

August 2022

CESEE Research Update

www.oenb.at/cesee-research-update

Content

Summary: World Bank's June 2022 Global Economic Prospects Report warns of global stagflation scenario 2

Russia's large fintechs and digital ecosystems – in the face of war and sanctions 3

OeNB Economic Analysis and Research Department restructured 4

Focus on European Economic Integration Q3/22 7

<http://www.oenb.at>
<http://cesee.oenb.at>

Imprint/inquiries/copyright 2022:

Oesterreichische Nationalbank,
Central, Eastern and Southeastern
Europe Section
Postal address: P.O. Box 61, A 1011 Vienna,
Austria

To subscribe or unsubscribe to our
newsletter, please visit our website

<http://cesee.oenb.at>

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

Highlight of this Issue

World Bank's June 2022 Global Economic Prospects Report warns of global stagflation scenario

Summary of OeNB webinar with Franziska Ohnsorge (Manager) and Collette Wheeler (Senior Economist) of the Prospects Group in the Equitable Growth, Finance and Institutions Practice Group at the World Bank moderated by Julia Wörz (Head) of the Central, Eastern and Southeastern Europe Section at the OeNB.

Russia's invasion of Ukraine and its effects on commodity markets, supply chains, inflation and financial conditions have steepened the slowdown in global growth. One key downside risk is the possibility of stubbornly high inflation accompanied by tepid growth, reminiscent of the stagflation of the 1970s. This prolonged period of global stagflation in the 1970s ended in the global recession of 1982 that helped spark a series of emerging market debt crises.

Much has changed in global macroeconomic policymaking since then. In this context, the World Bank's June 2022 Global Economic Prospects Report – presented by Franziska Ohnsorge and Collette Wheeler at a webinar hosted by the Oesterreichische Nationalbank (OeNB) on June 29, 2022 – sheds light on three important questions:

What are the near-term prospects for the global economy? What threat does stagflation present for emerging and developing economies (EMDEs)? And what are the policy implications?



Collette Wheeler

Collette Wheeler started off by pointing to the fact that commodity prices started rising before the Russian invasion of Ukraine, amid supply bottlenecks due to lockdowns. Despite the more pronounced economic growth slowdown compared

to what was anticipated in January, energy prices continue their steady upward path, leading to downward revisions of growth forecasts for all economies except for energy exporters. The downward revision in GDP growth amounts to half a percentage point for EMDEs, even when excluding Russia and Ukraine, which will experience extraordinarily deep recessions. While forecasts for 2023 are not lowered further, a permanent output loss will arise, as the World Bank does not assume a rebound to take place, thus compounding the pandemic-induced output loss. Mutually amplifying risks to the forecast are mounting. Some risks are already partly materializing, such as financial stress and energy and supply disruptions. At the same time, further renewed COVID-19 outbreaks (with strongest economic effects in China) cannot be ruled out. Taken together, these risks would bring global economic growth close to zero or even send the economy into recession.



Franziska Ohnsorge

Franziska Ohnsorge continued by highlighting that, at 8% globally and 9% for EMDEs, inflation was at a 14-year high, given pent-up demand and the war in Ukraine. In other words, inflation is running above target in all inflation targeting

economies around the globe (90% of EMDEs). The plateau should be reached in mid-2022; yet, inflation levels are likely to still remain one percentage point above pre-crisis levels in 2023, i.e. at too high a level to bring inflation back to target any time soon. Given expected lower potential growth, the World Bank warns of stagflation in its report. Ohnsorge moreover pointed

to differences when comparing the current situation to the high inflation phase in the 1970s: This time, the dominance of inflation targeting frameworks and anchored inflation expectations as well as the swift response by central banks have helped build credibility. Also, headline inflation is only half as high as it had been in the 1970s, and core inflation only amounts to one fifth. Hence, lower interest rates are sufficient to bring inflation back down. She then made a case for early and thus smaller policy reactions (which we are currently observing), for subsidies to support the most vulnerable and encourage consumption, and for efficiency-enhancing (regulatory) changes in favor of renewables. The next few years will require careful calibration of macroeconomic policies and a forceful policy response to boost growth, bolster macroeconomic frameworks and reduce financial vulnerabilities.



Julia Wörz

Following Ohnsorge's presentation, Julia Wörz added more detailed information on recent inflation developments in the economies of Central, Eastern and Southeastern Europe (CESEE). Inflation is not only on an unabated

upward trend in the region, it is also becoming much more broad based, both when compared over time and when compared to developments in the euro area. Drawing on evidence from the OeNB Euro Survey, she argued that more recent inflation experiences are likely to influence inflation expectations more strongly in CESEE than in Western Europe – a fact which has possibly led both policymakers and consumers to react much faster to the increase in inflation.

The general discussion then centered on the future course and the global implications of the Fed's and the ECB's monetary policy. In Ohnsorge's view, the policy response in advanced economies is highly critical as EMDEs are, on average, rather exposed to market risks. In the absence of new shocks, inflation will come down. Still, fiscal policy will also have to tighten, as the large fiscal packages of 2020 (35% of global GDP) will have to be unwound. Referring to current fiscal measures cushioning the impact of high inflation, Ohnsorge stressed the importance of sunset clauses. Wheeler concluded by highlighting the importance of credibility of local

monetary policy, referring to Russia and Turkey as two examples to the contrary.

For more information, see [Presentation of the World Bank Global Economic Prospects Report - Oesterreichische Nationalbank \(OeNB\)](#)



Russia's financial landscape has changed rapidly in recent years, with the lines between banks and tech firms ever more blurring and giving rise to large fintech firms. We look at these changes from a perspective before and after Russia's invasion of Ukraine in February 2022. Pre-war, tech firms such as Yandex or VK and financial firms such as Sberbank started diversifying into each other's business by broadening service offers to consumers via so-called digital ecosystems. From an international perspective, two things stand out: first, with Sberbank, Russia's largest bank is attempting to fully rebrand itself as a technology company. Second, the Russian government facilitates these developments both directly and indirectly, e.g. by pushing the country's digital transformation while simultaneously exercising more control over foreign tech firms.

From a post-invasion perspective, international sanctions pose several challenges to large fintech firms; and so do economic and geopolitical developments. Currently, the business models of Russia's large fintechs are being hit by international sanctions, and the firms have to grapple with a host of other issues related to the geopolitical context. Going forward, the firms will face major issues in advancing their digital ecosystems.

The negative effect of international sanctions is somewhat mitigated by Russia having acquired experience in dealing with sanctions. It has built services and infrastructures, including payment systems, that are useful in the current

context. As to technology-related sanctions, we show that Russia continues to substantially depend on technologies from abroad, despite pre-war efforts to reduce this dependence. The Russian government is set to speed up its drive for digital sovereignty, but for lack of key technological inputs, this will become more difficult and costly. For advanced ICT products and services, which are highly specialized and complex, rebuilding regional supply chains would, for some technologies, require massive investments and might still result in costlier and inferior products. Russia's economy in general and its tech and fintech firms in particular are thus vulnerable to international technology sanctions.

As to sanctions evasion, particularly through crypto assets, we currently see limited potential for circumvention. Clearly, sanctioning countries need to perceive sanctions as a dynamic tool that they must adjust regularly to address potential loopholes and circumvention tactics.

Overshadowed by the war against Ukraine, Russia's fintech and ecosystem landscape will, over the next five years, develop differently from the path it had been on before the invasion. As large fintech firms play a crucial role in the Russian economy, adverse developments regarding their business should be watched closely.

The full study can be downloaded from here: https://www.oenb.at/dam/jcr:92a72223-b45a-409c-af08-ec7095258318/04_feei-Q3-22_Russias-large-fintechs.pdf

OeNB Economic Analysis and Research Department restructured

As an outcome of the reorganization that the OeNB's Economic Analysis and Research Department underwent over the past year, the formerly three divisions have been regrouped into five sections, one of them dedicated to the analysis of developments in Central, Eastern and Southeastern Europe.

It is well known that the Austrian economy – and especially Austria's banking sector – are tightly interlinked with the economies in Central, Eastern and Southeastern Europe (CESEE). The team of the CESEE Section contributes to a better understanding of European integration by explicitly focusing on economic developments in the CESEE countries. As we continuously monitor and analyze macroeconomic and financial developments in individual CESEE countries, we are capable of offering a consistent cross-country comparative perspective on the region. We evaluate economic convergence and financial market developments, and assess the implications for the Austrian economy and financial stability. The CESEE region has been hit by several economic and political crises in recent years; so, we are placing increased attention on risk analysis, including financial, economic, trade and climate risks.

Our research activities revolve around two priority areas that are crucial for monetary policy and financial stability in the interplay between CESEE and euro area economies.

Real and monetary convergence

- first with respect to CESEE countries' integration into both the European Union and the euro area, and second with respect to structural change and transformation, particularly in the context of global value chains and the green transition

Financial stability in CESEE

- first with respect to risks to financial stability and possible spillovers, with a special focus on Austrian banks' exposure to the region, and second with respect to euroization, i.e. the use of the euro, and household finance

We draw on a wide variety of data sources, including a large-scale **survey** which we conduct in **ten CESEE economies**,¹ the [OeNB Euro Survey](#). The survey mainly helps us (a) understand what determines individuals' financial decisions and (b) ascertain in particular the use of foreign currencies, such as the euro and the US dollar, in the region. Thanks to the flexible design of the survey, we can include topical, policy-relevant questions in a timely and efficient manner.

For our macroeconomic monitoring, we rely on various tools and models, including a time series-based forecasting model and systematic risk assessments. In addition, our extensive expertise builds on a steady stream of research papers, economic analyses and other CESEE-related activities.

Within the ESCB, the OeNB's CESEE Section acts as a bridge between the euro area and CESEE. Together with the OeNB's EU and International Affairs Division, we represent the OeNB in the ECB's International Relations Committee (IRC) and coordinate the OeNB's economic input to the IRC. Furthermore, our economists provide input to the external assumptions underlying the ECB's projections for the euro area. We act as a partner for the ECB in monitoring and analyzing EU candidates and potential candidates, in particular in the Western Balkans. We also contribute to the ECB's analysis of the international role of the euro by monitoring and analyzing euroization in CESEE and by regularly estimating the extent of currency substitution in the region, including the use of euro cash.

Our expertise in CESEE economies, including Russia, Ukraine and Turkey, has helped build the OeNB's reputation as a competence center for CESEE in international policy-making institutions and academic institutions. We closely cooperate with a broad range of partners that include central banks in the region and international financial institutions.

¹ Six EU member states: Bulgaria, Czechia, Croatia, Hungary, Poland, Romania, and four non-EU member states: Albania, Bosnia and Herzegovina, North Macedonia and Serbia.

Save the Date I

Presentation of the World Bank's EU Regular Economic Report: Living Up to Potential in the Wake of Adverse Shocks

Date and time

Monday, September 19, 2022, 3:30 p.m. (CEST)

Venue

Online event via Webex

Abstract

The EU Regular Economic Report discusses trends in inclusive growth in the EU over the past year, zooming in on a set of selected countries: Romania, Bulgaria, Croatia and Poland. Both, short-term and long-term economic growth prospects will be presented. The report highlights the key risks to the near-term outlook and brings together the key anticipated structural trends in the EU over the next decade to construct a baseline for potential growth by 2030. Thereafter, it quantifies the impact of policy reform scenarios on potential growth. These reforms have been selected based on the most pressing needs for longer-term growth in the four focus countries, national targets and plans—with modeling constraints also a key consideration. These reforms include: (i) boosting labor force participation to counter the effects of an aging population; (ii) increasing the average years of education and focusing on job creation in lagging regions to support inclusion; (iii) improving EU fund absorption rate and the index of institutional quality to demonstrate the impact of strengthening institutions; (iv) undertaking green investment to support potential growth and the transition to net zero emissions; and (v) increasing research and development (R&D) spending to accelerate the digital transition. The report also quantifies the combined impact of these reforms and their effect on the convergence process.

For more information, see <https://www.oenb.at/en/Calendar/2022/2022-09-19-world-bank-eu-regular-economic-report.html>

Save the Date II



East Jour Fixe

90th East Jour Fixe of the Oesterreichische Nationalbank (OeNB)

Can we win the battle against uncertainty?

New approaches to macroeconomic forecasting in CESEE

October 4, 2022

1 p.m. to 4:30 p.m. (CEST)

Oesterreichische Nationalbank

Otto-Wagner-Platz 3, A-1090 Vienna, Austria

Hybrid in-person and online workshop

In the last 15 years, professional forecasters have been confronted with several crises, each of them distinct in terms of underlying causes, international propagation, policy responses and economic impact. Each crisis has also brought about advances in modeling and data. Structural equilibrium models are used as well as judgment-free, highly complex, sometimes non-linear, and time-variant models. Text analysis performed by artificial intelligence is competing with expert-informed forecasts based on national accounting. New and unconventional data sources are increasingly being explored, allowing for data to be collected at a higher frequency and with ever greater granularity. In addition to traditional economic data, forecasters are also including night-light data, truck mileage, scanner data or mobility trends in their analyses, to name but a few unconventional data sources. Will these advances be sufficient to address today's increased volatility and elevated uncertainty? Can they provide timely and unerring forecasts in the current crisis? After all, it is especially at the onset of a crisis that policymakers need timely and accurate forecasts to design effective policy responses.

The 90th East Jour Fixe will bring together professional forecasters from international institutions, central banks and academia to share lessons learned from past crises, explore latest trends in forecasting and discuss challenges associated with data availability. In doing so, the focus will be put on Central, Eastern and Southeastern European (CESEE) economies. While forecasting in the region no longer has to rely on short time series, the use of novel and unconventional data sources still varies greatly from one CESEE country to another.

For more information, see [90th East Jour Fixe of the Oesterreichische Nationalbank - Oesterreichische Nationalbank \(OeNB\)](#)

Save the Date III

**Conference on European Economic Integration (CEEI) 2022
Economic and monetary policy under wartime conditions –
implications for CESEE**



Organized by the Oesterreichische Nationalbank (OeNB)

November 21 and 22, 2022

Hybrid in-person and online event

CONFERENCE ASPECTS

The world is facing a concurrence of crises: the war in Ukraine and the ongoing recovery from COVID-19 on top of the effects of climate change. While differing very much in nature, these crises all have a decisive effect on economic and monetary policy. With our conference, we seek to develop a deeper understanding of how these transformational crises are likely to impact the economies of Central, Eastern and Southeastern Europe (CESEE) in the short and medium term. Moreover, we aim to offer a glimpse into what a sustained geopolitical fragmentation and economic deglobalization could mean in the long term. Geopolitically, Russia's invasion of Ukraine threatens to re-establish an iron curtain in Europe. Economically, the war affects the outlook ahead as it has upended established trading patterns and started to change the structure of the energy sector. Related supply shortages and sanctions add to sharply accelerating prices in particular in energy and other commodity markets. This may speed up the green transition toward more sustainable and less energy-dependent economies. Furthermore, labor markets are being transformed by migration driven by conflicts and crises in the short term, and they undergo

structural changes driven by digitalization and ageing in the long term. Specific issues the conference will address include:

- What will be the impact on CESEE economies amid the threat of a new iron curtain?
- What are the challenges for monetary policy given high inflation, elevated political uncertainty and locally diverging interest rates?
- How to deal with demographic challenges and the related transformation of CESEE labor markets?
- Will the current energy crisis trigger faster restructuring toward renewable energy sources and alternative suppliers?

For more information, see [Conference on European Economic Integration 2022 - Oesterreichische Nationalbank \(OeNB\)](#)



OeNB Euro Survey

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

The quality checks for the data collected in fall 2021 have been finished and the main results on the website will be updated by early September 2022. Data from the Euro Survey are regularly used for analyses by researchers and policy makers.

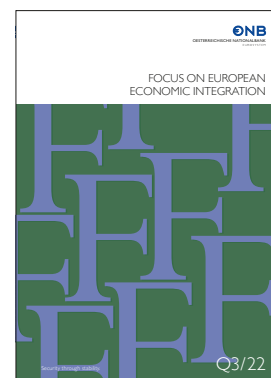
On how to access Euro Survey Data:



Recent studies in Focus on European Economic Integration Q3/22 [\(full version\)](#)

The role of public services quality in shaping migration intentions in Central, Eastern and Southeastern Europe
Anna Katharina Ragg

The e-motion of car manufacturing in CESEE: the road ahead
Tomáš Slačák



Russia's large fintechs and digital ecosystems – in the face of war and sanctions
Katharina Allinger, Stephan Barisitz, Andreas Timel

Upcoming Events

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

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

September 19, 2022, 3:30 p.m. (CEST)	Presentation of the World Bank's EU Regular Economic Report: Living Up to Potential in the Wake of Adverse Shocks
October 4, 2022, 1 p.m. to 4:30 p.m. (CEST)	90 th East Jour Fixe: Can we win the battle against uncertainty? New approaches to macroeconomic forecasting in CESEE
November 21 – 22, 2022	Conference on European Economic Integration (CEEI) on "Economic and monetary policy under wartime conditions – implications for CESEE"

OeNB Courses at the Joint Vienna Institute (JVI) 2022

The JVI resumed classroom training in May 2022.

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

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

Upcoming OeNB courses

Title	Organization	Date
Financial Translation and Editing: Trends and Tools for Future Challenges	Oesterreichische Nationalbank	October 19 – 21, 2022
Cash Circulation and Payment Systems in Austria	Oesterreichische Nationalbank	November 21 – 23, 2022
Monetary and Financial Statistics Collected and Compiled by the ESCB	Oesterreichische Nationalbank	November 21 – 25, 2022

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