

## CESEE-6: Im Wettlauf mit der Pandemie – Erholung nicht vor Mitte 2021 in Sicht; Russland: Aufschwung trotz erheblicher Risikofaktoren in Reichweite

### OeNB-BOFIT-Prognose für ausgewählte CESEE-Länder und Russland<sup>5,6,7</sup>

Mit einem BIP-Wachstum von 4,0 % im Jahr 2021 wird für die CESEE-6-Länder von einer moderaten konjunkturellen Erholung ausgegangen, die 2022 zunächst an Fahrt gewinnen (4,8 %) und 2023 nachlassen wird (3,9 %). Der Aufschwung wird sich in der Region im Großen und Ganzen gleichförmig vollziehen, wobei die Wachstumsdynamik in Rumänien und Ungarn etwas stärker ausfallen wird. Mit den niedrigsten Wachstumsraten wird 2021 in Tschechien und Bulgarien gerechnet. Nach Aufhebung der Lockdown-Maßnahmen wird sich – neben der wieder anziehenden Auslandsnachfrage – ab Mitte des Jahres zunächst der private Konsum erholen. Die Investitionen werden nachziehen und 2022 gestützt durch EU-Mittel weiter steigen. Bei der Exporttätigkeit erwarten wir für 2021 und 2022 eine deutliche Belebung infolge einer kräftigen Auslandsnachfrage. Auch die Importtätigkeit wird – wenn auch mit einer gewissen Verzögerung – dank der wiederauflebenden Inlandsnachfrage anziehen. Wir gehen im Prognosezeitraum von einem weitgehend neutralen Beitrag der Nettoexporte zum Wachstum aus. In den CESEE-6-Ländern fiel der Wachstumseinbruch 2020 weniger schwerwiegend aus als im Euroraum, sodass sich im Laufe der Rezession des vergangenen Jahres ein merklicher Wachstumsvorsprung für die Region ergab (+3 Prozentpunkte). Während für 2021 keine positive Wachstumsmarge zu erwarten ist, wird das Wachstumsdifferenzial zum Euroraum 2022 erneut positiv ausfallen (+0,7 Prozentpunkte) und sich 2023 weiter erhöhen (+1,8 Prozentpunkte). Ein Jahr nach Beginn der COVID-19-Pandemie ist die vorliegende Prognose angesichts der Ungewissheit hinsichtlich des weiteren Verlaufs nach wie vor mit einem erheblichen Maß an Unsicherheit behaftet, wobei die Abwärtsrisiken überwiegen.

#### OeNB-BOFIT BIP-Prognose 2021-2023 im Vergleich zum World Economic Outlook des IWF

	Eurostat/ Rosstat	OeNB/BOFIT April 2021			IWF World Economic Outlook April 2021			Unterschiede zwischen OeNB und IWF			
					Prognose						
	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023	
	Jahreswachstum in %				in Prozentpunkten						
CESEE-6	-3.9	4.0	4.8	3.9	4.3	4.7	3.9	-0.3	0.1	0.0	
Bulgarien	-3.8	3.2	4.1	3.0	4.4	4.4	3.9	-1.2	-0.3	-0.9	
Kroatien	-8.1	4.2	4.9	3.1	4.7	5.0	4.2	-0.5	-0.1	-1.1	
Tschechien	-5.6	3.0	3.9	2.9	4.2	4.3	3.7	-1.2	-0.4	-0.7	
Ungarn	-5.1	4.7	5.2	3.1	4.3	5.9	3.8	0.4	-0.7	-0.7	
Polen	-2.7	3.9	5.2	4.4	3.5	4.5	4.0	0.4	0.7	0.4	
Rumänien	-3.7	4.9	4.5	4.3	6.0	4.8	3.8	-1.1	-0.3	0.5	
Russland	-3.1	2.7	3.1	2.0	3.8	3.8	2.1	-1.1	-0.7	-0.1	

Anmerkung: saisonbereinigte Daten für 2020.

Quellen: OeNB-BOFIT-Prognose April 2021, IWF, Eurostat, Rosstat.

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<sup>6</sup> Stichtag für die dieser Prognose zugrunde liegenden Daten: 24. März 2021. Die Projektionen für die CESEE-6-Länder – Bulgarien, Kroatien, Polen, Rumänien, Tschechien und Ungarn – wurden von der OeNB erstellt; jene für Russland wurden von der Bank of Finland in Kooperation mit der OeNB ausgearbeitet. Die Projektionen beruhen auf der Annahme, dass das BIP-Wachstum im Euroraum um 4,0% 2021, 4,1% 2022 und 2,1% 2023 zunehmen wird.

<sup>7</sup> Die Ölpreisannahme der Bank of Finland bezieht sich auf Preisnotierungen für Brent-Terminkontrakte (Fünftagesdurchschnitt der Tagespreisnotierungen) mit Stichtag 16. März 2021. Annahmen über die zukünftige Entwicklung der Terminkontrakte für Brent-Rohöl deuten darauf hin, dass der Ölpreis während des dreijährigen Prognosezeitraums bei 65 USD je Barrel in 2021, 61 USD je Barrel in 2022 und 58 USD je Barrel in 2023 zu liegen kommen wird.

*Die Auswirkungen der Corona-Pandemie auf die Wachstumsaussichten in Russland waren bislang weniger gravierend als erwartet. Um dem Anstieg der Ölpreise und Ölpreiserwartungen Rechnung zu tragen, haben wir unsere Herbstprognose nach oben revidiert. Für die Jahre 2021 und 2022 wird für Russland nunmehr von einem BIP-Wachstum von beinahe 3 % ausgegangen, das sich im Jahr 2023 auf rund 2 % abschwächen wird. Diese Wachstumsaussichten sind jedoch mit signifikanten Unsicherheiten verbunden. So könnten Russland und der Rest der Welt länger als angenommen mit der COVID-19-Pandemie zu kämpfen haben; ferner dürften die Ölmärkte auch künftig sensibel reagieren und die einsetzende konjunkturelle Erholung in Russland wie auch in anderen Volkswirtschaften fragil verlaufen.*

## **OeNB projections for CESEE-6: Private consumption picks up in 2021, and gross fixed capital formation will boost GDP growth further in 2022**

The year 2020 saw the sharpest economic downturn in the CESEE-6 region since the transformation of the early 1990s. Output shrank by 3.9% on average, with some countries reporting even sharper setbacks.

Nevertheless, the recession was somewhat less severe in CESEE than in the euro area. Especially in the final quarter of 2020, surprisingly robust GDP dynamics were reported for the region, as industrial development was decoupled from trends in most other sectors: unlike in spring, lockdown measures mainly targeted contact-intensive sectors like services and retail trade, while industrial production remained largely unrestricted.

While consumer and retail trade spending remained muted at the beginning of 2021, economic data continue to attest to the resilience of the manufacturing sector, with firms facing strong demand, especially from abroad. Survey data suggest, however, that problems in supply chains and material shortages are beginning to pose a threat to further industrial output growth in several countries: more and more firms are reporting swelling backlogs of work amid increasing suppliers' delivery times and rising input prices. Data by the European Commission confirm that capacity utilization in the CESEE-6 has improved notably after a plunge in mid-2020.

Having moderated somewhat in late 2020, consumer price growth has recently started to accelerate on the back of higher oil prices. Base effects, the release of pent-up demand once COVID-19 restrictions are eased and rising producer price pressures may induce further price growth in the course of 2021.

So far, monetary policy has been accommodative in the CESEE-6, also in reaction to needs related to the COVID-19 crisis. Fiscal policy has also been supportive, drawing on a vast array of measures, both direct and – in some cases sizable – indirect measures, mainly guarantees and tax deferrals. This was complemented by the use of EU programs, such as SURE.

While these trends are reasons for cautious optimism, the situation at the start of 2021 remains fragile, differs across countries and is surrounded by a high degree of uncertainty. The number of new COVID-19 infections has been increasing markedly in the beginning of 2021 leading to a renewed spike in infection rates and a notable increase in mortality. The situation is complicated further by the spread of new viral strains and a very uneven pace of vaccinations. With respect to the vaccine rollout, both European front-runners, such as Hungary building also on vaccines that are not yet authorized by European Medicines Agency, as well as laggards, e.g. Bulgaria, come from the CESEE-6 region.

## **Economic growth will start to recover this year and accelerate further in 2022**

In light of this, we do not expect COVID-19-related restrictions to be eased significantly in the first half of 2021. We still assume that progress in vaccinations over the next couple of months

will help avoid further lockdowns during the summer months and thereafter. On the economic front, we expect economic activity to accelerate markedly from the third quarter onward.

This will translate into an average (GDP-weighted) growth rate of 4% in 2021, mainly driven by private consumption growth. The recovery will strengthen further in 2022. CESEE-6 growth will peak at 4.8% on average, backed by a strong revival in gross fixed capital formation and carry-over effects from 2020. Romania is the only country whose GDP growth will peak in 2021 already, given investment spending fuelled by EU funds from the 2014 to 2020 multiannual financial framework and a base effect following the weak harvest in 2020. In 2023, we expect annual GDP growth in the CESEE-6 to return to almost 4%, mostly thanks to the continued strong performance of the Polish economy.

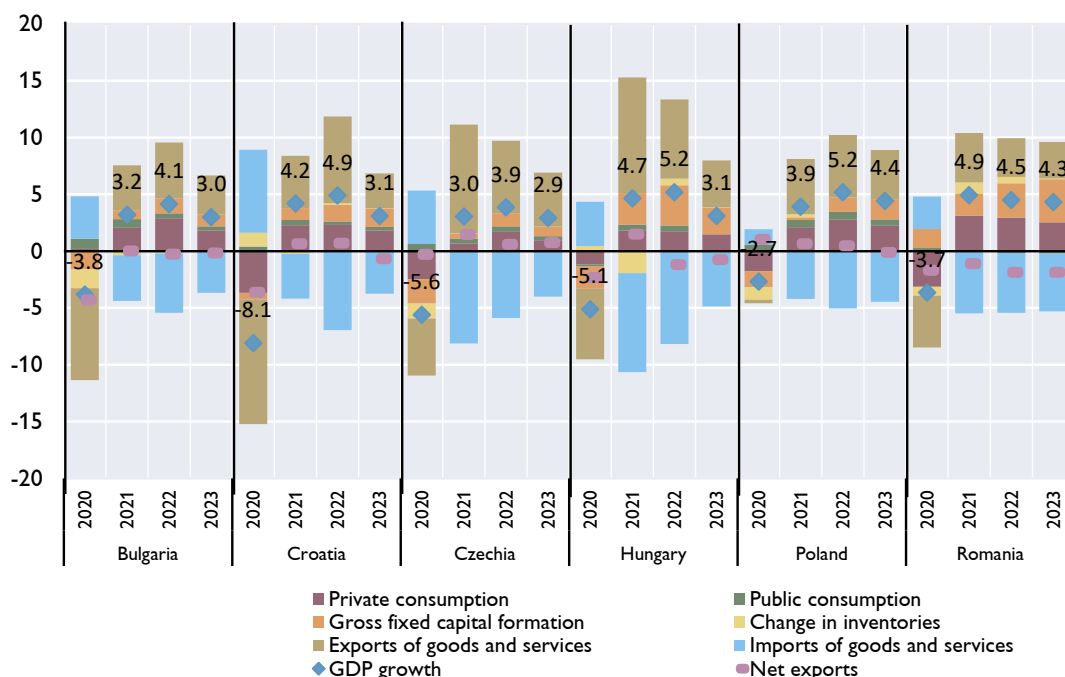
Throughout the forecast horizon, the differences in the individual economies' growth performance are not overly large. Overall, Czechia and Bulgaria are expected to show somewhat weaker growth dynamics. By contrast, Hungary (in 2021 and 2022), Poland (in 2022 and 2023) and Romania (in 2021 and 2023) will be the growth engines in the region. Poland and Romania will attain pre-crisis GDP levels by end-2021 already; all other economies will reach their 2019 GDP levels in the course of 2022.

The sizable growth differential of the CESEE-6 region vis-à-vis the euro area (of +3 percentage points) that was observed in the recession year 2020 will vanish in 2021, but, unlike in 2010 after the recession triggered by the financial crisis, the differential will not turn negative. A positive growth margin will re-emerge in 2022 and 2023, and sustain the convergence process, notwithstanding variations across individual countries.

Chart 1

### CESEE-6: GDP and GDP components

GDP contributions in percentage points, year-on-year GDP growth in %



Source: Eurostat, OeNB.

Note: Realized data for 2020, projections for 2021 to 2023.

Private consumption will recover ground in the second half of 2021 and post full-year growth of 3.5% on average in the CESEE-6. In all countries, governments made strong use of wage support, worker retention schemes and tax deferrals (or outright tax reductions/exemptions) to soften the impact of the crisis on households and corporates. The EU's SURE program (with first disbursements in all countries except Bulgaria) further supported labor markets. Saving rates have gone up and the expected easing of COVID-19 restrictions will release pent-up demand. Wage growth is assessed to be robust overall over the forecast horizon, even though increases will considerably fall short of the high rates seen before the pandemic. In line with a sustained recovery of contact-intensive service sectors, private consumption growth is forecast to accelerate further and peak at 4.3% in 2022, before returning to 3.4% in 2023.

Public consumption will continue to expand robustly by around 2.4% in both 2021 and 2022, even though no further impetus can be expected from public sector wages, with Croatia, Poland and Romania having announced wage freezes and partial cuts. In most countries, the fiscal stance will remain supportive in both years, encompassing allowances and tax reliefs that often benefit families and younger people and support housing demand. Elections in Bulgaria (2021) and Hungary (spring 2022) will most likely trigger (or have already triggered) some extra spending in these two countries. Some gradual consolidation is expected for Croatia and Romania, whereby governments in both countries will make as much use of their fiscal space as possible. Only in Czechia will we observe a more restrictive fiscal stance, as most fiscal stabilization measures will be discontinued in the course of 2021. In 2023, public consumption growth will slow in all countries of the region, averaging 1.5% per annum.

While gross fixed capital formation will recover in 2021, not least due to a strong base effect, both pandemic-related uncertainty and capacity utilization that is still somewhat low will weigh on investment dynamics in 2021. Overall, gross fixed capital formation will expand by almost 4% in the region. A notable boost of annual growth to above 8% is only expected to be seen in 2022, building on the availability of funds from the multiannual financial framework (MFF) 2021 to 2027 and the NextGenerationEU (NGEU) recovery instrument from mid-2021 onward. EU funds will strongly support high investment rates over the entire forecast horizon. In particular, Bulgaria and Croatia are among the largest recipients of MFF and NGEU funds. Romania also ranks among the main beneficiaries depending on its absorption rate. While support from EU funds will be strong in Hungary, it will not exceed the already high funding of previous years.

With demand conditions improving over the forecast horizon, gross fixed capital formation growth will accelerate further in 2023, reaching almost 9%. Credit guarantee schemes will support growth of credit to corporates in addition to further policy measures, with the latter often related to housing and construction (green renovations in Bulgaria; housing subsidy program, infrastructure investment and earthquake reconstruction in Croatia; tax cuts and home subsidies in Hungary; SME support in Poland and the IMM Invest program in Romania). The phasing-out of loan moratoria will partially run counter to these supportive measures, and credit growth developments in individual countries will strongly depend on pre-pandemic corporate debt levels.

Following a rather moderate decline in exports in 2020 (of 5.4% on average in the region), exports will rebound by almost 10% in 2021, thus showing a revival in line with our assumption about euro area import growth. The region's integration into global value chains has proven to be a factor of resilience during the pandemic. Especially in Czechia and Hungary, the rebound in the automotive industry – coupled with ongoing new investments, e.g. in battery production in Hungary – will lead to double-digit export growth in 2021. Vigorous external demand will clearly outweigh deteriorating nominal price competitiveness in Bulgaria, Croatia and Poland. In all other countries, productivity is expected to grow in sync with wages. In contrast to the strongly

diverging export performance during the downturn, export growth will be somewhat more homogeneous across countries in 2021 (ranging from 6.5% in Bulgaria to 11.6% in Czechia). In 2022, export growth will soften somewhat in all countries except Poland and Croatia (where we do not expect a full recovery of the tourism industry in 2021 already). Region-wide export growth will amount to 8.5% and 6.3% in 2022 and 2023.

Imports will also rebound notably, with their growth reaching 9.2% in 2021, softening slightly to 8.9% in 2022, and edging down to 7.2% in 2023. Import growth will be fueled by both recovering domestic demand and the strong export-import nexus due to the region's integration in international production networks. The initially somewhat smaller recovery in imports compared to exports will thus result in a small positive contribution of net exports to overall GDP growth in 2021. The more sustained demand for imports along with firming domestic demand in 2022 and 2023 will result in a slightly negative growth contribution (–0.2 and –0.4 percentage points).

### Risks to CESEE-6 projections continue to be on the downside

Forecast uncertainty remains higher than before the pandemic and we assess the balance of risks to be on the downside especially at the start of the forecasting period. The major risk is grounded in the further development of the pandemic. Much will depend on the race between new virus strains and vaccination progress.

A second downside risk relates to the economic fallout from the crisis. So far, mitigation measures have prevented widespread bankruptcies and an increase in nonperforming loans. Thus, while liquidity risks have been well addressed, solvency risks will become visible only over the projection horizon. Given rather strong leverage in the banking sector, it remains to be seen to what extent existing and newly adopted/extended guarantee programs will succeed in addressing these risks. These programs further encompass the risk of adversely affecting public debt, which potentially restricts the policy space going forward. While we do not see an imminent risk arising from developments in public debt levels in the region, especially as long as the escape clause of the Stability and Growth Pact is activated, some indirect risks may prevail in individual cases, with regard to financial market access, and related to the euro area accession process in the case of Croatia.

A further downside risk might stem from the multispeed recovery across the globe and a potential monetary policy tightening in the USA leading to spillovers on financial conditions, which might also affect CESEE-6 economies.

As always, economic growth in the CESEE-6 depends largely on the economic growth of its trading partners. Therefore, should the world economy and in particular the euro area grow at a faster or slower pace than that we assumed in our baseline scenario, then the growth prospects of the CESEE-6 countries would improve or deteriorate accordingly. Positive spillovers from the Biden Plan would clearly lift our growth projections upward.

The strongly rebounding export sector is also subject to some downside risks: Strong demand coupled with supply bottlenecks may at any time cause disruptions in supply chains and expose the vulnerability of just-in-time production models used by some manufacturers active in the region.

Further, political and geopolitical risks have not abated during the pandemic and trade tensions continue to exist despite the political change seen in the USA since our last forecast. In political terms, closer cooperation between the new US administration and Europe could aggravate tensions between the EU and Russia. Within the EU, political trenches between the EU and some

CESEE-6 countries as well as remaining legal uncertainties over the MFF 2021 to 2027 and the Recovery and Resilience Facility continue to exist, thus potentially weakening the EU's capacity to act both internally and as a global player.

### **BOFIT-OeNB projection for Russia: poised for recovery amid exceptionally large risks**

Russia's recovery has been supported by the relaxation of restrictive measures against the coronavirus from the third quarter of 2020; in contrast to the situation in some other countries, in the winter of 2020/2021 no new tight lockdown was imposed in Russia. The authorities had in 2020 pushed ahead with a comprehensive fiscal spending stimulus (including for instance social support for households, subsidies to firms, procurements), which continues to have an impact in the first months of 2021. After returning to positive growth in 2021, the Russian economy should accelerate slightly in 2022. Growth will then slow toward the end of the forecast period, getting closer to its future long-term trajectory. Structural/institutional reforms that would clearly lift the growth potential – like cutting corruption, strengthening the rule of law, adjusting the state's economic footprint – are not expected to materialize during the forecast period.

Private consumption will recover this year, and in 2023 should reach a level comparable to the peaks of 2014 and 2019. Higher consumption is supported by reviving employment and income growth and savings set aside during the crisis. While fixed investment is also expected to recover, its recovery will first be confined by very low use of production capacity and likely continue to be burdened by lingering economic uncertainty and stubborn investment risks.

Uncertainties are connected with the expected recovery of Russian energy exports and tourism in 2021. In 2022, total export growth should be supported by the planned expiration of the OPEC+ agreement on production ceilings. Growth expectations for exports in the coming years are limited by projections for the energy sector, which currently see the level of petroleum product exports remaining largely unchanged and a rather moderate expansion in natural gas exports.

After plunging in 2020, Russia's total imports are expected to recover partly this year, whereas the timing of the resurgence of Russian tourism abroad will strongly impact the pace of the recovery. While the revival of imports is supported by higher oil price-induced export earnings, it may be dampened by the ruble's relatively weak exchange rate. The real rate is not expected to appreciate as Russian inflation is moderate and oil prices will probably soon start to slide down gradually. Russia's current account surplus, which shrank to around 2% of GDP last year, is expected to remain solid this year and in the next few years.

Following the government's strong anti-cyclical fiscal stance (resulting in a consolidated budget shortfall of 4% of GDP) in 2020, growth of government spending slowed down last fall. Last fall's plan to reduce the budget deficit through slight spending cuts in real terms this year and next still holds. Higher oil prices should help trim the deficit as the prices are expected to exceed those assumed in the government budget plan. Apart from that, there is still ample fiscal room for maneuver as the level of government debt last year was still below 20% of GDP. Moreover, the state reserve fund (National Wealth Fund) holds liquid assets equivalent to about 8% of GDP.

### **The balance of risks to economic growth in Russia continues to be tilted to the downside**

Of the many risks surrounding the current forecast, the biggest is a prolonging of the coronavirus pandemic due to slow vaccination rollouts and (renewed) coronavirus restrictions. Economic recovery in Russia and the world could turn out to be weaker or more hesitant than expected. Any significant weakening of oil prices would press down both private and public sectors of the Russian economy and compress imports. The speed of recovery in oil and gas



production from last year's dip is a major factor that will influence the pace of GDP recovery. The government's currently tightened stance as regards budget spending could be relaxed swiftly if the need to provide support arose from, for instance, a weakening economy. Elections, e.g. the upcoming parliamentary poll, may also have an impact here. Renewed geopolitical tensions and sanctions could (further) dampen capital inflows, while once again putting pressure on the ruble and (further) cutting imports. Overall, downside risks are dominating the picture.