



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

All about COVID-19? Geopolitical, economic and macrofinancial perspectives for the Western Balkans

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**Welcome remarks
Governor Robert Holzmann**

Vienna, September 28, 2020

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Outline

1. Covid-19 developments and vulnerabilities
2. Macroeconomic impact of Covid-19 in the Western Balkans (WB) in light of global trends
 - GDP
 - Trade
 - Consumption and Investment
3. Microeconomic impact: focus on remittances
4. Impact on financial markets
5. What should WB countries and the international community focus on in light of Covid-19?

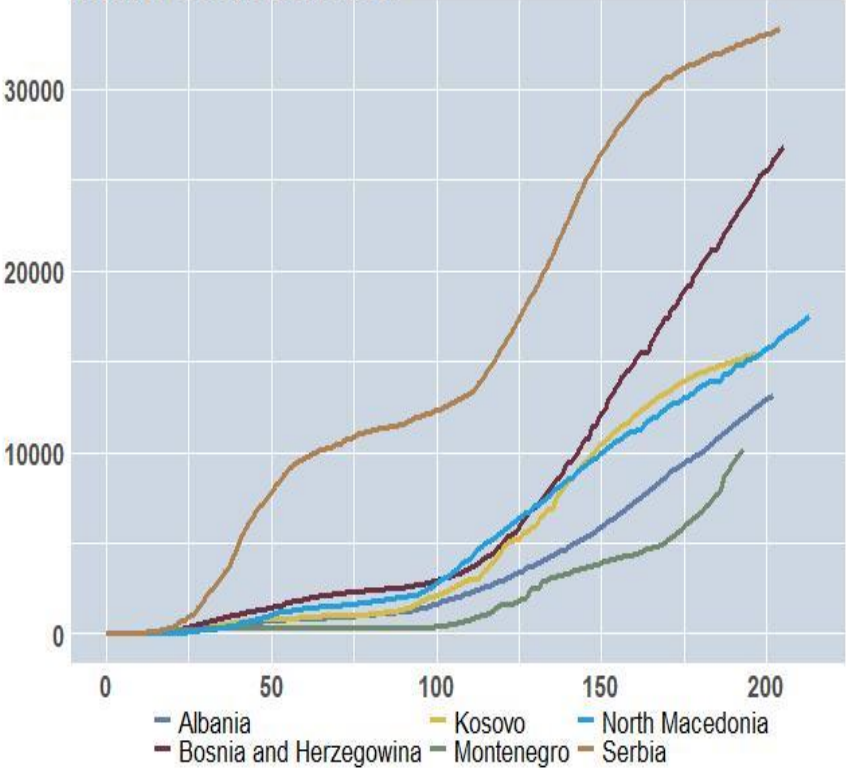
Development of the pandemic rather heterogenous across the WB countries

Key indicators on Covid-19 spread in Western Balkans, 27 September 2020

	Total number of cumulative cases	Cumulative infections per million inhabitants	Number of new infections each day (5-day moving average)	Daily increase of cumulative cases (average last 5 days, %)	Cumulative deaths	Cumulative deaths per million inhabitants	Total number of performed tests per million inhabitants	Acute care hospital beds per 100.000 inhabitants
AL	13.153	4.595	124	1,0	375	131	27.919	263
BA	26.795	8.117	256	1,0	808	245	71.120	n.a.
ME	10.197	16.389	271	2,9	158	254	107.084	391
MK	17.483	8.417	141	0,8	722	348	88.953	302
RS	33.312	4.784	75	0,2	746	107	127.751	456
XK	15.425	8.577	57	0,4	619	344	n.a.	n.a.
CN	90.456	63	15	-	4.739	3	111.163	n.a.
AT	42.940	4.847	758	1,9	787	89	172.472	480
IT	308.104	5.104	1.720	0,6	35.818	593	183.439	n.a.

Source: European Center for Disease Prevention and Control; www.worldometers.info; WHO; Der Standard
(www.derstandard.at/story/2000116070617/corona-resilienz-tests-und-betten-auf-der-intensivstation March 23, 2020)

Evolution of cumulative cases from first reported case
Number of reported cases

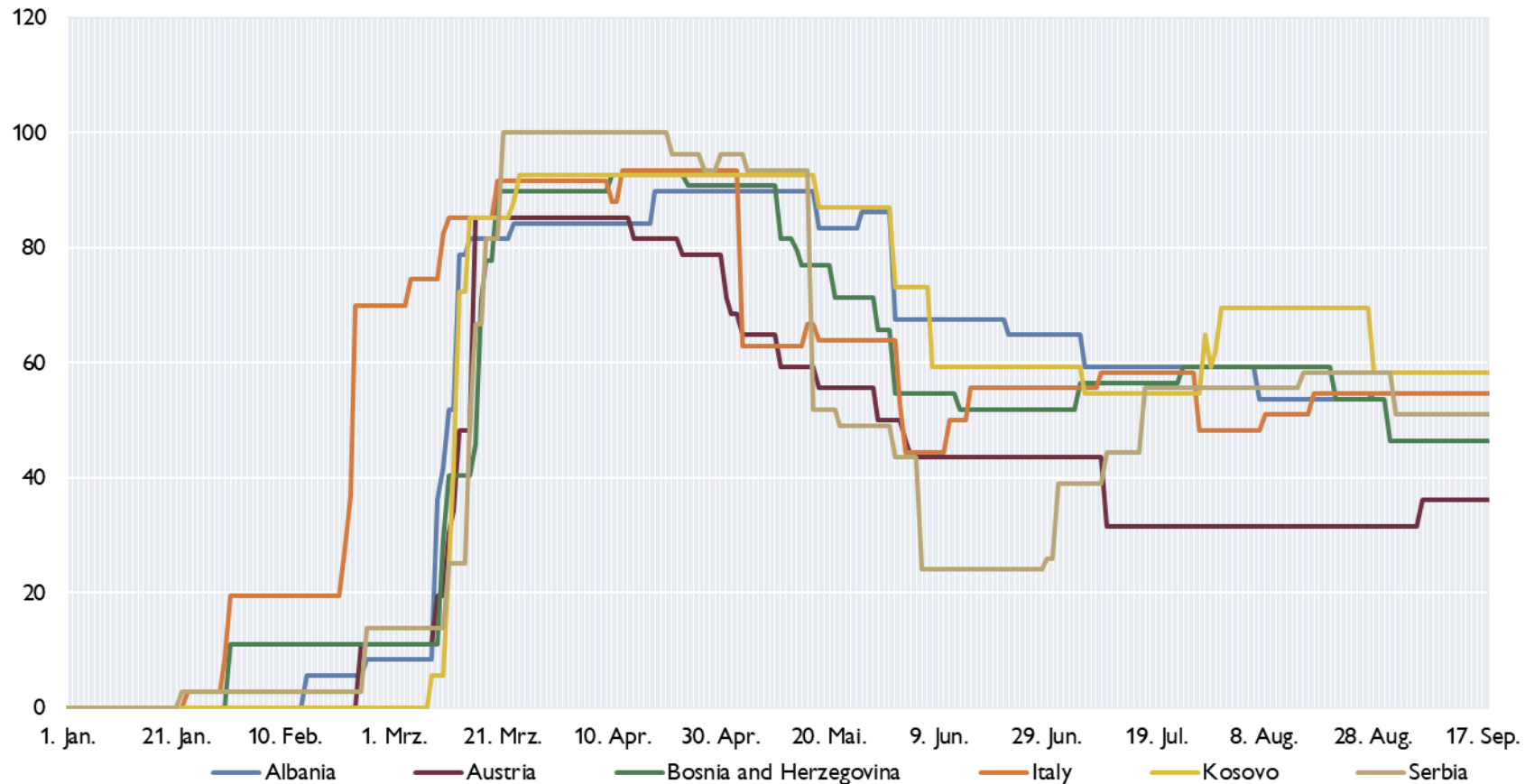


Source: European Center for Disease Prevention and Control.

Comparably tough lockdown and curfew in spring, milder restrictions remain in place

COVID-19 Government Response Stringency Index - Western Balkans

Stringency index (0-100)



Source: Blavatnik School of Government, Oxford University
Note: no data available for Montenegro and North Macedonia

Large scale of mitigating economic policies supported by external assistance

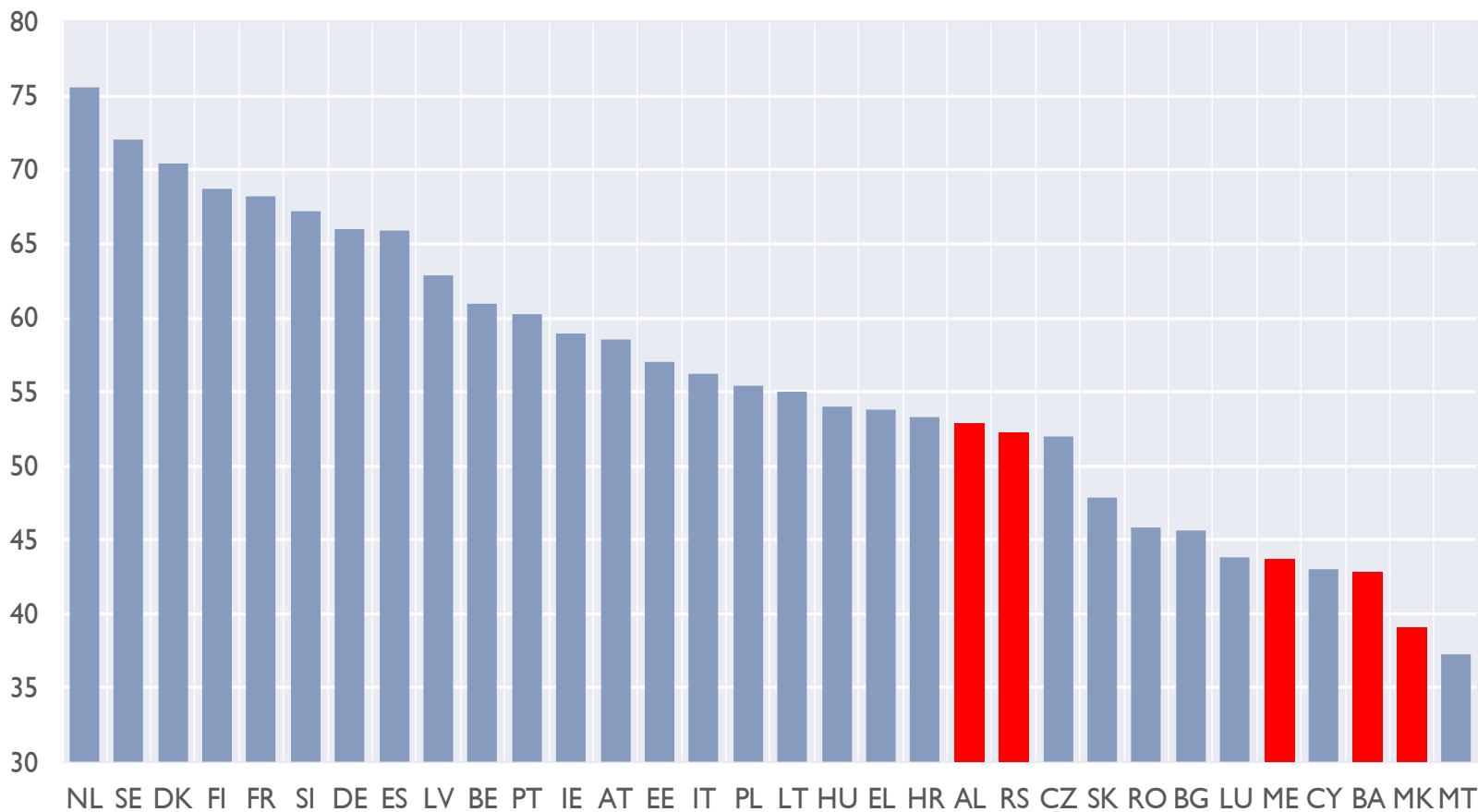
	Financial Sector			Direct support to firms					Payment holidays			Temporary controls		Support to individuals				Increased social benefits			Health	External Assistance
	Policy rate reduced	Liquidity increased	Prudential req. loosened	Wage subsidies	Tax/ social contr. deferred/ reduced	Loan subsidies	Guarantees	Inspections/ audits suspended	Loans	Rent	Utilities	Prices	Exports	Universal transfers	Self-employed	Pensioners	Low income households	Enhanced sick leave	Enhanced unemp. benefits	Public works	Additional spending	(available or negotiated)
Albania	*	*		*	*		*		*	*	*				*		*		*		*	*
Bosnia and Herzegovina				*	*		*		*	*		*				*	*	*	*		*	*
Kosovo				*	*		*		*	*	*	*			*	*	*		*		*	*
Montenegro			*	*	*	*			*	*						*	*	*	*		*	*
North Macedonia	*		*	*	*	*			*	*	*	*			*		*		*			*
Serbia	*	*		*	*	*	*		*	*	*	*	*		*	*	*				*	*

Source: EBRD

Health care systems in WB tend to be worse prepared for a pandemic than EU countries

Public health care systems in comparison

Index 2019, max score=100.



Source: Global Health Security. .

Macroeconomic impact of C-19 likely to be less severe than in more integrated peers

Real GDP growth at market prices

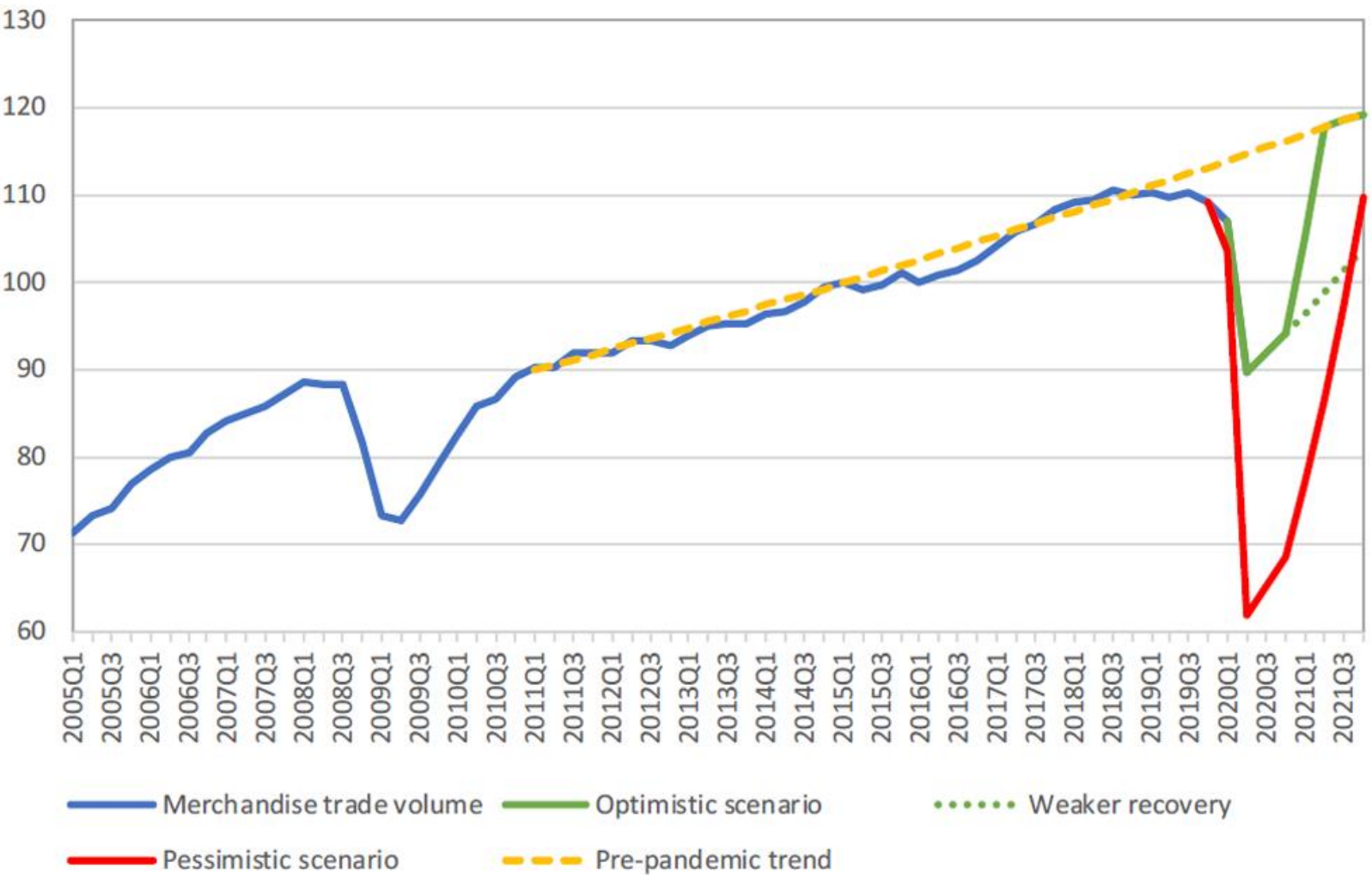
percentage change year-on-year

						Percentage point differences from January 2020* projections	
	2017	2018	2019e	2020f	2021f	2020f	2021f
Albania	3.8	4.1	2.2	-5.0	8.8	-8.4	5.2
Bosnia and Herzegovina ²	3.2	3.7	2.6	-3.2	3.4	-6.6	-0.5
Kosovo	4.2	3.8	4.2	-4.5	5.2	-8.7	1.1
Montenegro	4.7	5.1	3.6	-5.6	4.8	-8.7	2.0
North Macedonia	1.1	2.7	3.6	-2.1	3.9	-5.3	0.6
Serbia	2.0	4.4	4.2	-2.5	4.0	-6.4	0.0
Western Balkans	2.7	4.0	3.5	-3.2	4.6	-6.8	0.8
CESEE-6 (OeNB, April 2020)	4.9	4.4	3.9	-4.5	3.0	-8.0	-0.2

Source: World Bank (June 2020), OeNB

Note: e = estimate for WB; f = forecast; *September 2019 in case of OeNB forecast.

WTO projections show a deep contraction in global trade due to the pandemic



Source: WTO/UNCTAD and WTO Secretariat estimates.

2. Macroeconomic impact of Covid-19

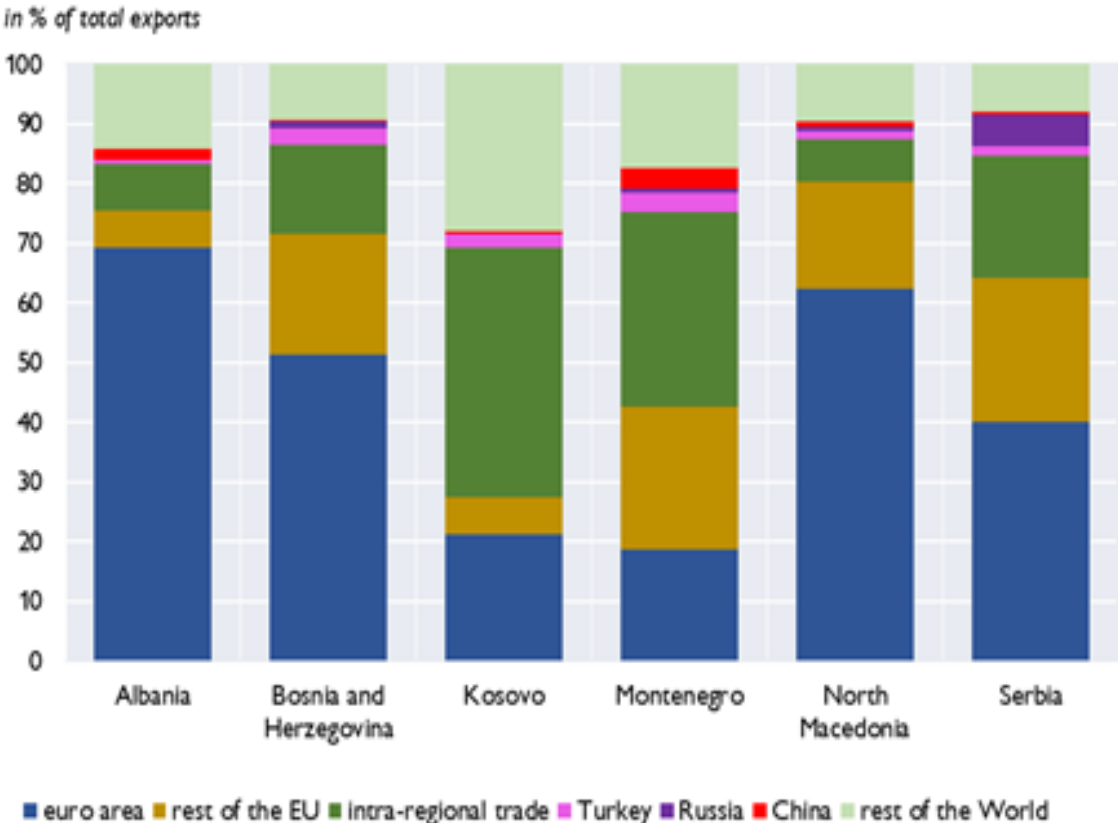
External sector vulnerability depends on the degree of openness and on differences in the trade structure

Trade openness of the Western Balkan countries
exports of goods and services and imports of goods and services as a share of GDP, 2017



Source: Eurostat.

Export shares of Western Balkan countries: The euro area plays an important role
in % of total exports



Source: wiw.

Different sources of growth in trade determine the size of the impact

- **Countries integrated in global supply chains (Serbia, North Macedonia, Bosnia and Herzegovina)**
 - Supply and demand disruptions, increasing transportation costs, delays in payments and reduced investments.
 - Decline in exported goods partially offset by a decline in imports due to a relatively low value added in trade - the effect on the trade balance may be limited and the recovery of the external sector faster.

Main challenges: reduce costs, improve efficiency and attract new investments.

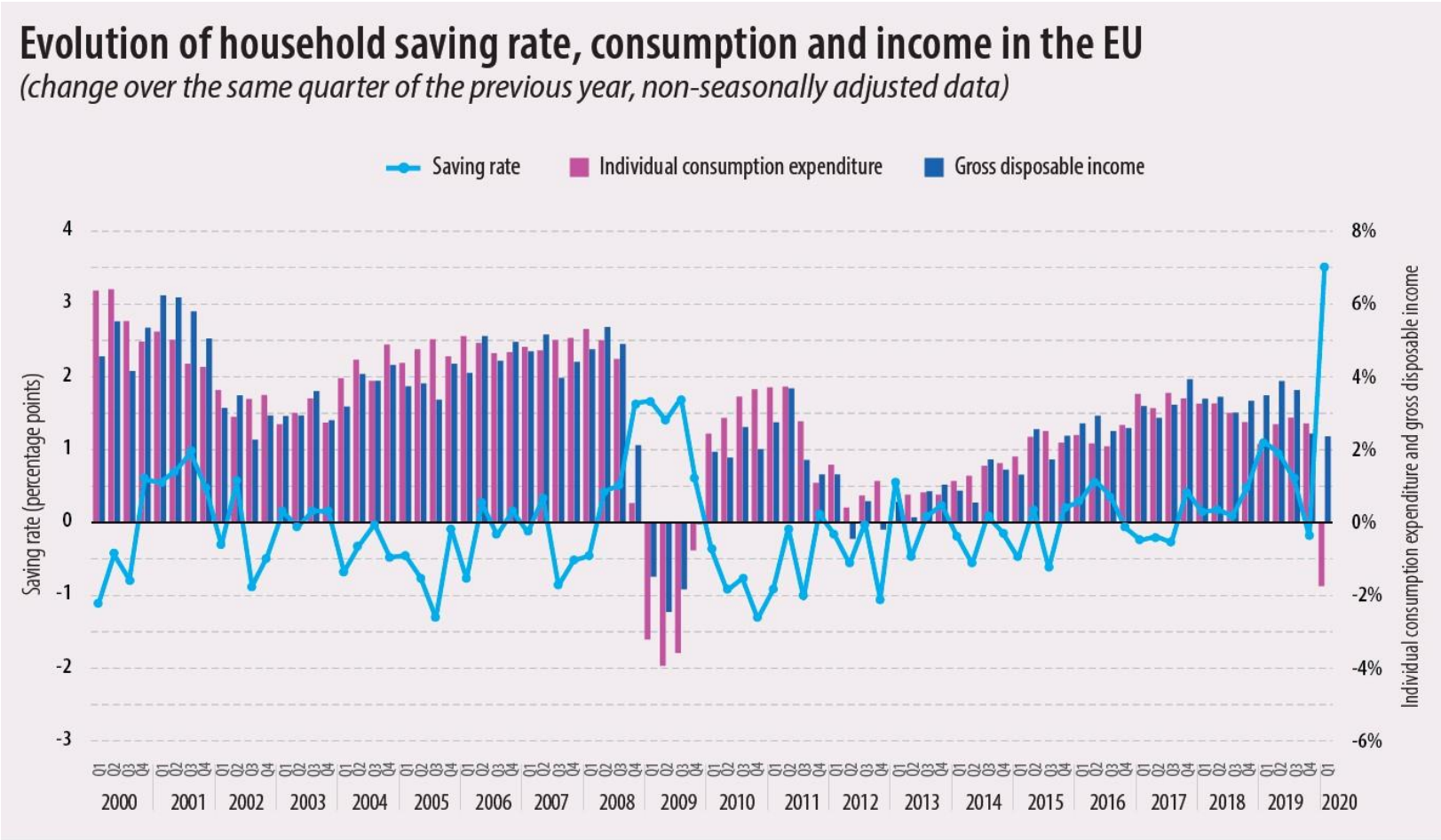
- **Countries relying on tourism (Albania, Montenegro and Kosovo)**
 - Disruption in tourism and related services (e.g. transportation, hospitality, etc).
 - Considerable investment in tourism related activities are lost due to the timing of the crisis.
 - Risk of a considerable widening of current account deficits.

Main challenge: find sources of finance.

Wider current account deficits in combination with lower FDI and remittances will drive external (public) debt up

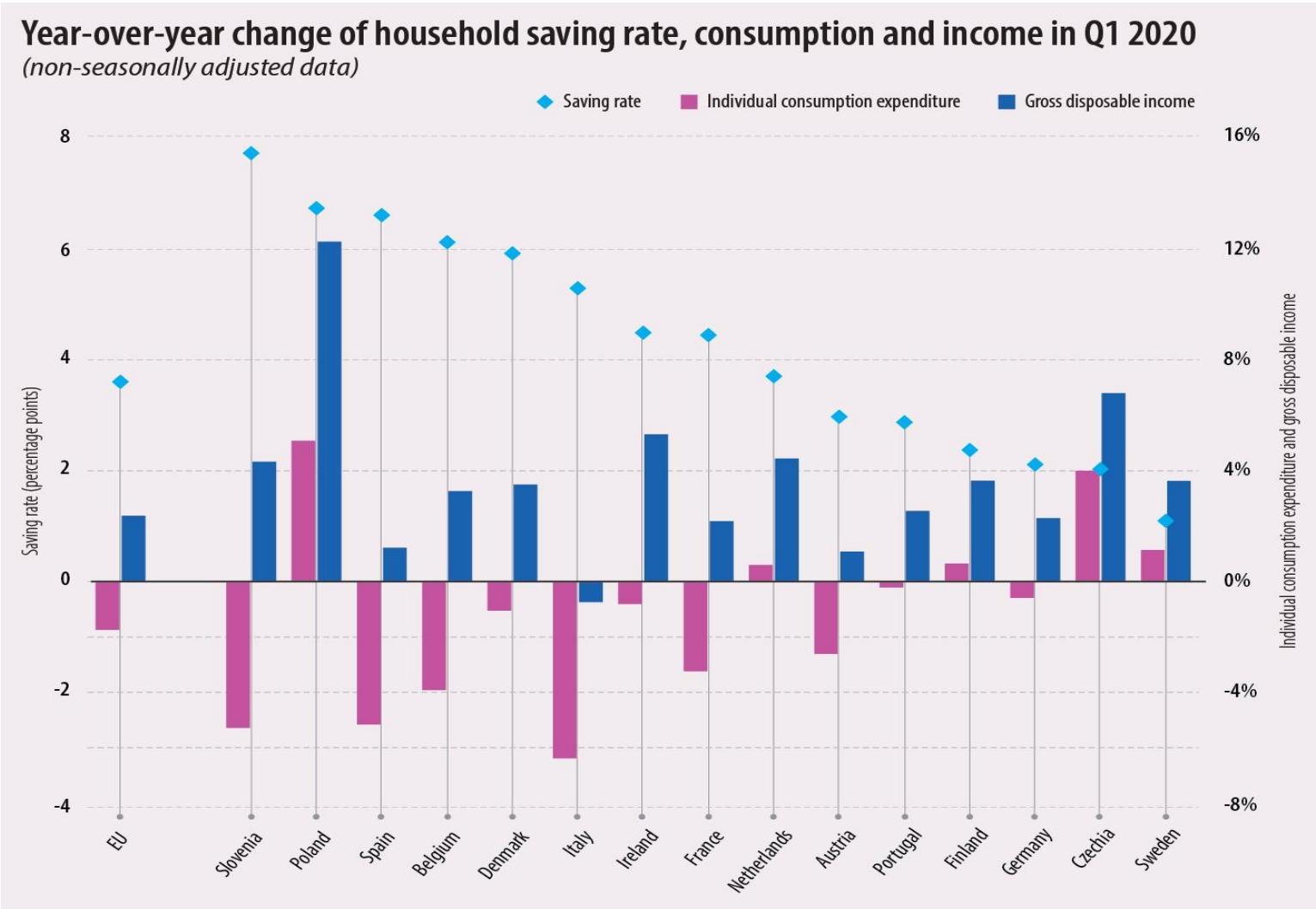
- **Current account deficit (CAD)** in WB estimated to **widen** from 6.2% in 2019 to 7.4% in 2020
- At the same time, **FDI** expected to **decrease by 1.5 pp** compared to 2019 to 3.6% in 2020.
- Projected **decline (0.5-1.1% of GDP) in remittances** - essential source of trade deficit financing in WB
- will add to the pressure on the CAD.
- Hence, financing of the CADs needs to be **supplemented by other sources, particularly IFIs** (especially EC, IMF, World Bank, EBRD, ECB)
- As a result, external **public debt is expected to go up** by 4.7 pp of GDP in 2020. The largest increases expected in Serbia (5.8 pp), and North Macedonia (about 5.1 pp)

Effects of the pandemic on the propensity to save



ec.europa.eu/eurostat

Saving rates increasing in the EU in 2020 Q1

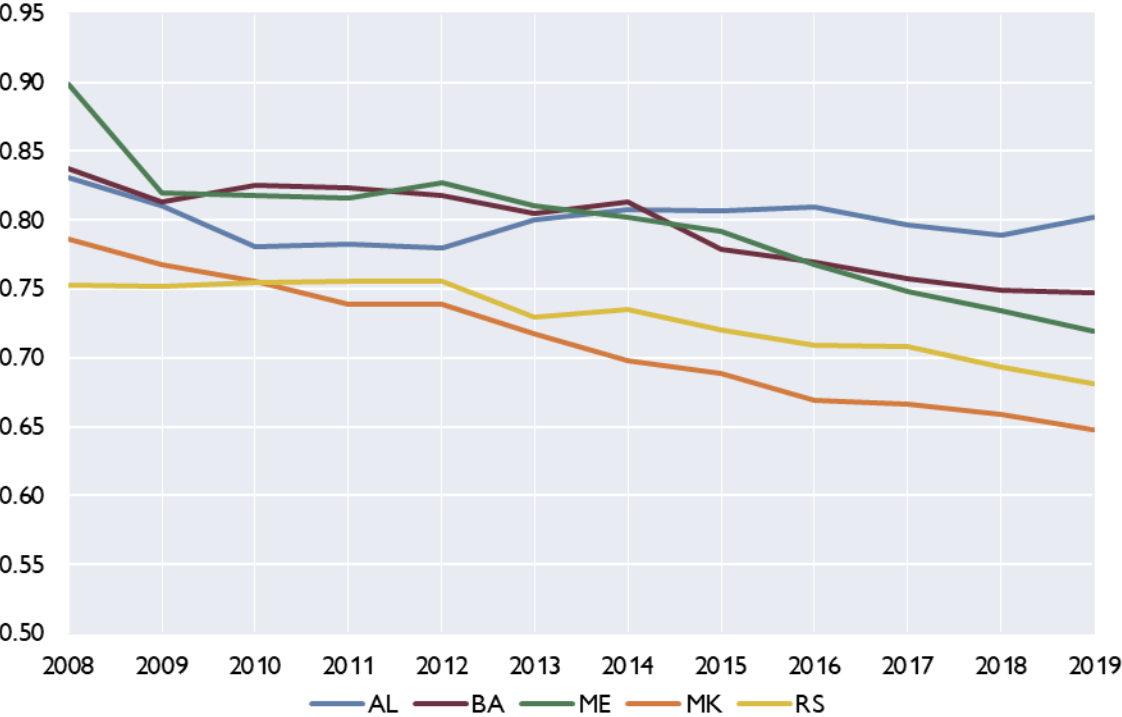


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What will happen to the propensity to consume in Western Balkans?

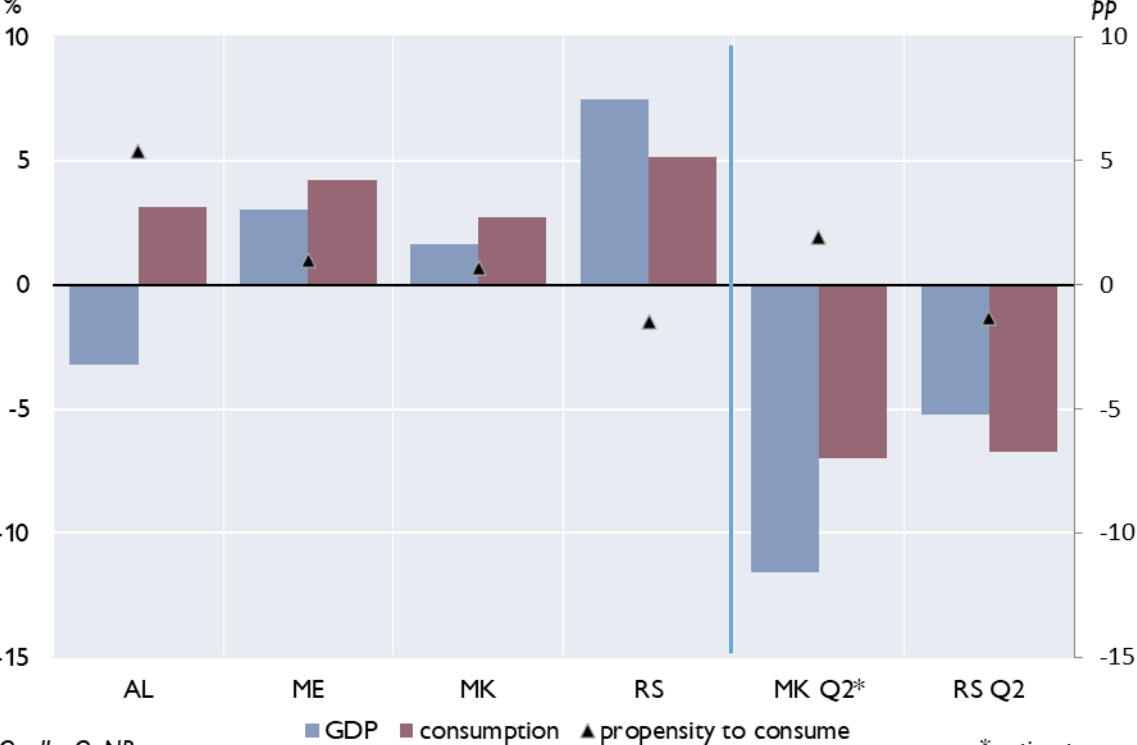
Household consumption as a share of GDP

share of GDP



Quelle: OeNB.

Year-on-year change in GDP, consumption and propensity to consume, 2020 Q1(Q2)



Quelle: OeNB.

* estimate

Remittances represent a significant share of GDP in most WB countries

Remittances inflow to the Western Balkan

	in Mio EUR			in % of GDP
	2017	2018	2019*	3 year average
Albania	1,206	1,341	1,338	10.2
Bosnia and Herzegovina	1,854	1,951	2,015	11.2
Kosovo	1,022	1,136	1,149	16.4
Montenegro	481	541	537	11.2
North Macedonia	289	317	292	2.8
Serbia	3,300	3,975	3,827	8.7

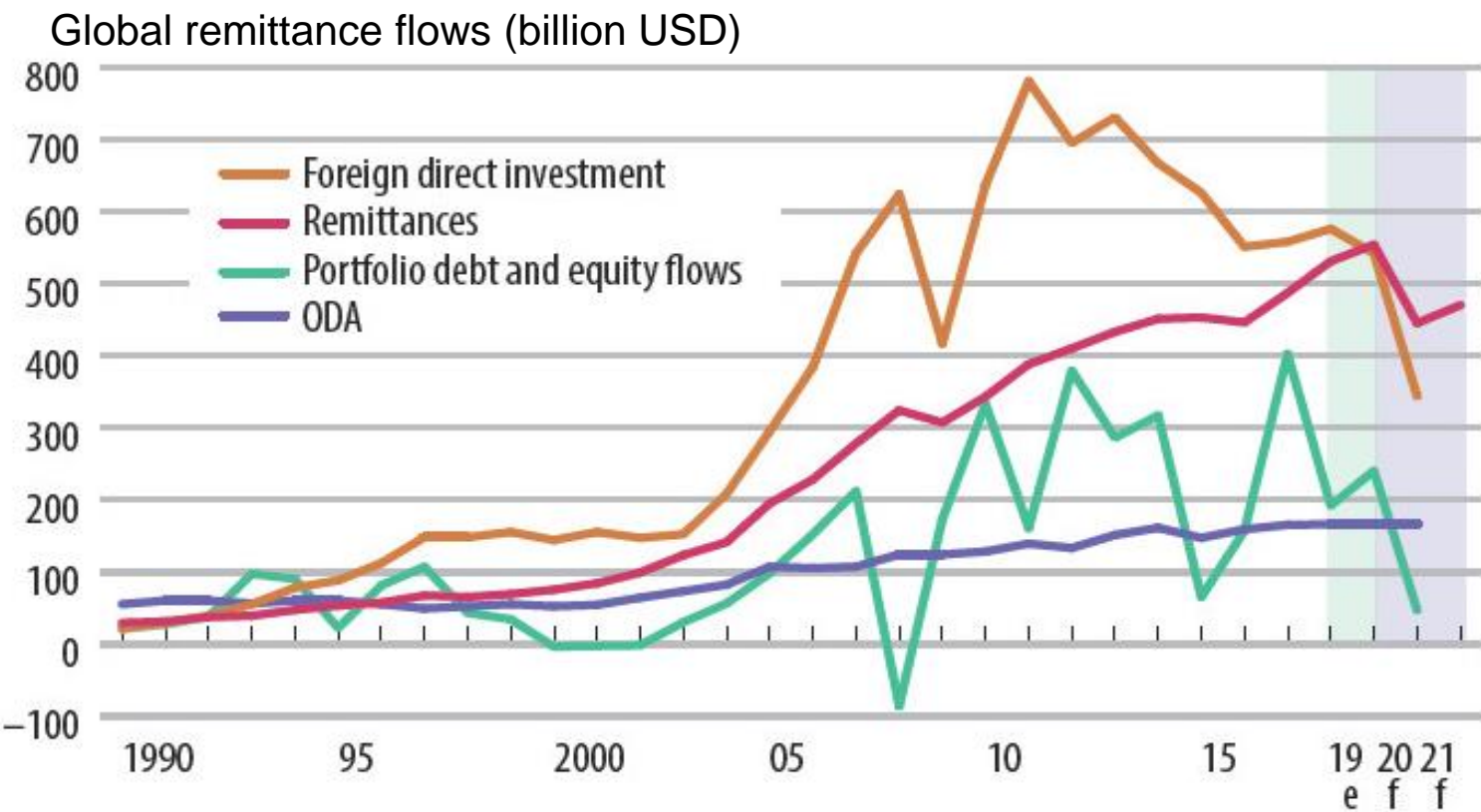
* estimates.

Source: World Bank.

Remittances typically

- **support and smooth consumption** of families back home
- **essential finance source of trade deficits**
- **source of tax** revenue
- **countercyclical** as migrant workers a loyal source of income abroad

The World Bank predicts the sharpest decline of global remittances in recent history



Sources: World Bank, World Development Indicators; and World Bank Development Prospects Group.
Note: e = estimate; f = forecast; ODA = official development assistance.

World Bank forecasts for 2020

- 20% decline yoy of remittances worldwide
- remittances to the region will be **lower by 0.5 percent of GDP** in the WB in 2020

Why will the impact on remittances be unusually large?

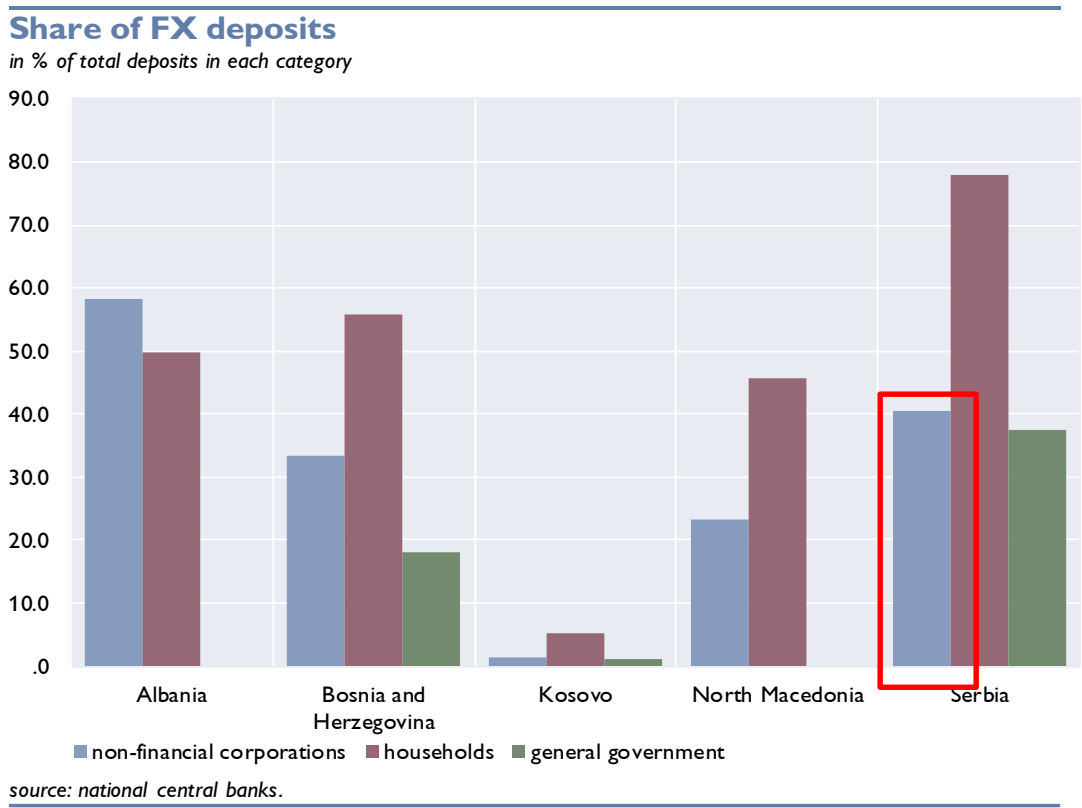
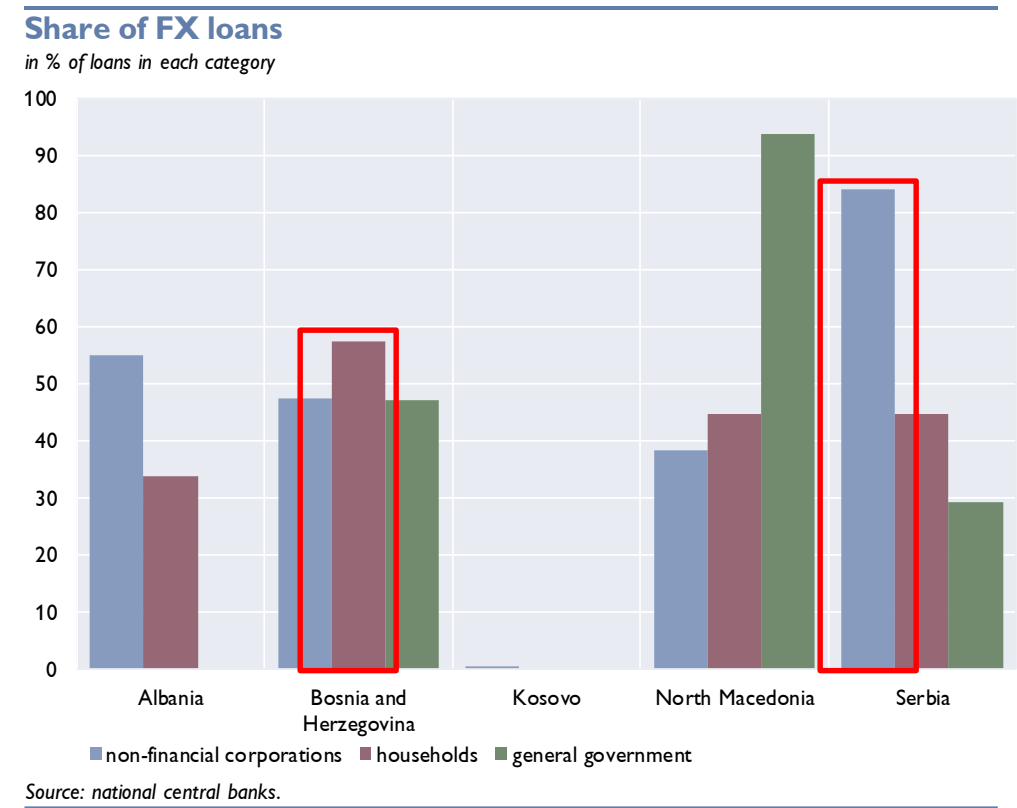
- **Global crisis.** Many migrants employed in construction, tourism and transport where **work has dried up.**
- before C-19 80-85% of **transactions involved cash.** In lockdowns depositing/collecting cash at banks and post offices **trickier and riskier**

Lower remittances might have significant implications

- **Tightening fiscal constraints:**
 - Loss of tax revenue resulting from the drop in remittance-supported consumption will make it more difficult for governments to engage in countercyclical fiscal measures.
- **Worsening external balances** (increasing pressures on foreign reserves)
- **More expensive funding for banks:**
 - in migrant-source countries they rely on remittance inflows as a cheap source of deposit funding.
 - Hence, banks now likely to see their cost of operations increase, and their ability to extend credit (to the private and public sectors) will be reduced (Barajas et al 2018).
- **Private sector** (mostly self-employed people and SMEs) will be **hit in several ways**
 - Loss of remittance funding compounded by tighter credit conditions from banks
 - On top of lower demand for services and products as a result of the crisis.
- **Prolonged crisis in rich countries** could force out-of-work **migrants to return home.**
 - Would they rather join the jobless in their home countries and put more pressure on the already fragile public health systems or rather alleviate the brain drain?

Impact on financial markets limited so far but risks remain

- The **banking sector** – dominated by foreign (mostly EU) banks – was **in a rather good shape**, profitable and well-capitalized at the outset of the crisis. While credit quality has improved in recent years, in some countries the share of non-performing loans is still elevated.
- Moreover, while there is relatively **little evidence** so far, a **renewed increase in delayed/overdue loan repayments** and non-performing loans cannot be ruled out (especially after loan payment holidays expire).



5. What should WB countries and the international community focus on in light of Covid-19?

Widespread need for action accentuated by Covid-19, with focus on

- **...liquidity support** in response to enhanced external financing need
 - **Increased financing support by IFIs** to ease liquidity concerns
 - **ECB** set up **repo credit lines** to alleviate strained funding conditions and reduce funding costs for banks
- **...trade policies** to facilitate cross-border commercial exchanges
 - key to **alleviate immediate disruptions** caused by the pandemic and to **facilitate recovery**
- **...orchestrated support of IFIs and the international community**, particularly the **Vienna Initiative**
 - dialogue between cross-border financial institutions, regulators and IFIs to mitigate the impact of the crisis
 - potential ways to make capital flows to emerging markets less pro-cyclical and volatile
- **...remittances**
 - **mainstream access to formal financial services**
 - **reduce the costs of** sending and receiving **remittances** (average cost of sending remittance >6%).
- **...population shrinkage** due to emigration (flip side of higher remittances), low fertility and sparse immigration
 - Meeting western Europe's labor market needs without draining the Balkan countries of their people requires concerted effort by the EU and WB governments

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