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EUROSYSTEM

Global and European Financial Stability Risks – Focus on Central, Eastern and Southeastern Europe

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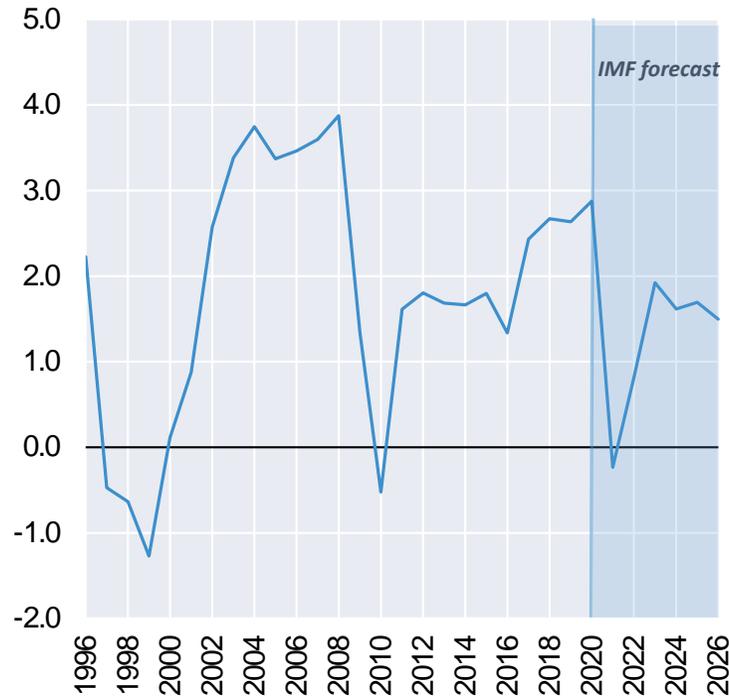
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CESEE will remain a growth region

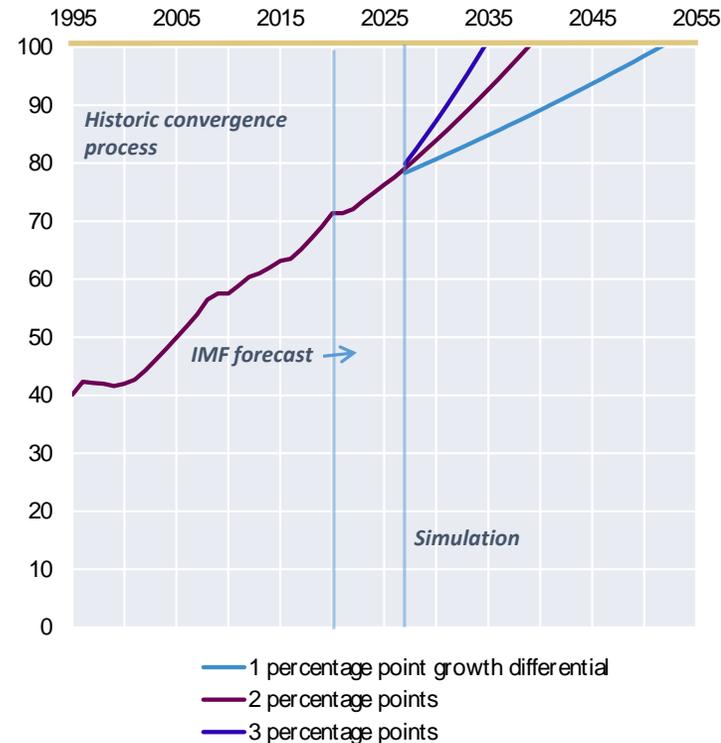
Convergence between CESEE EU Member States and EA

Historic GDP growth differential
Year-on-year change in %



Sources: OeNB, IMF

Simulated convergence paths
per capita GDP at PPP in % of Euro area (EA-12)



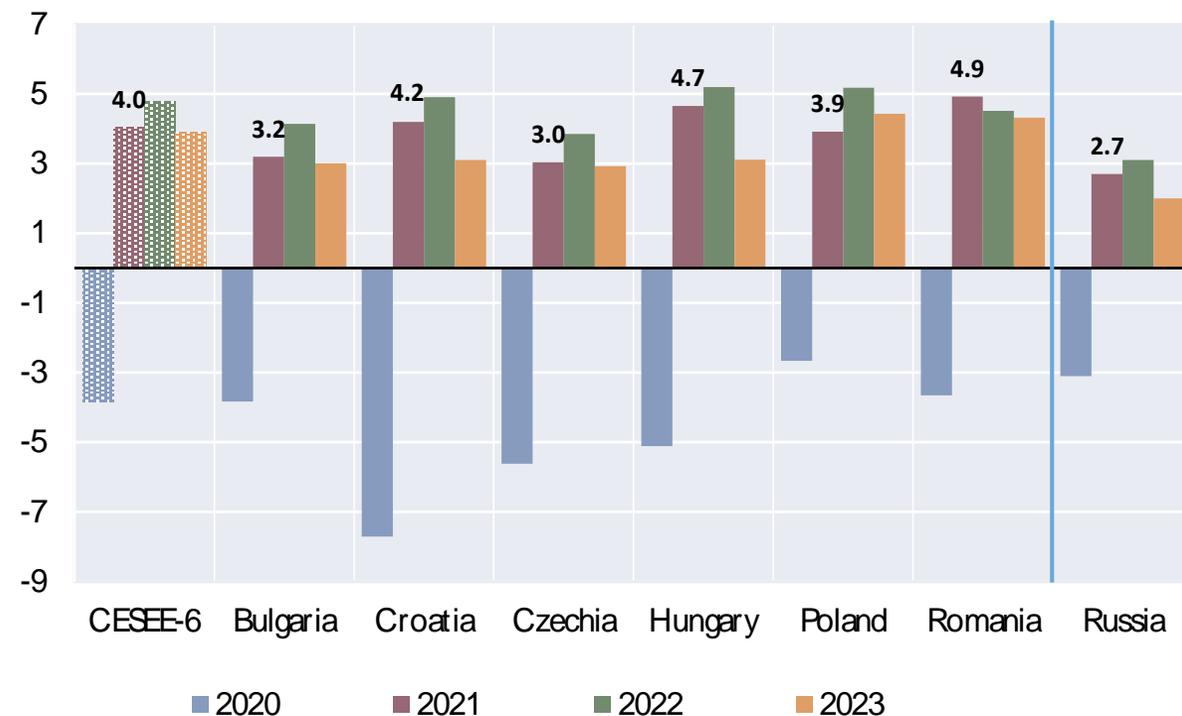
- **Economic convergence** of the CESEE EU Member states **vis-a-vis the euro area is ongoing**
- Half of the **progress in closing the pc income gap** since start of the transformation achieved **since the GFC**
- Despite interruptions by the post-crisis years 2010 and 2021, **output growth in CESEE will continue to outpace growth in the euro area by 2-1.5 percentage points**, with some heterogeneity across countries

OeNB CESEE Outlook:

Fighting back from the pandemic roller coaster – recovery to take hold from mid-2021 onward; Russia poised for recovery amid exceptionally large risks

Real GDP growth in selected CESEE economies

year-on-year growth in %



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

OeNB spring projections for CESEE EU members which have not yet introduced the euro + Russia: CESEE-6:

- Economic affectedness of the pandemic differed strongly across CESEE economies, yet rather **homogenous upswing expected for CESEE-6**
- **Pent-up demand supports private consumption** in 2021, **EU-funds back investments** as of 2022 onwards, **strong external demand** helped to revive exports quickly, imports recovering with some time lag

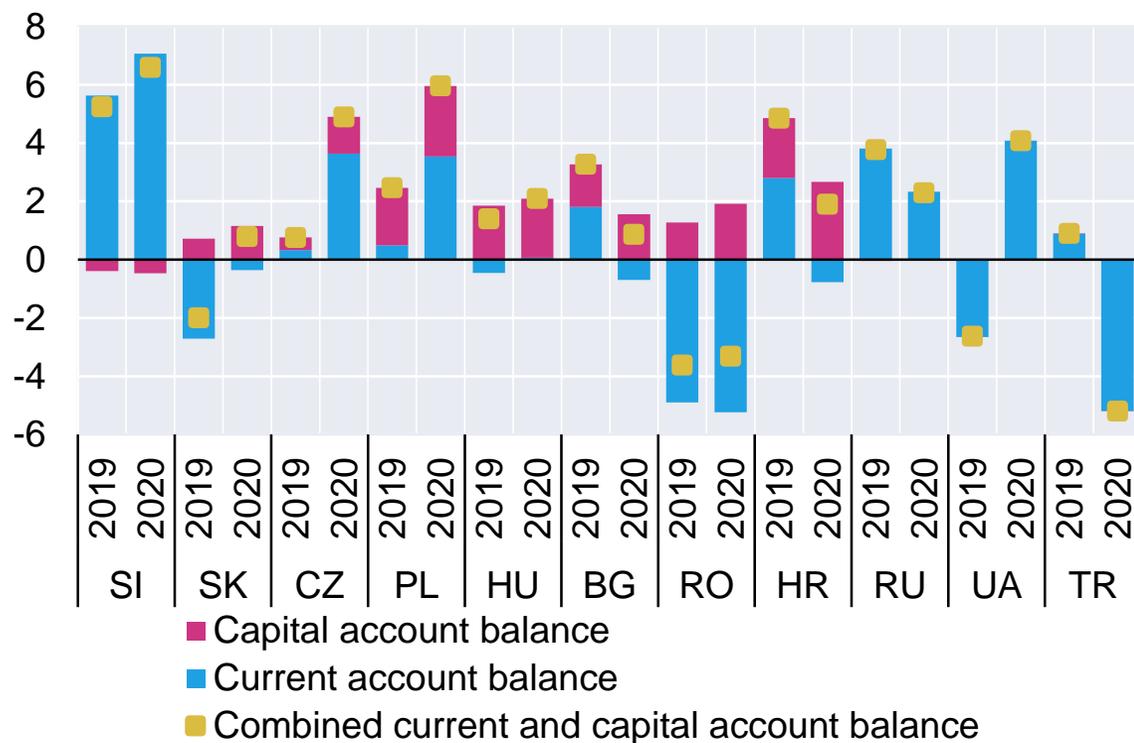
Russia:

- pandemic impact less severe than anticipated, **upward revision to the outlook to almost 3% growth 2021 and 2022** to reflect the increase of oil prices and price expectations.

Combined current and capital account surpluses were maintained or reached (except for Romania and Turkey)

Current and capital account balances

in % of GDP



Most CESEE countries feature sound balance of payments positions:

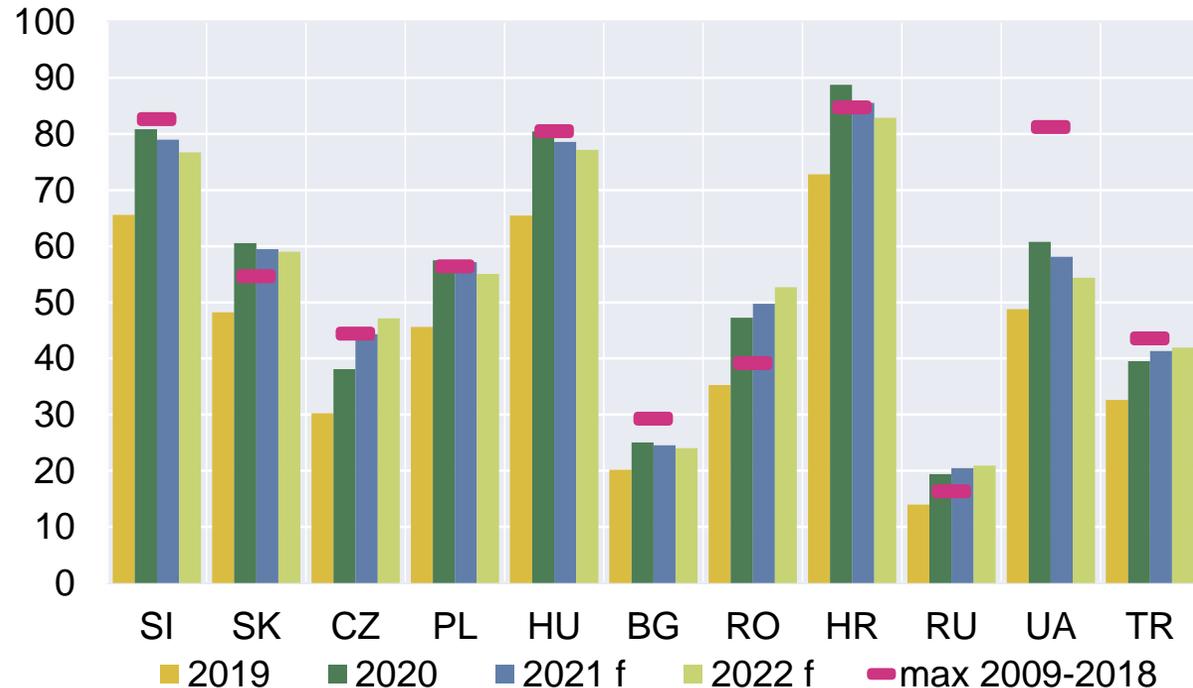
- **Combined current and capital account surplus maintained even in Bulgaria and Croatia** (despite notable decline in tourism related services exports)
- **Only Romania and Turkey recorded deficits in 2020** (net borrowing position from current and capital accounts)
- Ad financial account: **net capital outflows spiked in the first quarter** but moderated again substantially in the second and third quarters of 2020. In the **final quarter of 2020, capital flows again turned positive.**

Source: Eurostat, national central banks, national statistical

COVID-19 pandemic brought about a strong increase in public debt levels

General government gross debt

% of GDP

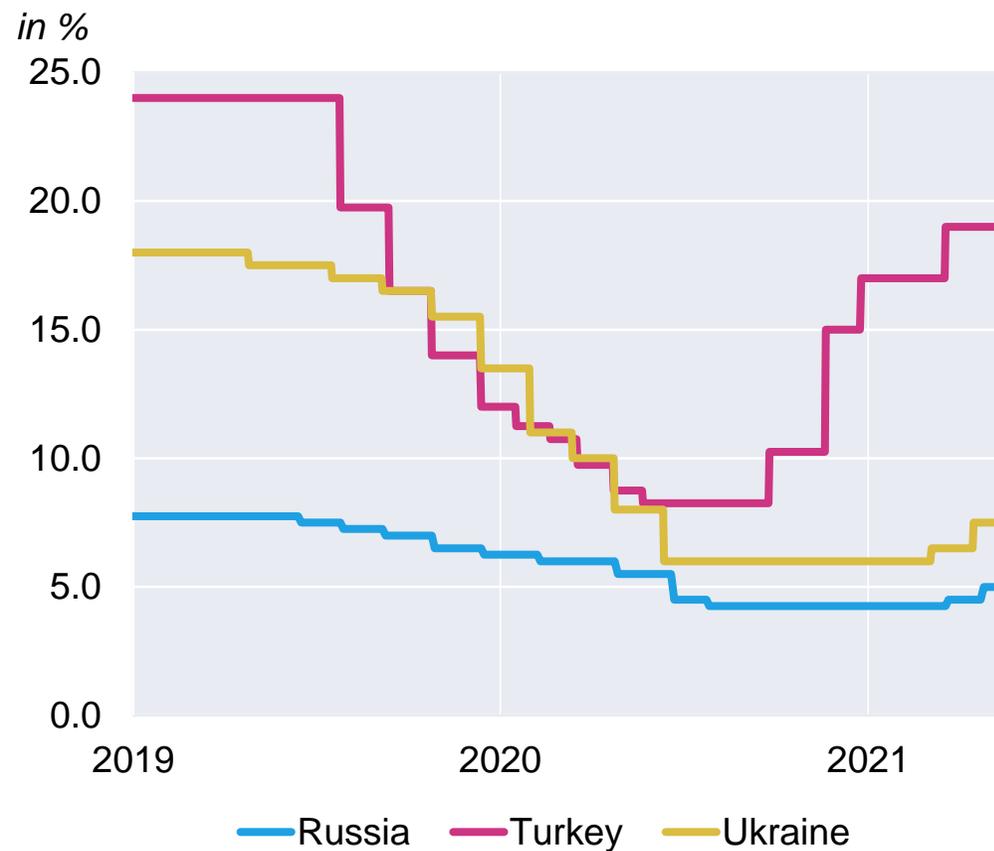
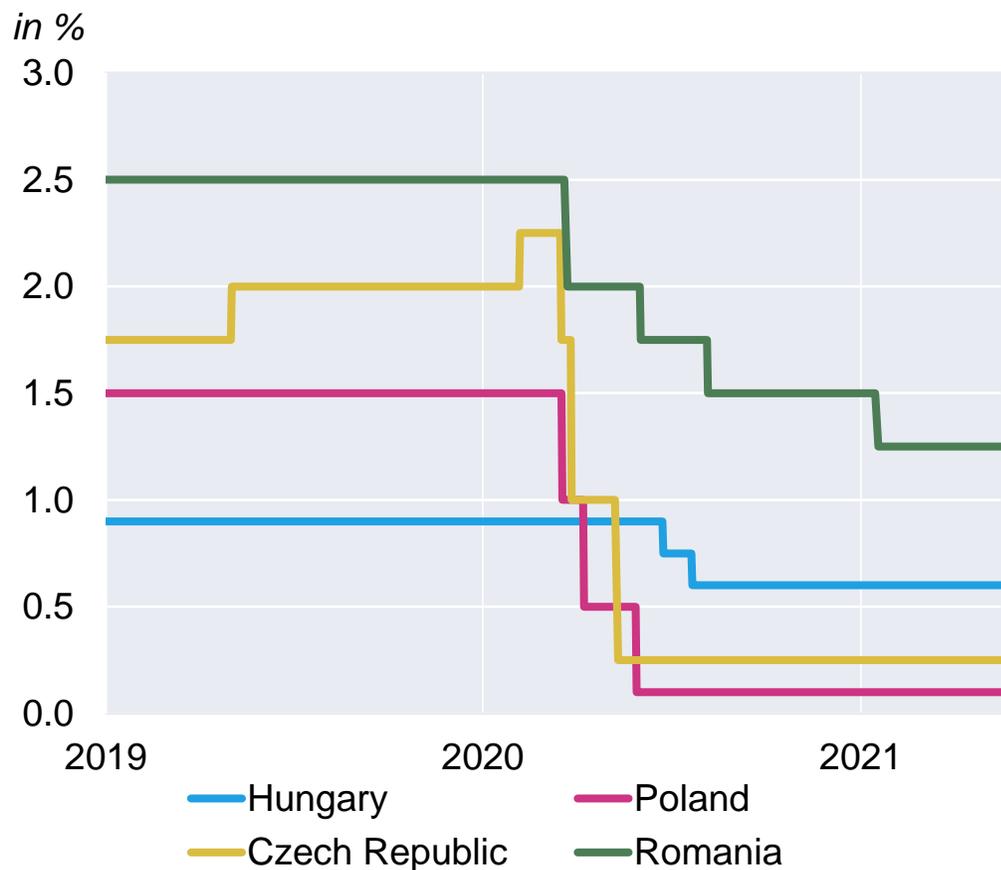


Source: European Commission AMECO database as of May 2021 (except Ukraine: IMF WEO April 2021).

- **Large-scale fiscal support measures** to mitigate the impact of the COVID-19 crisis brought about an increase in debt ratios
- On average government debt ratios **widened by 10 percentage points in 2020**
- Still notable **cross-country heterogeneity**
- Share of **debt owed to domestic creditors in overall debt remains comparatively low** in the CESEE countries
- While it had been possible to reduce the **share of government debt denominated in foreign currency** until 2019, it has **increased somewhat** during the COVID-19 crisis

Financing conditions improved due to central bank measures in CESEE EU MS – Interest rate hikes in Turkey, and more recently also in Russia and Ukraine

Policy rate developments in CESEE

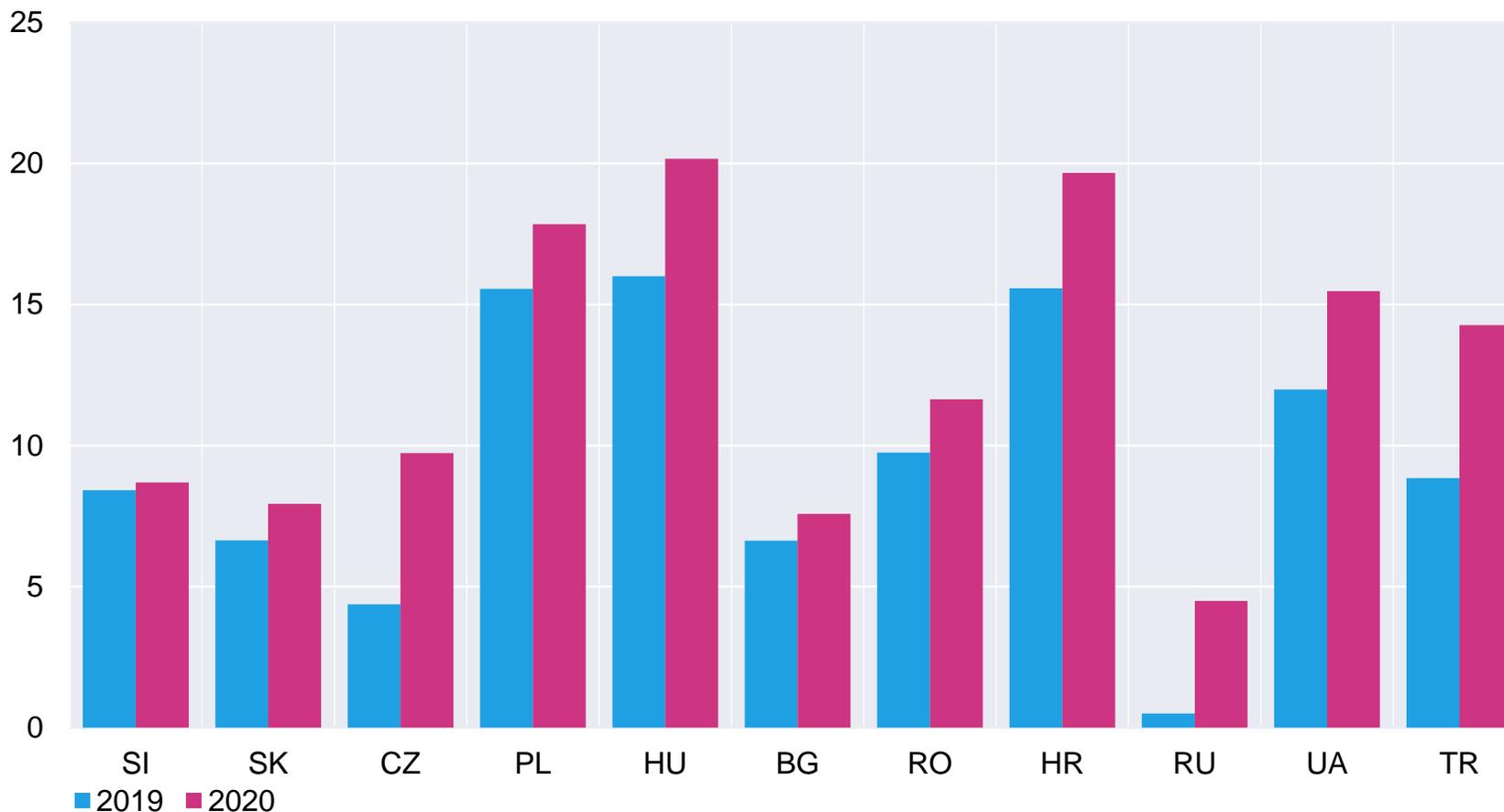


Source: Macrobond.

Overall quite substantial increase in the sovereign-bank nexus since the start of the pandemic

Net claims on general government by MFIs

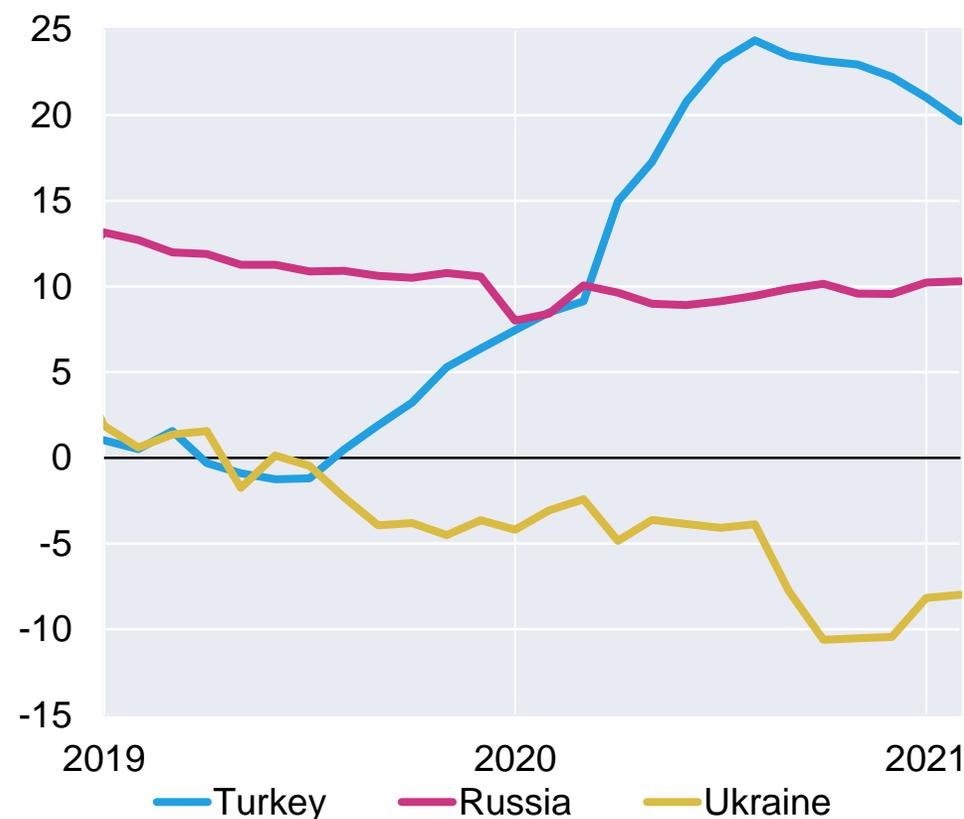
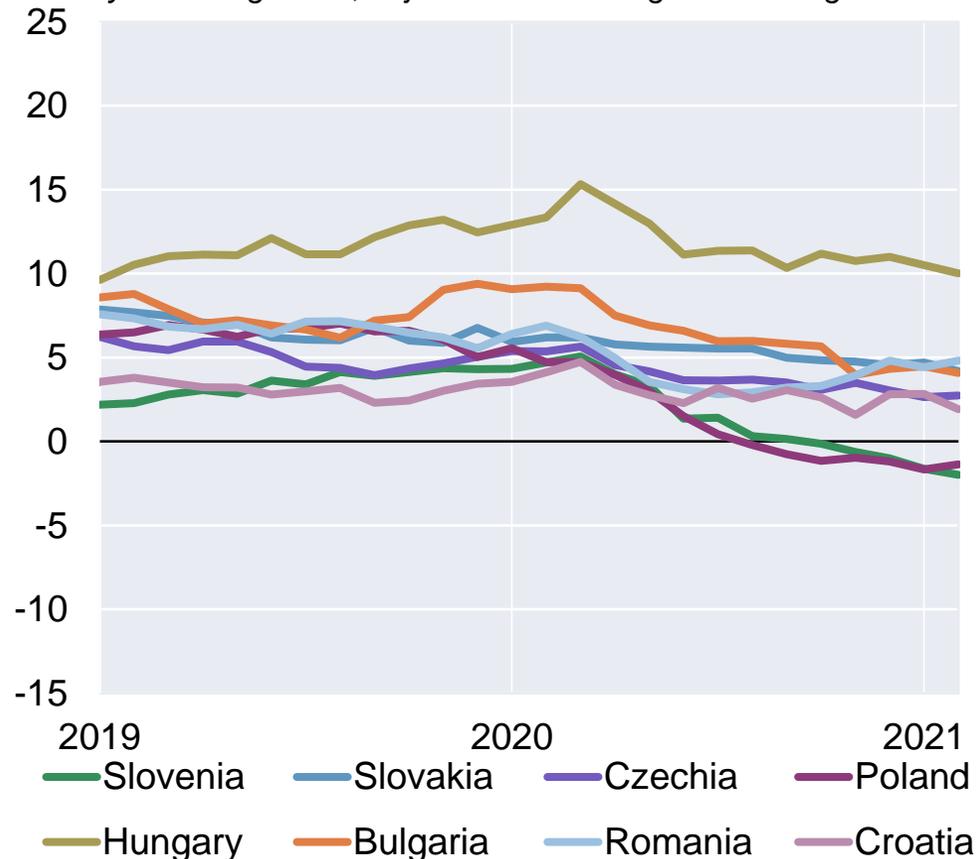
in % of GDP



Private sector credit growth moderated in most countries, diverging development in Turkey

CESEE: growth of credit to the private sector

Year-on-year change in %, adjusted for exchange rate changes

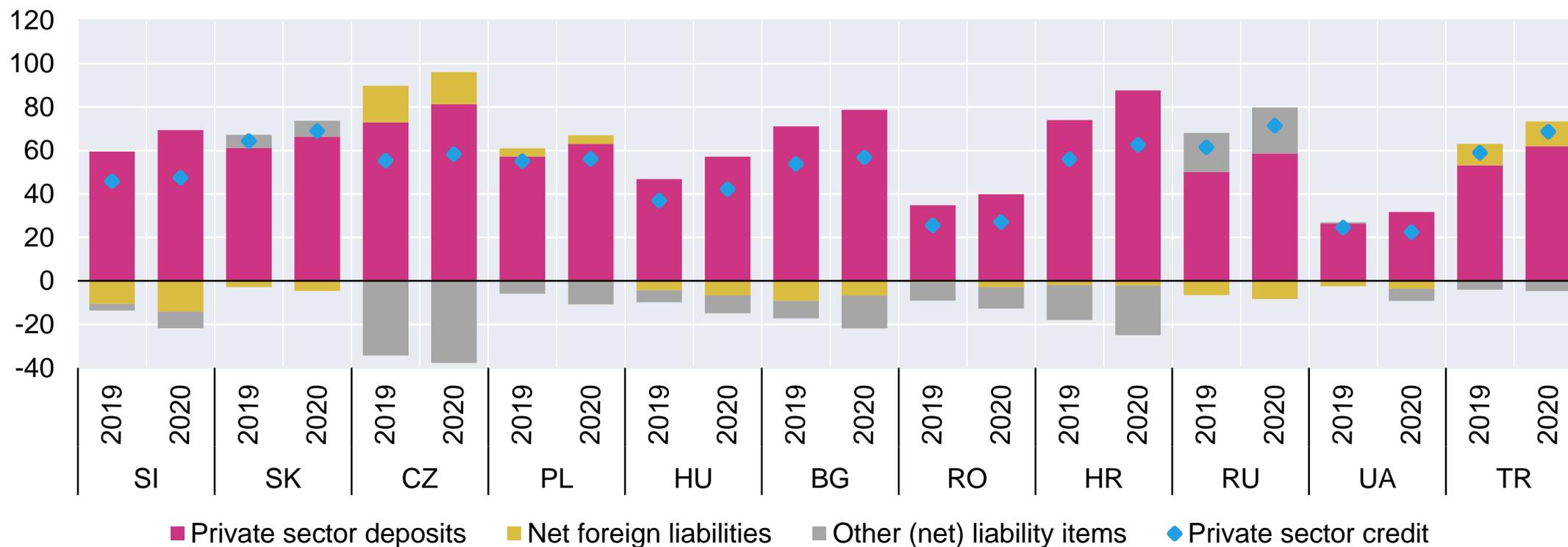


Source: ECB, national central banks.

As deposit growth picked up due to precautionary savings and lack of spending opportunities, deposit surpluses increased further in many countries...

Private sector credit and its refinancing

in % of GDP

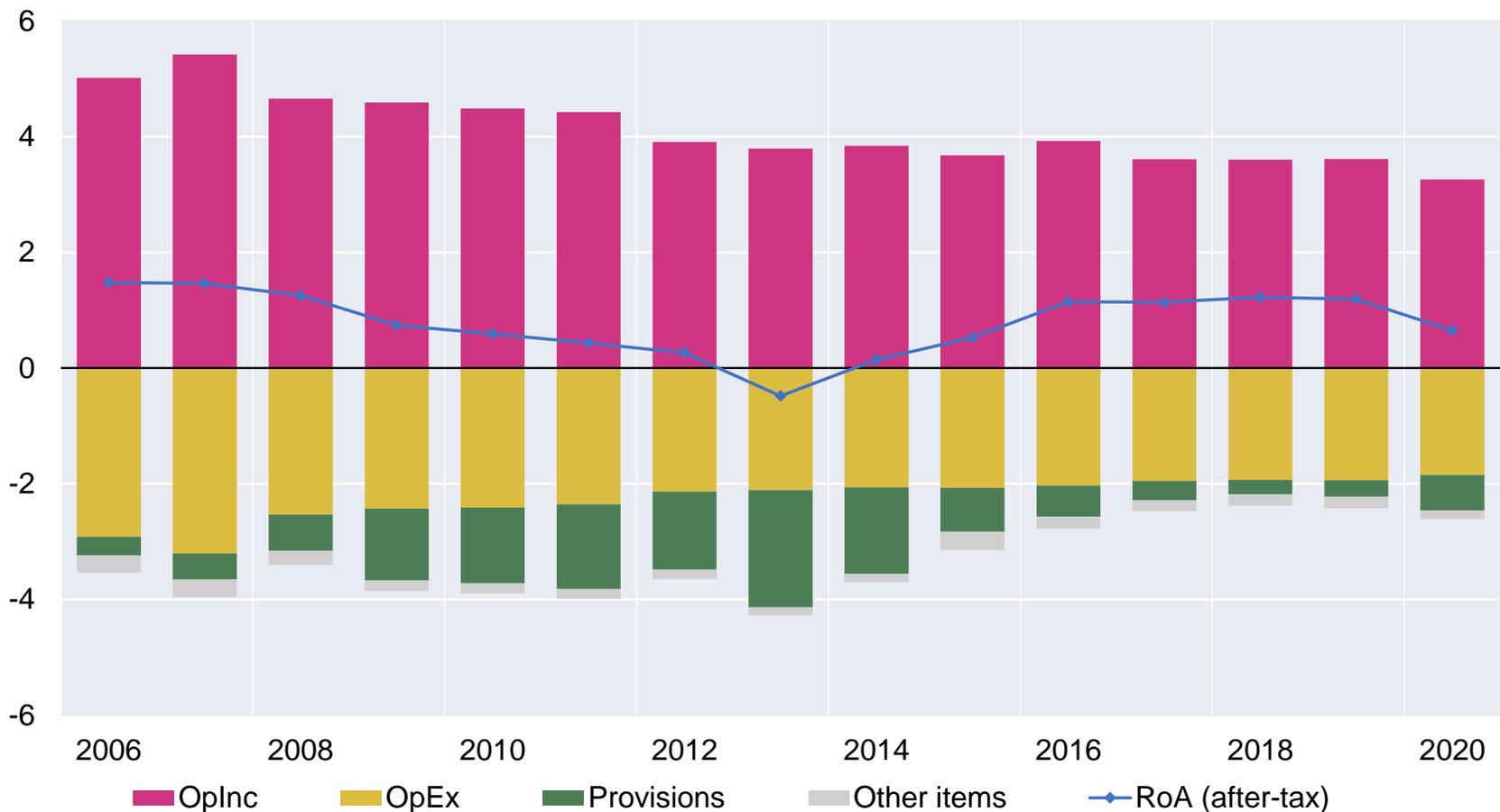


Source: Eurostat, national central banks, national statistical offices.

...raising – together with low interest levels – profitability concerns in the banking sectors, after ROAs declined markedly in 2020

Profitability components in CESEE-EU

% of average assets



Source: IMF, national central banks.

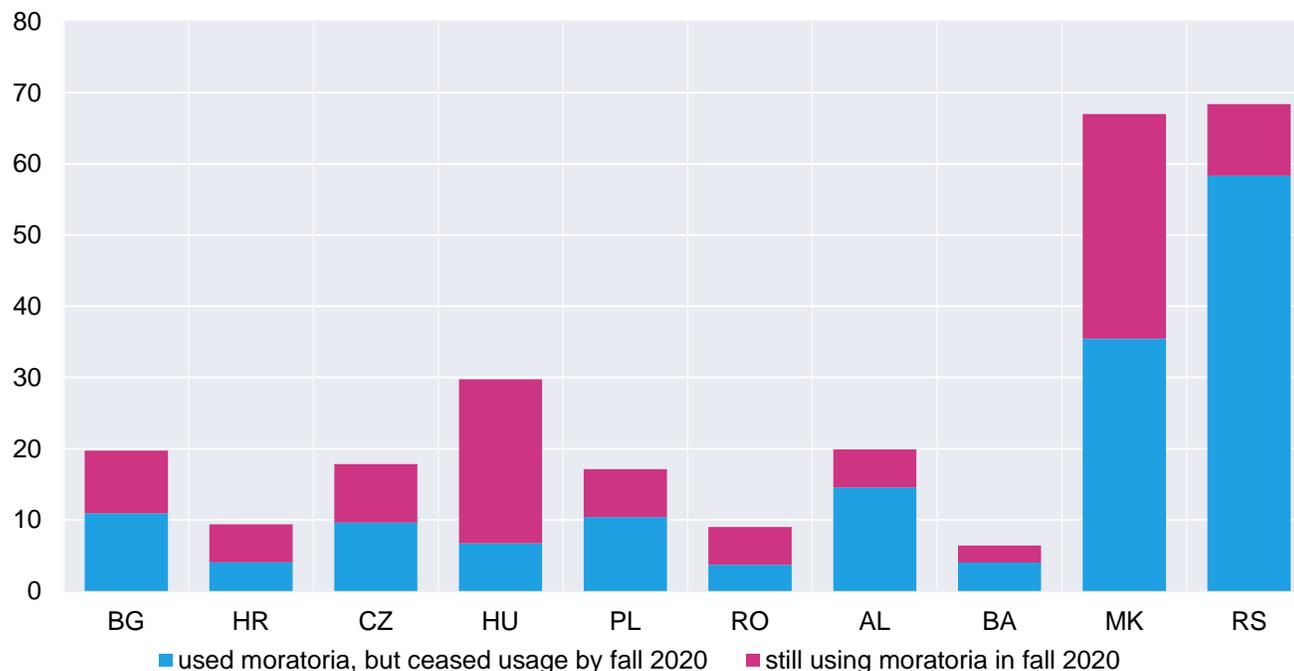
Financial stability risks have increased but banking sectors show high capitalization and liquidity

- **Asset quality deterioration** in the banking sector was **not reflected in end-2020 NPL ratios**
- End of loan repayment moratoria and moratoria on enforcement measures will lead to a rise in NPLs going forward
- So far, **increases in NPLs** projected by national central banks **are moderate** and early experiences with ending loan moratoria suggest that default rates are lower than expected
- **Tier 1 capital ratios** have been **stable or increasing throughout 2020** in most countries, partially due to restrictions on dividend payouts and releases of capital buffers
- Paired with good NPL coverage, the buffers to cope with potentially increasing credit risk are ample
- While it had been possible to reduce the **share of government debt denominated in foreign currency** until 2019, it has **increased somewhat** during the COVID-19 crisis

OeNB Euro Survey data on individuals shows that moratoria design had large impact on moratoria take-up and determinants of take-up

Moratoria usage

% of individuals with loans



Source: OeNB Euro Survey, 2020.

Note: Data are weighted.

Source: Allinger/Beckmann: Loan moratoria in CESEE: Evidence from the OeNB Euro Survey, FEEI forthcoming.

- Moratoria widespread in CESEE, but little data available
- According to OeNB Euro Survey fall 2020 wave, take-up of moratoria by individuals with loans in opt-out countries (HU, MK, RS) much higher than in opt-in countries
- In opt-in countries affectedness by Covid-19 key determinant, while in opt-out countries number and type of loan most important determinants
- Individuals, who ceased to use moratoria by fall 2020 not more likely in arrears than individuals who didn't use moratoria

Related OeNB publications

(recently published and forthcoming in [Focus on European Economic Integration](#))

- **Lahnsteiner:** The refinancing of CESEE banking sectors: What has changed since the global financial crisis? FEEI 1Q20.
- **Allinger and Wörz:** The sensitivity of banks' net interest margins to interest rate conditions in CESEE. FEEI 1Q20.
- **Eller, Martin, Schuberth and Vashold:** Macroprudential policies in CESEE – an intensity-adjusted approach. FEEI 2Q20.
- **Reininger and Walko:** A sleeping beauty or a dead duck? The state of capital market development in CESEE EU Member States. FEEI 3Q20.
- **Barisitz and Hildebrandt:** Macroprudential policy in the Western Balkans: the last five years and COVID-19 crisis response. FEEI 4Q20.
- **Eller, Martin and Vashold:** CESEE's macroprudential policy response in the wake of the COVID-19 crisis. FEEI 1Q21
- **Riedl:** Are CESEE borrowers at risk? COVID-19 implications in a stress test analysis, FEEI 1Q21.
- **Allinger and Beckmann:** Prevalence and determinants of nonbank borrowing in CESEE: evidence from the OeNB Euro Survey. FEEI 1Q21.
- **Huljak, Martin and Moccero:** Bank productivity in CESEE countries. FEEI forthcoming.
- **Barisitz and Deswel:** Recent developments and perspectives of European banks in Russia from 2017 through the COVID-19 pandemic, FEEI forthcoming.
- **Bittner:** Who is asking for a loan? – Evidence from OeNB Euro Survey on the drivers of different loan types, FEEI forthcoming.
- **Allinger and Beckmann:** Loan moratoria in CESEE: Evidence from the OeNB Euro Survey. FEEI forthcoming.

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