

May 2021

# CESEE Research Update

Foreign Research Division

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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  
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## Highlight of this Issue

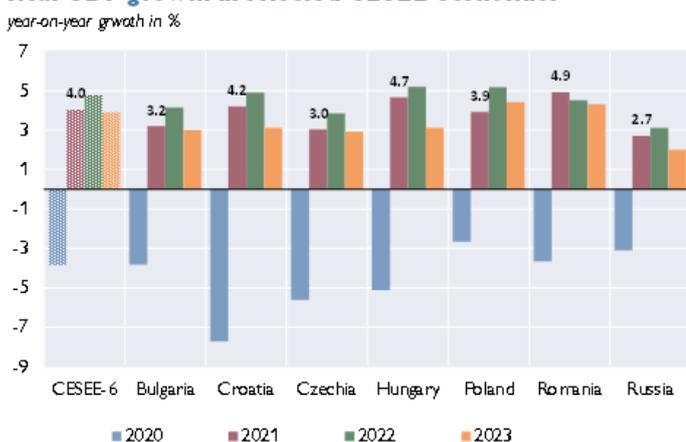
**OeNB BOFIT Outlook for selected CESEE economies  
CESEE-6: Fighting back from the pandemic roller coaster – recovery to take hold only from mid-2021 onward; Russia poised for recovery amid exceptionally large risks**

At 4.0%, economic growth in the CESEE-6 countries (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania) will show a moderate economic recovery in 2021, which will increase to 4.8% in 2022, before returning to 3.9% in 2023. Overall, the recovery will be rather evenly spread across countries, with Romania and Hungary exhibiting somewhat stronger growth dynamics, and Czechia and Bulgaria finding themselves bottom of the league in 2020. Along with reviving external demand, private consumption will be first to recover in mid-2021, once lockdown measures end. Investments will follow suit and strengthen further in 2022, supported by EU funds.

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Exports will rebound strongly in 2021 and 2022, reflecting strong external demand. Imports will strengthen with some delay on the back of reviving domestic demand. Over the projection horizon, we expect a roughly neutral contribution of net exports. The slump in 2020, which was less severe compared to that observed in the euro

### Real GDP growth in selected CESEE economies



Note: realized values for 2020, OeNB-BOAT projections for 2021 to 2023.  
Sources: Eurostat, Rosstat, OeNB, BOAT.

area, resulted in a notable positive growth differential (+3 percentage points) during the recession. We do not expect to see a positive growth margin in 2021, but the growth differential will re-emerge in 2022, and widen in 2023 (+0.7 and +1.8 percentage points, respectively). One year into the pandemic, our projections continue to be surrounded by a high degree of uncertainty, with the balance of risks being tilted to the downside, depending on pandemic developments.

The impact of the coronavirus pandemic on Russia has, so far, been less severe than anticipated. We have revised our economic forecast from last fall upward to reflect the increase of oil prices and price expectations,<sup>1</sup> projecting Russia's GDP to grow almost 3% this year and next, before declining to about 2% in 2023. Significant uncertainties surround the outlook. Russia and the rest of the world may struggle longer with the coronavirus, oil markets remain sensitive, and as with many other economies, Russia's incipient recovery is fragile.

## CESEE-6: private consumption picks up in 2021, and gross fixed capital formation will boost GDP growth further in 2022

We base our projections on the assumption that progress with vaccinations over the next couple of weeks will help avoid further widespread lockdowns during the summer months and thereafter. In economic terms, we expect economic activity to accelerate markedly from the third quarter onward. For the CESEE-6 region 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 when GDP growth will peak at 4.8% on average, backed by a strong revival in gross fixed capital formation and carry-over effects from 2021. Romania is the only country whose GDP growth will peak in 2021 already, given investment spending fueled by EU funds from the 2014 to 2020 multiannual financial framework (MFF) 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.

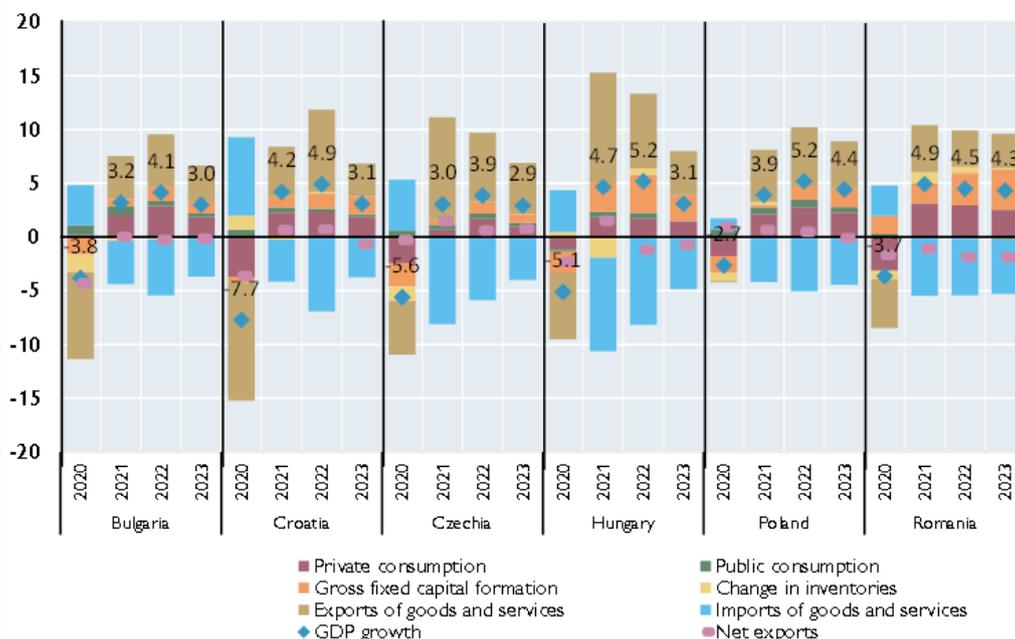
The sizable growth differential of the CESEE-6 region vis-à-vis the euro area (of +3 percentage points) that was observed in the recession year 2020 will vanish in 2021, but – unlike in 2010 after the recession triggered by the financial crisis – the differential will not turn negative. A positive growth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

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, after –3.5% in 2020. In line with a sustained recovery of contact-intensive service sectors, private consumption growth is projected 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

<sup>1</sup> Forecasted oil prices based on the average of oil futures contracts for the ten days preceding March 16, 2021, yield the following oil price per barrel: USD 65 in 2021, USD 61 in 2022, and USD 58 in 2023.

## 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.

though no further impetus can be expected from public sector wages. In most countries, the fiscal stance will remain supportive. Some gradual consolidation is expected for Croatia and Romania and in Czechia 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,

## 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 projection 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.

building on the availability of funds from the 2021 to 2027 MFF and the NextGenerationEU (NGEU) recovery instrument. With demand conditions improving over the projection horizon, gross fixed capital formation growth will accelerate further in 2023, reaching almost 9%.

Following a rather moderate decline in exports in 2020 (of 5.4% on average in the region), exports will rebound by 9.6% in 2021. The region's integration into global value chains has proven to be a factor of resilience during the pandemic. 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% in 2022 and 6.3% in 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. The recovery in imports that was initially somewhat weaker compared with export growth will thus result in a small positive contribution of net exports to overall GDP growth in 2021 (+0.5 percentage points). 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, respectively).

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 going forward.

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. 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 projections. 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 2021 to 2027 MFF and the Recovery and Resilience Facility continue to exist at the time of writing, 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 pandemic 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 pushed ahead with a comprehensive fiscal spending stimulus in 2020 (including social support to households, subsidies to firms, and 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 projection period, getting closer to its future long-term trajectory. Structural/institutional reforms that would clearly lift the growth potential – such as cutting corruption, strengthening the rule of law, adjusting the state's economic footprint – are not expected to materialize during the projection 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 will 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 natural gas exports expanding rather moderately.

After plunging in 2020, Russia's total imports are expected to recover partly this year, with the timing of the resurgence of Russian tourism abroad strongly impacting 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 in the fall of last year. Last fall's plan to reduce the budget deficit through slight spending cuts in real terms in 2021 and 2022 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 projection, 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.

More information: [https://www.oenb.at/dam/jcr:1caeeab7-76bc-426f-b242-58e6cd4a6b7b/Outlook-for-selected-CESEE-countries\\_April-2021-fee-fv.pdf](https://www.oenb.at/dam/jcr:1caeeab7-76bc-426f-b242-58e6cd4a6b7b/Outlook-for-selected-CESEE-countries_April-2021-fee-fv.pdf)

## Financial Literacy – Dashboard

This new interactive dashboard provided by the Oesterreichische Nationalbank (OeNB) is the first to present comprehensive data on financial education in Central, Eastern and Southeastern Europe (CESEE). While international



institutions such as the World Bank and the Organisation for Economic Co-operation and Development (OECD) have collected and made available data for a wide range of countries, the topic of financial knowledge has so far been given little attention in most CESEE countries. Publishing these data constitutes an important step toward closing this gap and providing a first glimpse on the state of financial literacy in CESEE. The data presented here are collected in the course of the OeNB Euro Survey and analyzed in cooperation with a researcher from the ifo Institute in Munich. Users of the

new interactive OeNB dashboard may compare CESEE data with those for Austria and other OECD countries, create customized charts and download both the charts and the underlying data.

More information: [Financial Literacy – Dashboard - Oesterreichische Nationalbank \(OeNB\)](#)



## OeNB Euro Survey

The OeNB Euro Survey of households 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 survey can be found at <https://oenb.at/en/Monetary-Policy/Surveys/OeNB-Euro-Survey.html>.

### Save the date I

## JVI Webinar: Global and European Financial Stability Risks

Thursday, May 27, 2021, 14.00 – 15.30 Vienna time (CEST)

Extraordinary policy measures helped to contain the financial and economic fallout of the current global health crisis. With vaccination campaigns gaining traction in many countries, the question of how and when to scale back policy measures without putting financial stability at risk becomes ever more important. Actions taken during the pandemic may have unintended consequences, such as stretched valuations and reduced clarity regarding the soundness of non-financial companies and households, which is likely to weigh on the risk appetite of banks. In addition, the recovery is expected to be heterogeneous between countries and sectors. Given large external financing needs, several emerging markets face challenges, especially if a persistent rise in US rates brings about a repricing of risk and tighter financial conditions. This JVI Webinar will take stock of these and other global and European financial stability risks, putting also a spotlight on Central, Eastern and Southeastern European economies.

#### Presenters

Mr. Paul Hiebert, Directorate-General Macroeconomic Policy and Financial Stability, ECB

Mr. Fabio Massimo Natalucci, Monetary and Capital Markets Departments, IMF

Ms. Julia Woerz, Foreign Research Division, OeNB

#### Moderator

Mr. Reiner Martin, Joint Vienna Institute

More information: [Webinar Schedule 2021 \(jvi.org\)](http://jvi.org)

### Save the date II

## CESEE's second transition – challenges on the road to low carbon economies

87<sup>th</sup> East Jour Fixe of the Oesterreichische Nationalbank

June 17, 2021

2:30 p.m. to 6:00 p.m. (CEST)

Online workshop

Roughly three decades after their successful transition to market economies, the countries of Central, Eastern and Southeastern Europe (CESEE) face the challenges of a second transition toward carbon neutrality. During our upcoming East Jour Fixe, we will try to map this endeavor by comparing past, present and future climate policy strategies in CESEE and other EU member economies. After assessing the green investment needs in the region, we will then discuss how well prepared the financial sector and its regulatory framework are to meet these challenges.

More information: [87<sup>th</sup> East Jour Fixe of the Oesterreichische Nationalbank - Oesterreichische Nationalbank \(OeNB\)](https://www.oenb.at/en/87th-East-Jour-Fixe-of-the-Oesterreichische-Nationalbank-Oesterreichische-Nationalbank-OeNB)

## Focus on European Economic Integration Q1/21 – latest issue ([full version](#))

### Call for applications

Klaus Liebscher Economic Research Scholarship

### Studies

Prevalence and determinants of nonbank borrowing in CESEE: evidence from the OeNB Euro Survey

*Katharina Allinger, Elisabeth Beckmann*

Are CESEE borrowers at risk? COVID-19 implications in a stress test analysis

*Aleksandra Riedl*

CESEE's macroprudential policy response in the wake of the COVID-19 crisis

*Markus Eller, Reiner Martin, Lukas Vashold*

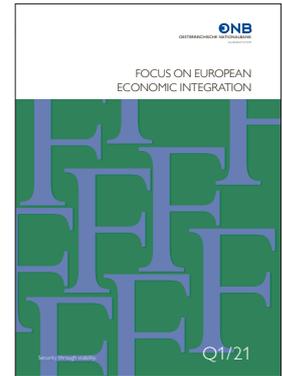
Event wrap-ups

Conference on European Economic Integration 2020

*Compiled by Julia Wörz*

25<sup>th</sup> Global Economy Lecture: Pol Antràs on “Globalization and Pandemics”

*Compiled by Maria Silgoner*



## Upcoming Events

The following events are organized by the OeNB and 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](mailto:event-management@oenb.at).

|                      |  |
|----------------------|--|
| May 20-21, 2021      | <a href="#">48<sup>th</sup> OeNB Economics Conference</a> on "Gender, money and finance" in cooperation with SUERF – The European Money and Finance Forum and the Joint Vienna Institute (JVI) |
| May 27, 2021         | <a href="#">JVI Webinar</a> : Global and European Financial Stability Risks  |
| June 17, 2021        | <a href="#">87<sup>th</sup> East Jour Fixe</a> : CESEE's second transition – challenges on the road to low carbon economies  |
| November 3, 2021     | <b>Global Economy Lecture</b> – "The Economics of Biodiversity" by Partha Dasgupta in cooperation with The Vienna Institute for International Economic Studies (wiiw)                          |
| November 22-23, 2021 | <b>Conference on European Economic Integration (CEEI)</b> – "Recalibrating tomorrow's global value chains – prospects for CESEE" in cooperation with European Investment Bank (EIB)            |

## OeNB Courses at the Joint Vienna Institute (JVI) 2021

In light of the ongoing COVID-19 global health emergency, the Joint Vienna Institute (JVI) has suspended its face-to-face training operations until the end of 2020. Many of the courses are now being delivered as virtual training events. In addition, the JVI is offering a series of webinars.

For the most up-to-date information on JVI training courses, please click the following link: <https://www.jvi.org/training/course-schedule/course-schedule-2021.html>

## Upcoming OeNB course

| Title   | Organization   | Date                 |
|---|--|----------------------|
| Euro area integration and accession: institutional challenges and governance issues for central bankers | Oesterreichische Nationalbank  | May 17–21, 2021      |
| Climate Change and Green Finance  | Oesterreichische Nationalbank and Austrian Federal Ministry of Finance | June 14–18, 2021     |
| Diversity and Inclusion   | Oesterreichische Nationalbank  | September 6–8, 2021  |
| Macrofinancial Stability in Central, Eastern and Southeastern Europe                                    | Oesterreichische Nationalbank in cooperation with the JVI              | October 11–20, 2021  |
| Financial Translation and Editing: Trends and Tools for Future Challenges                               | Oesterreichische Nationalbank  | October 13–15, 2021  |
| Cash Circulation and Payment Systems in Austria   | Oesterreichische Nationalbank  | November 22–24, 2021 |

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