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

Julia Wörz, Josef Schreiner, Zoltan Walko
CESEE Analysis Unit

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Foreign Research Division
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OeNB outlook for selected CESEE EU member states:
broad-based recovery subject to mounting downward risks

• GDP growth for CESEE-6* revised upwards to 5.1% in 2021, some moderation to 4.5% and 3.8% in 2022 and 2023 respectively

• Robust domestic demand: growth drivers shift from private consumption in 2021 toward investments in 2022 backed by strong EU fund disbursements

• Strong exporting activity but negative growth contribution of the external sector due to dynamic import demand

• Elevated downside risks: pandemic developments, low vaccination rates, supply bottlenecks in global value chains, inflation

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GDP forecasts for selected CESEE countries

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<td>4.4</td>
<td>7.0</td>
<td>6.2</td>
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<tr>
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<td>-9</td>
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</tbody>
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* CESEE-6: non-euro area CESEE EU member states

Note: Realized data for 2020, projections for 2021 to 2023. Source: Eurostat, OeNB.
Inflation reaches levels last seen before the global financial crisis

Inflation in CESEE EU Member States
in percentage points, HICP and core inflation in % year on year

Source: Eurostat.
Return to inflation targets expected for end 2022 at the earliest

Poland
Year-on-year growth in %

Czech Republic
Year-on-year growth in %

Hungary
Year-on-year growth in %

Romania
Year-on-year growth in %

Source: NCBs, NSAs.
Decisive start of the tightening cycle by inflation targeting central banks

Poland

Czech Republic

Hungary

Romania

Source: Macrobond.
Real interest rates remain in negative territory

Poland

Czech Republic

Hungary

Romania

Source: Macrobond, Eurostat, Consensus Economics.
Note: Ex-Post real interest rates refer to 3-months MMR deflated by HICP inflation. Ex-ante real interest rates refer to 3-months MMR deflated by consensus inflation forecast for the next year.
Private sector credit growth picks up and NPLs remain low

**Growth of credit to the private sector**

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

**Nonperforming loans**

% of total assets

Source: National central banks.

Note: Data are not strictly comparable across countries.

Source: National central banks.
High interest rate sensitivity, especially in the non-financial corporate sector

**NFC: Loans: Floating rate and initial rate fixation period of up to 1 year in % of total**

<table>
<thead>
<tr>
<th>Year</th>
<th>BG</th>
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<th>HR</th>
<th>HU</th>
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**HH: Total loans: Floating rate and initial rate fixation period of up to 1 year in % of total**

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<th>Year</th>
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<td>20</td>
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</tr>
</tbody>
</table>

Note: Loans other than revolving loans and overdrafts, convenience and extended credit card debt.
Source: Authors' calculations, ECB.
Mounting challenges for CESEE central banks

- **Strong economic rebound in 2021 but elevated uncertainty**, risks from pandemic developments and inflation are increasing

- **Inflation** unlikely to soften soon as both, cost-push and demand-pull factors will remain in place for some time, inflation expectations are still rising

- **Inflation targeting central banks** in the region have started a decisive hiking cycle, overall monetary policy conditions remain rather loose

- **Banking sectors in good conditions so far**, credit growth picks up, but full impact of the pandemic related recession not yet visible

- In particular, **NFCs in CESEE** are potentially vulnerable to rising interest rates
  - Inflation targeting central banks in CESEE are currently facing the challenge of keeping inflation expectations anchored, while ensuring a smooth transition toward a higher interest rate environment for debtors
Related OeNB publications
(recently published and forthcoming in Focus on European Economic Integration)

- **Backé and Beckmann**: Euro adoption in CESEE: How do financial literacy and trust in institutions affect people’s attitudes?. FEEI 4Q21.
- **Breitenfellner, Lahnsteiner, Reininger and Schriefl**: Green transition: What have CESEE EU member states achieved so far?. FEEI 4Q21.
- **Koch and Scheiber**: Household Savings in CESEE - Expectations, Experiences, and Common Predictors. FEEI 1Q22.
- **Barisitz**: The Belarusian banking sector subject to continued instability. FEEI 1Q22.
- **Raggl**: The role of the quality of public services in shaping migration intentions in CESEE. FEEI forthcoming.
- **Scheiber and Koch**: Will the COVID-19 pandemic leave lasting scars on economic sentiments of CESEE individuals?. FEEI forthcoming.
Danke für Ihre Aufmerksamkeit

Thank you for your attention

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