

April 2020

# CESEE Research Update

Foreign Research Division

[www.oenb.at/cesee-research-update](http://www.oenb.at/cesee-research-update)

## Content

Economic review and outlook .... 2

Recent CESEE GDP forecasts .... 3

Study: Homeownership and housing finance patterns one generation after the fall of communism ..... 4

Focus on European Economic Integration Q1/20 ..... 7

Announcement:  
Klaus Liebscher Economic Research Scholarship ..... 8

<http://www.oenb.at>

<http://cesee.oenb.at>

### Imprint/inquiries/copyright 2020:

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

Foreign Research Division  
OeNB

## Highlight of this Issue

### Economic outlook in selected CESEE countries

**Economic activity in the CESEE-6 region will take a deep dive in 2020 and then recover hesitantly, Russian economy set to contract in 2020**

Against the backdrop of the unfolding coronavirus pandemic, we project real GDP growth in the **CESEE-6 (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania)** to decline to an average of -4.5% in 2020. This is a hard brake on economic activity compared to 2019 (+3.9%). The projected recession will be even deeper than in the year 2009 at the height of the global financial crisis (-1.8%), mostly because the Polish economy will no longer act as a stabilizing anchor for the region. On the country level, we expect economic growth rates ranging from -3.5% in Hungary to -7.6% in Croatia (see table 1 below). The response to the shock will strongly depend on idiosyncratic factors such as the availability of fiscal space and the specific structure of the economy.

Table 1

## OeNB-BOFIT GDP projections for 2020 to 2022 compared with the IMF forecast

	Eurostat/ Rosstat	OeNB-BOFIT projections April 2020 Forecasts			IMF WEO forecast April 2020			Difference between OeNB- BOFIT and IMF	
	2019	2020	2021	2022	2020	2021	2022	2020	2021
	Year-on-year growth in %				Percentage points				
CESEE-6	3,9	-4,5	3,0	3,3	-4,9	4,8	..	0,4	-1,8
Bulgaria	3,4	-6,4	4,3	3,7	-4,0	6,0	..	-2,4	-1,7
Croatia	3,0	-7,6	4,2	4,5	-9,0	4,9	..	1,4	-0,7
Czech Republic	2,5	-3,8	2,9	2,8	-6,5	7,5	..	2,7	-4,6
Hungary	4,9	-3,5	3,2	3,9	-3,1	4,2	..	-0,4	-1,0
Poland	4,1	-4,3	2,8	3,3	-4,6	4,2	..	0,3	-1,4
Romania	4,2	-4,9	2,7	3,1	-5,0	3,9	..	0,1	-1,2
Russia	1,3	-3,0	2,0	1,8	-5,5	3,5	..	2,5	-1,5

Source: OeNB-BOFIT April 2020 projections, Eurostat, IMF World Economic Outlook (WEO) of April 2020, Rosstat.

Note: 2019 figures are seasonally adjusted data.

For the year 2021, we see a muted recovery to an average growth rate of 3.0%, mainly on the back of positive base effects and fiscal and monetary stimuli for the region. Furthermore, we penciled in a somewhat stronger rebound of investment spending as the financing periods of the EU multiannual financial frameworks for 2014–2020 and 2021–2027 overlap. However, the level of economic activity will remain notably below the baseline of our previous forecast over the entire forecast horizon, not least given second-round effects of the recession (e.g. higher unemployment, weaker wage growth and a deterioration in consumer confidence). Real GDP growth will return to positive levels in all CESEE-6 countries in 2021 and range from 2.7% in Romania to 4.3% in Bulgaria.

The current situation is surrounded by an unusually high degree of uncertainty. **Risks to our CESEE-6 forecast are high** and relate most importantly to the duration of the shutdown measures. Further risks arise from, economic growth of the world economy, in general, or the euro area, in particular. In our overall risk assessment, we conclude that the risks to external demand are tilted to the downside even though a better than expected coordination of the international policy response to the approaching recession represents an upward risk to our projections. Yet, the U.S.A. – the largest economy of the world and an important component of final demand for CESEE products – are currently developing into a hot spot of the coronavirus pandemic and infection is spreading at alarming speed.

Further, the coronavirus crisis could potentially accelerate the process of de-globalization that we have been witnessing in recent years and thus impact negatively on supply as well. A shift or a complete dismantling of global production chains would be especially harmful for CESEE, as the region is tightly interwoven in such structures. However, in the medium term, the region could also benefit from a reallocation of production capacities from more remote destinations to Europe and closer to European consumer markets given the still existing wage advantage vis-à-vis Western Europe.

Governments throughout CESEE are trying to shield companies, workers and households from the most severe consequences of the coronavirus-induced economic slump by lending fiscal support, which will lead to higher public debt. A drastic tightening of global financial conditions and/or the deterioration of sentiment could impinge on (re)financing this debt. The same is true for other European countries, especially those with already high debt levels. If the solvency of a core member of the euro area should be at risk, a general loss of confidence in the single currency could not only have detrimental effects on the euro area but also on the CESEE region. This represents a negative tail risk.

**Russia's** GDP growth slowed down last year to 1.3% due to lower growth in private consumption resulting from the hike in value-added tax and because of shrinking exports. The coronavirus pandemic and falling oil prices have seriously eroded prospects for the Russian economy. Thus, we expect Russia's growth to turn negative this

year, reaching –3%. Growth is expected to revive next year as the outlook for the global economy recovers and Russia's public sector spending rises further. The risk of a weaker than expected outcome is significant due to the uncertainty on commodity markets and effects of the coronavirus pandemic.

In the current situation, forecasting **risks are exceptionally high**. Russia's economic development may turn out considerably weaker if the coronavirus pandemic is prolonged and oil prices fall further for an extended period. Russia, however, has the capacity to soften the impact of negative shocks through government support. The Russian government carries little debt (14% of GDP),

but U.S. sanctions restrict its ability to borrow internationally. The National Welfare Fund now holds about USD 150 billion in liquid assets (9% of GDP). The planned referendum on changes to the Russian constitution and the State Duma elections in 2021 could also create pressure to increase public sector spending. In addition, a stronger than expected fall in imports could mitigate the GDP contraction.

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

## Comparison of recent CESEE GDP forecasts

To put our projections into perspective in these exceptionally uncertain times, we have collected **new forecasts for (or including) the CESEE region** published by several institutions over the past weeks. **Only few central banks and governments have** (to our knowledge) **published GDP growth figures for 2020** and beyond after the outbreak of the crisis. The **Slovenian** central bank announced at the end of March that it expected GDP to contract between 6% and 16% year-on-year, while the government named a range of minus 6-8% year-on-year. In **Slovakia**, the central bank stated that it expected a GDP contraction of between 1.4% and 9.4% year-on-year. The governments of the **Czech Republic, Bulgaria and Ukraine** have released point estimates underlying their most recent budget plans, and estimated GDP contractions of 3%, 5.6% and 4.8% year-on-year, respectively.

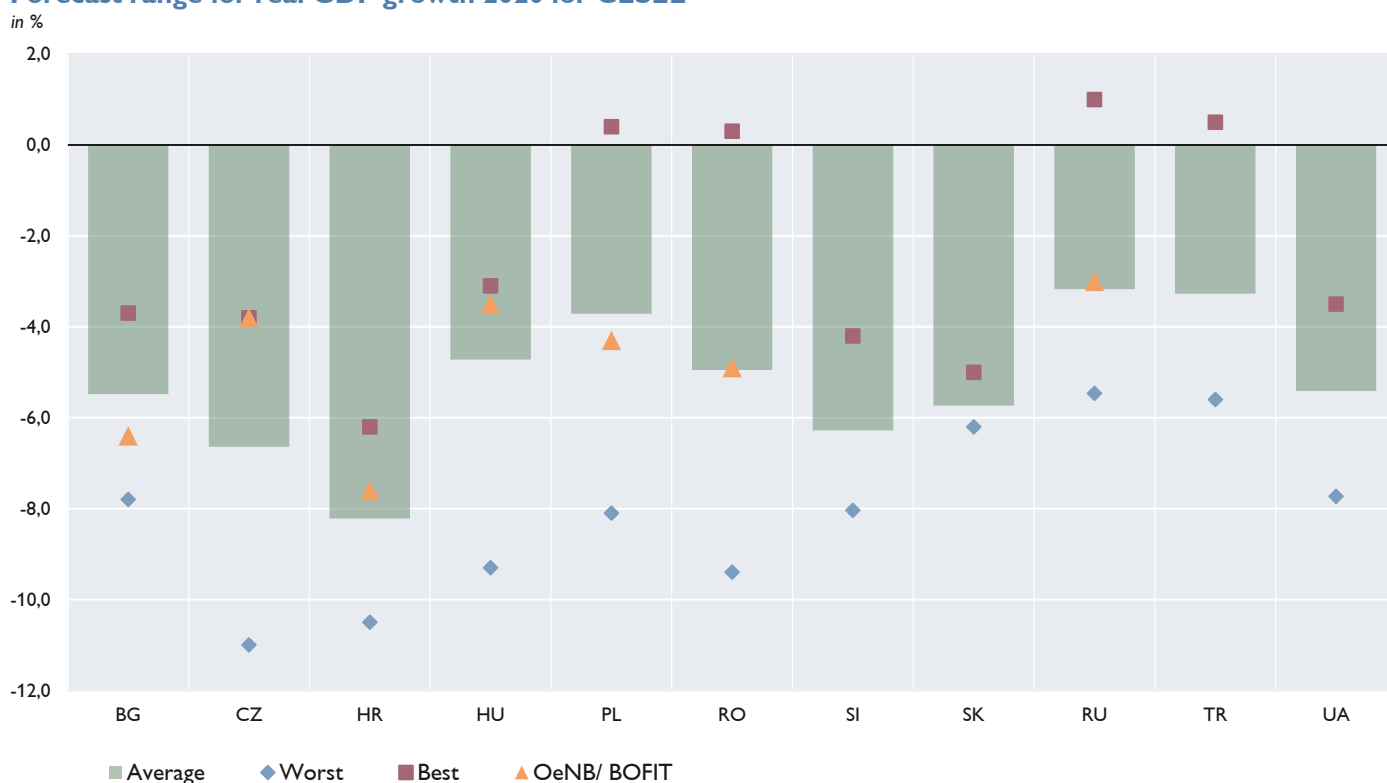
### 2020 GDP forecasts for CESEE since end-March

in %, year-on-year						
Institution	ERSTE	OeNB/ BOFIT	RBI	World Bank	IMF	UniCredit
Date published	30.03.2020	03.04.2020*	03.04.2020	09.04.2020	14.04.2020	15.04.2020
BG	x	-6,4	-5,5	-3,7	-4,0	-7,8
CZ	-6,7	-3,8	-5,2	x	-6,5	-11,0
HR	-7,5	-7,6	-8,5	-6,2	-9,0	-10,5
HU	-4,2	-3,5	-3,5	x	-3,1	-9,3
PL	-3,7	-4,3	-2,0	0,4	-4,6	-8,1
RO	-4,7	-4,9	-6,0	0,3	-5,0	-9,4
SI	-6,6	x	-4,2	x	-8,0	x
SK	-5,0	x	-6,0	x	-6,2	x
RU	x	-3,0	-3,0	1,0	-5,5	-5,4
TR	x	x	-3,0	0,5	-5,0	-5,6
UA	x	x	-5,0	-3,5	-7,7	x

Source: compiled by authors.

\* Date of finalization

## Forecast range for real GDP growth 2020 for CESEE



Source: See table.

## Study: Homeownership and housing finance patterns one generation after the fall of communism

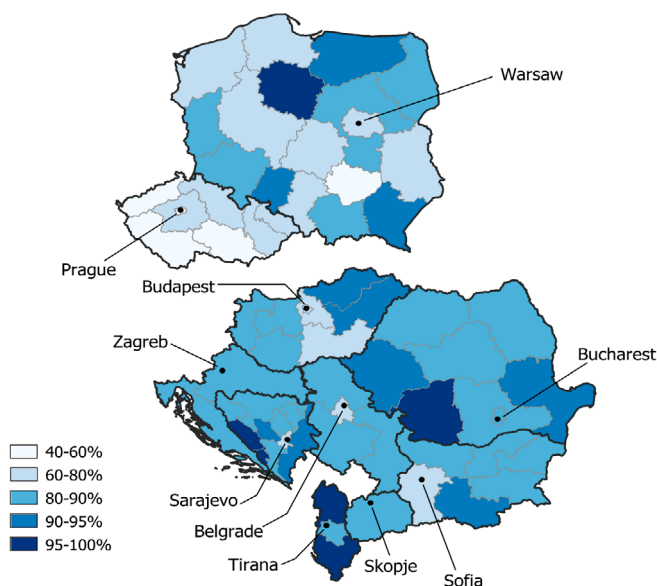
Drawing on OeNB Euro Survey results, a recent analysis by Beckmann et al. (2019) describes current homeownership patterns across ten countries in Central, Eastern and Southeastern Europe (CESEE-10)<sup>1</sup> and analyzes the demographic characteristics of homeowners and the link between their housing assets and the household credit market.

Due to the experience of people in CESEE with both communism and postcommunist privatization reforms, homeownership rates in the CESEE countries are among the highest in Europe: The average homeownership rate of CESEE-10 households is above 80%. The demographic characteristics of CESEE-10 homeowners have come to

largely resemble those observed in more mature market settings: Homeownership increases with age and income. The average homeownership rate for the 25-34 year cohort is 73.2%, whereas that for the 55-64 year cohort is 89.9%; and the over-65-year-olds constitute the cohort with the highest homeownership rate. In every country except Czechia and North Macedonia. The relationship between household income and homeownership is upward sloping in most CESEE-10 countries but is generally flatter than might be expected. In fact, in Bulgaria, Croatia and Romania, the poorest income tertile records the highest rate of homeownership. A clear positive relationship also exists between

<sup>1</sup> The OeNB Euro Survey covers 6 EU Member States: Bulgaria, Croatia, Czechia, Hungary, Poland, and Romania and 4 EU candidates and potential candidates: Albania, Bosnia and Herzegovina, North Macedonia, and Serbia. For more information on the OeNB Euro Survey see: <https://www.oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>

**Figure 1: Intracountry variation of homeownership rates**



Source: OeNB Euro Survey, fall 2017.

Note: Homeownership rates at the NUTS 2 level; for Bosnia and Herzegovina, homeownership rates are shown according to the OeNB's regional classification scheme. Statistics are based on weighted data.

homeownership and individuals' level of education. Individuals with low and medium educational attainment

are 6 and 3 percentage points, respectively, less likely to be homeowners than those who have attained a higher level of formal education. These relationships – for age, income and education – resemble those identified for the United States (Goodman and Mayer, 2018) and selected OECD countries (Andrews and Sanchez, 2011).

Within the CESEE-10 countries, homeownership rates also vary by region. Figure 1 presents a map depicting intracountry variation for CESEE-10. Poland displays the highest intracountry variation in average ownership rates of all the countries surveyed. The presumably more urbanized regions in which national capitals are located have relatively lower rates of homeownership.

Despite high homeownership rates, the percentage of CESEE-10 households with housing loans is relatively small. According to Eurostat estimates for 2017, 42.8% of dwellings in the EU-28 are owned outright, whereas 26.5% are owned by residents still paying off a housing loan; i.e., dwellings that are owned outright outnumber those that are owned privately but not outright by a factor of 1.6. In CESEE-10, outright-owned dwellings outnumber dwellings owned by individuals that are still paying off a mortgage by a factor of 7.8.

The OeNB Euro Survey data allow exploring the connection between individuals' housing assets and household credit markets further. Table 1 shows that

**Table 1**

**Types of securitites for bank loans used to finance housing**

	(1) CESEE-10 countries	(1a) CESEE EU Member States	(1b) Western Balkan countries
%			
Assets pledged	41,3	41,0	42,0
Third-party guarantor specified	16,7	15,8	18,9
Assets pledged and third-party guarantor specified	12,5	15,1	5,8
No security (neither assets pledged nor third-party guarantor specified)	29,6	28,1	33,3
Number of observations	816	590	226

Source: OeNB Euro Survey, fall 2017.

Note: Statistics are weighted. The category "(1a) CESEE EU Member States" includes Bulgaria, the Czech Republic, Croatia, Hungary, Poland and Romania. The category "(1b) Western Balkan countries" includes Albania, Bosnia and Herzegovina, North Macedonia, and Serbia. We consider respondents who report that the purpose of their largest, most important loan (that they are currently paying off) is to finance the main residence or another house or apartment. For 728 out of the 816 observations, we know that the largest, most important loan refers to a bank loan; for the remaining 88 observations (i.e. respondents who have both bank loans and nonbank loans), we assume that the largest, most important loan (and hence, the information provided on housing loan securities) refers to a bank loan.

nearly half of the loans that are used to finance housing are not secured by physical assets. 30% of housing loans are unsecured and 17% are secured only by a third-party guarantee.

Table 2 provides descriptive statistics on how important real estate is as collateral across different types of loans. Real estate is used as collateral both for housing and nonhousing loans. Although the percentage of housing loans that are secured by physical assets is surprisingly small (table 1), most housing loans that are secured by physical assets are secured by real estate: 50.7% of housing loans are secured by housing assets. This percentage is higher in the six CESEE EU Member States (53.9%) than in the Western Balkan countries (42.7%)

covered by the OeNB Euro Survey. However, they are still lower than in other EU Member States with similar GDP per capita. Real estate is also used as collateral for nonhousing loans: 8% of consumer loans, 10% of loans taken out for other purposes and 42% of business loans are secured by real estate.

In summary, the study by Beckmann et al. (2019) shows that homeownership rates in CESEE are high compared to other countries but that the use of housing finance for house purchases and the use of real estate as collateral is comparatively low. Thus, high homeownership rates in CESEE, rather than being a function of robust household credit markets, seem to be characteristic of the region's unique history.

Table 2

#### Real estate and its usage as collateral security for different types of bank loans

	(1) CESEE-10 countries			(1a) CESEE EU Member States			(1b) Western Balkan countries		
	Percentage of loans secured by some asset	Percentage of loans secured by real estate asset	Number of observations	Percentage of loans secured by some asset	Percentage of loans secured by real estate asset	Number of observations	Percentage of loans secured by some asset	Percentage of loans secured by real estate asset	Number of observations
Housing loans	53,5	50,7	812	55,9	53,9	587	47,6	42,7	225
Consumption loans	16,0	7,6	769	11,0	5,6	502	25,1	11,3	267
Business loans	49,1	42,3	94	43,1	43,1	37	53,4	41,7	57
Other loans (e.g. loans for education)	16,8	10,2	330	15,8	15,2	163	17,7	5,3	167

Source: OeNB Euro Survey, fall 2017.

Note: Statistics are weighted. "Housing loans" comprise loans used to finance the main residence or another house or apartment; "consumption loans" comprise loans used to finance consumption goods such as furniture, traveling, household appliances or cars; "business loans" comprise loans used to finance a business or professional activity; the category "other loans" comprises loans used to finance education and any other types of loans. Statistics refer to a respondent's largest, most important bank loan (note that in some cases when respondents have both bank loans and nonbank loans, we assumed that the largest, most important loan refers to a bank loan): 88 observations out of 812 for housing loans; 104 observations out of 769 for consumption loans; 18 observations out of 94 for business loans, and 29 observations out of 330 for other loans. The category "(1a) CESEE EU Member States" includes Bulgaria, the Czech Republic, Croatia, Hungary, Poland and Romania. The category "(1b) Western Balkan countries" includes Albania, Bosnia and Herzegovina, North Macedonia, and Serbia.

#### References:

- Andrews, D. and A. Sanchez. 2011. The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences. In: OECD Journal: Economic Studies 2011/1.
- Beckmann, E., C. Hainz, W. Pyle and S. Reiter. 2019. Homeownership and housing finance patterns one generation after the fall of communism. Focus on European Economic Integration Q4. OeNB. 79-101.
- Goodman, L. and C. Mayer. 2018. Homeownership and the American Dream. In: Journal of Economic Perspectives 32(1). 31–58.

You can find the whole article at this link: <https://www.ifo.de/publikationen/2019/beitrag-referierter-zeitschrift/homeownership-and-housing-finance-patterns-one>

## OeNB Euro Survey

The OeNB Euro Survey of households has been conducted since 2007 in ten Central, Eastern and Southeastern European (CESEE) countries. With a strong focus on exploring different dimensions and drivers of currency holdings and households' saving and borrowing behavior, the OeNB Euro Survey additionally provides information on various aspects of financial literacy of CESEE households. The main results of the survey have recently been updated with 2018 data and can be found at <https://oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>.

## Focus on European Economic Integration Q1/20 – latest issue [\(full version\)](#)

### Call for applications

Klaus Liebscher Economic Research Scholarship

### Studies

The refinancing of CESEE banking sectors: What has changed since the global financial crisis?

*Mathias Lahnsteiner*

China's New Silk Road: a stocktaking update and economic review (2017–2019)

*Stephan Barisitz*

The sensitivity of banks' net interest margins to interest rate conditions in CESEE

*Katharina Allinger, Julia Wörz*

### Event wrap-ups and miscellaneous

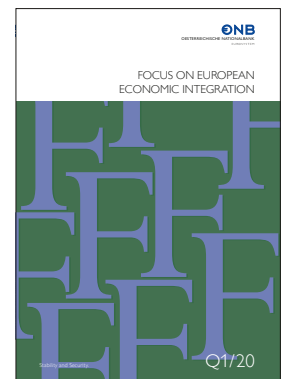
Conference on European Economic Integration (CEEI) 2019

Looking back on 30 years of transition – and looking 30 years ahead

*Compiled by Julia Wörz*

17<sup>th</sup> ESCB Emerging Markets Workshop

*Compiled by Christian Alexander Belabed and Tomáš Slačák*





## **KLERS** Klaus Liebscher Economic Research Scholarship

The Oesterreichische Nationalbank (OeNB) has established a new research scholarship: the “**Klaus Liebscher Economic Research Scholarship**.” This scholarship program gives outstanding researchers the opportunity to contribute their expertise to the research activities of the OeNB’s Economic Analysis and Research Department by providing remunerated consultancy services. The scholarship program targets Austrian and international experts with a proven research record in economics, finance or financial market stability who are interested in broadening their research experience and expanding their personal research networks. Given the OeNB’s strategic research focus on Central, Eastern and Southeastern Europe (CESEE), another key field of research might be the analysis of economic developments in the CESEE region. The program provides for an honorarium that depends on the length of the respective research project (max. EUR 10,000).

Please note that applicants need to be in active employment with their home institution. Eligible candidates must hold a PhD or equivalent degree and must have published work and conducted scientific research in the fields defined in the call for scholarship applications. Employees of the European Central Bank (ECB) or other central banks within the European System of Central Banks (ESCB) are not eligible for the Klaus Liebscher Economic Research Scholarship. ESCB employees may consider the options available under the ESCB’s External Work Experience (EWE) scheme or the Schuman Programme.

For more information, please visit the OeNB’s website at [www.oenb.at/en/About-Us/Research-Promotion/scholarships\\_and\\_awards/klaus\\_liebscher\\_economic\\_research\\_scholarship.html](http://www.oenb.at/en/About-Us/Research-Promotion/scholarships_and_awards/klaus_liebscher_economic_research_scholarship.html) or contact us by e-mail at [scholarship@oenb.at](mailto:scholarship@oenb.at).

### **Announcement I**

All upcoming CESEE-relevant events scheduled by the Oesterreichische Nationalbank have been suspended because we aim to protect both our staff and visitors against infection with the coronavirus. We will let you know when we are in a position to reschedule or restart our events and hope to see you at one of the OeNB’s events in the not too distant future.

### **Announcement II**

**The OeNB’s conference volume “30 Years of Transition in Europe: Looking Back and Looking Beyond in CESEE Countries” will be published in the fall of 2020**

Edited by Robert Holzmann, Governor, Doris Ritzberger-Grünwald, Director and Helene Schuberth, Head of Division, Oesterreichische Nationalbank, Austria

In 1989, the Berlin Wall – symbol of the 40-year division of the European continent – came down. The OeNB’s conference volume pays tribute to this historic event by revisiting the political and economic transformation that has taken place in Europe, putting a specific, albeit not exclusive, focus on the area of Central, Eastern and Southeastern Europe (CESEE). In doing so, it explores the following key questions:

- What have the last three decades accomplished? The book looks at successes and shortcomings of this historic transformation, the impact of political and global factors, and the lessons to be learned from fast progress in the emerging economies in Asia.
- What can we expect in the next three decades? The book also discusses the challenges for monetary and financial stability as well as the long-term determinants of economic growth in CESEE: factors like digitalization, climate change and demographic trends.



## **OeNB Courses at the Joint Vienna Institute (JVI) 2020**

In light of the ongoing COVID-19 global health emergency, the Joint Vienna Institute (JVI) has temporarily suspended its training operations. Courses have been cancelled until at least the middle of June 2020. For more information please follow this link: <https://www.jvi.org/news/detail/article/notice-of-closure.html>

The JVI and several JVI partners are working on developing virtual (e.g., online) versions of courses, and some new courses related to the challenges of managing economic policy in the current pandemic setting.