Developments in selected CESEE countries

Coronavirus overruns the region[1, 2, 3]

1 Regional overview

The spread of the coronavirus pandemic to Central, Eastern and Southeastern Europe (CESEE) has led to restrictions on economic life that seemed difficult to anticipate just a few weeks ago, bringing about some of the most severe social and economic disruptions since the revolutions of 1989. The coronavirus crisis is primarily a public health crisis and constitutes an external and symmetric macroeconomic shock to all countries, with containment measures adversely affecting both the supply and demand side, though with different implications across countries. This macroeconomic shock will without any doubt fundamentally change the state of affairs in CESEE and send the region into deep recession.

This report gives an overview of the economic situation prior to the coronavirus pandemic and sheds light on macroeconomic strengths and weaknesses and the associated policy space for the CESEE region. It then sketches the development of the coronavirus crisis in CESEE and the policy measures implemented so far.

Pre-coronavirus: moderating though still broadly robust economic growth amid often slowly rising price pressures

Moderating growth amid decelerating international momentum in the second half of 2019

High-frequency activity indicators weakened in the second half of 2019 and in early 2020 in most CESEE countries. The weakening was most pronounced in the (very strongly export-oriented) industrial production sector, which basically stagnated in the CESEE EU Member States and decelerated notably in Russia. This reflected the deteriorating international environment and a pronounced decline in world trade that was strongly influenced by the U.S.-China trade war. Somewhat stronger dynamics were reported for construction output and retail sales, underlining the continuing strength of domestic demand. A clear pickup among all activity indicators was only observed in Turkey as the country recovered from recession in late 2018.

GDP figures for the second half of 2019 were broadly in line with the trends outlined above (see table 1). Real GDP growth in Turkey accelerated to 1.9% (quarter on quarter) in the fourth quarter of 2019 – by far the strongest reading in the CESEE region. Decelerating economic momentum was reported for the CESEE EU Member States, where average GDP growth came in at 0.7% (quarter on quarter) in the final quarter of 2019. This was a rather weak reading compared to the dynamism of the past three years. GDP growth in Russia amounted to 0.6% (quarter on quarter) in the fourth quarter of 2019 and was broadly in line with CESEE EU Member States' figures.

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

[2] *Cutoff date: April 11, 2020. This report focuses primarily on data releases and developments from October 2019 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 candidate countries and non-EU countries). For statistical information on selected economic indicators for CESEE countries not covered in this report (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	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	Period-on-period change in %								
Slovakia	3.0	4.0	2.3	1.0	0.4	0.6	0.3	0.4	0.6
Slovenia	4.8	4.1	2.4	1.0	0.8	0.5	0.0	0.8	0.4
Bulgaria	3.5	3.1	3.4	1.0	0.8	1.0	0.7	0.7	0.8
Croatia	3.1	2.7	2.9	0.2	0.4	1.1	0.6	0.6	0.3
Czech Republic	4.4	2.8	2.6	0.6	0.9	0.6	0.5	0.4	0.5
Hungary	4.3	5.1	4.9	1.5	1.2	1.4	1.0	1.1	1.0
Poland	4.9	5.1	4.1	1.3	0.7	1.4	0.7	1.2	0.3
Romania	7.1	4.4	4.1	1.7	0.6	1.1	0.9	0.6	1.5
Turkey	7.5	2.8	0.9	–1.1	–2.4	1.3	1.2	0.4	1.9
Russia	1.8	2.5	1.3	0.4	0.4	–0.1	0.6	0.5	0.6
CESEE average[1]	4.0	3.2	2.0	0.3	–0.2	0.6	0.8	0.6	0.9
Euro area	2.5	1.9	1.2	0.2	0.4	0.5	0.1	0.3	0.1

Source: Eurostat, national statistical offices.

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

Domestic demand remained the backbone of growth in the second half of 2019 as exports flagged

Growth remained firmly rooted in domestic demand. Private consumption made the strongest contribution to GDP growth in seven of the ten countries under observation. It continued to benefit from benign labor market conditions and swift wage growth. Furthermore, consumer sentiment was robust until most recently and consumer credit expanded swiftly.

Unemployment rates have been falling consistently in recent years, from an average level of around 10% in early 2013 to 3.4% in February 2020. This represents the lowest reading since the start of transition. Furthermore, employment kept expanding throughout most of the region up to the outbreak of the pandemic, contributing to a convergence of employment rates toward euro area levels.

Investment also supported growth throughout most of CESEE in the second half of 2019. Capital spending was bolstered by high capacity utilization, favorable financing conditions, robust construction activity and the availability of EU funding in many countries. In some countries, however, poor export prospects already led companies to postpone or scale down investment. This was especially the case in Slovenia, where growth in capital formation dipped into the red. A notable deceleration of investment growth was also observed in Croatia, Hungary and Poland, coming down from very high levels, however.

Export growth continued to soften in the review period, mirroring declining world trade amid lower international demand. Given the high import content of CESEE's export production, import growth was also somewhat lower. On balance, the external sector often contributed negatively to GDP dynamics, especially in Russia and Turkey.

Inflation reflected strong domestic price pressures

Despite somewhat lower growth rates, means of production – especially labor – continued to be utilized in full in the second half of 2019. High GDP growth, emigration and a lack of skilled workers had led to labor shortages in the past years. This translated into high wage growth rates that reached up to 12% annually. The situation has relaxed in recent months and both wage growth and labor shortages came down somewhat (e.g. annual nominal hourly wage growth declined to around 9% by the end of 2019). Nevertheless, the region's economies mostly ran above full potential. The positive output gap for the CESEE EU Member States in 2019 was estimated at an average 2% of GDP by the European Commission.

This translated into higher inflation rates. Average HICP inflation came in at 3.7% in January and 3.6% in February 2020 in the CESEE EU Member States, the highest level since late 2012. While this in part reflects higher energy prices up until February, core inflation was on the rise, too. In February 2020, it reached an average of 3.3%. Several central banks (e.g. in the Czech Republic, Hungary, Poland and Romania) have missed their inflation targets in recent months (at least temporarily).

In Turkey, inflation came down from around 25% in late 2018 to a three-year low of 8.6% in October 2019. However, price growth subsequently reaccelerated to 12.4% in February 2020, owing in part to unfavorable base effects. Among the HICP components, it was especially industrial goods prices that fueled the increase.

Russia was the only country with a clear downward trend in inflation in recent months. In February 2020, price growth declined to 2.3% (from 4% in September 2019), well below the central bank's target of 4%. The most important building block for this development was a base effect from a value-added tax increase in January 2019. Other disinflationary factors included a decline in prices of food products and non-food goods.

Czech central bank tightens monetary policy while key rates in Russia and Turkey decline further

Regional central banks reacted to inflation developments. The Czech central bank increased its policy rate by 25 basis points to 2.25% in February 2020 after having missed its inflation target for three months in a row.

The Turkish central bank decreased its policy rate in four steps, from 16.5% in early October 2019 to 10.75% in late February 2020, reversing most of its crisis-induced rate hikes carried out after the turbulences in mid-2018. It argued that the improvement in macroeconomic indicators supported the fall in the country's risk premium. The exchange rate of the Turkish lira vis-à-vis the euro remained broadly stable from October 2019 until the end of February 2020.

The Russian central bank cut its key rate in three steps, from 7% in early October 2019 to 6% in late February 2020, citing disinflationary pressures and – in its February move – rising risks of a substantial global economic slowdown.

Coronavirus crisis: macroeconomic strengths and weaknesses and policy space for the CESEE region

The CESEE region entered the current slump from a state of moderating, though still broadly robust economic growth amid often slowly rising price pressures. Compared to 2008, general macrofinancial risks remain broadly contained at the onset of the downturn. The upcoming section provides an overview of important indicators on the external, the general government and the banking sectors in the CESEE region and outlines specific strengths and weaknesses.

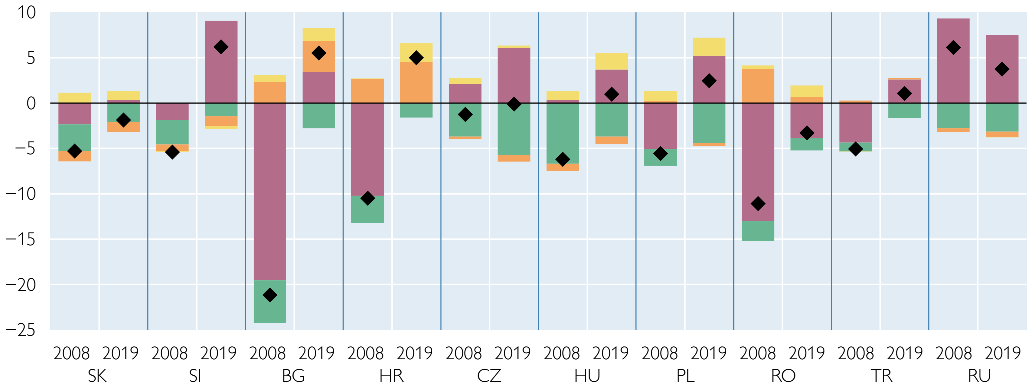
External sector: current accounts mostly in surplus and rising external debt buffered by an even larger increase in reserves

The period before the great financial crisis was characterized by twin deficits in the external and public sector accounts in many countries of the CESEE region. At the outbreak of the coronavirus crisis, the region reported a combined current and capital account surplus of 2.2% of GDP (end-2019). Among the individual CESEE countries, only Romania recorded a notable current account deficit in 2019 (see chart 1). The external adjustment of the region was driven predominantly by better outcomes in the goods and services balances. The momentum in the trade balance initially rested on strongly reduced domestic demand at the height of the

Chart 1

Combined current and capital account balance

% of GDP

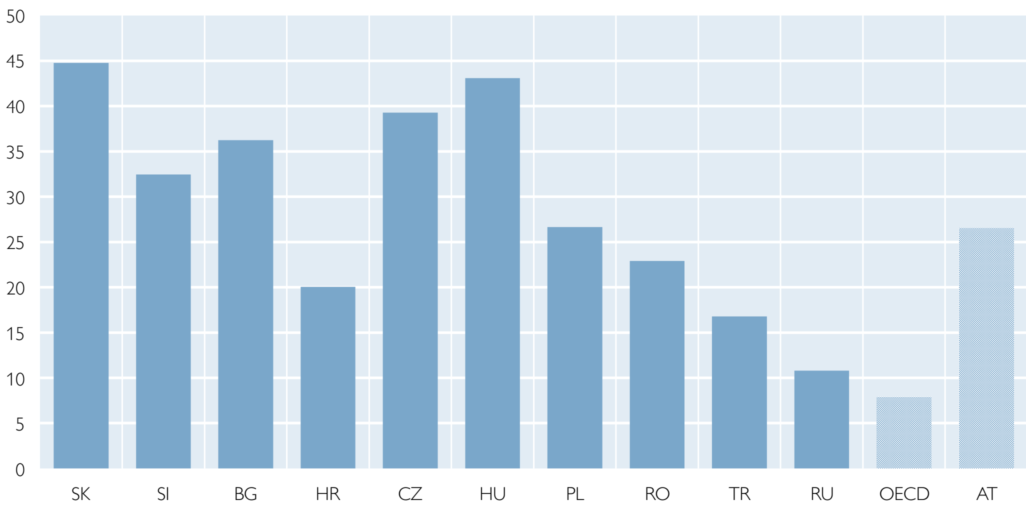


Source: Eurostat, ECB, national central banks.

Chart 2

Backward participation in global value chains

Foreign value added content of exports in % of total exports



Source: OECD.

global financial crisis that led to a substantial decline of imports. Trade in goods, however, also benefited from the close integration of the CESEE (EU) region in international supply chains as the associated rise in competitiveness bolstered export growth after the acute crisis years. In recent quarters, pronounced (productivity-adjusted) wage increases in the manufacturing sector have already shaved off some of the competitive edge of the region, however.

Yet, some CESEE countries belong to the world's most tightly integrated in terms of global value chains (see chart 2), which implies a high vulnerability in the current crisis. All countries under observation are more strongly integrated than the OECD average, and the degree of integration in countries like the Czech Republic, Hungary and Slovakia is even five to six times as high. Global production networks could be an important transmission mechanism for shocks throughout the global economy and have already been disrupted at an early stage by the stoppage of production in China. Furthermore, global value chains not only transmit shocks in supply, they also transmit shocks in demand. As an example, the automobile industry in CESEE will not only be impaired by a lack of Chinese inputs into domestic production, but also by a decline in Chinese auto demand via falling sales of international (especially German) car producers that usually obtain inputs from CESEE.

International trade also acts as a transmission mechanism for coronavirus-related shocks. Chart 3 shows that the degree of openness has mostly increased since the global financial crisis and is especially high in the Central European EU Member States (up to three times as high as in the EU-15). Even though the geographical distribution of CESEE countries' trade remains very much centered on the EU-15, the weight of China and the U.S.A. as the largest and second-largest global economies (in terms of purchasing power parity) in final demand for CESEE products must not be ignored given the strong integration in international value chains.

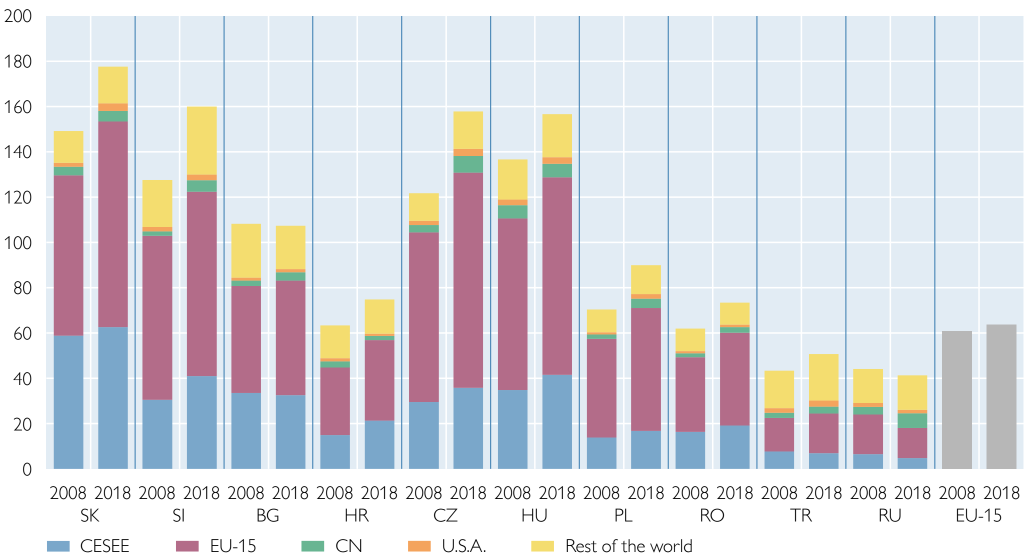
Further, tourism will be one of the sectors most strongly affected by the coronavirus recession; this warrants a closer look at the importance of this sector for CESEE (see chart 4). In terms of dependence on tourism, the CESEE countries can be broken down into roughly three groups. The first group includes Poland, Russia, Romania, Slovakia, the Czech Republic and Hungary. These countries reported a share of tourism in total GDP of between 5% to 8%. The second group includes Bulgaria, Turkey and Slovenia, with a share of tourism of around 11% to 12% in total GDP. Finally, Croatia is in a league of its own, with a share of tourism in GDP and employment of around 25%, making it the country most dependent on tourism in the whole region (and in fact also throughout much of Europe).

Finally, we take a look at foreign capital flows and external debt to get an idea of the sustainability of the external position of the CESEE region. For the region

Chart 3

Trade openness

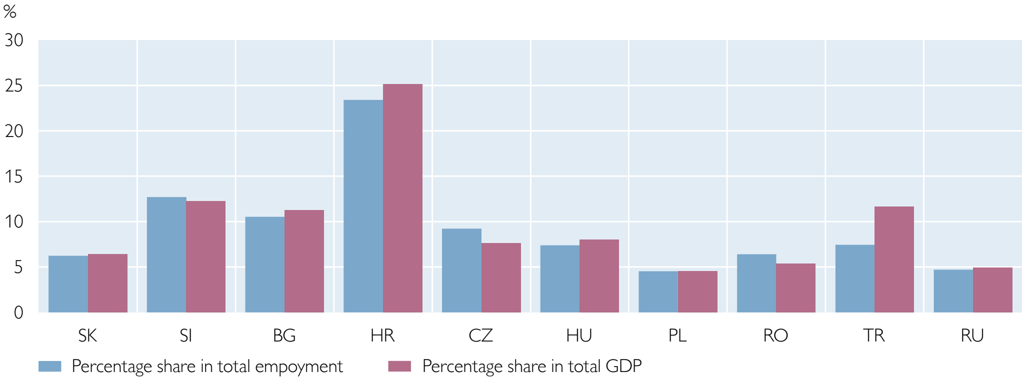
Exports and imports in % of GDP



Source: wiiw.

Chart 4

Importance of tourism for CESEE in 2018



Source: World Bank.

as a whole, external liabilities in the international investment position (IIP) increased by some 20 percentage points of GDP between 2008 and 2019 (see chart 5), mostly on account of FDI inflows (+16.3 percentage points of GDP) but also on account of higher portfolio liabilities (+10.7 percentage points of GDP). Other investments were the only component of IIP liabilities that posted a notable decline (–6.4 percentage points of GDP). The latter mainly reflected two things: The deleveraging of international banking groups in the region and the change in the refinancing structure of CESEE banking sectors away from external liabilities to domestic deposits. The outlined dynamics in IIP liabilities translated into a somewhat higher gross external debt of the CESEE region (+4.9 percentage points of GDP, reaching 48.7% of GDP in 2019; see chart 6). At the same time – supported by current account surpluses – reserves (including gold) also trended higher (+7.4 percentage points of GDP) and covered more than 50% of total external debt by the end of 2019.

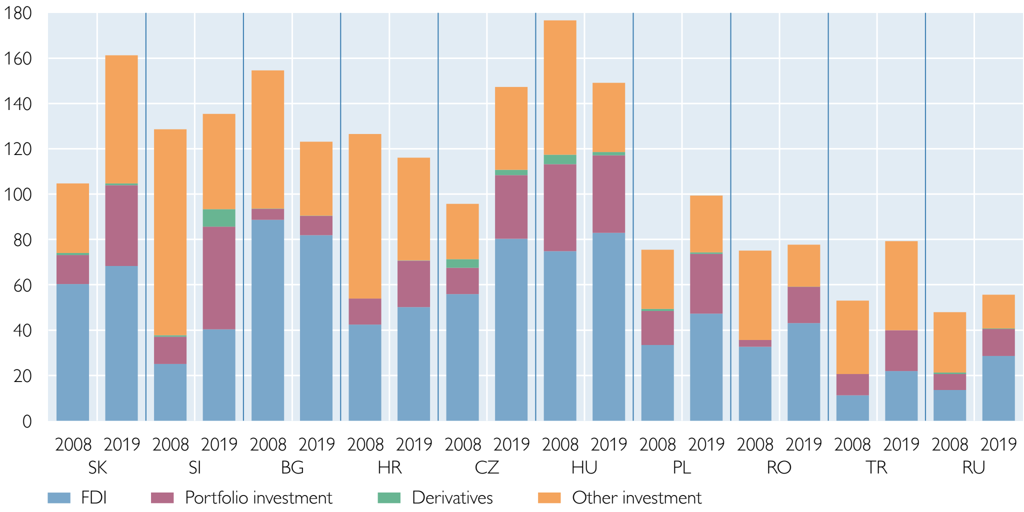
Developments at the country level were heterogeneous, however. Between 2008 and 2019, a large degree of external deleveraging was observed for Hungary and Bulgaria (and to a lesser extent also for Croatia). In all three countries, the decline in IIP liabilities was almost exclusively driven by other investments, leading to a corresponding decline in gross external debt. The Czech Republic and Slovakia, by contrast, reported an increase in their external liabilities of more than 50 percentage points of GDP. Strongly rising portfolio and other investment liabilities – amid an also substantial upward trend in FDI – pushed up external debt in the two countries. In Turkey and Poland, the increase in IIP liabilities amounted to some 25 percentage points of GDP in the past decade. While, in the case of Poland, the increase rested on FDI and portfolio flows only, all IIP components contributed to the rise in Turkey. Hence, external debt in Turkey also posted a relatively large increase. Comparatively little change could be observed in Slovenia, Romania and Russia, where increases in FDI and decreases in other investments broadly leveled out.

Summing up, the region entered the current downturn with its external accounts in broadly solid shape. Combined current and capital accounts were mostly in surplus and an increase in external debt was buffered by an even larger

Chart 5

International investment position liabilities

% of GDP

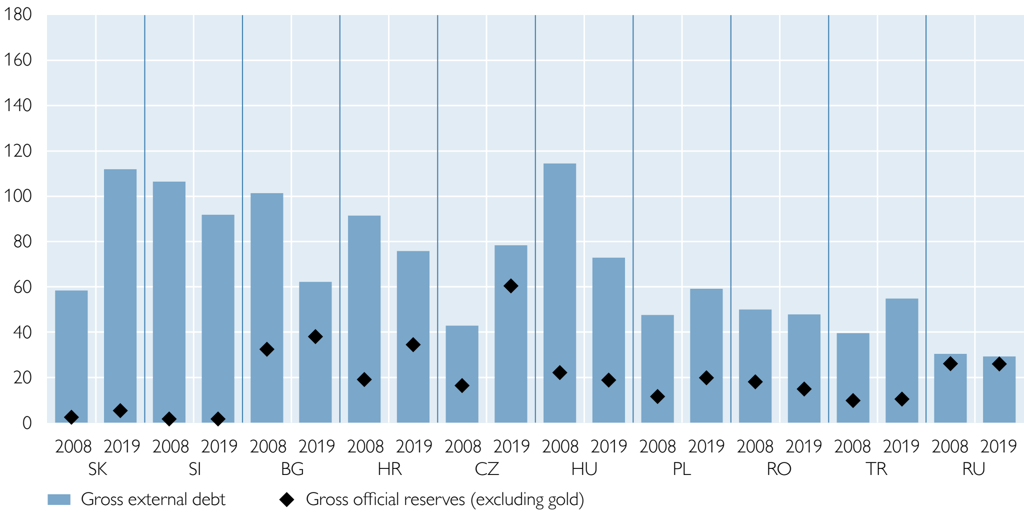


Source: National central banks.

Chart 6

External debt and reserves

% of GDP



Source: National central banks.

increase in reserves. On the country level, Romania was the only country to report a notable current account deficit in 2019. Most of the shortfall, however, was covered by capital (mostly FDI) inflows. Given the high degree of openness and the strong integration in global value chains, Central European countries (especially Hungary, the Czech Republic and Slovakia) will most likely be more affected by a slowdown in global demand. The sudden stop in international mobility will particularly dampen the Croatian economy, as the country is highly dependent on tourism. Finally, Turkey experienced a rather large increase in external debt amid broadly unchanged international reserves, leaving the coverage of external debt by foreign exchange reserves among the lowest of the region. Furthermore, exchange rate risks are high given the Turkish lira's strong volatility in recent years and the country is also rather susceptible to the effects of a sudden stop in tourism.

General government sector: lower budgetary shortfalls than in 2008 despite a lack of consolidation in recent years; debt levels generally higher with partly unfavorable financing structures

A central question on the eve of the recession is whether fiscal policy has enough room for maneuver to weather the fallout from the coronavirus crisis. Ideally, policymakers would want to rely on automatic fiscal stabilizers, discretionary fiscal stimuli and favorable financing conditions to shield companies, workers and households from the most severe consequences of the coronavirus-induced economic slump. The ability to do so crucially depends on a country's fiscal space.

A look at general government net lending in the region reveals that most CESEE countries managed to substantially bring down headline deficits as well as cyclically adjusted budget deficits from the heights after the global financial crisis (see chart 7). Measures to improve revenue collection combined with strong economic growth in recent years have underpinned a notable improvement in public finances. In fact, most countries reported notably lower deficits in 2019 than they did before the outbreak of the global financial crisis in 2008.

The reform momentum, however, stalled somewhat in 2019. Six of the ten countries under observation reported higher headline deficits (lower surpluses) than in 2018, despite continuing robust economic momentum. An expansionary fiscal stance was also documented by the deterioration in the (projected) cyclically adjusted deficits of most CESEE EU Member States.

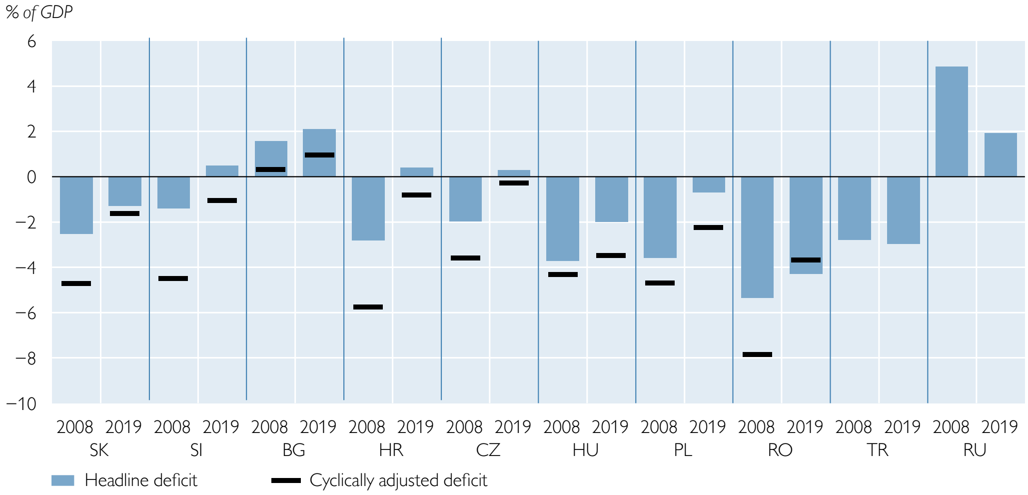
In Romania, the headline deficit increased to 4.3% of GDP, 1.3 percentage points of GDP above the Maastricht threshold. Romania has been in a significant deviation procedure (SDP) since 2017. In November 2019, the European Commission commented that the Romanian authorities do not intend to act upon the recommendations issued within the SDP and that the new pension law poses a significant upward risk to the public deficit in 2020 and beyond. Against this background, an excessive deficit procedure (EDP) was launched in spring 2020. Hungary – the second country subject to an SDP – was on a better trajectory before the coronavirus hit the region. In its November 2019 report, the European Commission noted that the Hungarian economy was experiencing good times, with an improvement in the overall fiscal situation.

After the start of transition, CESEE public sectors had been known for their low indebtedness for a long time. The global financial crisis thoroughly altered this situation, however (see chart 8). Discretionary fiscal spending and large-scale banking sector support in several countries drove up general government debt to more "normal" European levels after 2008. Strong economic dynamics in recent years reversed some of these increases, but debt levels mostly remain substantially higher than ten years ago. In Turkey, government debt even displayed a clear upward trend in the past two years as the country went through a recession. Russia reports the by far lowest public debt and the country's National Welfare Fund holds about USD 150 billion in liquid assets (9% of GDP).

For fiscal sustainability, it is not only the level of debt that matters but also its composition. With respect to the creditor structure, a large share of foreign investors can drive up risk premiums and impede access to market funding and favorable financing conditions in turbulent times. Domestic investors (such as pension funds), by contrast, are usually more long-term oriented and less prone to swings in sentiment. The share of domestic investors is relatively low in CESEE,

Chart 7

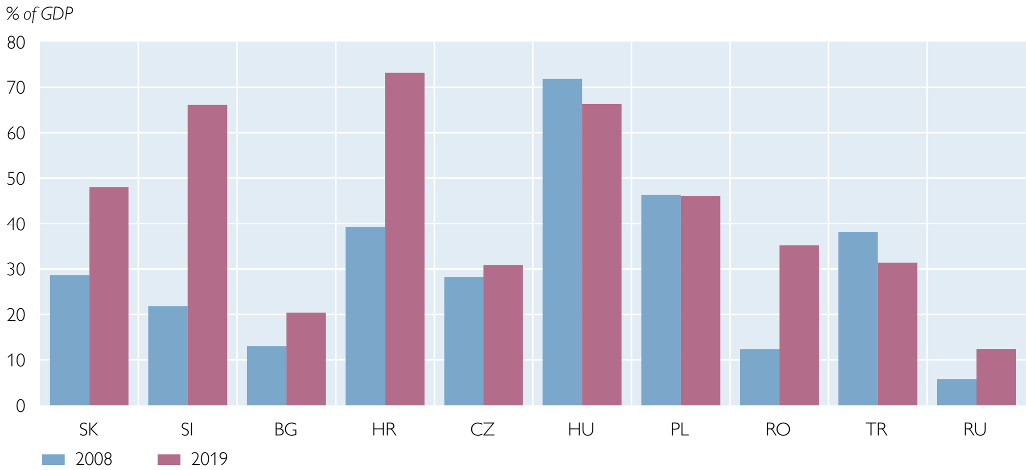
General government deficit



Source: European Commission.

Chart 8

General government debt



Source: European Commission.

partly because comparatively shallow capital markets make it hard to issue sufficient portions of sovereign debt domestically. Chart 9 shows that nonresidents on average held close to 50% of total debt in CESEE in 2019. In Slovakia and Slovenia, the shares reached close to 70% and displayed a notable upward trend.

If we look at the currency denomination of public debt, we find that the share of foreign currency-denominated debt in total debt is rather high in many CESEE countries given the strong presence of nonresident investors (see chart 10). Exchange rate risks, however, are mitigated by two factors: The euro is the most important foreign currency in the CESEE EU Member States, given their close trade, financial and business cycle linkages with the euro area and the associated hedging possibilities. Second, the stock of euro-denominated debt is especially high in those countries that have pegged their currencies to the euro or whose exchange rate policy is strongly focused on the euro (Bulgaria, Romania, Croatia). Among the non-EU countries, a high share of (mostly U.S. dollar-denominated) foreign currency debt can be observed in Turkey. In Russia, the share of foreign currency-denominated government debt has decreased notably in recent years as sanctions have made tapping international markets increasingly difficult for the country.

Regarding the ratings for long-term foreign currency sovereign debt, Slovakia, Slovenia, the Czech Republic and Poland currently show the strongest ratings (see chart 11). Bulgarian, Hungarian, Romanian and Russian government bonds are assessed as moderately risky. While Standard & Poor's applies the moderate risk category also

Chart 9

General government debt owed to nonresidents

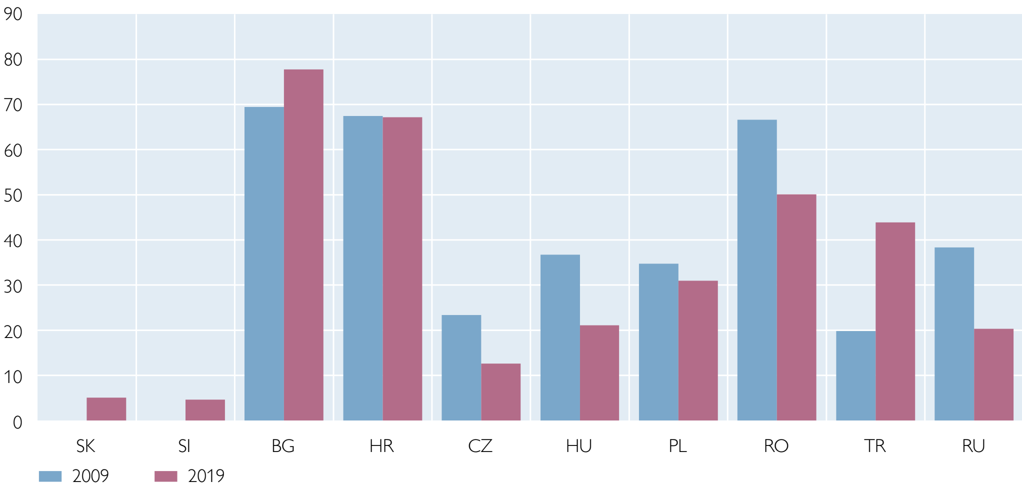
% of total debt

Source: Eurostat, IMF, national central banks.

Chart 10

General government debt denominated in foreign currency

% of total debt



Source: Bloomberg, OeNB.

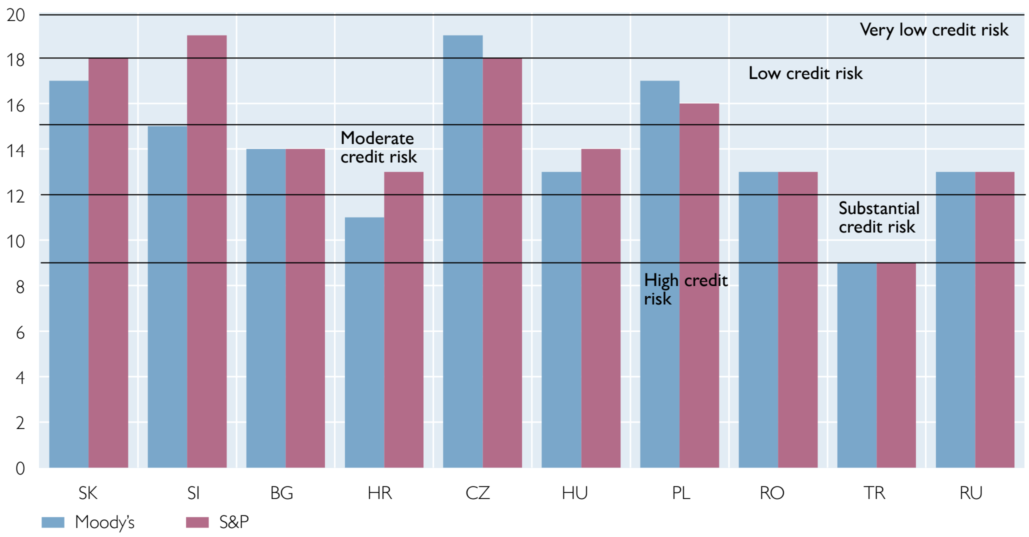
to Croatia, Moody's sees a substantial credit risk for the country. Turkey is the lowest-rated country in the CESEE region, with credit risk being deemed high by both rating agencies. Comparing 2008 and today, current ratings by Moody's are often somewhat weaker than before the global financial crisis, while no major changes can be observed in the country risk assessments released by Standard & Poor's.

Short-term debt issuance is usually associated with lower funding costs but – at the same time – it is also associated with higher interest and rollover risks especially

Chart 11

Ratings of long-term foreign currency sovereign debt

Latest available ratings



Source: Moody's, Standard & Poor's.

Chart 12

General government debt maturing within one year

% of total debt

Source: Bloomberg, OeNB.

in times of turbulence. Since the global financial crisis, the share of short-term debt in total debt has fallen substantially in all CESEE countries except Russia (see chart 12). In some cases, it has reached long-term lows. This development was related to favorable market conditions in an environment of prolonged monetary accommodation that favored the issuance of long-term debt.

Summing up, despite some recent deterioration, CESEE countries' budget deficits are generally lower than in 2008, and three countries even reported surpluses in 2019. However, public debt levels have increased substantially throughout most of the region. The structure of public debt remains skewed toward nonresident investors and – at least in some countries – foreign currency-denominated debt. On a positive note, refinancing risks have been reduced considerably due to a lengthening of debt maturities. Therefore, the recent increase in government bond spreads (see below) does not pose an immediate threat.

On the country level, Romania and Turkey seem to be exposed most strongly to public finance risks. Romania's public finances have deteriorated throughout the past years and the country is currently subject to an excessive deficit procedure (the only ongoing EDP in the EU). Its debt level has nearly tripled since 2008. Furthermore, it scores relatively high in terms of the share of nonresident investors and foreign currency public debt. Turkey has by far the weakest country rating in the CESEE region and reports a relatively large (and rising) share of U.S. dollar-denominated debt amid pronounced exchange rate volatility in recent years.

A more stable refinancing structure, improving asset quality and rising capitalization mostly contain banking sector risks

In recent years, credit growth accelerated in an environment of strong GDP growth, ample liquidity and low interest rates in most CESEE countries. Some credit segments already displayed first signs of overheating. This applies in particular to housing loans, which grew swiftly given strong housing demand and ever-increasing housing prices. Several CESEE countries (especially EU Member States) have introduced macroprudential measures and/or recommendations to put a brake on this development. Furthermore, countercyclical capital buffers were activated in Bulgaria, the Czech Republic and Slovakia.

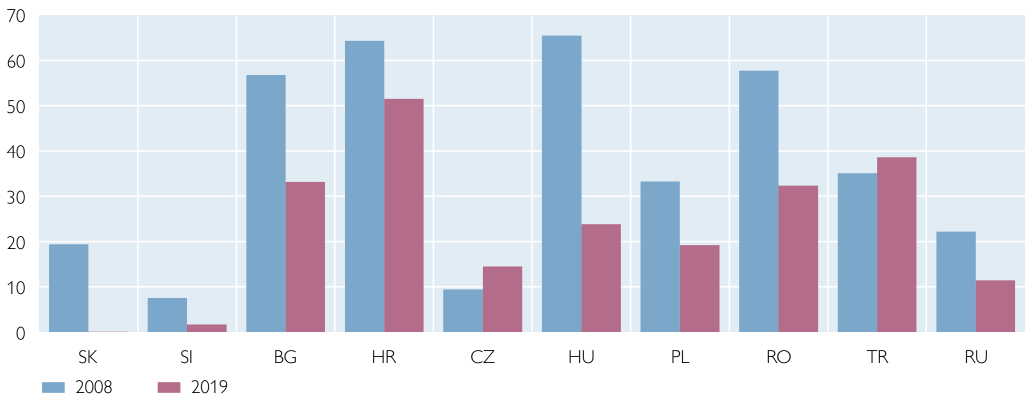
Compared to 2008, banking sector risks in CESEE have moderated. For instance, the share of foreign currency-denominated loans in total loans to the private sector has declined throughout most of the region (see chart 13). This downward trend is particularly pronounced in loans to households, which is especially welcome as the sector is usually unhedged against exchange rate changes. At end-2019, the foreign currency share in loans to households was virtually zero in Slovakia, Slovenia, the Czech Republic, Hungary and Russia (in Turkey, foreign currency loans to households have been legally banned). Several countries (most prominently Hungary and Croatia) introduced conversion schemes for foreign currency loans to households into local currency loans that fueled this downward trend. It needs to be noted, however, that the foreign currency share in corporate loans remains notably higher. Such loans have received more policy attention recently. The IMF has intensified its warnings on high levels of corporate debt in emerging markets, and the sharp depreciation of the nominal effective exchange rate of the Turkish lira in 2018 as well as the recent pandemic-induced depreciation of some of the region's currencies has illustrated potential risks.

The decline in foreign currency loans has contributed to a higher quality of banking sector assets, as has the decline in nonperforming loans (NPLs). A comparison of the shares of nonperforming assets in total assets for 2008 and 2019 does not yield a clear-cut regional trend (see chart 14). Compared to 2013, however, when the global financial crisis and crisis legacies pushed NPL ratios to 15% or more in several countries, NPL ratios have come down substantially. This positive momentum can be attributed to favorable lending developments as well as to the strong general economic momentum. Furthermore, active portfolio cleansing measures – including writing off bad debt, selling NPL portfolios as well as restructuring and forbearance agreements and the transfer of NPLs to bad banks – also positively impacted the stock of nonperforming assets. In Russia, NPLs also decreased somewhat in the past two years after the 2014 recession and the banking sector turbulences in late 2017 (which led to the nationalization of three medium-sized credit institutions together accounting for about 7% to 8% of banking assets). Turkey was the only CESEE country to report higher NPLs in the past few years. The increase in Turkish NPLs reflected the financial difficulties

Chart 13

Foreign currency-denominated loans to the private sector

% of total loans to the private sector

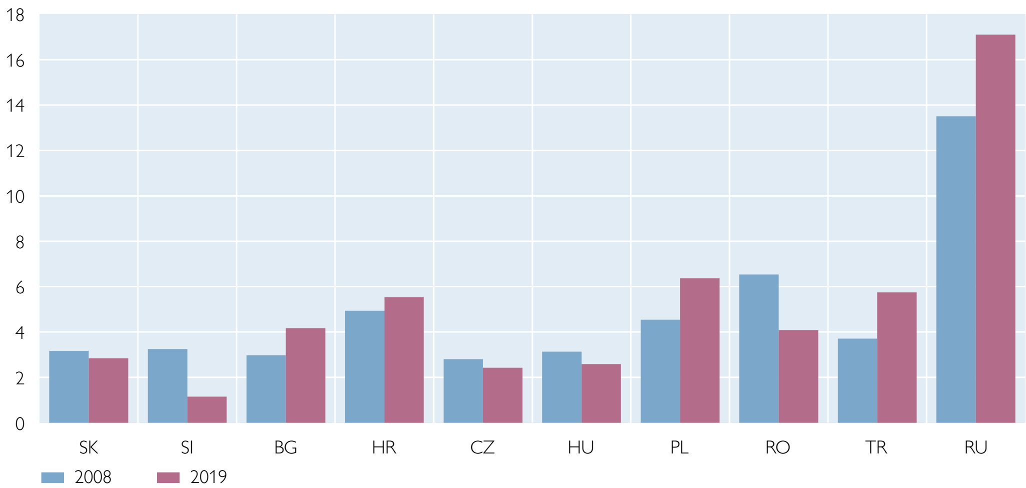


Source: ECB, national central banks.

Chart 14

Nonperforming loans

% of total loans

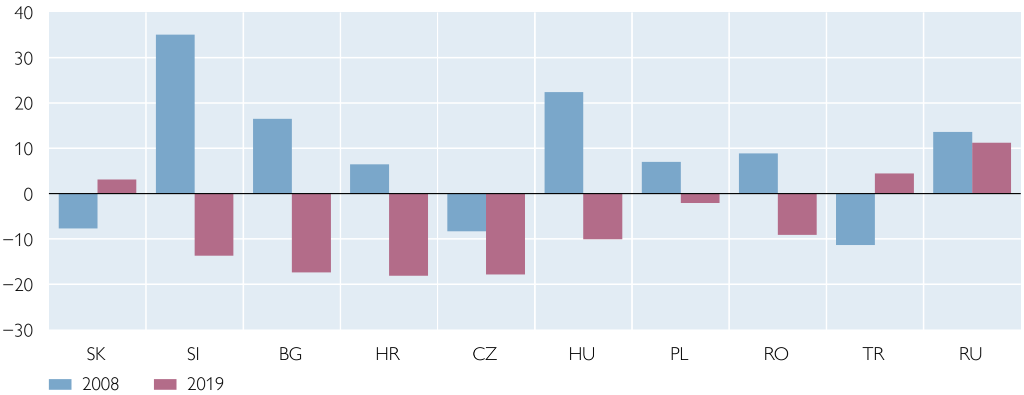


Source: IMF, national central banks, OeNB.

Chart 15

Domestic claims less private sector deposits

% of GDP

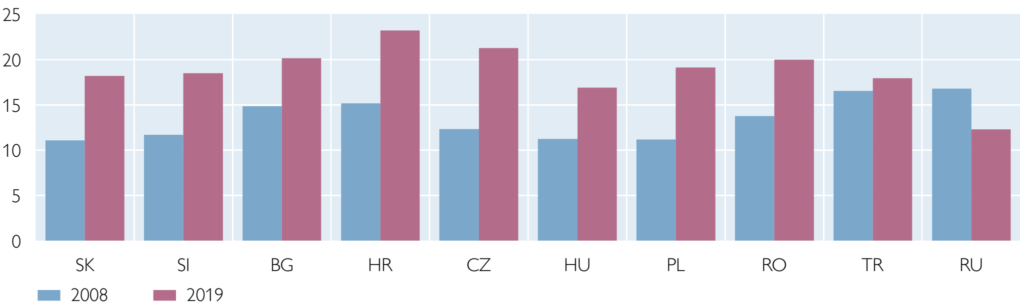


Source: ECB, Eurostat, national central banks, national statistical offices.

Chart 16

Capital adequacy ratio

% of risk-weighed assets



Source: National central banks.

associated with the 2018 financial turbulences faced by indebted companies – particularly those with debts in foreign currency.

Another positive development was observed in CESEE banking sectors' refinancing structure. Over the past years, the refinancing structure has shifted from external liabilities to local deposits. This makes CESEE banks less vulnerable to swings in international sentiment and the possible (and in a worst case synchronized) withdrawal of foreign capital. At end-2019, seven of the ten countries under observation reported a (partly substantial) overhang of private sector deposits relative to domestic banking sector claims (see chart 15). Banking sectors in Slovakia and Turkey reported a moderate funding gap (on a notable declining trend in the case of Turkey), while only Russia recorded a persistently high funding gap of around 10% of GDP.

On top of that, the risk-bearing capacity of CESEE banking sectors has improved. Capital adequacy ratios have increased throughout the region, in most countries substantially so (see chart 16). Capitalization is not only higher than in 2008, it is also high compared to other European countries. The by far weakest capital base was reported for Russia.

Summing up, risks emanating from the banking sector – a main transmission channel in the global financial crisis – currently seems to be relatively contained. Credit growth is swift (in certain segments probably too swift) but credit is stably funded by local deposits. Asset quality has improved, and banking sector portfolios today are generally less risky than a decade ago. Among the individual countries, Russia and Turkey are exposed to the highest risks. In Russia, domestic claims are notably higher than domestic deposits, capitalization is weak and the NPL ratio is the highest in the region (accompanied by a coverage ratio of only somewhat above 50%, which is the lowest level in CESEE). At the same time, credit growth remains high and strongly driven by uncollateralized consumer loans. Turkey was the only country to report negative dynamics in nonperforming assets. While consumers are banned from foreign currency borrowing, the stock of foreign currency-denominated lending in corporate credit remains stubbornly high. This exposes corporations to exchange rate risks amid large (short-term) negative foreign currency positions. Finally, the Turkish banking sector still reports a positive – though declining – funding gap.

Spread of coronavirus: CESEE was affected later and to date less strongly than other regions

Coronavirus reached CESEE somewhat later than Western European countries. On average, the first COVID-19 cases in CESEE were reported thirty days later than in Italy (and five days later than in Austria). At the current stage, the number of reported infections is still comparatively small in CESEE (see table 2). Russia and Turkey are the only clear outliers. Infections per million inhabitants, however, remain relatively low also in these two countries.

The Global Health Security Index (developed by the Johns Hopkins Center for Health Security, the Nuclear Threat Initiative and The Economist Intelligence Unit) provides a rough estimate of the health security capabilities in CESEE. The subcomponents of the index that are related to responding to and mitigating the spread of an epidemic and to the quality, coverage, resilience and robustness of the

Table 2

Key indicators regarding COVID-19 spread in CESEE (mid-April)

	Current number of official cases	Infections per million inhabitants	Daily increase of cumulative cases (average of last 5 days, %)	Days since first reported case	Cumulative deaths	Deaths per million inhabitants
SK	835	152	4	40	2	0
SI	1,220	581	2	42	56	27
BG	713	103	3	39	35	5
HR	1,704	416	4	50	31	8
CZ	6,141	574	2	45	161	15
HU	1,579	164	6	42	134	14
PL	7,202	191	5	43	263	7
RO	6,879	358	6	49	344	18
TR	65,111	806	9	35	1,403	17
RU	21,102	145	16	75	170	1
CN	83,293	60	0	>110	3,344	2
AT	14,234	1,582	1	50	384	43
IT	162,488	2,708	2	76	21,069	351

Source: European Centre for Disease Prevention and Control, OeNB calculations.

health sector are especially relevant in the current situation. In both categories, CESEE countries do not score notably worse than Austria or Italy. Some countries even outperform Western European peers, e.g. Slovenia, Poland and Turkey. Rather low capabilities of dealing with pandemics, however, are reported for Romania, Slovakia and especially Bulgaria.

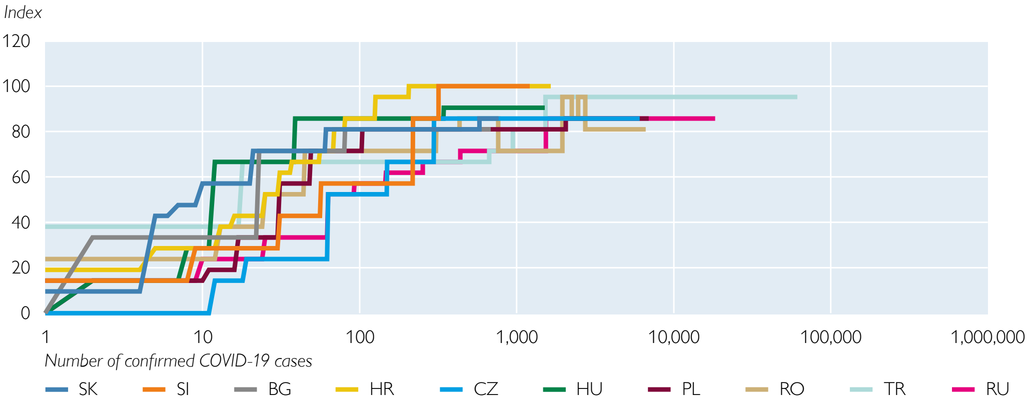
While the Global Health Security Index suggests that health-related risks from the coronavirus pandemic are generally in line with other European countries, two factors should be noted: (1) The median age of the population in CESEE is rather high and the age distribution of the population skewed toward older age cohorts (this does not apply to Turkey, though). This implies a rather large high-risk group for serious COVID-19 infections. (2) Furthermore, studies[4] suggest that case-fatality rates are strongly positively related to a country's share of working-age families living with their parents (multigeneration households). Such living arrangements increase intergenerational contacts and enable the virus to spread more quickly to high-risk older strata of the population. Multigeneration households are especially widespread in several CESEE countries (e.g. in Slovenia, Bulgaria, Croatia and Poland).

Government responses to the spread of coronavirus: fast, comprehensive and associated with high economic costs

Government responses to the spread of coronavirus have taken various forms, ranging from contact tracing and testing up to general curfews. The Oxford COVID-19 Government Response Tracker aims to track and compare government responses to the coronavirus outbreak and makes it possible to compare CESEE countries' stance compared to other European peers. Chart 17 and 18 plot the Stringency Index[5] against the number of confirmed COVID-19 cases and shows that CESEE countries responded quickly and started to implement measures soon after the first coronavirus cases were reported. Government responses at the time

Chart 17

COVID-19 Government Response Stringency Index



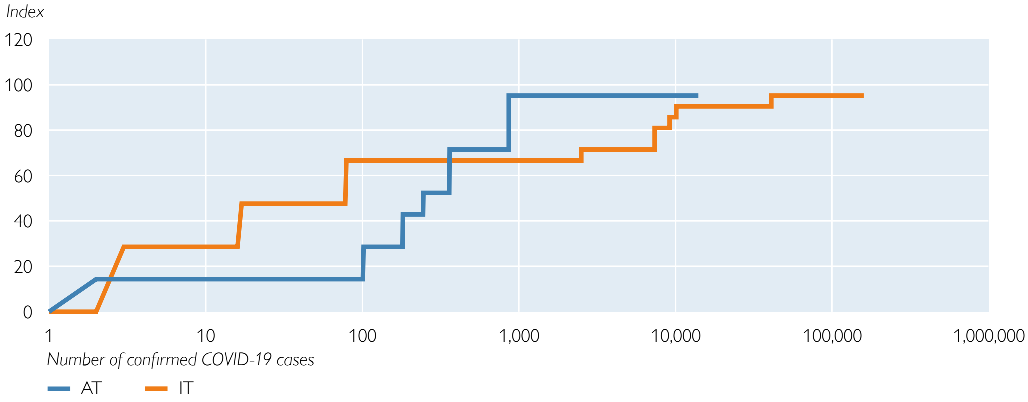
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

[4] *Bayer, C. and M. Kuhn. 2020. Intergenerational ties and case fatality rates: A cross-country analysis. ECONtribute: Markets & Public Policy.*

[5] *The Stringency Index is based on seven policy response measures related to schools, workplaces, public events, public transport, information campaigns and restrictions on internal and international movement.*

Chart 18

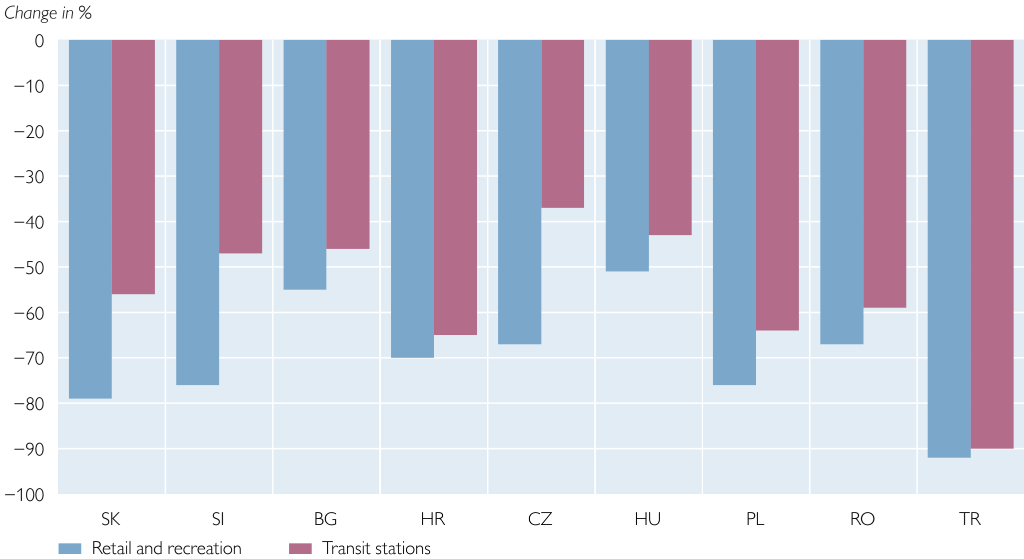
COVID-19 Government Response Stringency Index



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Chart 19

Mobility trends



Source: Google COVID-19 Community Mobility Reports.

Note: Percentage change on April 11, 2020, compared to a baseline (median value, for the corresponding day of the week, during the five-week period from January 3 to February 6, 2020).

of writing were stringent and far reaching in all CESEE countries (in some cases even more stringent than in Italy or Austria).

Government measures will, without any doubt, lead to large economic costs. The extent of these costs, however, is still very hard to gauge as no hard data on production and sales for the period in question is available at the time of writing (for our current forecast for GDP growth in CESEE, see the Outlook for selected CESEE countries in this issue). However, some indicators suggest that public life has temporarily come to a standstill and that economic activity has declined notably. Chart 19 shows mobility trends published by Google, which are based on visits and the length of stays at different places. For example, mobility observed at transit stations (e.g. public transport hubs such as subway, bus and train stations) declined by more than 50% on average in the CESEE region in mid-April compared to early February 2020. The reduction was even more pronounced in the area of retail and recreation (e.g. at restaurants, cafés, shopping centers, theme parks, museums, libraries and movie theaters), where mobility declined by 70% on average (up to 90% in the case of Turkey). The same is true for international mobility. Flight departures from international capital airports had basically come to a standstill by mid-April (see chart 20).

Mirroring these figures, sentiment in CESEE has plummeted (see chart 21). In April 2020, the European Commission's Economic Sentiment Indicator (ESI) for the CESEE EU Member States dropped by nearly 40 points and declined to its lowest level in history. A similar development was observed in the Purchasing

Table 3

Selected financial market indicators

	Exchange rate versus euro	Equity index	Euro-denominated[1] government bond yield spread versus euro area	Sovereign credit default swap premium (5-year)
	%	%	*Basis points*	*Basis points*
CZ	–6.2	–26.0	59	20
HU	–6.0	–29.0	69	42
PL	–6.6	–22.8	54	29
SK	n.a.	–6.6	n.a.	11
SI	n.a.	–14.5	n.a.	n.a.
HR	–2.3	–21.8	155	28
BG	Currency board	–20.2	74	21
RO	–1.1	–13.6	156	40
RU	–16.1	–18.0	146	50
TR	–12.3	–16.2	365	326

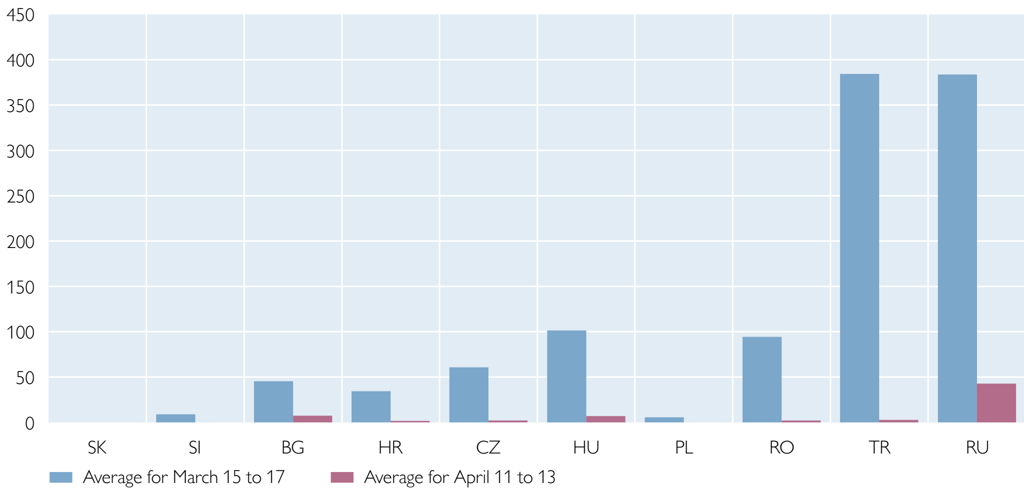
Source: Macrobond.

Note: Year-to-date changes oberserved on April 14, 2020. A negative value in the first column indicates depreciation.

[1] RU: EMBIG (USD-denominated eurobonds) used instead of Euro-EMBIG (EUR-denominated eurobonds).

Chart 20

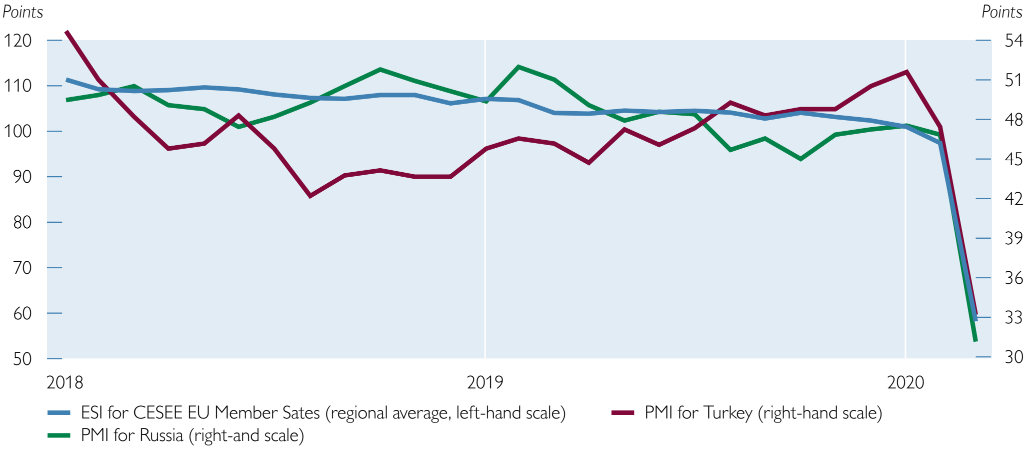
Flight departures from international airports



Source: flightradar24.com

Chart 21

Selected sentiment indicators



Source: European Commission, Markit.

Note: Latest observation: April 2020.

Managers' Index (PMI) for Russia and for Turkey. Both indexes descended into free fall in April 2020 and reported values of only 31.3 and 33.4 points, respectively, far below the 50-point threshold indicating an economic expansion.

The impact of the coronavirus crisis on financial market indicators was immediate and substantial. A deterioration was observed in all financial market segments and in all countries. The strongest impact was reported for equity prices, which declined by up to 29% against the start of the year in Hungary. Euro-denominated eurobond spreads also increased strongly in all countries against the backdrop of increasing sovereign credit default risk and a notable depreciation of national currencies against the euro. The countries most affected by the sell-off were Turkey, Russia, Romania and Croatia, not least because of higher macrofinancial vulnerabilities (as outlined above).

Governments throughout CESEE have taken extensive measures to alleviate the fallout from the ensuing greater economic crisis (for a more detailed overview see country chapters). Fiscal support measures have included, among others, deferring tax and social security contributions for affected enterprises, taking over part of the salary payments to employees and extending paid sick leave. Some countries have increased the pay for key sectors, including the salaries of medical professionals. Governments in many countries have also taken measures to avoid liquidity shortages in the real sector, often jointly with commercial banks and development banks; in some cases, these measures include state guarantees. Moratoria for debt repayments have also widely been recommended and implemented.

CESEE central banks have also been quite active and made use of their full tool kit. Following the onset of the pandemic, key policy rates were cut in the Czech Republic (by 125 basis points to 1%), Poland (100 basis points to 0.5%), Romania (50 basis points to 2%) and Turkey (100 basis points to 9.75%). The Croatian central bank also intervened on the foreign currency markets to contain depreciation pressures. Liquidity provision measures for banks including longer-term refinancing operations and additional foreign currency swap auctions were launched in several countries, and some central banks also started buying bonds of their respective governments (e.g. in Croatia, Hungary, Poland, Romania). In mid-April, the Croatian and the Bulgarian central bank announced swap lines with the ECB. Easing measures regarding the regulatory framework have also been announced. They include, among others, a revision of (planned) countercyclical capital buffer rates (e.g. in Bulgaria and the Czech Republic).

Box 1

Ukraine: coronavirus pandemic hits economy after successes in macroeconomic stabilization

The Ukrainian economy continued to grow gradually in the second half of 2019, bringing full-year GDP growth to 3.2%. Yet, inventory destocking weighed on the growth rate, particularly in the final quarter. Supported by strong wage growth, private consumption remained the main growth driver, while gross fixed capital formation also showed positive developments. Exports performed well despite a strengthening hryvnia, as agricultural exports were expanding particularly briskly. Import growth stood slightly below export growth, but due to the higher starting base of imports the contribution of net exports remained marginally negative.

Benefiting from rising real exports and improving terms of trade, the current account deficit narrowed to 2.7% of GDP in 2019 (excluding the one-off compensation payment the Ukrainian state-owned energy company Naftogaz received from Gazprom in the amount of about 2% of GDP). Income from gas transit will remain an important component of the current account in the next few years, but its role will decline. Under the new gas transit contract that was concluded at end-2019, Ukraine will earn about USD 7 billion over the next five years, which is about half of the amount Ukraine would have received under the expired contract. As regards the financial account, the high interest rate level increasingly attracted portfolio investments on the government bond market in 2019, while net FDI inflows stayed moderate.

Consumer price inflation fell to 4.1% at end-2019 and thus reached the inflation target range of 5% ± 1 percentage point defined by the National Bank of Ukraine (NBU). Inflation declined further to 2.3% in March 2020. Lower energy prices and declining core inflation (supported by the appreciation of the hryvnia) brought down headline inflation rates. Against the background of disinflationary developments, the NBU cut the key police rate in six steps from 17.5% in mid-2019 to 10% in March 2020.

When making its latest interest rate decision public in mid-March, the NBU cited risks related to the spread of coronavirus for the global and the Ukrainian economy. In the same week, the NBU sold foreign currency on the foreign currency market to ease depreciation pressures on the hryvnia in an environment of global financial market turbulences. Net foreign currency interventions totaling about USD 2.2 billion mainly caused official reserves to decline by about 8% in March to USD 24.9 billion. Hence, they fell slightly below their end-2019 level (equal to 3.7 months of imports) after a continued rise in 2019. NBU measures taken in the context of the spread of coronavirus also include delaying the introduction of capital buffers, introducing long-term refinancing loans and encouraging banks to introduce a special grace period for loan repayments by individuals and companies. In parallel, the Ukrainian authorities implemented several measures to contain the spread of coronavirus, ranging from the closure of schools to movement restrictions. Moreover, the budget for 2020 was amended to incorporate a deficit of 7.5% of GDP compared to a deficit of 2.1% in 2019. The budget revision took into account support measures (increases in medical, social and pension expenses) and projected negative GDP growth of 4.8%.

Following a staff-level agreement on a new three-year IMF Extended Fund Facility (EFF) reached in early December 2019, the arrangement has not come into effect so far. Efforts to fulfill the conditions for IMF Executive Board approval intensified more recently, as the land reform was approved by the parliament and a crucial banking law that prevents former owners of banks that have been declared insolvent from regaining their assets passed parliament in the first reading. However, a group of Ukrainian lawmakers proposed thousands of amendments to the law that could lead to a noticeable delay until final parliamentary approval of the law. If the EFF is approved by the IMF Executive Board, total available disbursements would be larger than envisaged in December (reportedly USD 8 billion instead of USD 5.5 billion).

Box 2

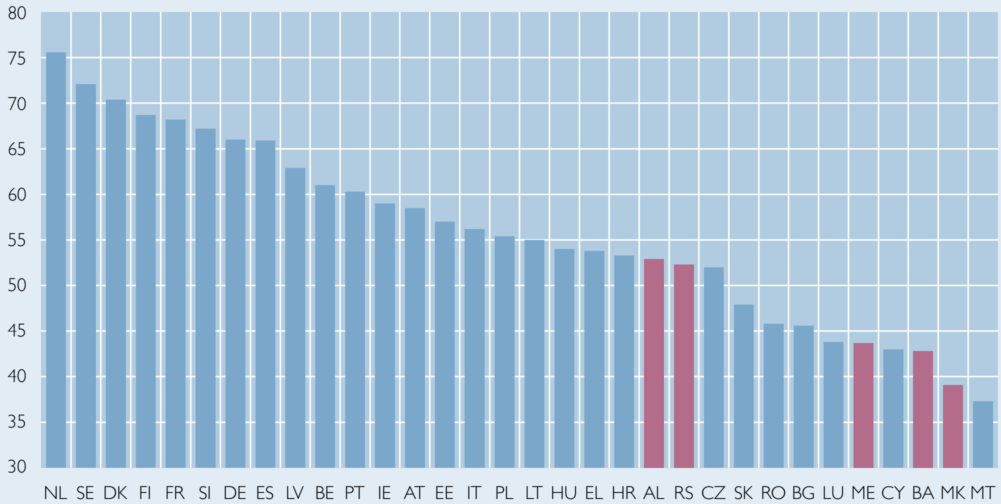
Western Balkans[6]: strongly affected by the coronavirus crisis

The coronavirus crisis strongly impacted on the Western Balkan economies since the first lockdown measures were enacted toward mid- or end-March 2020. The far-reaching shutdown of the economies to combat the spreading of the virus have shaken all areas of life in the region with tremendous economic consequences. Overall, the Western Balkan region seems to be more vulnerable to a fast spreading of the virus and its consequences owing to generally poorer health systems and less preparedness to face a pandemic than most EU countries (chart 1).

Box Chart 1

Public health care systems in comparison

Index 2019, maximum score = 100



Source: Global Health Security.

In most Western Balkan countries, economic growth already lost some momentum in the final quarter of 2019 compared to previous quarters, with strongly diverging growth patterns (chart 2). Growth declined particularly sharply in Albania, from 4.2% in the third to –0.2% in the fourth quarter of 2019, as a devastating earthquake hit the country in November 2019, and in Bosnia and Herzegovina, from 3.1% in the third to 1.6% in fourth quarter of 2019, driven by almost stagnating private consumption. By contrast, growth in Serbia accelerated to 6.2% in the fourth quarter on the back of strong gross fixed capital formation, which lifted full-year growth to above 4%.

Overall, private consumption continued to be an important growth contributor in the second half of 2019. Swift credit expansion, higher wages and remittances and, moreover, positive developments on the labor markets were supportive factors. According to labor force surveys, the Western Balkan economies managed to bring down their unemployment rates (toward the end of 2019) compared to a year earlier. In Kosovo, the unemployment rate declined by almost 4 percentage points compared to one year earlier to (still high) 25.7% at the end of 2019, and by 3.5% in North Macedonia to 17.5%. At end-2019, Serbia had the lowest unemployment rate with below 11%. It should be noted that these positive trends are also owed to a strong brain drain in the region.

The rather volatile patterns of investment are often the result of big public investments (mainly infrastructure or energy projects) throughout the Western Balkans. It is worth noting that, in Albania, investment growth decelerated sharply in the second half of 2019 due to the

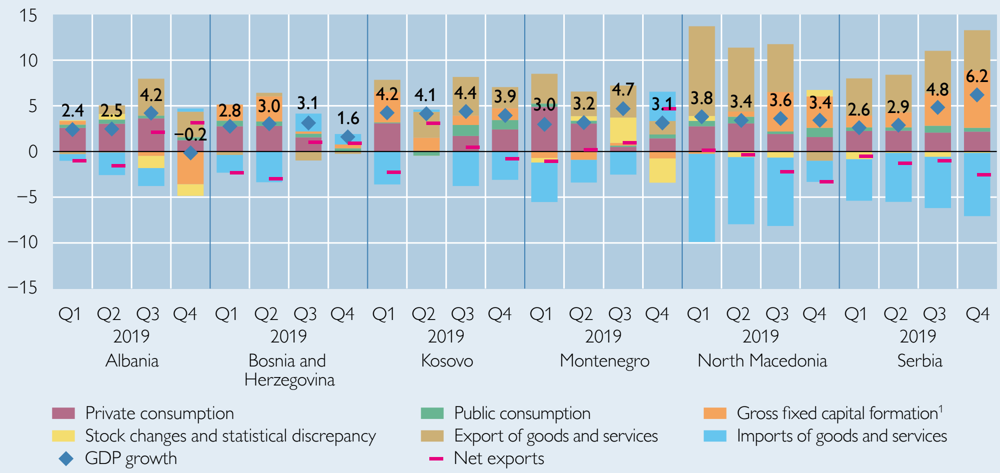
[6] *The Western Balkans comprise Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation "Kosovo" is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.*

finalization of large infrastructure projects. Furthermore, political uncertainty and the earthquake left their marks as well. In Serbia, by contrast, investment growth accelerated by more than 20% in the second half of 2019. Here, a huge energy project was key but FDI inflows also contributed positively to investment growth.

Box Chart 2

Diverging GDP growth even prior to coronavirus crisis

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



Source: Eurostat, wiiw, national statistical offices.

[1] Gross capital formation for Bosnia and Herzegovina (2019), Kosovo and North Macedonia.

Export growth was particularly strong in Albania (record tourist season) and Kosovo (a new ferronickel plant started operation, increasing exports of services). In North Macedonia, export growth turned negative in annual terms in the last quarter of 2019, possibly mirroring lower international demand (the country is relatively strongly integrated in global value chains).

Strong investment activity in several countries resulted in high import growth given a substantial import content of investments. This is particularly true for Kosovo, North Macedonia and Serbia, where the growth contribution of net exports was negative in the second half of 2019. In contrast, in Albania, Bosnia and Herzegovina, and Montenegro, import growth contributed positively to growth toward the end of the year, leading to a positive contribution of net exports in these countries.

Current account deficits (see table 2 in the statistical annex) narrowed in all Western Balkan countries in the second half of 2019 compared to the first half. In Montenegro, for instance, lower imports of machinery needed for infrastructure projects and higher exports related to tourism[7] and transport services caused the improvement. Albania reported a record tourist season for the second half of 2019. Furthermore, secondary income (largely workers' remittances) as a share of GDP remained high and even accelerated in some countries compared to previous periods (Albania, Kosovo). In the second half of 2019, FDI as a share of GDP on average moderated somewhat compared to the first half of 2019 but still covered the lion's share of the current account deficits.

Inflation rates declined in almost all Western Balkan countries. In Bosnia and Herzegovina, Montenegro and North Macedonia annual inflation fell below 1% in 2019 on average. The situation looked different in Kosovo, where inflation stood at almost 3% in 2019 but moderated over the year. Inflationary pressure was largely the result of 100% tariffs imposed by Kosovo on products from Bosnia and Herzegovina as well as Serbia. In early April, Kosovo lifted the tariffs. Partly as a result of the lower oil price, inflation dropped further in March 2020 in all countries. Only in Albania inflation accelerated strongly to 2.1% year on year, driven by higher food prices, but still remained

[7] *Tourism has the biggest impact in Montenegro, where tourism accounts for more than 20% of GDP, followed by Kosovo (approximately 18%) and Albania (15%).*

below the inflation target of 3% set by the Bank of Albania. So far, the exchange rate regimes seem to be coping relatively well with the coronavirus crisis and have remained rather stable. Albania and Serbia are the only two countries among the Western Balkans with a flexible exchange rate regime. In Albania, the lek temporarily lost some 6% against the euro at the end of March but has largely recovered since then, while the Serbian dinar traded stably.

In response to the pandemic, all countries implemented swift and harsh measures to contain the spread of coronavirus, closing shops, businesses and borders and imposing curfews. All central banks have been very active, too, in addressing the crisis; several interest rate cuts were implemented in March and early April 2020. The National Bank of Serbia cut its key policy rate in two steps by a total of 0.75 percentage points to 1.50% and adopted several measures to supply the domestic sector with additional dinar and foreign currency liquidity. The National Bank of the Republic of North Macedonia cut the policy rate by 0.25 percentage points to 1.75% and the Bank of Albania by 0.5 percentage points to 0.5%. Furthermore, most central banks have decided to support households and businesses with moratoria on debt payments in case these are facing difficulties in repayment; they have also implemented measures to support the granting of loans.

The fiscal positions are rather heterogenous across the region (see table 4 in the statistical annex) but overall the fiscal leeway to deal with the coronavirus-induced shock is relatively limited. In 2019, Montenegro reported the biggest fiscal shortfall with –2.6% of GDP (the same as in 2018); in North Macedonia, the deficit widened, reaching –2.5% (2018: –1.8%). Bosnia and Herzegovina as well as Kosovo achieved fiscal surpluses in 2019. In Albania, the destructive earthquake in November 2019, which resulted in additional expenditure pressure, left the deficit at –1.7%. In 2019, Montenegro was the country with the highest debt-to-GDP level (77.8%), followed by Albania with 66.6%.

The coronavirus crisis is now derailing fiscal plans, causing significant fiscal pressure in 2020. A large fiscal expansion is needed on account of higher health, social and economic support spending as well as revenue shortfalls due to an expected massive economic contraction. So far, Serbia has released the most substantial measures to support the economy in the Western Balkans.

On a positive note, at the end of March 2020, the EU finally gave green light for opening accession negotiations with Albania and North Macedonia. Albania has been an EU candidate since 2014, North Macedonia already since 2005. Together with Montenegro (where accession negotiations started in 2012) and Serbia (since 2013), four countries are currently negotiating with the EU to become Member States. Bosnia and Herzegovina and Kosovo are classified as potential EU candidates. Regarding relations with the IMF, the Extended Fund Facility (EFF) of the IMF approved for Bosnia and Herzegovina in 2016 has been off track, i.a. because the country failed to form a new government after general elections in autumn 2018. In December 2019, a new government was put in place, which provided the basis for a resumption of the IMF arrangement. In December 2019, the IMF completed the third review under the Policy Coordination Instrument (PCI) with Serbia. Accordingly, the economic reform program is on track. In light of the coronavirus crisis, international organizations are playing an important role in supporting the region. The IMF has activated emergency support under its Rapid Financing Instrument (RFI) for Albania, Bosnia and Herzegovina, Kosovo and North Macedonia. Also, the EU, with a macrofinancial assistance (MFA) package and other measures, as well as other institutions or countries have stepped in to support the region.

2 Slovakia: coronavirus crisis has been a baptism of fire for the new government

Lackluster economic performance before the coronavirus crisis due to counteracting domestic and foreign demand

Economic growth in Slovakia halved in the six months to December 2019 compared to the first half of the year. As a result, GDP growth came out at 2.3% in the year as a whole, down from 4% in 2018. While the economic expansion continued to be backed by ongoing robust household consumption, it was also boosted by a somewhat surprising acceleration of fixed investment in the second half of 2019. Domestic demand benefited from the buoyant labor market situation and accommodative monetary policy stance. By contrast, net exports put a drag on growth for most of 2019, particularly as a result of weakened foreign demand. Some supply-side issues in Slovakia's crucial automotive industry also contributed to the subdued export performance.

Buoyed by still favorable economic conditions, the labor market remained robust, despite significant regional disparities, with unemployment figures improving marginally in the second half of 2019. At the same time, slowing employment and wage growth gradually relieved labor market tensions. As rising labor and global commodity prices had been passed through to food and energy prices, annual inflation edged up to average 3.1% in the review period, although annual price increases moderated to 2.4% in March 2020. Due to the slowdown in economic growth, the general government deficit did not continue its downward trend and remained broadly unchanged at 1.3% of GDP in 2019 compared to the year before. Nonetheless, due to the increase in the denominator, public debt relative to GDP came down by more than 1 percentage point to about 48% of GDP in 2019.

New government takes over in the midst of the fight against coronavirus

After a good start to the year, with strengthening industrial production, sales, construction and consumer confidence, the first COVID-19 patient was confirmed in Slovakia on March 6, 2020. Amid a global pandemic, Slovakia experienced a historical change in leadership. A new four-party coalition government led by Prime Minister Igor Matovič, who was elected largely due to his promise to crack down on corruption, was sworn in on March 21, 2020. With the words "Let's go to battle," Prime Minister Matovič and his government took over from the former administration led by the Social Democrats. Strict containment measures have since been introduced, ranging from a shutdown of nonessential stores and almost all service sector activity to the closure of borders and schools and a ban on the free movement of people (barring some exceptions). These unparalleled restrictions – compounded by similar measures taken by Slovakia's trading partners – with their disruptive consequences for global supply chains and international trade will have a massive impact on Slovakia's economy. Moreover, they provide a genuine stress test for the young ruling coalition. The heavy economic toll of the coronavirus crisis will be aggravated by the fact that all carmakers in Slovakia suspended production for a couple of weeks not only to contain the spread of coronavirus but also to adjust to lower demand and obstructions in related supply chains. This represents a major setback for an economy that has the largest car production rates per capita worldwide and whose automotive industry accounts for about 12% of GDP and 44% of industrial production. While the change of government delayed the introduction of economic anti-crisis packages, the government has meanwhile approved measures that include, inter alia, benefits for self-employed individuals and wage subsidies for affected employees. Moreover, the measures allow for the deferred payment of employer levies as well as bank guarantees and moratoria on the repayment of loans and mortgages.

Table 4

Main economic indicators: Slovakia

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	3.0	4.0	2.3	4.6	3.5	3.8	2.2	1.3	2.0
Private consumption	4.3	3.9	2.2	3.8	4.4	1.9	2.7	1.9	2.2
Public consumption	1.0	0.2	3.8	0.0	2.0	2.3	5.0	3.7	3.9
Gross fixed capital formation	3.9	3.7	4.4	–8.3	8.5	0.0	2.4	7.8	6.2
Exports of goods and services	3.5	5.4	1.7	6.0	5.1	9.0	–0.9	–0.2	–0.5
Imports of goods and services	3.9	5.0	2.6	4.2	6.8	6.5	1.5	3.3	–0.5
	Contribution to GDP growth in percentage points								
Domestic demand	3.2	3.5	3.0	2.9	5.0	1.2	4.4	4.2	2.1
Net exports of goods and services	–0.2	0.5	–0.8	1.6	–1.5	2.6	–2.2	–3.0	0.0
Exports of goods and services	3.3	5.1	1.7	5.3	5.0	8.9	–0.9	–0.1	–0.5
Imports of goods and services	–3.5	–4.6	–2.4	–3.7	–6.5	–6.3	–1.4	–2.9	0.5
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	4.5	3.6	5.1	2.8	3.9	3.7	7.2	5.8	3.8
Unit labor costs in manufacturing (nominal, per hour)	6.4	3.7	5.5	0.8	1.7	1.6	4.0	7.5	8.7
Labor productivity in manufacturing (real, per hour)	1.0	4.7	1.3	6.7	6.1	7.5	2.6	–2.4	–2.1
Labor costs in manufacturing (nominal, per hour)	7.5	8.6	6.7	7.6	7.9	9.2	6.7	4.8	6.4
Producer price index (PPI) in industry	2.5	2.4	1.8	3.6	3.6	2.7	2.9	1.1	0.7
Consumer price index (here: HICP)	1.4	2.5	2.8	2.7	2.1	2.4	2.6	3.0	3.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	8.2	6.6	5.8	6.4	6.1	5.9	5.8	5.9	5.7
Employment rate (%, 15–64 years)	66.2	67.6	68.4	67.9	68.2	68.6	68.1	68.5	68.5
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	9.4	8.4	7.5	6.2	6.8	6.8
of which: loans to households	11.8	11.3	11.3	12.0	11.3	9.5	8.5	8.1	8.0
loans to nonbank corporations	7.6	3.4	3.4	5.0	3.4	3.9	2.1	4.4	4.4
	%								
Share of foreign currency loans in total loans to the non-bank private sector	0.2	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1
Return on assets (banking sector)	0.8	0.8	0.8	0.9	0.8	0.8	0.9	0.8	0.8
Tier 1 capital ratio (banking sector)	16.6	16.6	16.6	16.7	16.6	16.7	16.8	16.6	16.6
NPL ratio (banking sector)	3.6	3.0	2.8	3.4	3.0	2.9	2.8	2.8	2.8
	% of GDP								
General government revenues	40.6	40.8	41.5	..	..	..	..	..	..
General government expenditures	41.5	41.8	42.8	..	..	..	..	..	..
General government balance	–1.0	–1.1	–1.3	..	..	..	..	..	..
Primary balance	0.5	0.3	–0.1	..	..	..	..	..	..
Gross public debt	51.3	49.4	48.0	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	59.8	54.3	26.0	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	40.8	42.2	20.2	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	0.7	–0.2	–0.8	–0.7	–2.3	1.3	–0.8	–3.1	–0.3
Services balance	1.1	1.0	1.1	1.6	0.2	0.8	1.6	1.6	0.4
Primary income	–2.1	–2.0	–2.1	–2.2	–2.5	–1.1	–2.3	–2.4	–2.5
Secondary income	–1.5	–1.4	–1.1	–0.9	–0.8	–1.9	–1.4	–1.1	0.0
Current account balance	–1.9	–2.6	–2.9	–2.1	–5.4	–1.0	–2.8	–5.1	–2.4
Capital account balance	0.1	1.4	1.0	0.6	3.0	0.2	1.3	0.0	2.4
Foreign direct investment (net)[3]	–2.8	–0.9	–2.2	–1.3	–3.4	–0.5	1.0	–2.0	–6.9
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	108.2	113.6	111.9	110.3	113.6	110.2	112.2	113.4	111.9
Gross official reserves (excluding gold)	2.3	3.8	5.3	3.5	3.8	4.3	4.8	5.6	5.3
	Months of imports of goods and services								
Gross official reserves (excluding gold)	0.3	0.5	0.7	0.4	0.5	0.5	0.6	0.7	0.7
	EUR million, period total								
GDP at current prices	84,851	90,202	94,177	23,751	23,109	21,708	23,640	24,561	24,268

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: no grace period for the new government

GDP growth in Slovenia gradually weakened in the course of 2019 and reached a meager 1.7% in the final quarter of 2019. Final consumption decelerated sharply, with public consumption even contracting notably. While real wage growth held up well, employment growth slowed, as did the expansion of the real wage sum. Growth of credit to households has moderated since November 2019, in response to central bank measures aimed at containing the growth of consumption loans. Investment growth turned negative in the fourth quarter of 2019. Declining industrial capacity utilization, worsening export expectations and deteriorating overall economic sentiment weighed on private sector investment. Both export and import growth weakened sharply toward the end of 2019, but net real exports remained a positive contributor to growth.

New government takes over in challenging times

In late January 2020, the five-party minority government resigned. The new four-party coalition government had initially intended to go ahead with reforms to Slovenia's pension, healthcare and long-term care systems as well as its national defense system, to cut red tape and to improve the country's infrastructure. However, these plans were disrupted by the coronavirus pandemic.

Alongside restrictive measures to slow the spread of coronavirus, various support measures have been introduced to mitigate the economic impact of the pandemic. As a case in point, the state is providing wage compensation for short-time working schemes and temporary layoffs and has taken over, on a temporary basis, pension and health insurance payments as well as sick pay. Furthermore, financial support is being provided to parents who have to take care of their children while schools are closed, while pensioners with the lowest pensions, university students and families with at least three children have received a one-off allowance. Household electricity prices have been temporarily cut by 20%. Public sector employees working in sectors that are key to overcoming the pandemic will be rewarded with a bonus; in addition, the government has invited private companies to follow suit. Self-employed individuals who had come under pressure were given support in the form of emergency assistance, exemptions from pension and healthcare contributions and postponements of income tax prepayments. The government has also introduced tax deferrals for up to two years and the option of paying taxes in 24 installments for troubled businesses, while additional state guarantees and credit lines have been extended.

Sound budgetary position helps accommodate costs of the pandemic

With the general government budget posting a surplus in 2019 (0.5% of GDP), the government now has some room for maneuver. The expected economic contraction, however, is likely to aggravate the situation. The Bank of Slovenia (BS) estimates that the drop in GDP will range between 6% and 16% in 2020, which would push state debt up to between 70% and 78% of GDP in 2020 (from 66.1% in 2019).

Banking sector will also feel the effects of the crisis

Borrowers who had become unable to settle their loan liabilities due to the negative effects of the pandemic were given the option to defer debt servicing for a maximum of 12 months at no additional costs. As Slovenia is a member of the euro area, the country's banks will also benefit from the ECB's additional asset purchases. In addition, since the BS has extended the supervisory measures taken by the ECB for banks under its direct supervision to less significant institutions under national supervision, all Slovene banks will benefit from further flexibility in the prudential treatment of loans backed by state guarantees. Also, the BS decided to defer certain deadlines for less important supervisory activities and granted banks capital relief.

Table 5

Main economic indicators: Slovenia

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	4.8	4.1	2.4	4.6	3.8	3.3	2.5	2.4	1.7
Private consumption	2.0	2.8	2.7	2.0	2.8	2.5	3.8	3.2	1.3
Public consumption	0.3	3.2	1.6	3.2	4.0	3.9	1.1	3.4	–2.0
Gross fixed capital formation	10.4	9.1	3.2	11.4	6.7	10.1	6.7	2.2	–4.5
Exports of goods and services	10.5	6.1	4.4	4.1	5.4	5.6	6.0	5.3	0.9
Imports of goods and services	10.1	6.6	4.2	4.5	5.4	4.7	5.9	7.4	–0.8
	Contribution to GDP growth in percentage points								
Domestic demand	3.7	3.9	1.9	4.6	3.5	2.1	1.8	3.4	0.4
Net exports of goods and services	1.2	0.2	0.5	0.1	0.3	1.2	0.6	–1.0	1.3
Exports of goods and services	8.2	5.1	3.7	3.4	4.5	4.8	5.1	4.4	0.7
Imports of goods and services	–7.0	–4.9	–3.2	–3.3	–4.1	–3.6	–4.4	–5.4	0.6
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	1.2	3.0	4.5	1.7	3.1	3.9	5.9	4.4	3.7
Unit labor costs in manufacturing (nominal, per hour)	–2.4	–2.7	–0.2	–3.4	1.4	1.2	–0.4	–1.7	0.2
Labor productivity in manufacturing (real, per hour)	9.2	6.5	4.2	4.9	3.3	5.6	5.0	3.6	2.6
Labor costs in manufacturing (nominal, per hour)	6.6	3.6	3.9	1.3	4.7	6.8	4.6	1.8	2.8
Producer price index (PPI) in industry	2.2	2.1	0.7	2.4	1.6	1.1	0.8	0.3	0.4
Consumer price index (here: HICP)	1.6	1.9	1.7	2.1	2.0	1.3	1.7	2.1	1.6
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	6.7	5.2	4.5	5.1	4.4	4.9	4.3	4.8	4.0
Employment rate (%, 15–64 years)	69.3	71.1	71.9	71.9	71.8	71.3	72.5	72.1	71.6
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	2.2	1.9	2.8	3.6	3.9	4.3
of which: loans to households	6.8	6.4	6.4	6.5	6.4	6.3	5.9	5.7	5.8
loans to nonbank corporations	3.1	–2.2	–2.2	–1.7	–2.2	–0.6	1.4	2.1	2.8
	%								
Share of foreign currency loans in total loans to the non-bank private sector	2.4	2.0	1.7	2.1	2.0	1.9	1.8	1.8	1.7
Return on assets (banking sector)	1.1	1.3	1.3	1.3	1.3	1.3	1.8	1.6	1.3
Tier 1 capital ratio (banking sector)	19.4	19.4	..	19.4	19.4	19.4	19.2	17.7	..
NPL ratio (banking sector)	3.7	2.3	1.1	2.7	2.3	2.0	1.5	1.5	1.1
	% of GDP								
General government revenues	44.0	44.3	44.2	..	..	..	..	..	..
General government expenditures	44.1	43.5	43.7	..	..	..	..	..	..
General government balance	0.0	0.8	0.5	..	..	..	..	..	..
Primary balance	2.4	2.8	2.2	..	..	..	..	..	..
Gross public debt	74.1	70.4	66.1	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	55.4	51.7	24.6	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	27.2	27.0	12.9	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	3.7	2.5	2.8	3.1	0.0	3.7	3.6	1.6	2.2
Services balance	5.2	5.9	6.3	6.8	5.9	5.2	6.2	7.4	6.3
Primary income	–2.1	–1.8	–1.5	–2.2	–1.9	–1.1	–1.9	–1.7	–1.1
Secondary income	–0.7	–0.9	–1.1	–1.0	–0.6	–1.9	–0.8	–1.0	–0.5
Current account balance	6.1	5.7	6.6	6.8	3.4	6.0	7.0	6.4	6.9
Capital account balance	–0.8	–0.5	–0.4	–0.2	–1.0	–0.2	–0.1	–0.2	–0.9
Foreign direct investment (net)[3]	–1.2	–2.0	–1.4	–3.9	–1.8	–4.0	–1.1	–1.0	0.0
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	100.5	92.0	91.8	93.0	92.0	91.5	93.0	94.2	91.8
Gross official reserves (excluding gold)	1.5	1.5	1.6	1.5	1.5	1.6	1.7	1.6	1.6
	Months of imports of goods and services								
Gross official reserves (excluding gold)	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.3
	EUR million, period total								
GDP at current prices	42,987	45,755	48,007	11,812	11,871	11,162	12,115	12,393	12,337

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: entering the coronavirus crisis with an already slowing economy

Economic activity subsided already before the outbreak of coronavirus

In the second half of 2019, real GDP in Bulgaria expanded by 2.9%, after 4% in the first half of the year. This deceleration was mainly due to sluggish export growth, while domestic demand remained relatively strong. Consumer price pressure intensified somewhat, reaching an inflation rate of 3.1% in February 2020. Inflation can be mostly explained by rising prices of food and services. The labor market was still in a favorable position in February, with an unemployment rate of only slightly above 4%. Tight labor market conditions continued to exert pressure on wages; annual real wage growth approached nearly 10% by the end of 2019.

Impact of the coronavirus pandemic

Bulgarian authorities declared a state of emergency on March 13, 2020, which is scheduled to last for at least two months and includes the closure of schools, universities, shopping centers, cinemas, restaurants as well as the suspension of all mass public events. In contrast to other countries, though, several smaller businesses already reopened after two weeks of closure. Construction sites, supermarkets, food markets, pharmacies, banks and gas stations had been exempted from the lockdown. To contain the spread of the coronavirus, entry bans were issued, domestic travel was restricted and curfews or quarantine measures were introduced for affected areas. The immediate economic impact has already been substantial: The number of passengers passing through Sofia Airport in March 2020 halved compared to a year before. Fuel consumption dropped by between 40% (in major cities) and 80% (in small towns) in the second half of March. Car parts manufacturing plants largely suspended their production. According to a poll by Gallup International in early April, about one-third of respondents indicated that their income had dropped, and another 25%, mostly elderly people, said that they expected this to happen. According to the Labor Minister, by early April, about 40,000 people had registered as unemployed since the start of the coronavirus crisis.

Wide-ranging economic policy measures to mitigate the impact of the crisis

In early April, the planned general government deficit for 2020 was raised to 2.9% of GDP and the annual borrowing ceiling to BGN 10 billion (compared to an originally planned balanced budget with annual borrowing capped at BGN 2.2 billion). The extra spending will cover not only increased unemployment spending, support for pensioners and increased salaries for medical staff but also state aid for affected businesses by taking over 60% of gross salaries of employees facing layoffs and obliging employers to retain their staff and pay the remaining 40%. The Bulgarian National Bank (BNB) implemented a package of measures worth BGN 9.3 billion (nearly 8% of 2019 GDP figures) to strengthen banks' capital and liquidity. The package requires all banks to retain their year-end 2019 profits and bans the redistribution of profits accumulated during previous years. The planned increases in the countercyclical capital buffer, by contrast, were cancelled. Moreover, the BNB paved the way for a temporary moratorium on debt repayments for crisis-affected borrowers for up to six months until the end of the year. As regards the ERM II, the BNB stated that the crisis will most likely delay Bulgaria's ERM II entry until 2021, while the government plans to apply for ERM II membership by the end of April this year. Besides the BNB, the state-owned Bulgarian Development Bank also implemented several liquidity-supporting measures. Its capital was raised by the government by BGN 700 million (about 0.6% of 2019 GDP levels) and will be used to issue portfolio guarantees to commercial banks extending loans to crisis-affected SMEs and to issue interest-free consumer loans to self-employed individuals and employees on unpaid leave.

Table 6

Main economic indicators: Bulgaria

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	3.5	3.1	3.4	3.3	3.0	4.5	3.6	2.9	2.9
Private consumption	3.8	4.4	5.8	5.4	0.5	3.8	7.1	7.0	5.3
Public consumption	4.3	5.3	5.5	5.8	7.3	6.9	1.4	6.1	7.5
Gross fixed capital formation	3.2	5.4	2.2	1.9	5.5	0.2	0.9	0.9	5.6
Exports of goods and services	5.8	1.7	1.9	–0.8	5.9	4.1	0.3	3.7	–0.3
Imports of goods and services	7.4	5.7	2.4	5.2	3.9	2.8	1.2	6.3	–0.5
	Contribution to GDP growth in percentage points								
Domestic demand	4.2	5.5	3.6	6.6	2.1	3.5	4.2	4.0	2.8
Net exports of goods and services	–0.7	–2.4	–0.3	–3.6	1.1	0.8	–0.6	–1.1	0.1
Exports of goods and services	3.7	1.1	1.3	–0.6	3.4	2.9	0.2	2.5	–0.2
Imports of goods and services	–4.4	–3.6	–1.5	–3.0	–2.3	–2.1	–0.8	–3.6	0.3
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	8.4	6.3	3.0	4.9	6.3	2.9	4.1	1.5	3.3
Unit labor costs in manufacturing (nominal, per hour)	6.2	2.2	5.9	1.0	1.0	3.3	6.3	8.0	6.4
Labor productivity in manufacturing (real, per hour)	6.0	7.5	4.2	9.6	6.4	9.3	3.3	0.6	4.5
Labor costs in manufacturing (nominal, per hour)	12.6	9.8	10.5	10.8	7.5	12.9	9.7	8.6	11.1
Producer price index (PPI) in industry	4.9	4.0	3.0	4.1	3.5	3.3	2.7	3.4	2.8
Consumer price index (here: HICP)	1.2	2.6	2.5	3.6	3.0	2.5	2.8	2.2	2.3
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	5.0	4.7	5.1	4.2	3.7	4.1
Employment rate (%, 15–64 years)	66.9	67.7	70.1	68.8	67.7	68.3	70.7	71.4	70.0
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 period-end stock in %								
Loans to the domestic nonbank private sector[2]	4.8	8.3	8.3	7.3	8.3	7.9	6.9	7.2	9.4
of which: loans to households	6.1	11.2	11.2	9.7	11.2	11.0	8.1	9.1	9.5
loans to nonbank corporations	4.1	6.6	6.6	5.9	6.6	6.1	6.2	6.0	9.3
	%								
Share of foreign currency loans in total loans to the non-bank private sector	37.9	34.9	33.2	35.6	34.9	34.1	33.5	33.1	33.2
Return on assets (banking sector)	1.2	1.7	1.5	1.6	1.7	1.2	1.7	1.6	1.5
Tier 1 capital ratio (banking sector)	20.9	19.4	19.5	19.0	19.4	18.3	19.7	20.2	19.5
NPL ratio (banking sector)	6.9	5.1	4.2	6.1	5.1	4.9	4.8	5.0	4.2
	% of GDP								
General government revenues	36.0	38.3	38.4	..	..	..	..	..	..
General government expenditures	35.0	36.5	36.3	..	..	..	..	..	..
General government balance	1.1	1.8	2.1	..	..	..	..	..	..
Primary balance	1.8	2.4	2.7	..	..	..	..	..	..
Gross public debt	25.3	22.3	20.4	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	86.3	84.6	76.9	..	..	..	..	..	..
Debt of households and NPISHs[3] (nonconsolidated)	22.9	23.4	21.3	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–1.5	–3.3	–2.8	–1.1	–3.8	–2.7	–4.0	–1.6	–2.9
Services balance	5.9	6.3	6.2	13.1	3.5	3.1	5.6	12.1	3.5
Primary income	–4.4	–1.2	–2.8	–0.9	–0.5	–2.9	–3.2	–3.2	–1.8
Secondary income	3.5	3.5	3.4	4.4	2.1	4.3	4.7	2.9	2.0
Current account balance	3.5	5.3	4.0	15.5	1.3	1.8	3.1	10.2	0.7
Capital account balance	1.0	1.1	1.5	1.6	1.0	1.5	1.6	1.6	1.2
Foreign direct investment (net)[4]	–2.5	–0.6	–1.3	–0.8	–1.5	–0.7	–0.8	–2.3	–1.2
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	71.8	65.6	62.2	69.0	65.6	65.6	64.5	64.5	62.2
Gross official reserves (excluding gold)	43.1	42.8	38.0	42.4	42.4	41.1	40.1	39.5	38.0
	Months of imports of goods and services								
Gross official reserves (excluding gold)	8.1	8.1	7.6	8.0	8.1	7.9	7.9	7.7	7.6
	EUR million, period total								
GDP at current prices	51,663	55,182	60,675	15,559	15,523	12,711	15,070	16,184	16,710

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: entering the downturn with high sovereign debt and strong reliance on tourism

Solid growth on the back of domestic demand before the coronavirus crisis

Before the coronavirus pandemic, the Croatian economy was developing favorably. Economic growth reached 2.7% year on year in the second half of 2019, despite decelerating compared to the first half of the year given very strong first-quarter GDP growth. Private consumption was the strongest contributor to growth. Investment growth slowed in the second half of 2019, after strong growth in the first half of the year. Export growth accelerated and import growth decelerated, improving the contribution of net exports. On the output side, the largest contribution to overall growth came from wholesale and retail trade, transport, accommodation and food service activities. The industrial sector's performance was weak, while construction boomed, even though growth rates decelerated somewhat compared to the first half of the year.

Stable pre-crisis monetary and financial environment

Average inflation in 2019 was low (0.8% year on year), with energy and food price movements (VAT changes) contributing to some volatility in headline inflation. The Croatian National Bank (HNB) continued its accommodative stance and further built up international reserves (EUR 18.5 billion at end-2019, roughly 9 months of imports) through its foreign currency market interventions to counter appreciation pressures on the kuna. The Croatian banking sector is one of the most profitable and best capitalized in the region, with a return on assets of 1.4% and a tier 1 capital ratio of 22.4% at end-2019 – both slightly higher than a year before. The NPL ratio declined markedly to 5.5%.

Pre-crisis imbalances declined further, but remain high

One of the main imbalances remains the high sovereign debt level, which came to 71.2% of GDP at the end of 2019, 3.5 percentage points lower than a year ago. The Croatian government reported a very mild budget surplus in 2019. Croatia's external debt declined to the still high level of 76% of GDP at end-2019, down 7 percentage points from the previous year and driven to a large extent by the government sector. Corporate indebtedness is elevated compared to peer countries (roughly 68% of GDP). Croatia's economy relies heavily on tourism, which indirectly contributes some 20% to 25% to employment and gross value added. Over the past years, this has supported growth and improved the current account surplus, which increased to 2.9% of GDP in 2019 on the back of a strong tourist season. However, tourism is likely to be among the sectors most affected by the current crisis, potentially exposing the Croatian economy to a sharp downturn.

Strong first response to support the economy in the face of the crisis

The Croatian government and the HNB have implemented strong measures to support the country's economy and exchange rate stability. The Croatian government has approved two economic support packages worth an estimated 9% to 10% of GDP (roughly half of which relates to debt moratoria or loan guarantees). The financing has not yet been secured for all announced support measures. On April 3, 2020, the government reported having received 65,000 requests for tax deferrals from businesses and 70,000 applications from employers for the government's net minimum wage support program aimed at saving 420,000 jobs (approximately 25% of Croatia's labor force). During March 2020, the HNB intervened several times in foreign currency markets, injecting a total of EUR 2.2 billion into the markets. In addition, it launched a high-volume five-year longer-term refinancing operation, restarted regular weekly repo auctions with full allotment, purchased government bonds on the secondary market and eased regulations for banks.

So far, Croatia has not announced any deviations from its timeline for adopting the euro, according to which Croatia will join the ERM II in the second half of 2020.

Table 7

Main economic indicators: Croatia

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	3.1	2.7	2.9	3.0	2.2	4.1	2.4	2.9	2.5
Private consumption	3.1	3.2	3.5	2.5	3.7	4.3	2.7	3.0	4.0
Public consumption	2.2	1.3	3.3	2.5	0.9	3.1	3.9	2.9	3.5
Gross fixed capital formation	5.1	4.1	7.1	5.0	2.3	11.5	8.2	5.0	4.0
Exports of goods and services	6.8	3.7	4.6	5.4	2.3	4.1	3.3	5.1	5.6
Imports of goods and services	8.4	7.5	4.8	6.5	9.2	6.5	8.3	4.3	0.1
	Contribution to GDP growth in percentage points								
Domestic demand	3.8	4.5	3.1	4.7	5.1	6.4	5.2	1.0	0.4
Net exports of goods and services	–0.6	–1.8	–0.1	0.8	–3.7	–2.1	–2.7	1.6	2.2
Exports of goods and services	3.3	1.8	2.3	3.8	0.9	1.5	1.6	3.6	2.3
Imports of goods and services	–3.9	–3.7	–2.5	–3.0	–4.6	–3.6	–4.3	–2.0	–0.1
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	1.7	6.6	..	7.0	8.1	–1.4	3.5	1.9	..
Labor productivity in manufacturing (real, per hour)	3.5	2.2	..	1.5	1.1	8.2	–1.5	1.5	..
Labor costs in manufacturing (nominal, per hour)	5.1	9.1	3.6	8.6	9.2	6.7	1.9	3.4	2.6
Producer price index (PPI) in industry	2.0	2.2	0.8	3.8	1.6	1.4	1.6	–0.2	0.3
Consumer price index (here: HICP)	1.3	1.6	0.8	2.0	1.3	0.8	0.8	0.7	0.9
EUR per 1 HRK, + = HRK appreciation	0.9	0.6	0.0	0.1	1.5	0.2	–0.3	0.3	–0.3
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	11.3	8.6	6.7	7.4	8.7	7.6	6.2	5.8	7.3
Employment rate (%, 15–64 years)	58.9	60.7	62.1	61.9	60.6	61.2	61.8	63.0	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	7.4	7.4
	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	1.8	2.4	3.5	2.8	2.3	3.4
of which: loans to households	2.2	4.7	4.7	4.3	4.7	5.9	6.0	6.3	6.7
loans to nonbank corporations	–1.6	–0.8	–0.8	–1.4	–0.8	0.2	–1.6	–3.3	–1.3
	%								
Share of foreign currency loans in total loans to the nonbank private sector	56.9	54.7	51.5	55.5	54.7	54.4	53.0	51.9	51.5
Return on assets (banking sector)	0.9	1.2	1.4	1.5	1.2	1.3	1.5	1.4	1.4
Tier 1 capital ratio (banking sector)	22.3	22.1	22.4	21.1	22.1	21.6	22.0	21.9	22.4
NPL ratio (banking sector)	8.8	7.6	5.5	10.3	9.8	9.5	9.2	6.0	5.5
	% of GDP								
General government revenues	46.2	46.3	47.1	..	..	..	..	..	..
General government expenditures	45.4	46.1	47.0	..	..	..	..	..	..
General government balance	0.8	0.3	0.1	..	..	..	..	..	..
Primary balance	3.5	2.6	2.3	..	..	..	..	..	..
Gross public debt	78.0	74.8	71.2	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	94.1	92.5	88.0	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	34.3	34.2	32.5	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–17.2	–18.7	–19.2	–16.3	–18.4	–21.6	–22.2	–15.6	–18.1
Services balance	17.9	17.9	19.1	41.9	5.9	1.8	17.4	43.6	8.2
Primary income	–1.5	–1.6	–1.6	–2.6	0.3	–1.4	–2.7	–1.6	–0.5
Secondary income	4.2	4.3	4.5	3.1	5.4	3.7	4.9	3.6	5.9
Current account balance	3.4	1.9	2.9	26.0	–6.9	–17.4	–2.5	29.9	–4.5
Capital account balance	1.1	1.4	2.1	1.0	2.1	1.7	2.8	1.5	2.4
Foreign direct investment (net)[3]	–2.3	–1.5	–1.9	0.1	0.6	–4.2	0.9	–2.2	–2.2
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	89.0	82.7	75.8	84.1	82.7	83.7	85.1	80.6	75.8
Gross official reserves (excluding gold)	32.1	33.9	34.4	32.6	33.8	35.1	37.7	38.2	34.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)	7.8	7.9	7.9	7.7	7.9	8.1	8.6	8.7	7.9
	EUR million, period total								
GDP at current prices	48,999	51,473	53,943	14,594	12,749	11,871	13,542	15,271	13,259

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 is teetering on the edge of the coronavirus abyss

Economic slowdown in the second half of 2019 spurred by falling exports

Economic growth in the Czech Republic slowed moderately to 2.5% in the second half of 2019. The slowdown was driven by net exports knocking off 2.4 percentage points from annual GDP growth in the last quarter of 2019 due to a significant nosedive of exports. The latter reflected the moderation in external demand and, in particular, the slump in the German car industry. The contribution of domestic demand, by contrast, strengthened in the second half of last year. Household consumption was propelled by continued income growth and generally still favorable consumer sentiment. Investment growth accelerated gradually in the last two quarters of 2019, owing to still solid government investments (buoyed by a sustained drawdown of EU funds) and households' capital expenditure on housing. The latter has been kept afloat by low mortgage rates and brisk growth of disposable income.

Owing to a lower surplus of the trade and services balance and to a strong outflow of dividends in the primary income balance, the current account turned negative in the second half of 2019. The general government budget surplus declined noticeably in 2019 as a result of the economic slowdown, rising wages in the public sector and higher social transfers. While the labor market remained tight, the sustained rise in employment and decline in unemployment petered out in late 2019. Nonetheless, inflation was fueled by buoyant wage growth and consumer demand coupled with a weaker koruna and a surprisingly sharp rise in administered and food prices. Inflation thus averaged 2.8% in the second half of 2019 and gradually increased further to 3.7% in February 2020. After having missed its inflation target repeatedly (2% ± 1 percentage point), the Czech National Bank (CNB) raised the key policy rate by 25 basis points to 2.25% in early February 2020.

Strong monetary and fiscal policies to navigate massive coronavirus shock

The Czech government reacted forcefully and quickly to the outbreak of coronavirus, declaring a state of emergency on March 12, 2020. By mid-March, borders, restaurants and most shops had been closed and a nation-wide curfew had been issued. Hence, the coronavirus-induced damages were already reflected in the most recent business and consumer sentiment indicators. Google data suggest that demand in the retail and recreation sectors dropped by more than 60% in the second half of March. Worse still, an agonizing 90% of the entire automotive industry – the backbone of the Czech economy, which accounts for more than 8% of GDP and for one-quarter of industrial production and exports – stopped production for at least a month.

Both fiscal and monetary policy have reacted vigorously to the unfolding crisis. Given the country's rather favorable fiscal position, the government has, to date, earmarked some 18% of GDP to deal with the impact of the coronavirus pandemic, the third-largest amount in Europe according to the IMF. The measures adopted by the government include income support for affected employees, lump-sum payments to self-employed individuals as well as credit lines and guarantees for businesses. In addition, some taxes have been temporarily suspended, penalties have been waived and a six-month moratorium on some bank loans has been announced. The CNB lowered the policy rate twice by 50 and 75 basis points, respectively, to 1% in March 2020. It also increased the frequency of repo operations from one to three times a week. On the regulatory side, the CNB reduced the countercyclical capital buffer rate from 1.75% to 1%, and relaxed regulatory limits for new mortgages. In preparation for quantitative easing, the Act on the CNB has been amended to ease existing restrictions on open market transactions.

Table 8

Main economic indicators: Czech Republic

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	4.4	2.8	2.6	2.4	3.0	2.8	2.4	3.3	1.8
Private consumption	4.3	3.2	3.0	2.9	2.6	3.2	2.8	3.3	2.9
Public consumption	1.3	3.4	2.6	4.4	3.3	2.1	2.8	3.7	1.8
Gross fixed capital formation	3.7	7.6	2.8	8.1	7.6	3.3	0.9	2.6	4.3
Exports of goods and services	6.7	4.4	1.2	4.2	5.6	1.3	1.9	3.8	–2.1
Imports of goods and services	5.9	5.9	1.7	6.6	5.5	1.9	1.0	2.7	1.0
	Contribution to GDP growth in percentage points								
Domestic demand	3.3	3.6	2.8	3.7	2.6	3.3	1.7	2.3	4.1
Net exports of goods and services	1.1	–0.8	–0.3	–1.4	0.4	–0.4	0.8	0.9	–2.4
Exports of goods and services	5.3	3.5	0.9	3.1	4.5	1.1	1.5	2.8	–1.6
Imports of goods and services	–4.3	–4.3	–1.2	–4.5	–4.1	–1.5	–0.7	–1.9	–0.7
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	3.5	6.5	4.2	7.1	4.9	4.7	4.8	3.2	4.3
Unit labor costs in manufacturing (nominal, per hour)	1.8	4.4	5.8	3.9	3.6	6.6	6.9	1.8	7.9
Labor productivity in manufacturing (real, per hour)	6.5	3.9	1.0	3.7	3.6	0.8	1.4	1.6	0.1
Labor costs in manufacturing (nominal, per hour)	8.4	8.5	6.8	7.7	7.4	7.4	8.4	3.5	8.0
Producer price index (PPI) in industry	0.8	0.7	1.7	2.2	3.2	3.1	2.5	1.2	0.1
Consumer price index (here: HICP)	2.4	2.0	2.6	2.3	1.8	2.3	2.4	2.6	3.0
EUR per 1 CZK, + = CZK appreciation	2.7	2.7	–0.1	1.4	–0.8	–1.1	–0.3	–0.1	1.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	2.9	2.3	2.1	2.4	2.1	2.1	1.9	2.2	2.1
Employment rate (%, 15–64 years)	73.6	74.8	75.1	75.0	75.4	75.0	75.0	75.2	75.3
Key interest rate per annum (%)	0.2	1.1	1.9	1.2	1.7	1.8	1.9	2.0	2.0
CZK per 1 EUR	26.3	25.6	25.7	25.7	25.9	25.7	25.7	25.7	25.6
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector[1]	6.9	6.8	6.8	6.6	6.8	5.4	5.3	3.9	5.0
of which: loans to households	7.5	7.5	7.5	7.6	7.5	7.0	6.6	6.3	6.1
loans to nonbank corporations	6.2	5.8	5.8	5.4	5.8	3.6	3.9	1.2	3.8
	%								
Share of foreign currency loans in total loans to the non-bank private sector	13.3	14.1	14.5	15.3	14.1	14.9	14.8	15.3	14.5
Return on assets (banking sector)	1.1	1.1	1.2	1.1	1.1	1.0	1.2	1.2	1.2
Tier 1 capital ratio (banking sector)	18.7	19.1	20.8	18.3	19.1	19.1	19.8	19.8	20.8
NPL ratio (banking sector)	4.1	3.1	2.4	3.2	3.1	3.0	2.7	2.5	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)	58.1	56.7	54.2	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	32.6	32.0	30.6	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	5.1	4.1	4.2	2.3	2.6	5.6	5.7	3.5	2.5
Services balance	2.5	2.3	1.8	1.7	2.1	2.6	2.6	1.4	0.8
Primary income	–5.1	–5.3	–5.7	–7.1	–4.2	–3.1	–6.4	–8.4	–4.9
Secondary income	–0.9	–0.8	–0.7	–0.8	0.3	–2.0	–0.1	–0.9	0.0
Current account balance	1.6	0.3	–0.4	–3.9	0.8	3.1	1.8	–4.4	–1.6
Capital account balance	0.8	0.3	0.3	0.3	0.7	–0.5	0.6	0.1	0.7
Foreign direct investment (net)[3]	–0.9	–1.7	–1.1	–2.7	–2.5	–0.3	–2.0	–1.8	–0.1
	% of GDP (rolling four-quarter GDP; based on EUR), end of period								
Gross external debt	89.1	82.7	78.3	83.1	82.7	81.1	80.5	79.5	78.3
Gross official reserves (excluding gold)	64.1	59.8	60.4	59.9	59.8	60.5	60.4	60.8	60.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)	10.6	10.0	10.4	10.0	10.0	10.1	10.2	10.3	10.4
	EUR million, period total								
GDP at current prices	191,999	207,725	220,212	52,541	54,532	50,872	54,983	56,174	58,183

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: coronavirus pandemic brings about cyclical turnaround

Coronavirus crisis hit when economy was operating at close to full capacity

Although GDP growth in Hungary slowed down somewhat in the final quarter of 2019, full-year growth at 4.9% exceeded expectations. Consumption growth strengthened in the second half of 2019, as the government took advantage of better than expected budgetary developments to accelerate spending, while household consumption benefited from income growth, strong consumer confidence and accelerating growth of loans to households. Investment growth decelerated sharply in the final quarter of 2019 as a result of slowing investments in machinery and non-dwelling construction. Net real exports provided a relatively large negative contribution to growth in the second half of 2019, as import growth accelerated more than export growth, partly in connection with restocking.

Policy measures to ease the burden on businesses and households

Since the outbreak of coronavirus in Hungary, the government has announced several direct measures to fight the pandemic (e.g. shop closures and increased funding for the healthcare sector) and has presented recovery packages to ease the negative impact on the economy. These included, in a first step, a temporary suspension of tax payments for small businesses, a substantial reduction of social security payments for the most heavily hit sectors, a temporary ban on evictions, property seizures and the enforcement of tax debt collection as well as an extension of expiring entitlements to childcare benefits until the end of the state of emergency. In a second step, the 2020 budget deficit was revised up from 1% to 2.7% of GDP following the creation of three funds (partly financed by budget restructuring and partly by additional taxes on the retail and banking sectors). Furthermore, the recovery packages included government cofinancing of wages of employees on short-time working, investment support, state guarantees and interest subsidies for corporate loans, the gradual re-introduction of an extra 13th month pension payment as well as bonusses and wage hikes in the healthcare sector.

MNB revamps monetary policy toolkit and eases supervisory rules

The Hungarian parliament imposed a debt service moratorium and an interest rate cap for consumption loans, both until end-2020. To ease the adverse effects of these measures on banks, support the restart of the economy and counter increased depreciation pressure on the forint, the National Bank of Hungary (MNB) has taken comprehensive action. To mitigate liquidity tensions and support lending, it expanded its lending facilities, granted banks a moratorium on servicing loans under its F4G schemes and exempted banks from reserve requirements. It also initiated a new "Funding for Growth Go!" (F4G Go!) scheme with lighter eligibility criteria and expanded its "Bond funding for Growth Scheme" (BGS), while paying a preferential 4% interest rate on its deposit facility to sterilize the additional liquidity. Moreover, the MNB launched a government bond purchase program and restarted its mortgage bond purchase program. In response to mounting depreciation pressure on the forint in the second half of March 2020, the MNB introduced one-week deposit auctions at the base rate to withdraw short-term liquidity. At the beginning of April, it hiked its overnight and one-week deposit rates to 1.85% and allowed the one-week deposit rate to be set in a flexible way between –0.05% and 1.85% at future auctions. To ease the administrative and regulatory burden on the financial sector, the MNB eased capital requirements, suspended some fines and deferred certain deadlines. At the same time, it took measures to bolster banking sector stability, inter alia by tightening some prudential ratios, and instructed banks not to decide on and pay out dividends until end-September 2020.

Table 9

Main economic indicators: Hungary

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	4.3	5.1	4.9	5.3	5.3	5.3	4.9	5.0	4.5
Private consumption	4.7	4.8	5.1	4.7	4.4	5.0	5.0	4.8	5.3
Public consumption	2.4	0.9	1.7	0.7	–2.6	0.3	0.5	1.3	4.6
Gross fixed capital formation	18.7	17.1	15.3	20.7	17.8	24.9	17.8	16.1	7.0
Exports of goods and services	6.9	4.3	6.0	1.2	4.9	7.3	3.7	10.2	3.3
Imports of goods and services	8.2	6.8	6.9	6.1	7.1	7.1	4.6	10.2	5.9
	Contribution to GDP growth in percentage points								
Domestic demand	4.8	6.7	5.4	9.0	6.6	4.9	5.4	4.7	6.4
Net exports of goods and services	–0.5	–1.7	–0.4	–3.7	–1.4	0.5	–0.5	0.3	–1.9
Exports of goods and services	6.0	3.8	5.1	1.0	4.0	6.6	3.3	8.2	2.7
Imports of goods and services	–6.4	–5.4	–5.6	–4.7	–5.5	–6.1	–3.7	–7.9	–4.6
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	4.5	3.5	6.0	2.5	3.2	5.5	7.5	5.6	5.6
Unit labor costs in manufacturing (nominal, per hour)	5.4	7.4	6.6	8.0	7.7	7.2	9.1	3.8	6.2
Labor productivity in manufacturing (real, per hour)	2.4	1.5	4.1	1.0	1.4	4.9	2.2	6.5	3.0
Labor costs in manufacturing (nominal, per hour)	8.0	9.0	10.9	9.1	9.1	12.4	11.6	10.6	9.4
Producer price index (PPI) in industry	3.3	5.6	2.2	7.9	5.5	3.2	2.3	1.2	2.1
Consumer price index (here: HICP)	2.4	2.9	3.4	3.5	3.3	3.2	3.8	3.1	3.5
EUR per 1 HUF, + = HUF appreciation	0.7	–3.0	–2.0	–5.4	–3.5	–2.1	–1.8	–1.2	–2.7
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	4.2	3.8	3.5	3.9	3.6	3.6	3.4	3.5	3.4
Employment rate (%, 15–64 years)	68.2	69.3	70.1	69.5	69.5	69.9	70.0	70.3	70.3
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	324.1	323.0	317.9	322.9	328.2	331.9
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector[1]	4.3	9.9	9.9	9.1	9.9	11.0	12.1	12.2	12.4
of which: loans to households	1.3	5.8	5.8	3.2	5.8	7.7	7.6	12.7	15.4
loans to nonbank corporations	6.8	13.1	13.1	13.7	13.1	13.5	15.4	11.8	10.3
	%								
Share of foreign currency loans in total loans to the non-bank private sector	23.5	24.0	23.8	24.1	24.0	23.8	24.1	24.0	23.8
Return on assets (banking sector)	1.8	1.4	1.2	1.5	1.4	1.4	1.3	1.3	1.2
Tier 1 capital ratio (banking sector)	21.1	17.8	14.9	19.2	17.8	16.3	16.8	15.8	14.9
NPL ratio (banking sector)	3.7	2.2	2.6	2.6	2.2	3.4	3.1	3.0	2.6
	% of GDP								
General government revenues	44.6	44.4	44.0	..	..	..	..	..	..
General government expenditures	47.0	46.7	46.1	..	..	..	..	..	..
General government balance	–2.4	–2.3	–2.0	..	..	..	..	..	..
Primary balance	0.3	0.1	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	1.5	–1.3	–1.9	–3.9	–1.6	–0.3	–0.9	–3.2	–2.8
Services balance	5.8	5.8	5.6	6.6	4.9	5.3	6.2	6.4	4.4
Primary income	–4.0	–3.9	–3.7	–3.8	–3.7	–3.6	–4.6	–3.5	–3.1
Secondary income	–0.9	–0.6	–0.8	0.3	–1.6	–1.7	–0.2	–1.2	–0.5
Current account balance	2.3	0.0	–0.8	–0.8	–2.0	–0.3	0.6	–1.5	–2.0
Capital account balance	0.9	2.2	1.8	1.5	3.4	1.0	1.3	1.4	3.4
Foreign direct investment (net)[3]	–1.6	–2.1	–1.6	–6.2	–0.5	–3.6	0.5	–0.8	–2.7
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	84.0	80.5	72.8	80.5	80.5	81.4	80.7	77.0	72.8
Gross official reserves (excluding gold)	18.5	19.7	18.8	18.1	19.8	19.4	18.6	19.1	18.8
	Months of imports of goods and services								
Gross official reserves (excluding gold)	2.8	2.9	2.8	2.7	2.9	2.9	2.8	2.9	2.8
	EUR million, period total								
GDP at current prices	125,575	133,661	143,701	33,949	36,867	32,093	35,854	36,706	39,049

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: entering the coronavirus crisis in a comparatively robust economic position

Slightly weaker but balanced growth, higher inflation and moderate current account surplus

GDP growth in Poland stood at 4.1% in 2019, declining from 4.7% in the first quarter to 3.5% in the last quarter. Like GDP growth, total final demand growth was lower in 2019 than in 2018, as both foreign and domestic demand growth declined. As a result, import growth shrank by more than export growth and the net export contribution to GDP growth turned positive. In 2019, the current account balance showed a surplus of 0.5% of GDP, as the goods and services balance rose markedly to above 5% of GDP. The capital account surplus remained at 2% of GDP; net FDI inflows stood at 1.9% of GDP, down from 2.5% a year earlier. The domestic demand slowdown in 2019 stemmed mainly from considerably lower inventory buildup, but also fixed investment and private consumption growth were moderately weaker. In the second half of 2019, annual nominal unit labor cost (ULC) growth in the whole economy and in manufacturing accelerated somewhat to 3.5% and almost 5%, respectively, with the latter being about 0.5 percentage points higher than that of the euro area. From June 2019 to February 2020, annual headline inflation accelerated from 2.3% to 4.1% based on the HICP and from 2.6% to 4.7% based on the national CPI. Core inflation started from 2.4% (HICP excluding energy and unprocessed food) and 1.9% (CPI excluding energy and all food) and reached 3.6% (both indicators) in February 2020. In October 2019, the Monetary Policy Council (MPC) had expected a rise in inflation in early 2020 but had considered it a temporary phenomenon. In March 2020, amidst the benign overall economic situation characterized by low unemployment rates, high capacity utilization rates, stable liquidity positions and profitability rates as well as robust confidence indicators, the coronavirus lockdown threatened to hit both foreign and domestic demand, and the złoty depreciated by almost 5% against the euro.

Monetary and fiscal policy responses to the coronavirus impact

On March 4, 2020, the MPC, pursuing an inflation target of 2.5% ±1 percentage point (CPI), considered inflation above the upper bound due to supply-side and regulatory factors beyond its direct influence and concluded that inflation would remain close to the target over the monetary policy transmission horizon. On March 17, 2020, in view of the coronavirus impact, the MPC agreed, through intersessional decision, to cut the rate from 1.5% to 1%, to decrease the required reserve ratio from 3.5% to 0.5% and to increase the remuneration of the required reserves from 0.5% to 1%. Moreover, it decided to offer bill discount credit aimed at refinancing new loans granted by banks and to start outright government bond purchases on the secondary market to strengthen the monetary transmission mechanism. Having bought a volume of about 0.8% of GDP by April 8, 2020, the MPC cut the policy rate to 0.5%. In parallel, commercial banks offered moratoria of up to six months to households and SMEs. Regarding fiscal policy, in fall 2019, the European Commission had expected the headline deficit to narrow to 0.2% of GDP in 2020 after widening to 0.7% of GDP in 2019, and the structural deficit to narrow slightly to 1.9% after widening to 2.2% in 2019. General government gross debt declined to 47.4% of GDP in 2019. On March 21, 2020, in view of the implications of the coronavirus crisis, the government exempted self-employed individuals and micro-companies from social security payments (for three months if revenues had dropped by more than 50% compared to February 2020) and provided support for farmers. On March 31, 2020, an economic support package worth EUR 46 billion or 9% of GDP was adopted, providing, inter alia, support for companies, the financial and health sectors as well as public investment.

Table 10

Main economic indicators: Poland

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	4.9	5.1	4.1	5.8	4.4	4.7	4.1	4.2	3.5
Private consumption	4.5	4.2	3.8	4.1	5.0	3.7	4.0	3.8	3.6
Public consumption	2.9	3.6	4.2	4.7	3.9	6.3	2.7	5.0	3.2
Gross fixed capital formation	4.0	8.9	6.9	12.0	7.8	12.4	9.2	4.0	5.3
Exports of goods and services	9.5	7.0	4.2	7.2	6.9	7.3	3.2	5.1	1.3
Imports of goods and services	9.8	7.6	3.0	7.8	7.4	6.0	3.5	3.6	–0.8
	Contribution to GDP growth in percentage points								
Domestic demand	4.7	5.1	3.3	5.8	4.4	3.8	4.1	3.2	2.4
Net exports of goods and services	0.3	0.0	0.8	0.0	0.0	1.0	0.0	1.0	1.1
Exports of goods and services	5.0	3.8	2.3	3.9	3.5	4.2	1.9	2.8	0.7
Imports of goods and services	–4.7	–3.8	–1.5	–4.0	–3.5	–3.2	–1.9	–1.9	0.4
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	2.1	3.2	2.9	2.7	4.1	3.1	2.5	3.4	2.6
Unit labor costs in manufacturing (nominal, per hour)	2.8	4.7	4.2	4.3	6.2	2.2	4.7	5.7	4.1
Labor productivity in manufacturing (real, per hour)	3.6	3.1	2.5	2.7	2.0	3.8	2.4	1.5	2.3
Labor costs in manufacturing (nominal, per hour)	6.4	8.0	6.8	7.1	8.4	6.1	7.2	7.3	6.6
Producer price index (PPI) in industry	2.7	2.1	1.3	3.1	2.7	2.6	1.6	0.8	0.3
Consumer price index (here: HICP)	1.6	1.2	2.1	1.4	1.1	1.2	2.2	2.5	2.6
EUR per 1 PLN, + = PLN appreciation	2.5	–0.1	–0.9	–1.1	–1.6	–2.9	–0.5	–0.4	0.3
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.0	3.9	3.4	3.9	3.9	4.0	3.3	3.2	2.9
Employment rate (%, 15–64 years)	66.1	67.4	68.2	68.0	67.3	67.2	68.2	68.9	68.5
Key interest rate per annum (%)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
PLN per 1 EUR	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector[1]	6.2	6.4	6.4	5.9	6.4	6.9	6.7	6.6	5.0
of which: loans to households	4.8	5.6	5.6	5.4	5.6	5.6	5.9	6.1	5.6
loans to nonbank corporations	8.7	7.6	7.6	6.9	7.6	9.2	8.2	7.3	4.1
	%								
Share of foreign currency loans in total loans to the non-bank private sector	21.3	20.8	19.2	20.9	20.8	20.6	19.8	20.0	19.2
Return on assets (banking sector)	0.8	0.7	0.7	0.8	0.7	0.6	0.8	0.8	0.7
Tier 1 capital ratio (banking sector)	17.2	17.1	17.1	17.3	17.1	17.0	16.9	17.0	17.1
NPL ratio (banking sector)	6.8	6.8	6.4	7.0	6.8	6.8	6.8	6.8	6.4
	% of GDP								
General government revenues	39.8	41.4	41.3	..	..	..	..	..	..
General government expenditures	41.2	41.6	42.0	..	..	..	..	..	..
General government balance	–1.5	–0.2	–0.7	..	..	..	..	..	..
Primary balance	0.2	1.2	0.7	..	..	..	..	..	..
Gross public debt	50.6	48.9	46.0	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	47.4	45.2	43.0	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	35.7	34.8	33.1	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	0.3	–1.0	0.5	–0.9	–1.2	0.3	0.1	0.2	1.0
Services balance	3.8	4.4	4.8	4.2	4.0	4.9	5.0	4.8	4.5
Primary income	–4.1	–4.1	–4.4	–5.2	–3.7	–3.2	–5.2	–5.3	–4.0
Secondary income	0.0	–0.3	–0.3	–0.4	–0.4	–0.9	–0.2	–0.3	–0.1
Current account balance	0.1	–1.0	0.5	–2.4	–1.3	1.2	–0.3	–0.6	1.5
Capital account balance	1.3	2.1	2.0	2.0	3.6	0.7	2.2	1.9	3.0
Foreign direct investment (net)[3]	–1.4	–2.5	–1.9	–4.8	0.0	–5.7	–0.3	–3.1	0.9
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	68.4	63.4	59.2	64.8	63.4	62.2	61.3	60.5	59.2
Gross official reserves (excluding gold)	19.5	19.7	19.8	19.0	19.6	19.1	18.5	19.4	19.8
	Months of imports of goods and services								
Gross official reserves (excluding gold)	4.7	4.5	4.7	4.4	4.5	4.4	4.3	4.5	4.7
	EUR million, period total								
GDP at current prices	465,897	496,267	527,109	122,234	139,045	121,284	127,992	131,029	148,797

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: entering the coronavirus crisis with twin deficits

Growth was still robust ahead of the coronavirus crisis

Before the coronavirus pandemic reached Romania at the end of the first quarter of 2020, the country recorded vivid economic activity. Full-year GDP growth came in at a still robust 4.1% in 2019, slightly down from the growth rate observed in 2018. In the second half of 2019, annual GDP growth rates were somewhat below the growth rates seen in the first half of 2019, but GDP growth reaccelerated in the final quarter of the year. Private consumption growth remained brisk and was supported by rising household income and consumer lending. In the first two months of 2020, retail sales pointed to ongoing brisk private consumption growth. In the second half of 2019, gross fixed capital formation expanded markedly, benefiting from buoyant construction activity and equipment purchases by companies. Exports recorded only moderate growth amid weak external demand and a major negative contribution of car parts exports. As import growth clearly surpassed export growth, the growth contribution of net exports stayed negative.

Twin deficits made Romania vulnerable to economic shocks

Procyclical fiscal and income policies have fueled economic growth in recent years. As a consequence, the general government budget deficit rose to 4.3% of GDP in 2019 and thus exceeded the 3% limit set out in the EU's stability and growth pact. On April 3, 2020, the Council of the European Union concluded that an excessive deficit existed in Romania. A few days later, the European Commission emphasized in a letter to the Romanian Finance Minister that it would fully take into account the economic and fiscal impact of the coronavirus outbreak in its assessment under the excessive deficit procedure. As the current account deficit widened in 2019, Romania entered the international coronavirus crisis with twin deficits.

Containment and economic support measures in response to the coronavirus pandemic

To contain the spread of coronavirus, the Romanian authorities took various measures in early March that have since been tightened further and complemented. In addition to a series of initial measures (e.g. cancellations of events and flights to Italy and Spain and closures of schools, universities and restaurants), restrictions on movement were put in place on March 25, 2020. Since then, people have not been allowed to leave their homes with a few exceptions (e.g. to go to work or buy food).

To mitigate the impact of the coronavirus pandemic and related containment measures, the government decided to cover the wages of employees working for companies strongly affected by the pandemic (up to a limit of 75% of individual gross wages and capped at 75% of the average gross wage in the economy). In addition, to avoid liquidity shortages in the real sector, the state will provide guarantees for loans to companies (especially SMEs) and permit borrowers to postpone their loan repayments by nine months. Yet, the scope of the moratorium remains unclear, as the latest law on this subject has been challenged before the constitutional court. Finally, individuals and companies will be allowed to defer tax payments.

The National Bank of Romania (NBR) reacted with a policy package as well. It cut its key policy rate by 50 basis points to 2% and decided to provide liquidity to credit institutions via repo transactions and to purchase leu-denominated government securities on the secondary market. The NBR's decisions came after four failed treasury bond auctions and market reports of foreign exchange interventions by the NBR to support the leu. Furthermore, the NBR stressed that it stands ready to cut the minimum reserve requirement ratios on leu- and foreign currency-denominated liabilities of credit institutions, depending on how the situation evolves.

Table 11

Main economic indicators: Romania

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	7.1	4.4	4.1	4.5	4.4	5.0	4.4	3.0	4.3
Private consumption	9.9	7.2	5.9	5.7	8.2	7.4	5.1	4.3	7.2
Public consumption	4.5	3.1	7.1	3.6	5.7	2.4	11.4	2.2	9.4
Gross fixed capital formation	3.5	–1.0	17.9	–1.8	–1.4	3.2	20.5	25.6	15.7
Exports of goods and services	7.8	5.9	3.8	3.0	4.4	2.9	3.0	3.2	6.2
Imports of goods and services	10.7	9.2	8.3	6.8	8.7	11.5	5.5	9.1	7.3
	Contribution to GDP growth in percentage points								
Domestic demand	8.5	5.9	5.8	5.7	6.3	7.4	5.6	5.7	4.8
Net exports of goods and services	–1.4	–1.4	–1.7	–1.1	–1.6	–3.5	–1.3	–2.3	–0.3
Exports of goods and services	3.1	2.6	1.9	1.6	2.1	2.0	1.4	1.8	2.3
Imports of goods and services	–4.5	–4.0	–3.6	–2.6	–3.7	–5.5	–2.7	–4.1	–2.6
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	9.9	9.1	4.5	9.3	5.7	5.3	3.3	3.5	5.8
Unit labor costs in manufacturing (nominal, per hour)	5.6	7.0	12.7	7.0	8.7	8.0	14.0	14.4	14.4
Labor productivity in manufacturing (real, per hour)	8.3	5.5	–0.8	5.4	3.5	4.1	–1.9	–2.2	–2.6
Labor costs in manufacturing (nominal, per hour)	14.3	12.8	11.9	12.8	12.4	12.5	11.9	11.9	11.4
Producer price index (PPI) in industry	3.5	5.0	4.0	5.8	5.2	4.6	4.5	3.5	3.2
Consumer price index (here: HICP)	1.1	4.1	3.9	4.6	3.5	3.8	4.3	3.9	3.7
EUR per 1 RON, + = RON appreciation	–1.7	–1.8	–1.9	–1.4	–0.9	–1.7	–2.0	–1.8	–2.2
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.1	4.3	4.0	4.0	4.2	4.2	3.9	4.0	4.0
Employment rate (%, 15–64 years)	63.9	64.8	65.8	66.2	64.5	64.2	66.4	66.7	66.0
Key interest rate per annum (%)	1.8	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
RON per 1 EUR	4.6	4.7	4.7	4.6	4.7	4.7	4.7	4.7	4.8
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector[1]	4.4	7.9	7.9	5.8	7.9	6.8	6.4	6.8	5.5
of which: loans to households	7.1	9.1	9.1	9.0	9.1	7.3	6.3	6.6	6.7
loans to nonbank corporations	2.5	6.6	6.6	2.4	6.6	6.3	6.5	7.1	4.2
	%								
Share of foreign currency loans in total loans to the non-bank private sector	37.2	34.0	32.4	34.6	34.0	34.2	33.4	33.4	32.4
Return on assets (banking sector)	1.3	1.6	1.4	1.8	1.6	1.6	1.2	1.5	1.4
Tier 1 capital ratio (banking sector)	18.0	18.6	18.0	17.8	18.6	17.9	17.7	17.9	18.0
NPL ratio (banking sector)	6.4	5.0	4.1	5.6	5.0	4.9	4.7	4.6	4.1
	% of GDP								
General government revenues	30.9	32.3	31.7	..	..	..	..	..	..
General government expenditures	33.6	35.2	36.0	..	..	..	..	..	..
General government balance	–2.6	–3.0	–4.3	..	..	..	..	..	..
Primary balance	–1.4	–1.7	–3.1	..	..	..	..	..	..
Gross public debt	35.1	35.0	35.2	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	35.2	33.1	29.4	..	..	..	..	..	..
Debt of households and NPISHs[2] (nonconsolidated)	15.9	15.9	14.1	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Goods balance	–6.5	–7.3	–7.8	–6.5	–8.2	–8.7	–7.7	–7.3	–7.7
Services balance	4.4	4.3	3.9	3.8	4.0	4.2	4.4	3.4	3.8
Primary income	–2.5	–2.7	–1.4	–3.7	–1.3	1.4	–3.2	–2.6	–0.7
Secondary income	1.4	1.2	0.7	0.9	1.4	0.5	0.1	0.7	1.2
Current account balance	–3.2	–4.6	–4.6	–5.6	–4.1	–2.6	–6.3	–5.8	–3.3
Capital account balance	1.2	1.2	1.3	0.9	2.0	1.6	0.9	0.9	1.7
Foreign direct investment (net)[3]	–2.6	–2.4	–2.4	–4.7	–1.1	–2.9	–2.8	–2.8	–1.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	51.8	48.6	47.4	49.7	48.6	47.8	49.6	49.5	47.4
Gross official reserves (excluding gold)	17.9	16.3	14.7	15.9	16.2	15.4	15.3	16.3	14.7
	Months of imports of goods and services								
Gross official reserves (excluding gold)	4.9	4.3	4.0	4.3	4.3	4.1	4.1	4.4	4.0
	EUR million, period total								
GDP at current prices	187,282	202,879	223,259	57,051	61,643	42,842	51,618	61,388	67,411

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: entering the coronavirus crisis in a very weak economic position

Unbalanced and credit-driven recovery and accelerating inflation at the beginning of 2020

GDP growth fell to 0.9% in 2019, which mainly reflected the more lasting effects of the severe recession in the second half of 2018, while quarter-on-quarter growth was positive throughout the year. Thus, year-on-year growth rose from –2.3% in the first quarter of 2019 to 6.0% in the last quarter. While export growth declined significantly during the year, the contribution of domestic demand transited from a strong contraction to a notable expansion, boosted by higher private consumption growth on the back of sharp credit expansion. While large parts of the domestic demand expansion stemmed from the implied inventory change, quarter-on-quarter growth of fixed investment also turned positive in the second half of 2019. Following strong import compression in the first half of the year, very high domestic demand growth boosted import growth to outpace export growth by far in the last quarter of 2019. Still, in the full year 2019, the contribution of net exports to GDP growth was clearly positive and the current account balance showed a surplus of 1.2% of GDP, as the trade balance improved, while remaining in negative territory. The surplus in the services balance (tourism) rose further to 4.9% of GDP. The after-effects of the Turkish lira's sizable depreciation in 2018 were still reflected in elevated inflation and even more strongly accelerated manufacturing labor cost and ULC growth in 2019. However, in the second half of 2019, the Turkish lira was stronger than in the second quarter of the year. Subsequently, from end-November to end-February, the Turkish lira depreciated by about 7.5% against both the euro and the U.S. dollar. Annual HICP inflation declined from 18.7% in May to 8.6% in October, then accelerated to 12.4% in February. This reflected, inter alia, similar inflation patterns of energy and unprocessed food. The Turkish central bank (TCMB) cut its one-week repo rate, the main policy rate, from 24% in May 2019 to 14% in October 2019, before gradually reducing it to 10.75% by the end of February 2020 despite the currency depreciation and the uptick in inflation. In March 2020, in view of the economic impact of the coronavirus crisis, the Turkish lira depreciated by another 5%.

Monetary and fiscal policy responses to the coronavirus impact

On March 17, 2020, the TCMB reduced the policy rate to 9.75% and increased liquidity provision to banks by introducing unlimited access through intraday and overnight standing facilities, longer repo auctions and targeted additional liquidity facilities at 100-150 basis points below policy rate linked to credit provision to the corporate sector. Moreover, the TCMB lowered foreign exchange reserve requirements by 500 basis points for banks that meet certain credit growth conditions and thus released EUR 4.5 billion (0.7% of GDP). It also granted export companies a three-month moratorium on the repayment of rediscount credits until end-June 2020, thus providing about EUR 7 billion. On March 31, 2020, the TCMB announced that it will increase outright purchases of domestic government debt securities and extend Turkish lira-denominated rediscount credits to export companies at 150 basis points below policy rate by TRY 60 billion (1.4% of GDP). Moreover, the government asked all financial institutions not to cancel existing loans and to ease the requirements for new loans. Furthermore, it doubled the state credit guarantee fund. Regarding fiscal policy, in fall 2019, the European Commission had expected the headline deficit to widen to 3.5% in 2020. In view of the coronavirus impact, a first economic package worth TRY 100 billion (2.3% of GDP) was set up, which includes deferrals of taxes and social insurance payments by six months for all companies operating in particularly affected industries, several benefits for elderly people and new funds for poor families.

Table 12

Main economic indicators: Turkey

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	7.5	2.8	0.9	2.3	–2.8	–2.3	–1.6	1.0	6.0
Private consumption	6.2	0.0	0.7	0.7	–7.7	–5.1	–1.0	1.9	6.8
Public consumption	5.0	6.6	4.4	6.9	5.3	6.6	3.4	5.7	2.7
Gross fixed capital formation	8.2	–0.6	–12.4	–4.4	–11.6	–12.4	–22.8	–12.8	–0.6
Exports of goods and services	12.0	7.8	6.4	14.3	10.7	8.7	8.3	5.1	4.4
Imports of goods and services	10.3	–7.8	–3.6	–16.3	–24.3	–29.3	–17.0	7.9	29.3
	Contribution to GDP growth in percentage points								
Domestic demand	6.9	0.8	–2.5	0.0	–7.3	–5.8	–7.1	–1.6	4.2
Net exports of goods and services	0.1	3.5	2.2	6.6	8.3	9.3	5.6	–0.3	–4.7
Exports of goods and services	2.5	1.7	1.4	3.0	2.2	1.9	1.8	1.2	1.0
Imports of goods and services	–2.4	1.9	0.8	3.7	6.1	7.4	3.9	–1.4	–5.7
	Year-on-year change of 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	21.9	18.5	27.9	24.8	25.1	22.3	15.7
Labor productivity in manufacturing (real, per hour)	6.3	1.8	1.7	1.7	–2.9	–0.5	2.6	1.2	3.4
Labor costs in manufacturing (nominal, per hour)	10.5	20.4	23.9	20.5	24.3	24.2	28.3	23.8	19.7
Producer price index (PPI) in industry	15.8	27.0	17.6	34.5	39.0	30.7	27.9	12.0	4.4
Consumer price index (here: HICP)	11.1	16.3	15.2	19.4	22.4	19.9	18.0	13.5	10.3
EUR per 1 TRY, + = TRY appreciation	–18.9	–27.7	–10.4	–37.5	–28.6	–23.2	–20.9	4.7	–2.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	11.1	11.1	14.0	11.3	12.5	15.0	13.1	14.3	13.5
Employment rate (%, 15–64 years)	51.6	52.0	50.3	53.0	51.1	49.3	50.7	51.0	50.2
Key interest rate per annum (%)	8.0	15.5	20.6	18.9	24.0	24.0	24.0	20.3	14.3
TRY per 1 EUR	4.1	5.7	6.4	6.6	6.3	6.1	6.6	6.3	6.4
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector	20.8	12.4	11.2	27.6	12.4	12.9	6.7	–2.2	11.2
of which: loans to households	16.3	3.2	15.9	9.2	3.2	1.5	–0.6	3.7	15.9
loans to nonbank corporations	22.3	15.5	9.8	33.9	15.5	16.6	8.9	–3.8	9.8
	%								
Share of foreign currency loans in total loans to the nonbank private sector	32.9	38.5	35.1	41.0	38.5	38.6	38.2	35.5	35.1
Return on assets (banking sector)	1.6	1.5	1.1	1.5	1.5	1.2	1.2	1.1	1.1
Tier 1 capital ratio (banking sector)	13.6	13.4	13.8	13.9	13.4	12.6	13.1	13.9	13.8
NPL ratio (banking sector)	3.1	4.1	5.7	3.4	4.1	4.3	4.7	5.3	5.7
	% of GDP								
General government revenues	31.4	31.2	31.8	..	..	..	..	..	..
General government expenditures	34.1	34.3	34.7	..	..	..	..	..	..
General government balance	–2.8	–3.2	–3.0	..	..	..	..	..	..
Primary balance	–0.6	–0.8	–0.1	..	..	..	..	..	..
Gross public debt	28.2	30.1	31.4	..	..	..	..	..	..
	% 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	–5.2	–2.2	–4.2	0.5	–1.6	–2.4	–2.1	–2.6
Services balance	3.1	4.0	4.8	7.2	4.3	2.4	4.8	7.4	4.3
Primary income	–1.3	–1.5	–1.7	–1.3	–1.9	–1.3	–2.2	–1.5	–1.6
Secondary income	0.3	0.1	0.1	0.1	0.2	0.1	0.0	0.2	0.2
Current account balance	–4.8	–2.5	1.1	1.8	3.1	–0.4	0.1	3.9	0.3
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	–1.4	–2.0	–1.2	–0.6	–0.6	–0.6
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	51.0	57.9	54.8	54.3	57.9	60.4	59.5	58.6	54.8
Gross official reserves (excluding gold)	9.3	9.7	10.4	8.3	9.7	10.5	10.4	10.6	10.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)	3.7	3.7	4.1	3.1	3.7	4.0	4.0	4.2	4.1
	EUR million, period total								
GDP at current prices	752,677	656,467	672,915	155,971	161,507	150,895	154,803	181,698	185,518

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: continued sluggish growth in 2019, coronavirus crisis triggers plunge in oil price, but fiscal and external buffers available

Growth in 2019 remains low due to weak investment activity and tight macroeconomic policies

After declining to 0.4% (year on year) in the first quarter of 2019, Russian economic growth recovered somewhat in the second (1.1%), third (1.5%) and fourth quarters (2.1% year on year), producing a 1.3% GDP increase in the full year 2019. Sluggish economic activity was influenced by the weaker oil price and lackluster fixed investment (+1.5% in 2019). The two factors driving growth were household final consumption (+2.5%), which gained some traction from quarter to quarter, and public consumption (+2.2%); net exports shrank. In late 2019, the unemployment rate remained at a historical minimum (4.6%).

CBR's restrictive stance and overall weak demand have driven down inflation substantially

Given the decline in the oil price (–9% compared to the annual average price of Urals grade crude in 2018) and continued foreign exchange purchases of the Russian central bank (CBR) under the fiscal rule, the exchange rate of the ruble against the U.S. dollar weakened slightly (–3.5% from the annual average). The CBR's tight monetary stance (elevated key rate), overall still sluggish demand and declining inflationary expectations helped cushion the temporary rise in inflation linked to housing and communal tariff adjustments as well as the VAT increase in January 2019. Accordingly, inflation decreased to 2.5% in March 2020 year on year (1.5 percentage points below the CBR's target of 4%). Meanwhile, the coronavirus pandemic has swiftly changed the trajectory of the economy, triggering an oil price plunge in March-April 2020 and bringing about nation-wide lockdowns stifling business from late March onward. The combined effect has pushed the Russian economy into recession. The CBR has reacted by switching to an accommodative monetary stance, cutting its key rate by half a percentage point to 5.5% in April and announcing its readiness for further cuts.

Twin surpluses and capital outflows have declined, while international reserves have expanded

The VAT increase, improved tax administration, the pension reform (adjustment of the retirement age) and restraint in public spending secured a budget surplus of 1.9% of GDP in 2019. The declining oil price in 2020, however, contributed to eliminating the surplus. Meanwhile, thanks to the transfer of oil and gas earnings of 2019, Russia's budgetary stabilization fund, the National Wealth Fund, reached a record level of EUR 150 billion at end-March 2020 (most of the fund is part of the country's international reserves). In April 2020, fiscal anti-crisis measures amounting to about 2.8% of GDP (mostly tax holidays and loan guarantees) were decided for 2020. The lower oil price contributed to the decline in the current account surplus to 3.8% of GDP in 2019. Private capital outflows decreased to 1.6% of GDP in 2019 (from 3.8% in 2018). Largely on account of nonresidents purchasing Russian obligations, the country's foreign debt expanded to EUR 430 billion at end-2019 (+8% year on year). However, Russia's foreign debt has been clearly outgrown by its international reserves (including gold, which the authorities have stocked up substantially in recent months), which stood at EUR 516 billion in mid-April 2020 (+19% over the last 12 months or 34% of GDP).

Rapid retail lending growth passed its peak

Notwithstanding Russia's sluggish economic growth and its NPL ratio stagnating at a relatively high level (17.1% at end-2019), retail lending (as opposed to corporate lending) continued to expand swiftly (+15% in late 2019 in real terms and exchange rate adjusted). That said, the expansion of retail lending – notably that of unsecured consumer credit – has passed its peak thanks to the CBR's prudential tightening measures and, in part, related easing of credit demand on the back of unstable household income dynamics. Moreover, the coronavirus crisis is expected to strongly dampen any further growth of banking activities.

Table 13

Main economic indicators: Russia

	2017	2018	2019	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Year-on-year change of the period total in %								
GDP at constant prices	1.8	2.5	1.3	2.5	2.8	0.4	1.1	1.5	2.1
Private consumption	3.7	3.3	2.5	2.9	4.0	2.6	2.5	2.5	2.5
Public consumption	2.5	1.3	2.2	1.3	1.3	2.0	2.1	2.3	2.3
Gross fixed capital formation	4.7	0.2	1.5	7.9	–5.1	–2.3	5.1	–1.1	2.9
Exports of goods and services	5.0	5.5	–2.3	4.8	2.9	–0.6	–5.3	–0.8	–2.5
Imports of goods and services	17.3	2.6	3.4	0.1	–0.5	–2.0	–0.2	4.5	10.1
	Contribution to GDP growth in percentage points								
Domestic demand	3.9	1.9	2.7	1.5	2.2	0.2	2.4	2.7	4.9
Net exports of goods and services	–2.3	0.9	–1.4	1.2	0.9	0.3	–1.4	–1.3	–3.0
Exports of goods and services	1.3	1.5	–0.6	1.2	0.8	–0.2	–1.5	–0.2	–0.7
Imports of goods and services	–3.6	–0.6	–0.8	0.0	0.1	0.5	0.1	–1.1	–2.3
	Year-on-year change of period average in %								
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	17.9	1.8	4.4	2.6	0.6	2.8	5.8	4.2	4.7
Labor productivity in manufacturing (real, per hour)	7.4	4.9	3.2	4.2	5.7	3.6	2.8	3.6	2.8
Labor costs in manufacturing (nominal, per hour)	26.7	6.6	7.7	7.0	6.3	6.5	8.7	8.0	7.7
Producer price index (PPI) in industry	7.8	12.0	2.3	15.9	15.1	9.2	6.6	–1.1	–5.7
Consumer price index (here: HICP)	3.6	3.0	4.6	3.1	4.0	5.3	5.1	4.4	3.5
EUR per 1 RUB, + = RUB appreciation	12.6	–11.0	2.2	–9.3	–9.4	–6.6	2.0	6.2	7.7
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.2	4.8	4.6	4.6	4.8	4.8	4.5	4.4	4.6
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	9.1	7.4	7.3	7.3	7.5	7.8	7.7	7.3	6.6
RUB per 1 EUR	65.9	74.1	72.5	76.3	75.9	74.9	72.6	71.8	70.5
	Nominal year-on-year change in period-end stock in %								
Loans to the domestic nonbank private sector[1]	5.7	12.3	12.3	11.4	12.3	11.9	11.6	10.5	10.4
of which: loans to households	12.7	22.2	22.2	21.4	22.2	23.5	22.8	20.7	18.5
loans to nonbank corporations	3.1	8.3	8.3	7.5	8.3	7.2	6.9	6.1	6.7
	%								
Share of foreign currency loans in total loans to the nonbank private sector	14.7	13.6	11.4	14.4	13.6	12.2	11.6	11.4	11.4
Return on assets (banking sector)	1.0	1.5	2.2	1.7	1.5	2.5	2.2	2.1	2.2
Tier 1 capital ratio (banking sector)	8.5	8.9	9.2	9.5	8.9	9.6	9.2	9.4	9.2
NPL ratio (banking sector)	19.1	18.0	17.1	18.7	18.0	18.0	18.0	17.7	17.1
	% 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	12.1	12.4	..	..	..	..	..	..
	% 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	11.4	13.1	12.4	9.6	8.5	8.5
Services balance	–2.0	–1.8	–2.1	–2.1	–1.6	–1.6	–2.2	–2.6	–2.1
Primary income	–2.7	–2.5	–3.1	–2.2	–2.1	–1.3	–4.8	–3.1	–3.2
Secondary income	–0.6	–0.6	–0.6	–0.6	–0.7	–0.7	–0.2	–0.4	–1.0
Current account balance	2.1	6.8	3.8	6.5	8.8	8.9	2.4	2.4	2.2
Capital account balance	0.0	–0.1	0.0	0.0	–0.2	0.0	–0.1	0.0	–0.1
Foreign direct investment (net)[3]	0.5	1.4	–0.5	1.0	2.4	–0.3	–0.3	–1.5	0.0
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	31.2	28.1	29.2	29.0	28.1	29.5	29.7	29.8	29.2
Gross official reserves (excluding gold)	21.3	23.8	26.0	23.5	23.6	25.0	25.5	26.2	26.0
	Months of imports of goods and services								
Gross official reserves (excluding gold)	12.3	13.7	15.0	13.6	13.7	14.4	14.8	15.2	15.0
	EUR million, period total								
GDP at current prices	1,396,089	1,399,910	1,521,628	360,476	382,502	333,112	363,984	401,915	422,618

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).