities: focus on CESEE



Session 2, chaired by Peter Backé (OeNB), started with evidence from the OeNB Euro Survey on household savings in ten CESEE countries presented by Melanie Koch (OeNB).

According to data from the 2019 survey wave, less than half of the population is in a position to save, which is equivalent on average to one-third of all households across the ten countries covered in the sample. Thus, large parts of the population appear to be rather vulnerable to income shocks. At the same time, those

who are able to save can save considerable amounts. The decision to save is influenced by expectations on the future economic situation, income, education and financial literacy while the amount of savings is affected by inflation expectations. Survey results from the fall of 2020 suggest that past experience becomes a stronger determinant of saving behavior in times of crisis. The results further suggest that some people seem to have lost all their savings in the pandemic.



Next, Merike Kukk (Eesti Pank) presented results from an intermediate survey conducted in summer 2020 (instead of the regular HFCS survey scheduled for 2020 that was postponed to summer 2021). Similar to other countries, great heterogeneity was

observed across households also in Estonia: while some were forced into savings due to lack of consumption possibilities, others had to stop saving altogether, and the number of households with permanent financial problems increased. Differences were observed across sectors of employment and types of loans (consumption versus mortgage loans) for indebted households even though the situation on loan markets remained stable. Compared to the global financial crisis more than a decade ago, the current pandemic had rather different effects on households, and currently new challenges are arising from high energy prices and inflation.



Adding the Slovak perspective, Andrej Cupák (Národná banka Slovenska) shared results from a survey of indebted households at the three largest Slovak banks, covering about two-thirds of the retail loan portfolio. To begin with, he noted that household debt is

particularly high in Slovakia. Among households with loan deferrals, changes in income emerge as an important determinant, as well as prior vulnerability (measured by a higher debt service to income ratio) and age: younger people are more likely to have deferred loans. In contrast, university education is negatively related. Cupák concluded that financial buffers are generally low in Slovakia and that the pandemic-related moratoria effectively supported households in mitigating the impact of the pandemic, providing a case for the importance of timely and well

calibrated measures. During the survey period, the situation of most households normalized and many changed their financial behavior, building up financial buffers or moving into safer sectors.

Moving on to the case of Poland, Piotr Bańbuła (Narodowy Bank Polski) confirmed the differential impact of the pandemic by sector, drawing on evidence from a Polish household budget survey, which found that people tended to spend less and draw down savings. Even though household indebtedness deteriorated more strongly than in normal years, the marginal distribution of indebted households did not change substantially. The share of people moving from poor to good conditions



and vice versa was roughly equal in 2019 and 2020. In general, his conclusions painted a rather reassuring picture, as unemployment remained generally low in Poland thanks to government support, incomes continued to rise except for the bottom-income households

and (over)indebted households benefited from lowered interest rates.

Maja Ilievska from the National Bank of the Republic of North Macedonia rounded off the workshop by highlighting the role of policy support. She listed the wide array of monetary, regulatory, supervisory and other government measures that mitigated the effects of the pandemic for households. Households' financial assets continued to grow in 2020 in her country, even though at a slower pace than before. She also noted a higher propensity to save in foreign currency, a typical feature of crisis times in euroized economies. In particular, moratoria have been a helpful tool to smoothen the impact of the crisis, yet she also stressed the need to carefully monitor the quality of the loan portfolio and to recognize possible deterioration therein in a timely manner.

The presentations and the workshop programme are available at <https://www.oenb.at/en/Calendar/2021/2021-10-12-east-jour-fixe.html>

## Summary: 26<sup>th</sup> Global Economy Lecture: Partha Dasgupta on “Viewing the future from the population-consumption-environment nexus”

On November 3, 2021, the Oesterreichische Nationalbank (OeNB) and The Vienna Institute for International Economic Studies (wiiw) hosted the 26<sup>th</sup> Global Economy Lecture<sup>2</sup>, which was delivered by Partha Dasgupta, Emeritus Professor of Economics at the University of Cambridge.



Professor Dasgupta has published 25 books and over 300 articles in the fields of development and environmental economics. He recently completed “[The Economics of Biodiversity: The Dasgupta Review](#),” an independent global report on the economics of biodiversity commissioned in 2019 by the UK Treasury,

which investigates the links between population growth, consumption and the environment.

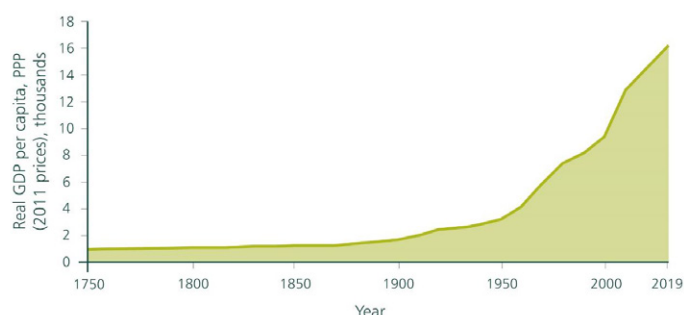
In his introductory remarks, OeNB Governor Robert Holzmann discussed to what extent central banks – and more broadly macroeconomic policies – can effectively contribute to maintaining biodiversity. The Eurosystem is committed to considering the impact of climate change in its monetary policy framework, supervisory activities and reserve portfolios. In terms of preserving biodiversity, the responsibility for carrying out appropriate structural reforms lies with government authorities, according to the OeNB governor. This notwithstanding, central bankers have started to analyze the potential economic and financial impacts of biodiversity loss. Moreover, both financial markets and their regulation may play a key role

<sup>2</sup> The Global Economy Lecture is an annual event organized jointly by the OeNB and The Vienna Institute for International Economic Studies (wiiw).

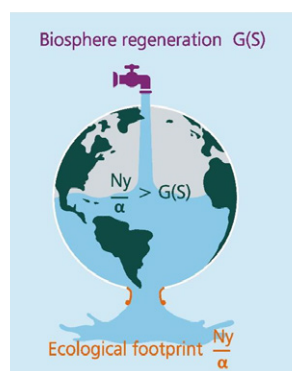


in pricing in nature. Governor Holzmann emphasized the need to accelerate the demographic transition toward population stabilization – particularly in sub-Saharan Africa – to secure economic well-being while reducing pressures on nature.

Professor Dasgupta started out by asking how we can account for nature in economic science and policy. So far, economic studies have focused exclusively on produced capital and human capital. Yet, it is a profound error to bypass nature – our home and most precious resource. Chart 1, taken from “The Dasgupta Review,” identifies the post-World War II period as a takeoff point when global GDP started to increase sharply. Global real GDP per capita has quintupled since 1950. At around the same time, population growth started to shoot up as well, given longer life expectancy, while fertility rates only began to go down later on.



Such figures would suggest that we live in the best of all times. What they do hide, though, is that we have accumulated produced and human capital by exploiting and dismantling the ecosystem. While produced capital has doubled since 1992, natural capital, defined as renewable and nonrenewable natural resources, has been shrinking at an alarming rate. The COVID-19 pandemic is just the visible tip of the iceberg of damage humankind has inflicted on nature.



Professor Dasgupta emphasized the gap between what we demand of nature and what nature is able to supply on a sustainable basis. Currently we are faced with a widening of the imbalance between the ecological footprint – determined crucially by GDP growth  $y$  – and the regeneration rate

of the biosphere  $G(S)$ , as indicated by figure 1. As a result of this, we are continuously drawing down natural capital  $S$ .

The left-hand side of the inequality crucially depends on the factor  $\alpha$ , an index of efficiency. If  $\alpha$  goes up, e.g. because of a move to clean energy, the left-hand side declines. Since services of nature are complementary, the reduction of one factor of nature (such as fossil fuels) may have similar impacts on other factors.

Professor Dasgupta put special emphasis on the factor  $N$  on the left-hand side of the inequality, which stands for population growth. While the fertility transition has been broadly completed in most regions around the world, UN projections show that the population in sub-Saharan Africa might double until the middle of the century. Since the region's GDP is small (less than 5% of global GDP), population dynamics are currently not on the political agenda. However, the region may matter more in the future as the countries exploit nature in an attempt to improve living standards. As long as the exploitation of nature is not priced in, the export of primary products represents a transfer of wealth from poor to rich countries. To slow down population growth, Professor Dasgupta saw scope for changing social norms and culture. He stressed the importance of empowering women, especially through education. While referring to several success stories, he, at the same time, also dampened expectations, pointing to the high costs and challenges associated with educational attainments.

The ensuing discussion revolved inter alia around the limits to material (per capita) growth and the crucial role of adequately pricing the services of nature. Aspects of biodiversity will only become an integral part of our lives if we start to feel the price of dismantling the ecosystem. Therefore, Dasgupta envisages new international institutions that may create markets for many services of nature, including sea transport. Moreover, he suggested assisting poor countries in coping with climate change and allowing them to improve living standards without drawing on natural resources. By managing risks appropriately within their own portfolios, central banks can have considerable signaling power for financial markets and thus have a material impact on halting the degradation of natural resources. Professor Dasgupta concluded by underlining the uncertainty about future developments and how little we know about how humankind will adapt to new circumstances.

Download: [The Economics of Biodiversity: The Dasgupta Review](#)

## OeNB/JVI course “Macrofinancial Stability in CESEE” at the Joint Vienna Institute, October 11–15, 2021

Together with the Joint Vienna Institute (JVI), the OeNB's Foreign Research Division organizes annual seminars on “Macrofinancial Stability in Central, Eastern and Southeastern Europe” at the JVI. The 2021 seminar with course directors Markus Eller (OeNB) and Reiner Martin (JVI) took place in the week of October 11–15.

The objective of the course is to help participants better understand the interactions between the real and the financial sector, the connections between different economic policies and the way macrofinancial stability risks can be evaluated in the CESEE region.

The COVID-19 pandemic again heavily influenced the content and implementation of the course: On the one hand, COVID-19-relevant content was reflected in the course modules, with a focus on the macrofinancial effects of the crisis, existing vulnerabilities as a crisis intensifier and an overview of the cushioning measures taken in various economic policy areas and their impact. On the other hand, the course was offered in a virtual format for the second time, which poses challenges in terms of ensuring sufficient interaction as a necessary condition for peer-to-peer learning. Several modules that are as interactive as possible have therefore been included in the course program: workshops, presentations

by the participants, exercises in lectures, consultation hours with the lecturers.

Besides lectures prepared by OeNB and JVI experts, the course also featured contributions by the World Bank. Also, the OeNB's 88<sup>th</sup> East Jour Fixe on “Household financial vulnerabilities in CESEE: what impact has COVID-19 had and how to best measure the changes?” was part of the course.

Attendees included officials from central banks, financial market authorities and ministries of finance as well as economists across the entire CESEE region, ranging from the Czech Republic to Tajikistan and from Poland to Azerbaijan. The feedback provided by the participants was highly positive and the knowledge and information gained from the course was seen as adding value to their jobs.

Assuming that the course can be held face to face (or at least in a hybrid format) next year, the course will be extended again to eight working days and is scheduled to take place from October 10 to 19, 2022. The additional time will be used to reinstate the tried and tested role play for negotiating a macrofinancial adjustment program and to add other smaller workshops. The application deadline is July 10, 2022. For the 2022 course description and to apply online, please go to <https://www.jvi.org/courses/course-schedule-2022/course/22ON07.html>.

## Konstantin M. Wacker – participant of the Klaus Liebscher Economic Research Scholarship (KLERS)



Konstantin M. Wacker, an assistant professor at the University of Groningen (Netherlands), participated in the OeNB's Klaus Liebscher Economic Research Scholarship (KLERS) in spring 2021. His research project analyzed international investment incomes that result from cross-border asset holdings, a topic that is relevant to better understand how financial globalization affects income flows and international imbalances. For example, net investment income payments account for more than

2% of gross domestic product (GDP) in countries like Japan, Germany, or Switzerland, while it is not uncommon for countries in central and eastern Europe (CEE) to pay 5% of their GDP to the rest of the world in the form of investment income payments.

Dr. Wacker's research highlighted that those investment income imbalances are very persistent. Although countries in a common currency area give up the exchange rate as an external adjustment mechanism, his research showed that adoption of the Euro does not further slow down adjustment of those investment income imbalances. His findings also imply that integration into global value

chains and participation in the Euro area cannot explain the negative investment income balances typically observed in CEE countries.

Yet, his KLERS research also reveals that the investment income balance behaves very differently than other components of the current account balance, particularly in the Euro area. This highlights the need for a more disaggregated perspective on imbalances in the context

of macro monitoring exercises (such as the European Commission's [imbalance scoreboard](#)). Better data, particularly at a bilateral level, could also support such analyses and the assessment of macroeconomic risk exposure.

More information concerning the Klaus Liebscher Economic Scholarship and the guidelines: [Klaus Liebscher Economic Research Scholarship – Oesterreichische Nationalbank \(OeNB\)](#)



## OeNB Euro Survey

The OeNB Euro Survey has been conducted since 2007 in ten Central, Eastern and Southeastern European (CESEE) countries. Its central focus is on exploring different dimensions and drivers of currency holdings and households' saving and borrowing behavior.

The main results of the OeNB Euro Survey published on the OeNB's website at <https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey/Main-Results.html> have been updated with the data obtained from the fall 2020 survey wave. Moreover, the charts are now available for download in different file formats, and the underlying data can be exported as CSV files.

## Save the date

### **Conference on European Economic Integration (CEEI) 2021** **Recalibrating tomorrow's global value chains – prospects for CESEE**

organized by the Oesterreichische Nationalbank (OeNB) in cooperation with the European Investment Bank (EIB)

**November 22 and 23, 2021**

Oesterreichische Nationalbank  
Otto-Wagner-Platz 3, 1090 Vienna, Austria

Hybrid live and online conference

#### **COVID-19 regulations**

Please be informed that to enter the OeNB or any OeNB conference venue, **all participants must provide proof of vaccination or immunity through recovery and must present a negative PCR test (valid for 48 hours).**



## CONFERENCE ASPECTS

Over the past three decades, the world economy was transformed by global value chains (GVCs), which proved an engine of economic growth and development. Deep integration into GVCs also benefited Central, Eastern and Southeastern European (CESEE) economies. In recent years, the pace of GVC integration seems to have lost some steam, however. The ongoing COVID-19 pandemic has been yet another wake-up call highlighting the risks and benefits of increasing interconnectedness. Putting the spotlight on the CESEE region, the CEEI 2021 sets out to explore the following questions:

- In times of crisis, does deep GVC integration amplify, or mitigate, swings in economic activity?
- What should policymakers and businesses do to achieve and sustain a recovery and make GVCs more resilient?
- What can we expect from structural shifts, such as the digital transformation of economies and the greening of production?
- Is the skill base in the CESEE region still a supportive factor for GVC integration?
- Do CESEE countries face a functional specialization trap due to their positioning within GVCs? And can structural shifts in specific industries, such as automotive, change these specialization patterns and spark new investment?

Join us on November 22 and 23 for the CEEI 2021, which will be hosted as a hybrid event this year. The OeNB, in cooperation with the EIB, will bring together senior global decision makers and high-ranking representatives from central banks, international organizations, industry and academia for two afternoons of insightful presentations and thought-provoking discussions.

### **Date**

November 22 and 23, 2021  
1:00-5:30 p.m. (CET)

### **Venue**

OeNB premises  
Webex

If you want to attend, please contact [event-management@oenb.at](mailto:event-management@oenb.at)

More information: [Calendar – Oesterreichische Nationalbank \(OeNB\)](#)

## Focus on European Economic Integration Q3/21 – latest issue [\(full version\)](#)

### Call for applications

Klaus Liebscher Economic Research Scholarship

### Studies

Use of loan moratoria by CESEE households: who are the users and how vulnerable are they?

Katharina Allinger, Elisabeth Beckmann

What do people in CESEE think about public debt?

Markus Eller, Branimir Jovanovic, Thomas Scheiber

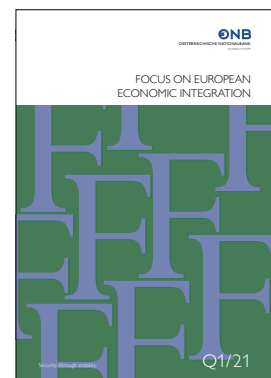
European banks in Russia: developments and perspectives from 2017 through the COVID-19 pandemic (2020/2021)

Stephan Barisitz, Philippe Deswel

### Event wrap-up

87<sup>th</sup> East Jour Fixe: CESEE's second transition – challenges on the road to low-carbon economies

Andreas Breitenfellner, Mathias Lahnsteiner, Thomas Reininger



## Upcoming Events

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

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

November 22–23, 2021	<b>Conference on European Economic Integration (CEEI)</b> – “Recalibrating tomorrow’s global value chains – prospects for CESEE” in cooperation with European Investment Bank (EIB)
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## OeNB Courses at the Joint Vienna Institute (JVI) 2021 and 2022

In light of the ongoing COVID-19 global health emergency, the Joint Vienna Institute (JVI) has suspended its face-to-face training operations until the beginning of February 2022. Courses are now being delivered as virtual training events. In addition, the JVI is offering a series of webinars.

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

<https://www.jvi.org/training/course-schedule/course-schedule-2021.html> and <https://www.jvi.org/courses/course-schedule-2022.html>

## Upcoming OeNB courses

Title	Organization	Date
Financial Stability and Supervisory Stress Testing for Banking Systems	Oesterreichische Nationalbank	January 24 – 27, 2022
HR Issues and Compliance	Oesterreichische Nationalbank, in cooperation with the Deutsche Bundesbank	February 21 – 25, 2022
Financial Education	Oesterreichische Nationalbank	April 25 – 29, 2022
Euro Area Integration and Accession: Institutional Challenges and Governance Issues for Central Bankers	Oesterreichische Nationalbank	May 9 – 13, 2022
Macrofinancial Stability in Central, Eastern and Southeastern Europe	Oesterreichische Nationalbank, in cooperation with the JVI	October 10 – 19, 2022
Financial Translation and Editing: Trends and Tools for Future Challenges	Oesterreichische Nationalbank	October 19 – 21, 2022
Cash Circulation and Payment Systems in Austria	Oesterreichische Nationalbank	November 21 – 23, 2022
Monetary and Financial Statistics Collected and Compiled by the ESCB	Oesterreichische Nationalbank	November 21 – 25, 2022

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