# 2. CESEE Overview

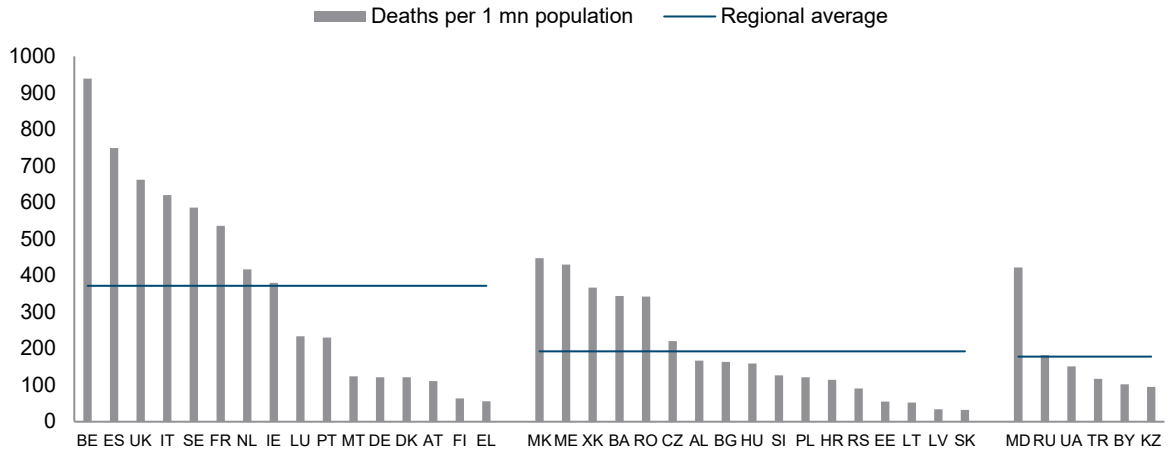
BY VASILY ASTROV[2]

## 2.1. CESEE WITHSTOOD THE FIRST WAVE OF THE PANDEMIC BETTER THAN WESTERN EUROPE

**The first wave of the COVID-19 pandemic prompted most CESEE governments to impose strict lockdowns...** The infection and mortality rates from COVID-19 in the countries of Central, East and Southeast Europe (CESEE) have been generally lower than in Western Europe. Nonetheless, governments were quick to impose lockdowns, which in some cases were stricter than in Western Europe. The most stringent measures were taken in Southeast Europe, where several countries recorded particularly high mortality rates (Figure 2.1), partly because the first wave of the pandemic lasted longer there than, for instance, in EU-CEE and extended well into the summer months. By contrast, in Estonia the coronavirus restrictions were much milder, while Belarus did not impose them at all, as its president openly questioned the existence of the coronavirus (although large sections of the population voluntarily followed safety measures).

**Figure 2.1 / Deaths linked to COVID-19 per 1 million population**

Western Europe (left) and CESEE (right)




Source: Worldometers, updated 27 October 2020. XK: WHO.

**… but economic losses were generally smaller than in Western Europe.** The sharpest drops in real GDP in the second quarter of 2020 were recorded in Montenegro (20% year on year) and Croatia (15%) – figures that, respectively, exceeded and matched the decline in the euro area (Figure 2.2). Elsewhere in CESEE, declines in real GDP in the second quarter were smaller, ranging from 13.6% in Hungary to

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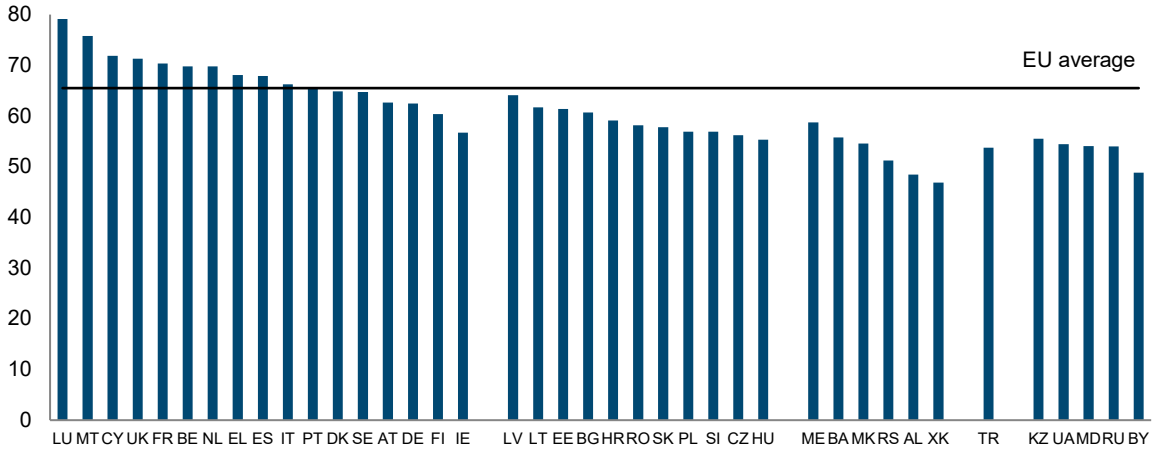
3.3% in Belarus. One of the reasons for this relatively better growth performance of CESEE countries is structural: their share of services in GDP – the sector that was most affected by the spring lockdowns – is generally lower than in Western Europe, ranging as it does from 64% in Latvia to 47% in Kosovo. On average in the EU, services account for two thirds of GDP, and in some Western European countries such as France and the UK, they reach 70% (Figure 2.3).

**Figure 2.2 / Real GDP growth of the CESEE countries**

real growth rate in Q2 2020 as % of corresponding period of previous year


Source: wiiw Monthly Database incorporating national and Eurostat statistics.

**Figure 2.3 / Share of value added in services in GDP in 2019, as %**




Note: Data for TR refer to 2018.
Source: wiiw Annual Database incorporating national and Eurostat statistics, AMECO.

## Table 2.1 / OVERVIEW 2018-2019 AND OUTLOOK 2020-2022

| | | GDP real change in % against prev. year | | | | | Consumer prices average change in % against prev. year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Forecast | | | | | Forecast | | |
| | | 2018 | 2019 | 2020 | 2021 | 2022 | 2018 | 2019 | 2020 | 2021 | 2022 |
| BG | Bulgaria | 3.1 | 3.7 | -5.1 | 1.7 | 2.6 | 2.6 | 2.5 | 1.5 | 2.0 | 2.0 |
| CZ | Czech Republic | 3.2 | 2.3 | -6.6 | 3.9 | 3.5 | 2.0 | 2.6 | 3.0 | 2.1 | 2.0 |
| EE | Estonia | 4.4 | 5.0 | -4.8 | 3.9 | 3.0 | 3.4 | 2.3 | -0.2 | 1.5 | 2.3 |
| HR | Croatia | 2.7 | 2.9 | -9.4 | 5.0 | 4.0 | 1.6 | 0.8 | 0.0 | 1.0 | 1.4 |
| HU | Hungary | 5.4 | 4.6 | -6.5 | 3.0 | 4.6 | 2.9 | 3.4 | 3.8 | 3.5 | 3.5 |
| LT | Lithuania | 3.9 | 4.3 | -2.0 | 4.5 | 3.2 | 2.5 | 2.2 | 0.7 | 1.8 | 2.3 |
| LV | Latvia | 4.0 | 2.1 | -4.6 | 4.4 | 2.8 | 2.6 | 2.7 | 0.5 | 1.8 | 2.5 |
| PL | Poland | 5.4 | 4.5 | -4.4 | 3.5 | 3.4 | 1.2 | 2.1 | 3.2 | 2.0 | 2.0 |
| RO | Romania | 4.5 | 4.2 | -5.5 | 3.7 | 4.5 | 4.1 | 3.9 | 2.5 | 3.0 | 3.0 |
| SI | Slovenia | 4.4 | 3.2 | -6.7 | 4.5 | 3.0 | 1.9 | 1.7 | 0.3 | 1.3 | 1.7 |
| SK | Slovakia | 3.8 | 2.3 | -7.3 | 4.1 | 3.9 | 2.5 | 2.8 | 1.9 | 1.8 | 2.0 |
| | *EU-CEE11* [1)2)] | *4.5* | *3.9* | *-5.4* | *3.6* | *3.7* | *2.2* | *2.6* | *2.6* | *2.3* | *2.3* |
| | *EA19* [3)] | *1.9* | *1.3* | *-8.5* | *5.8* | *2.5* | *1.8* | *1.2* | *0.3* | *1.0* | *1.3* |
| | *EU27* [3)] | *2.1* | *1.5* | *-8.3* | *6.0* | *2.7* | *1.8* | *1.4* | *0.4* | *1.2* | *1.5* |
| AL | Albania | 4.1 | 2.2 | -6.4 | 4.6 | 4.0 | 2.0 | 1.4 | 1.5 | 1.8 | 2.2 |
| BA | Bosnia and Herzegovina | 3.7 | 2.7 | -5.1 | 3.2 | 3.1 | 1.4 | 0.6 | -0.4 | 1.4 | 1.6 |
| ME | Montenegro | 5.1 | 4.1 | -9.0 | 5.0 | 4.1 | 2.6 | 0.4 | -0.1 | 1.1 | 1.5 |
| MK | North Macedonia | 2.9 | 3.2 | -6.0 | 4.5 | 4.0 | 1.5 | 0.8 | 1.2 | 1.5 | 1.8 |
| RS | Serbia | 4.5 | 4.2 | -2.0 | 4.5 | 4.1 | 2.0 | 1.7 | 1.7 | 2.2 | 2.2 |
| XK | Kosovo | 3.8 | 4.9 | -5.1 | 4.8 | 4.3 | 1.1 | 2.7 | 0.5 | 1.5 | 1.7 |
| | *WB6* [1)2)] | *4.1* | *3.6* | *-4.2* | *4.3* | *3.9* | *1.8* | *1.4* | *1.1* | *1.8* | *2.0* |
| TR | Turkey | 3.0 | 0.9 | -3.5 | 4.1 | 4.6 | 16.3 | 15.2 | 12.0 | 11.0 | 10.2 |
| BY | Belarus | 3.1 | 1.2 | -2.5 | -1.2 | 1.3 | 4.9 | 5.6 | 5.0 | 4.5 | 4.5 |
| KZ | Kazakhstan | 4.1 | 4.5 | -3.0 | 2.5 | 4.0 | 6.0 | 5.3 | 7.0 | 5.5 | 5.0 |
| MD | Moldova | 4.3 | 3.6 | -7.0 | 4.0 | 4.0 | 2.9 | 4.8 | 4.3 | 4.5 | 5.0 |
| RU | Russia | 2.5 | 1.3 | -4.5 | 2.5 | 2.1 | 2.9 | 4.5 | 3.4 | 3.3 | 2.8 |
| UA | Ukraine | 3.4 | 3.2 | -5.0 | 2.0 | 3.6 | 10.9 | 7.9 | 2.5 | 5.0 | 4.0 |
| | *CIS4+UA* [1)2)] | *2.8* | *1.8* | *-4.4* | *2.4* | *2.4* | *4.0* | *5.0* | *3.7* | *3.7* | *3.2* |
| | *V4* [1)2)] | *4.8* | *3.9* | *-5.4* | *3.6* | *3.6* | *1.7* | *2.4* | *3.1* | *2.2* | *2.2* |
| | *BALT3* [1)2)] | *4.1* | *3.9* | *-3.4* | *4.3* | *3.1* | *2.7* | *2.4* | *0.4* | *1.7* | *2.4* |
| | *SEE9* [1)2)] | *4.0* | *3.8* | *-5.5* | *3.7* | *4.0* | *3.1* | *2.8* | *1.8* | *2.4* | *2.4* |
| | *CIS3+UA* [1)2)] | *3.7* | *3.4* | *-3.9* | *1.8* | *3.4* | *7.9* | *6.5* | *4.7* | *5.1* | *4.5* |
| | *non-EU12* [1)2)] | *2.9* | *1.6* | *-4.1* | *2.9* | *3.1* | *7.5* | *7.7* | *6.0* | *5.7* | *5.1* |
| | *CESEE23* [1)2)] | *3.4* | *2.3* | *-4.5* | *3.1* | *3.3* | *6.0* | *6.2* | *5.0* | *4.7* | *4.3* |

ctd.

**Table 2.1 / (ctd.)**

| | | Unemployment (LFS) rate in %, annual average | | | | | Current account in % of GDP | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Forecast | | | | | Forecast | | |
| | | 2018 | 2019 | 2020 | 2021 | 2022 | 2018 | 2019 | 2020 | 2021 | 2022 |
| BG | Bulgaria | 5.2 | 4.2 | 7.0 | 7.0 | 6.0 | 1.0 | 3.0 | 2.2 | 2.0 | 1.6 |
| CZ | Czech Republic | 2.2 | 2.0 | 2.7 | 3.1 | 3.0 | 0.5 | -0.3 | 0.5 | 0.0 | 0.2 |
| EE | Estonia | 5.4 | 4.4 | 8.0 | 7.5 | 7.0 | 0.9 | 2.0 | 3.1 | 1.7 | 0.7 |
| HR | Croatia | 8.5 | 6.6 | 9.0 | 5.5 | 5.0 | 1.8 | 2.7 | -3.9 | -0.6 | -1.2 |
| HU | Hungary | 3.7 | 3.4 | 4.5 | 4.5 | 4.0 | 0.3 | -0.2 | -1.8 | -1.4 | -0.6 |
| LT | Lithuania | 6.2 | 6.3 | 9.0 | 8.5 | 7.5 | 0.3 | 3.3 | 7.1 | 4.1 | 4.4 |
| LV | Latvia | 7.4 | 6.3 | 8.3 | 7.5 | 6.8 | -0.3 | -0.6 | 2.2 | 1.5 | 1.4 |
| PL | Poland | 3.9 | 3.3 | 3.6 | 4.0 | 3.8 | -1.3 | 0.5 | 0.7 | 0.4 | 0.2 |
| RO | Romania | 4.2 | 3.9 | 5.5 | 6.0 | 5.0 | -4.4 | -4.7 | -4.7 | -4.6 | -4.7 |
| SI | Slovenia | 5.1 | 4.5 | 5.8 | 5.4 | 4.6 | 5.8 | 5.6 | 5.8 | 6.0 | 6.4 |
| SK | Slovakia | 6.5 | 5.8 | 7.0 | 8.2 | 7.4 | -2.2 | -2.7 | -3.9 | -2.9 | -3.2 |
| | *EU-CEE11* [1)2)] | *4.3* | *3.8* | *4.9* | *5.1* | *4.6* | *-0.8* | *-0.2* | *-0.3* | *-0.4* | *-0.4* |
| | *EA19* [3)] | *8.1* | *7.5* | *9.0* | *9.4* | *8.9* | *3.6* | *3.0* | *2.5* | *2.5* | *2.3* |
| | *EU27* [3)] | *7.2* | *6.7* | *8.3* | *8.7* | *8.2* | *3.2* | *2.9* | *2.4* | *2.4* | *2.2* |
| AL | Albania | 12.3 | 11.5 | 14.5 | 13.0 | 12.0 | -6.8 | -8.0 | -9.6 | -8.2 | -7.5 |
| BA | Bosnia and Herzegovina | 18.4 | 15.7 | 18.0 | 16.0 | 16.0 | -3.3 | -3.1 | -2.6 | -3.9 | -3.6 |
| ME | Montenegro | 15.2 | 15.1 | 19.0 | 17.5 | 16.0 | -17.0 | -15.0 | -14.8 | -13.0 | -12.5 |
| MK | North Macedonia | 20.7 | 17.3 | 17.0 | 16.5 | 16.0 | -0.1 | -3.3 | -5.2 | -4.5 | -3.7 |
| RS | Serbia | 12.7 | 10.4 | 8.0 | 7.5 | 7.0 | -4.8 | -6.9 | -5.7 | -5.5 | -5.7 |
| XK | Kosovo | 29.6 | 25.7 | 26.5 | 26.0 | 25.0 | -7.6 | -5.6 | -6.0 | -7.2 | -8.3 |
| | *WB6* [1)2)] | *15.7* | *13.4* | *13.6* | *12.5* | *11.7* | *-5.1* | *-6.3* | *-6.0* | *-5.9* | *-5.9* |
| TR | Turkey | 10.9 | 13.7 | 13.5 | 13.4 | 11.5 | -2.5 | 1.2 | -2.8 | -3.3 | -3.9 |
| BY | Belarus | 4.8 | 4.2 | 4.5 | 4.4 | 4.2 | 0.0 | -2.0 | -2.9 | -3.4 | -4.4 |
| KZ | Kazakhstan | 4.9 | 4.8 | 5.2 | 5.0 | 4.8 | -0.1 | -4.0 | -3.5 | -3.3 | -3.4 |
| MD | Moldova | 3.0 | 5.1 | 5.5 | 6.5 | 6.0 | -10.4 | -9.3 | -6.5 | -6.8 | -7.5 |
| RU | Russia | 4.8 | 4.6 | 6.0 | 5.6 | 5.0 | 6.9 | 3.8 | 1.2 | 2.4 | 2.3 |
| UA | Ukraine | 8.8 | 8.2 | 10.0 | 8.5 | 8.0 | -4.9 | -2.7 | 3.6 | -0.6 | -2.9 |
| | *CIS4+UA* [1)2)] | *5.4* | *5.2* | *6.6* | *6.0* | *5.4* | *5.3* | *2.4* | *0.8* | *1.5* | *1.2* |
| | *V4* [1)2)] | *3.8* | *3.3* | *3.8* | *4.3* | *4.0* | *-0.8* | *-0.1* | *-0.2* | *-0.3* | *-0.2* |
| | *BALT3* [1)2)] | *6.4* | *5.9* | *8.5* | *8.0* | *7.2* | *0.3* | *1.9* | *4.7* | *2.7* | *2.6* |
| | *SEE9* [1)2)] | *8.6* | *7.4* | *8.8* | *8.4* | *7.5* | *-3.0* | *-3.1* | *-4.0* | *-3.5* | *-3.7* |
| | *CIS3+UA* [1)2)] | *6.9* | *6.6* | *7.7* | *6.8* | *6.5* | *-2.0* | *-3.3* | *-0.8* | *-2.4* | *-3.5* |
| | *non-EU12* [1)2)] | *7.1* | *7.5* | *8.4* | *7.9* | *7.1* | *2.8* | *1.8* | *-0.4* | *0.0* | *-0.4* |
| | *CESEE23* [1)2)] | *6.4* | *6.6* | *7.5* | *7.2* | *6.5* | *1.5* | *1.1* | *-0.4* | *-0.2* | *-0.4* |

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiiw.

Source: wiiw, Eurostat. Forecasts by wiiw (November 2020).

**Those CESEE economies with the highest dependence on tourism and foreign trade have suffered the most.** It is no coincidence that Montenegro, Croatia and Albania, where tourism accounts indirectly for more than 20% of GDP, have been among the CESEE countries worst hit. Montenegro and Croatia recorded particularly steep GDP declines in the second quarter of 2020, and are projected to be the CESEE countries that perform worst over the year as a whole, with Albania trailing not far behind (Overview Table 2.1). In Montenegro, tourist arrivals plunged by 80% (in the first eight months) and in Albania by 65% (in the first seven months); Croatia fared somewhat better (-60% in the first seven months), largely thanks to its better accessibility from the 'core' EU countries, such as Germany, Austria and the Czech Republic. The small, open EU-CEE economies with a high degree of specialisation in the automotive industry (Hungary, Slovenia, Slovakia and the Czech Republic) have also been hit disproportionately by COVID-linked disruptions, as demand for cars collapsed during the lockdown and many factories suspended their production. However, the economic downturn in these countries in the second quarter was less pronounced than in Croatia and Montenegro, and the subsequent rebound has been stronger: the supply shock (though very severe initially) was rectified rapidly, and they soon got their supply chains going again. By contrast, in the tourism-dependent Balkan economies, the demand shock has proved to be more lasting. The smallest decline in real GDP in the second quarter was recorded by Belarus, which did not impose a lockdown at all (Figure 2.2).

## 2.2. DOMESTIC DEMAND TAKING THE MAIN HIT

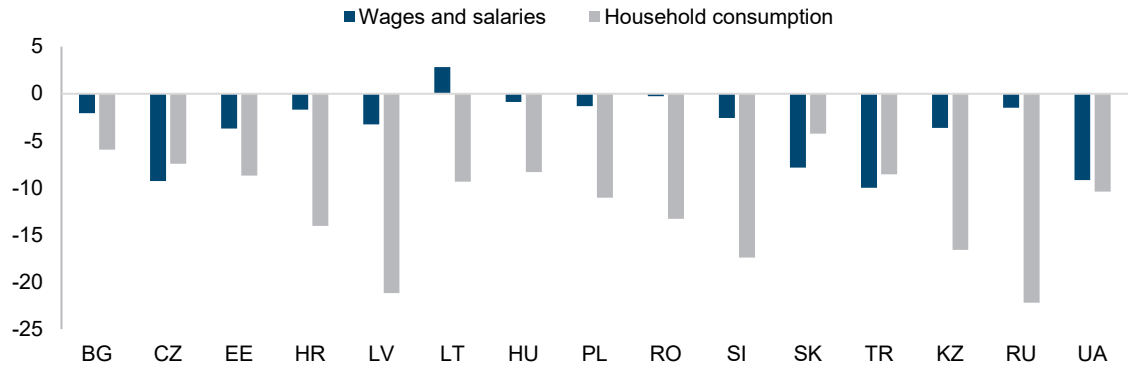
**Household incomes were hit hard by the first wave of the pandemic.** The effective shutdown of entire economic sectors under lockdown conditions had an effect on both profits (especially of SMEs) and salaries. Wage reductions have also resulted from the sharply reduced working hours, often (though not only) because of the short-time work schemes sponsored by the governments. Private remittances from abroad – an important pillar of household demand, especially in the Western Balkans, Ukraine and Moldova – have suffered as well (except in Kosovo).[3] Social transfers have generally risen – in many cases, representing higher pensions, as well as unemployment and child benefits – but have hardly mitigated the decline in other sources of income.

**However, in most CESEE countries, real wages declined less than private consumption, suggesting an increased propensity to save** (Figure 2.4). This is hardly surprising, as the supply of most goods and services was administratively restricted during lockdown. Besides, demand for durable consumer goods suffered in the face of sharply increased uncertainties. The accumulated savings were partly used once the coronavirus restrictions were lifted, thereby fuelling consumer demand over the summer months. However, consumer expenditure financed from savings cannot be sustained over a protracted period of time, especially when household incomes remain depressed and credit expansion loses steam (for more on that, see above).

[3] It seems that CESEE migrants in Western Europe sent a bigger share of their incomes in the form of remittances during the pandemic, in order to help their relatives back home. However, this was offset by the loss of income (or indeed employment) of many migrants in the host countries. Many of them were even forced to leave the host country, at least temporarily. So, our assumption is that it made a net positive difference to remittance inflows into CESEE only in Kosovo, which is both very small and poor.

**Figure 2.4 / Wages and household consumption**

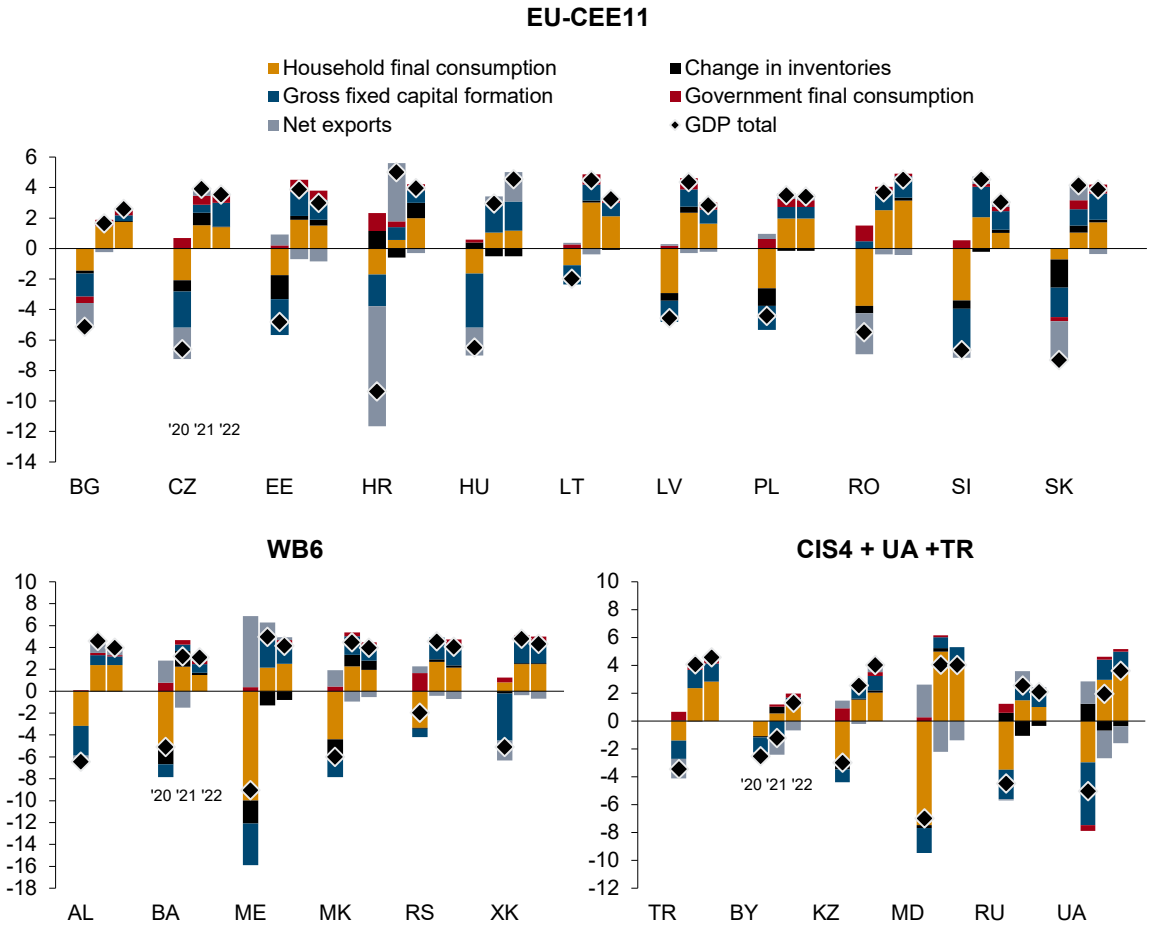
real growth rate in Q2 2020 as % of corresponding period of previous year




Note: Wages and salaries from national accounts (for TR, KZ and RU compensation of employees) deflated by CPI.
Source: Eurostat and national statistics.

**Figure 2.5 / GDP growth forecasts for 2020-2022**

and contribution of individual demand components in percentage points

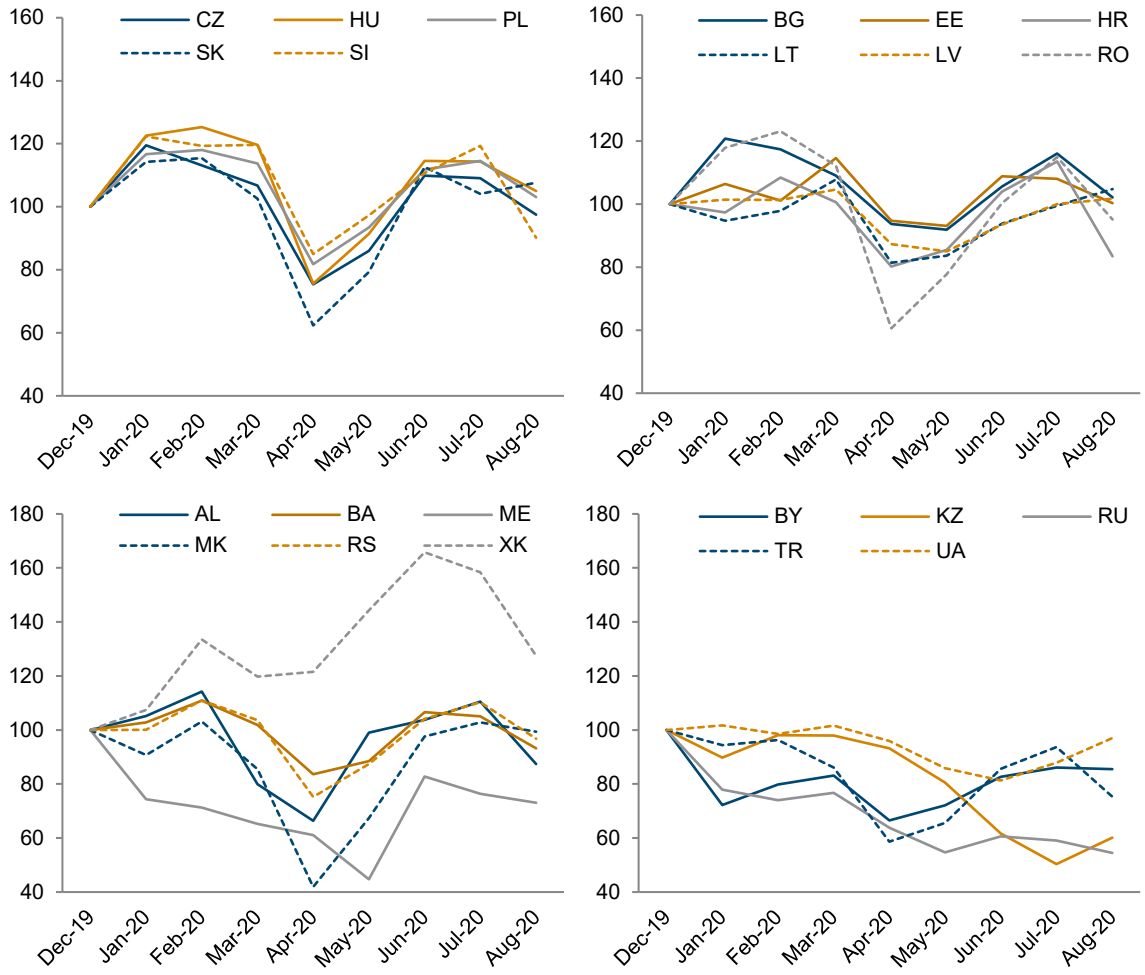



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculations. Forecasts by wiiw.

**Among the final demand components, it is investments that are projected to suffer the most.** Gross fixed capital formation (GFCF) fell strongly in most CESEE countries even in the second quarter, on account of sharply increased uncertainties and reduced levels of capacity utilisation. In the very few cases where GFCF has held up well so far (such as Romania), the full impact of the crisis has arguably not yet been felt. Besides, in non-EU countries, public-sector investments have typically fallen victim to budget reshuffling, with the spending priorities shifting towards support for labour markets and incomes. By contrast, in most EU-CEE countries (except Hungary and Bulgaria), they have continued to perform strongly, thanks to the steady inflow of EU transfers. Nevertheless, overall GFCF in most of those countries is projected to be in deep red and represent the main drag on economic growth this year (Figure 2.5). Besides, in many CESEE countries, inventories have also been depleted.

**Figure 2.6 / Exports of goods (customs statistics, EUR based)**

index, December 2019=100



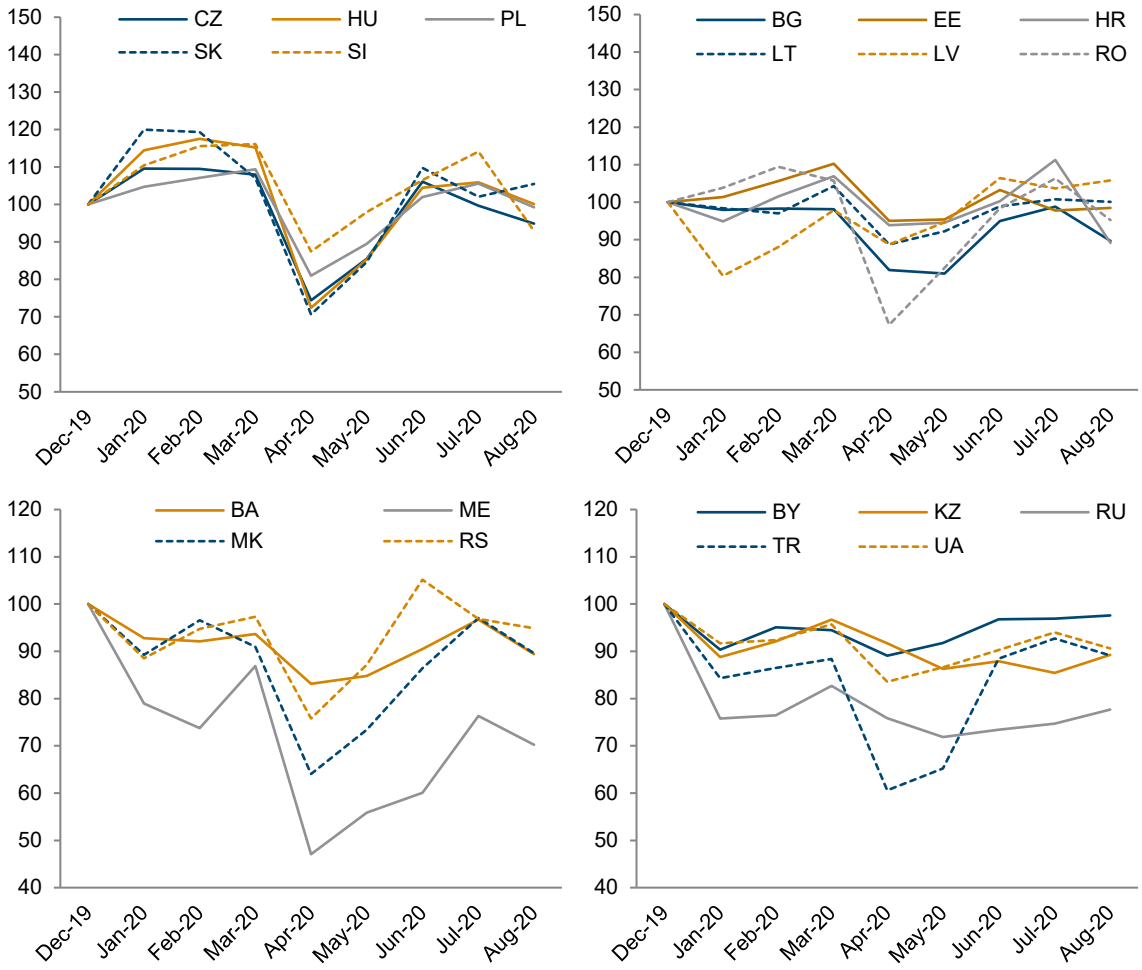

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

**Exports declined sharply almost everywhere in the second quarter, mirrored by trends in industrial production.** This is especially true of the Visegrád countries, as well as Slovenia and Romania, where the slump in exports of goods (by 30-40% in Q2 2020) was largely synchronised and went hand in hand with the decline in industrial production (Figures 2.6 and 2.7), driven to a large extent

by the ailing automotive industry. In Russia and Kazakhstan, exports suffered in the second quarter on account of the oil price shock (and to a lesser extent oil production cuts under the OPEC+ agreement) and – unlike in EU-CEE countries – have not recovered subsequently. Elsewhere in CESEE, the slump in exports has tended to be less pronounced. In particular, agricultural exports have done well, benefiting countries such as Ukraine.

**Figure 2.7 / Real gross industrial production**

index, December 2019=100



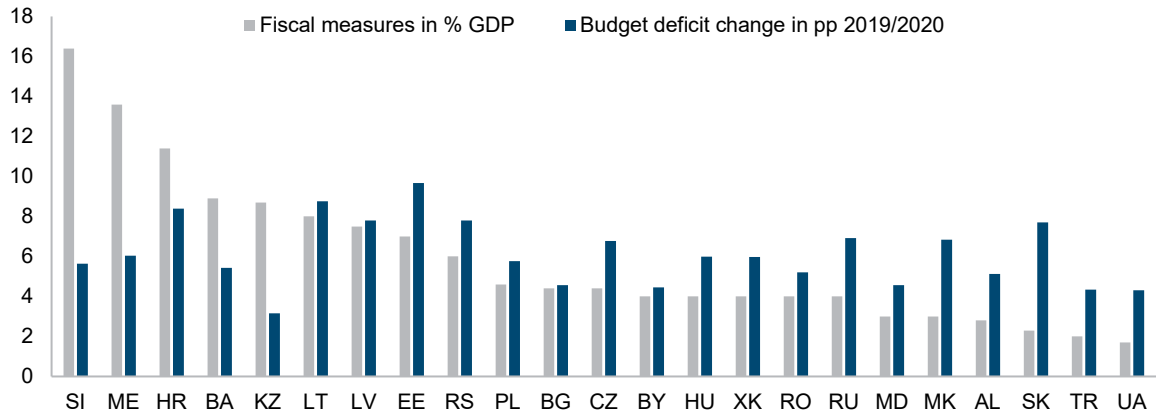

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

**However, the contribution of net exports to GDP growth has been mixed.** In most EU-CEE countries, the contribution of real net exports (of goods and services) to GDP growth is projected to be negative in 2020 and will amplify the contractionary effect of the slump in domestic demand (Figure 2.5). However, in Poland, the Baltic and several Western Balkan countries, as well as in Kazakhstan, Moldova and Ukraine, it is the other way around, thanks to imports (of goods and services) falling more than exports in real terms. Apart from the generally lower dependence on import demand from the ailing euro area, another reason for this in the case of non-EU CESEE countries is the fact that travel abroad has been severely constrained by largely closed borders, sharply reducing services imports.

## 2.3. FISCAL SUPPORT MEASURES SWELL BUDGET DEFICITS

**The budget deficits of CESEE countries have widened markedly this year…** The projected increase in budget deficits in 2020, compared with last year, ranges from 3 percentage points (pp) of GDP in Kazakhstan to nearly 10 pp in Estonia (Figure 2.8). In view of the economic impact of the lockdowns, strict EU fiscal policy rules have been temporarily abandoned. As a result, EU-CEE countries that previously had difficulty in complying with the rules and had been subject to the Excessive Deficit Procedure (such as Romania) have found themselves in a more comfortable position, at least for the time being. Global liquidity conditions have been generally supportive as well, nurtured by ultra-loose monetary policy in the euro area and the US. The initial spike in risk aversion in the early stages of the pandemic subsided fairly rapidly, so that the governments of EU-CEE countries, as well as Russia, had little trouble in borrowing privately at affordable interest rates. However, the Western Balkan countries, Croatia, Belarus, Ukraine and Moldova had to rely also on official sources of finance, such as the EU, the IMF, the World Bank and Russia (in the case of Belarus). In EU-CEE countries, EU support has played a role as well – for instance, in the form of funding short-time work (STW) schemes (for more on this, see the next section).

**Figure 2.8 / Budget deficit and fiscal measures, as of October 2020**




Source: wiiw estimates.

**… mostly on account of new fiscal support measures.** Only in Slovakia, North Macedonia, Turkey and Ukraine is the widening of the budget deficit this year driven primarily by a shortfall in tax revenues, rather than by fiscal expansion measures. The size of the fiscal packages adopted for 2020 differs markedly from country to country, ranging from less than 2% of GDP in Turkey and Ukraine to 16% in Slovenia (Figure 2.8).[4] The measures typically include STW schemes, tax deferrals, hikes in unemployment and social benefits, higher minimum wages, moratoriums on bankruptcies, and subsidised credits (especially for SMEs, which were hit hardest by the pandemic). Indiscriminate 'helicopter money' schemes have been implemented by some countries, as well. For instance, Serbia provided a lump sum of EUR 100 to every adult citizen and Albania a lump sum of EUR 400 to every employee, while Slovenia distributed EUR 200 worth of vouchers to each citizen, in order to support the

[4] These figures should be seen as rough estimates, given the difficulties of quantifying the precise monetary value of the measures adopted. In particular, many of the measures (such as STW schemes) depend not only on funds earmarked by the government, but also on the 'absorption capacity' of those targeted.

domestic tourism industry. In some countries, notably Slovenia, credit lines and credit guarantee schemes make up a large part of the headline fiscal package, but the actual payments made will be at most only a fraction of the total (which explains the very large size of the package shown in Figure 2.8).[5] Many of the support measures extend into the next few years.

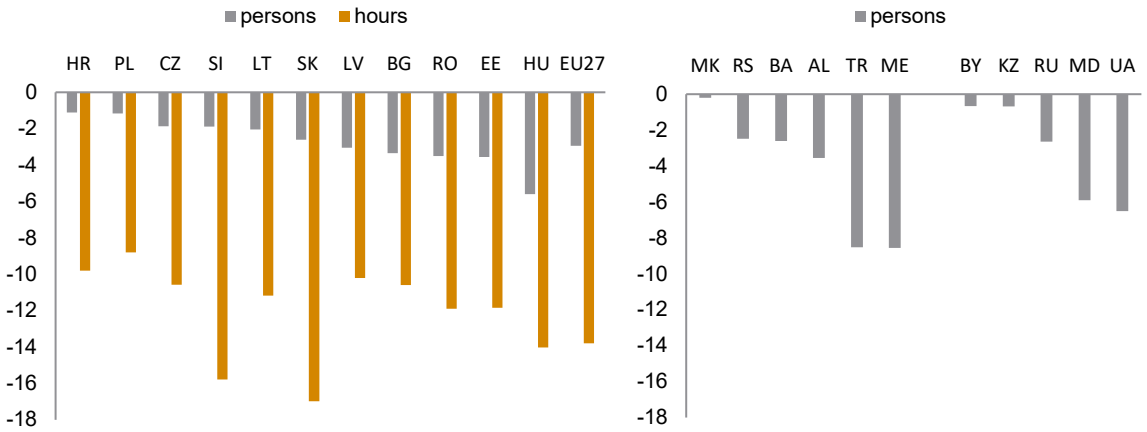
## 2.4. SHORT-TIME WORK HAS LIMITED LABOUR SHEDDING – SO FAR

**by Sebastian Leitner**

**The lockdowns resulted in a noticeable decline in employment in the second quarter.** According to national accounts figures, the number of jobs fell by 2.4% on average year on year in EU-CEE, which was somewhat less than in the EU27 as a whole (2.9%). While in Hungary employment dropped by almost 6%, in Croatia and Poland the reduction was rather limited (1%). In the Southeast Europe region, the plunge (based on LFS data) was remarkable in Turkey and Montenegro (more than 8%). In Moldova and Ukraine, employment also declined sharply (by about 6%).

**Figure 2.9 / Employment and hours worked**

growth rate in Q2 2020 as % of corresponding period of previous year




Note: Data for EU-CEE11 and EU27 based on national accounts statistics, HR, PL, RO (estimate); WB+TR and CIS4+UA according to LFS statistics. For BA, the data refer to the number of persons in paid employment.
Source: Eurostat and wiiw Annual Database incorporating national statistics.

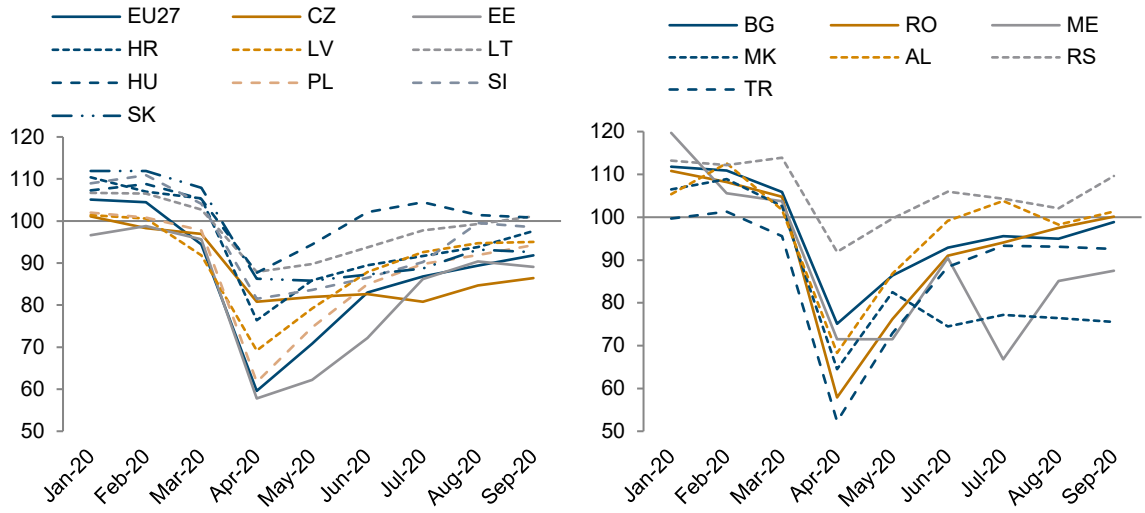
**However, in terms of hours worked, the slump in labour demand was about three times greater than the decline in jobs** (see Figure 2.9). In all EU-CEE countries, hours worked decreased by between 9% and 17% in the second quarter of 2020, year on year. The sectors domestic trade, transport and the hospitality industry accounted for about a third of the reduction; another third was in industry; and the remainder came in other sectors. This difference between persons and hours worked results from the various government measures aimed at keeping people in employment. Thus, many employees took holidays, used up their accumulated overtime and took advantage of possible exemptions to care for their children.

[5] In Kazakhstan, fiscal support measures are financed to a large extent by tapping the sovereign oil fund, which allows any widening of the budget deficit to be kept in check.

**The most important measures to prevent stronger job losses were the short-time work schemes.** To this end, all EU-CEE countries (except Estonia) will receive support from the EU Commission in the form of loans granted on favourable terms both this year and in 2021. The total amount will range from 0.4% of GDP for Hungary to slightly more than 2% of GDP for Poland and Slovenia. The funds can be used for the creation or extension of STW schemes, and for similar measures targeting the self-employed. In EU-CEE countries the STW allowances paid range from 50% of the original gross wage in Poland to 80% in Slovenia. Various STW schemes have also been introduced in some Western Balkan countries (such as Serbia, Albania, Kosovo, Montenegro and North Macedonia), as well as in Turkey.

**Thanks to the widespread support measures, unemployment rates increased only slightly.** Rates rose by 1.5 percentage points on average in the CESEE region between February and June 2020, and remained stable in the months thereafter. However, in some countries, workers moved directly from employment into inactivity, which meant that unemployment rose less (Bulgaria and Slovenia) or even declined (Turkey and Serbia). Job search was next to impossible under lockdown conditions, and labour demand collapsed in some sectors. So far, the employment rate of elderly persons has remained stable, while the employment rate of young persons has declined, on average. Their entrance into the labour market became harder (at least for a while), particularly in Slovenia, Turkey, Estonia, Lithuania, Poland and Bulgaria.

**Figure 2.10 / Employment expectations indicator (EEI) over the next 3 months**




Notes: The EEI summarises managers' employment plans in the four business sectors surveyed (industry, services, retail trade, construction). Figures above 100 indicate an increase in the number of jobs; below 100 – a decline in the number of jobs.
Source: Eurostat database.

**However, there may be more job losses in the near future.** Managers' short-term expectations for employment improved following the end of lockdown; but in most CESEE countries, businesses still anticipate a decline in jobs over the next three months (see Figure 2.10). Only in Hungary, Lithuania, Bulgaria, Romania and Albania is employment expected to stagnate; while in Serbia, a substantial increase in jobs is anticipated.

**In the CESEE region, the unemployment rate is expected to increase less than in the euro area this year and in 2021.** This reflects the stronger recession in the euro area and the still rather tight labour markets in many CESEE countries at the time the coronavirus crisis hit. In EU-CEE11, the unemployment rate is likely to remain low, at about 5% on average. The average level of the rate is, at about 13.5%, traditionally higher in the Western Balkan countries and Turkey; however, it is likely to decline again as early as 2021. This is also the case for the CIS countries covered, which feature rates at or below 6%. Only in Ukraine is the annual average unemployment rate expected to peak at 10% this year.

**A downside labour market risk is the rising number of bankruptcies in the first half of 2021, which could result in more severe job losses, with a subsequent sharper reduction in disposable incomes.** With the expiry of crisis-related income support schemes, particularly the long-term unemployed will be in danger of getting into dire financial straits. In a couple of EU-CEE countries (see Table 2.2), after a spell of unemployment of just seven months, the net income replacement rates for average-income earners decline to well below 50% of the previous wage. And after 13 months, only in the Baltic states, Poland and Slovenia are social benefits likely to be high enough to prevent the unemployed from sliding into poverty.

**Table 2.2 / Net replacement rate provided by social benefits, 2019**

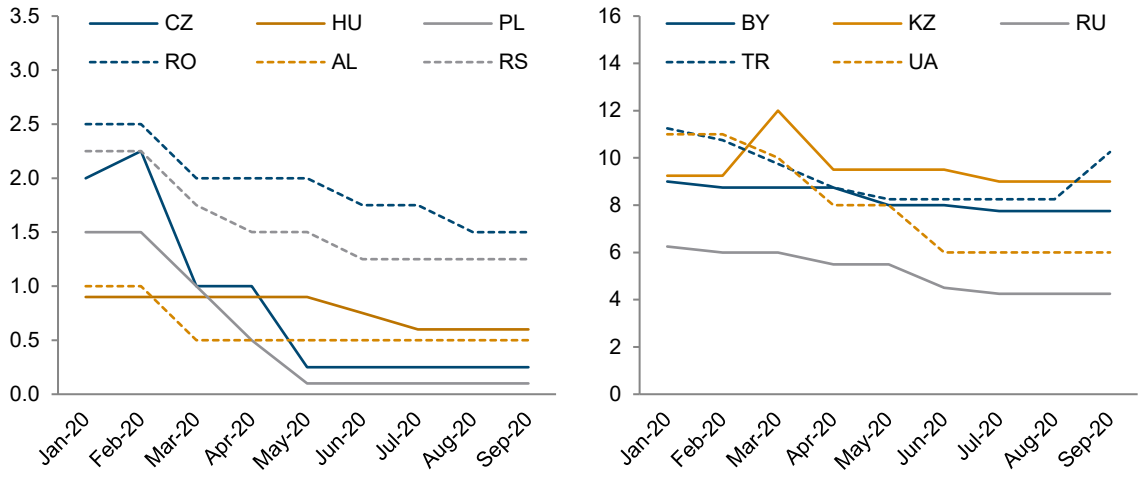
| | Unemployment benefits, housing benefits and social assistance<br>Duration of unemployment spell | | |
|---|---|---|---|
| | 2 months | 7 months | 13 months |
| Bulgaria | 79 | 79 | 25 |
| Estonia | 61 | 57 | 57 |
| Latvia | 76 | 51 | 51 |
| Lithuania | 85 | 71 | 62 |
| Croatia | 68 | 38 | 38 |
| Poland | 71 | 71 | 71 |
| Romania | 37 | 26 | 26 |
| Slovakia | 61 | 32 | 32 |
| Slovenia | 78 | 78 | 78 |
| Czech Republic | 69 | 30 | 30 |
| Hungary | 56 | 16 | 16 |
| **EU27** | **69** | **62** | **57** |
| **Austria** | **69** | **69** | **64** |

Notes: The rate shows the net earnings (covering unemployment, housing benefits and social assistance) of an unemployed person receiving unemployment and other benefits, expressed as a share of the income received previously in the job. The person is the sole earner in a two-adult household with two children, and received the average income of the country concerned. The net replacement rate is shown for unemployment spells of 2, 7 and 13 months.
Source: DG ECFIN - Tax and benefits indicators database, February 2020.

## 2.5. CURRENCY DEPRECIATION MITIGATES THE IMPACT OF EXTERNAL DEMAND SHOCK

**Monetary policy has been relaxed markedly as one of the responses to the crisis…** In CESEE countries with a floating exchange rate regime (and which thus retain monetary policy autonomy), policy interest rates have been cut sharply in the wake of the crisis, in some cases to very low levels (Figure 2.11). Unlike the euro area, where the zero-interest-rate bound was reached some time ago, CESEE countries still had enough space for such reductions. Furthermore, the programmes of subsidised credit adopted in many countries reduced the borrowing costs for businesses and households as well. However, in Turkey, where the real interest rate had been deep in negative territory, the central bank changed course sharply in September (in order to avoid a looming balance-of-payments crisis), and our expectation is that the policy rate will rise further, to well above zero in real terms. In the Western Balkans, CIS and Ukraine, rates are already positive – recent cuts notwithstanding (for more on this, see Figure 3.4).

**Figure 2.11 / Central bank policy rates, in % per annum**



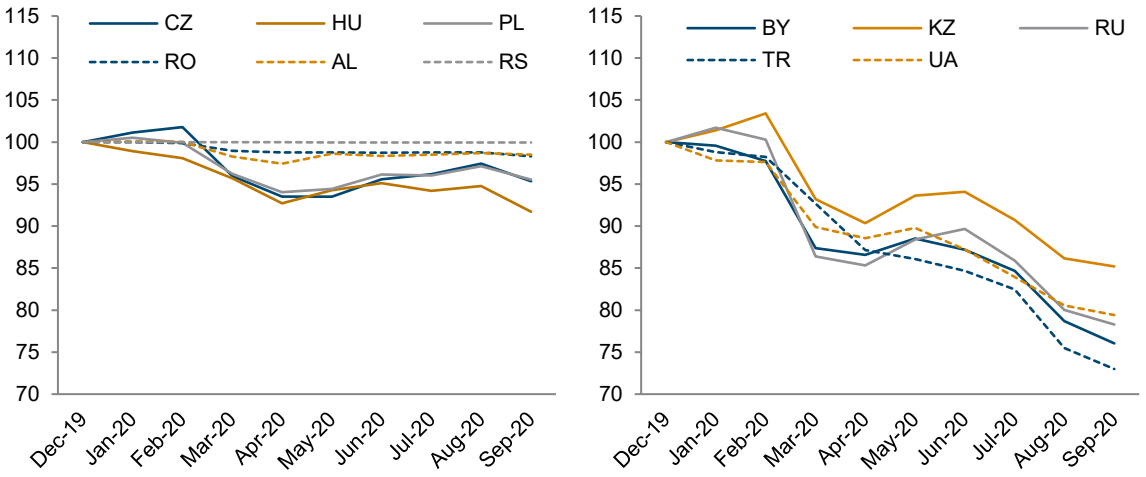

Source: wiiw Monthly Database incorporating national statistics.

**… but in the face of great uncertainty, this has not translated into increased credit expansion.** In fact, the dynamics of household loans has been decelerating year on year, although loans to non-financial corporations have proved more resilient: only in EU-CEE did their dynamics turn negative by August on an annual basis (Figure 3.4). The major exception to these trends has been Turkey: there, credit to both households and businesses has expanded dramatically since the onset of the crisis, bolstered by aggressive government policies. However, this expansion in Turkey will slow significantly in months to come, due to the recent monetary tightening.

**An arguably more effective transmission channel for monetary easing has been the exchange rate...** Since the eruption of the crisis, the currencies of many CESEE countries have been generally tending to depreciate (albeit with a brief period of appreciation in May-June). In the CIS and Turkey, the currency depreciations have been particularly pronounced: in Turkey, Belarus and Russia, the domestic currencies have lost between 20% and 30% of their value against the euro since the start of the year. Meanwhile, in the EU-CEE countries depreciations have been more contained and have stayed below 10% (Figure 2.12).

**Figure 2.12 / Nominal exchange rates, EUR to national currency, monthly average**

index, December 2019=100




Note: Values above 100 indicate appreciation relative to December 2019.
Source: wiiw Monthly Database incorporating national and Eurostat statistics.

**… helping price competitiveness in EU-CEE and public finances in Russia.** By raising the prices of imported goods, currency depreciations have counteracted the deflationary effects of the slump in domestic demand and of lower energy prices, resulting in a modest acceleration of inflation in countries such as Hungary, Poland and the Czech Republic (Overview Table 2.2). However, they have also partly absorbed the external demand shock, helping these countries' external competitiveness. In Russia, where a large share of export revenues is appropriated by the state in the form of energy sector taxes, depreciation has mitigated the increase in the budget deficit, limiting the decline in energy tax receipts in national currency terms.

## 2.6. RECENT REBOUND STRONG, BUT DARKER CLOUDS ON THE HORIZON

**The economic bounce-back was generally strong over the summer months…** Retail trade turnover, industry and exports all rebounded strongly from the slump recorded in spring (Figures 2.6 and 2.7). In many CESEE countries, retail trade turnover had reached (or was approaching) pre-crisis levels by August – partly the effect of delayed demand, as households made purchases that had been postponed during the lockdowns. In Estonia, Latvia, Ukraine and Kosovo, retail trade turnover even exceeded the levels recorded a year ago.

**… resulting in mostly upward GDP forecast revisions for 2020, compared to those in May.** Out of 23 CESEE countries surveyed, 13 have seen their growth forecasts revised upwards, compared to our May forecasts (Table 2.3).[6] By and large, the upward revisions have been either on account of the better-than-expected external environment (such as in Latvia and Lithuania, which have strong economic ties with Scandinavia, a region that suffered relatively little from the pandemic), or due to the greater-than-expected scale of domestic policy response: fiscal in the cases of Slovenia and Serbia, monetary in the case of Turkey. However, for the Visegrád countries (except Slovakia) and the Western Balkans (except Serbia) the growth forecasts have been revised downwards. In the Visegrád countries, the external demand shock in spring proved stronger than initially expected, while in the Western Balkans the economies have suffered from the coronavirus pandemic being generally more dramatic than initially assumed. In general, our forecast revisions – whether upward or downward – have been particularly large this time, compared to previous years – in itself a reflection of the very great uncertainty surrounding economic forecasts at present.

**Table 2.3 / Real GDP growth forecasts and revisions**

| | | Forecast, % | | | Revisions, pp | |
|---|---|---|---|---|---|---|
| | | 2020 | 2021 | 2022 | 2020 | 2021 |
| EU-CEE11 | BG | -5.1 | 1.7 | 2.6 | 1.2 | 0.0 |
| | CZ | -6.6 | 3.9 | 3.5 | -1.8 | 1.4 |
| | EE | -4.8 | 3.9 | 3.0 | 2.2 | -0.1 |
| | HR | -9.4 | 5.0 | 4.0 | 1.6 | 1.0 |
| | HU | -6.5 | 3.0 | 4.6 | -1.0 | 1.0 |
| | LT | -2.0 | 4.5 | 3.2 | 4.5 | 0.2 |
| | LV | -4.6 | 4.4 | 2.8 | 3.4 | -0.1 |
| | PL | -4.4 | 3.5 | 3.4 | -0.4 | 0.5 |
| | RO | -5.5 | 3.7 | 4.5 | 1.5 | 0.7 |
| | SI | -6.7 | 4.5 | 3.0 | 2.8 | 0.5 |
| | SK | -7.3 | 4.1 | 3.9 | 1.7 | -0.5 |
| WB6 | AL | -6.4 | 4.6 | 4.0 | -1.4 | 0.8 |
| | BA | -5.1 | 3.2 | 3.1 | -0.1 | 0.2 |
| | ME | -9.0 | 5.0 | 4.1 | -1.0 | 0.0 |
| | MK | -6.0 | 4.5 | 4.0 | -1.0 | 0.5 |
| | RS | -2.0 | 4.5 | 4.1 | 2.0 | 0.5 |
| | XK | -5.1 | 4.8 | 4.3 | -0.7 | 0.8 |
| Turkey | TR | -3.5 | 4.1 | 4.6 | 2.5 | -1.4 |
| CIS4+UA | BY | -2.5 | -1.2 | 1.3 | 2.8 | -0.5 |
| | KZ | -3.0 | 2.5 | 4.0 | 0.0 | 0.5 |
| | MD | -7.0 | 4.0 | 4.0 | -4.0 | 1.0 |
| | RU | -4.5 | 2.5 | 2.1 | 2.5 | 1.0 |
| | UA | -5.0 | 2.0 | 3.6 | 1.0 | -0.5 |

Note: Current forecast and revisions relative to the wiiw May forecast 2020. Colour scale variation from the minimum (red) to the maximum (green).
Source: wiiw.

[6] wiiw (2020).

**Nevertheless, by September economic activity had generally failed to reach pre-crisis levels…** The recovery of private consumption has been hampered by a depressed demand for services, such as transport, accommodation, food services, entertainment and recreation, which were the hardest hit by the pandemic. Although their rebound over the summer was often as strong as that of retail trade, it started from a much lower base. As a result, economic activity in the services sector is still far below pre-crisis levels. The dynamics of industrial production and exports, though initially encouraging, has also been losing pace recently (Figures 2.6 and 2.7).

**… and will weaken in the months to come.** The prospects for near-term economic recovery in the CESEE countries are bleak. Even prior to the second wave of the coronavirus pandemic, the confidence indicators for both services and industry – despite some improvements during the summer – remained in negative territory (Figures 2.13 and 2.14). The employment expectations indicator (Figure 10) was also pointing downwards, potentially heralding depressed incomes and consumer demand over the next few months. Needless to say, the second wave of the pandemic has made things even worse.

**Figure 2.13 / Service confidence indicator, seasonally adjusted**

balance of positive over negative survey results


Note: In the services survey, managers are asked for their assessment of the business climate, and the recent evolution in demand, employment and selling prices in their business, as well as past and future changes in their company's turnover and employment. Data for RU not seasonally adjusted.
Source: DG ECFIN Business and Consumer surveys (Eurostat) and the Russian Federal State Statistics Service.

**Figure 2.14 / Industry confidence indicator**

balance of positive over negative survey results


Note: In the ***industry survey*** the main questions refer to an assessment of recent trends in production, of the current levels of order books and stocks, as well as expectations about production, selling prices and employment.
Source: DG ECFIN Business and Consumer surveys (Eurostat) and OECD for Russia.

**The second wave of coronavirus infections in CESEE appears to be stronger than the first…**[7]
Countries which did particularly well during the first wave, such as the Czech Republic and Slovakia, are now among the worst affected. Admittedly, the high number of new infections detected is a consequence of increased testing, implying that many more asymptomatic cases are now being uncovered. However, the number of hospitalisations has gone up dramatically as well, putting pressure on the healthcare systems of many CESEE countries. In some countries, such as Russia, Ukraine and Moldova, the healthcare systems can barely cope as it is, with a shortage of vacant hospital beds and a large number of medical personnel infected. Even in the Czech Republic and Slovenia, the situation is reportedly approaching critical.[8]

[7] In reality, the division between the 'first' and the 'second' waves of coronavirus infections is not always clear cut. While it holds well for the EU-CEE countries and Belarus, in other parts of the CESEE region the dynamics of the pandemic has been more muted. For instance, in most Western Balkan countries, Ukraine and Kazakhstan, the second wave arrived back in summer (prompting renewed lockdowns in some cases). In Russia, it can be argued that the first wave has never really ended, as the number of new infections declined only slowly over the summer months, before starting to rise again in September.

[8] See, for instance, https://www.abc.net.au/news/2020-10-22/20-european-countries-record-highest-daily-covid-infections/12800772

**… making renewed lockdowns rather likely in at least some CESEE countries in the weeks to come, which may result in 'double-dip' recessions this year.** So far, the restrictions put in place in response to the second wave of the pandemic have been milder than during the first wave. They typically include shorter opening hours for restaurants and bars, caps on the number of people gathering in one place, and in some cases distance learning in schools. However, the example of the Czech Republic, which has reimposed a nearly full lockdown (on 21 October), demonstrates that such a scenario may be repeated in other CESEE countries as well, should the number of new infections surge higher and test the capacities of the healthcare systems to cope. Poland, Slovakia and Slovenia have already introduced partial lockdowns, including among other things the closure of restaurants and bars, while Hungary closed its borders on 1 September in order to contain the spread of the virus. The experience so far suggests that the extent of economic downturn has generally gone hand in hand with the stringency of the measures imposed.[9] In Russia and Kazakhstan, near-term prospects have deteriorated markedly also on account of the renewed oil price decline. All in all, and given the recently reimposed lockdowns in many countries of the euro area – the CESEEs' main export market – it may be hard to avoid 'double-dip' recessions this year (on a quarterly basis).

## 2.7. NO QUICK RECOVERY IN SIGHT, CORONAVIRUS RISKS LOOMING LARGE

**In the baseline scenario, the CESEE economies will return to growth in the coming years...** Because of the huge uncertainties associated with the further spread of the coronavirus pandemic and with the progress in finding an effective vaccine/treatment, economic forecasts are currently extremely unsettled. Our baseline scenario assumes that the pandemic will be successfully contained next year without resort to new lengthy lockdowns. Under this benign scenario, the economy of the CESEE region is expected to rebound by 3.1% next year and by 3.3% in 2022 (Overview Table 2.1). A major 'pull' factor will be the recovery in the euro area: by 5.8% and 2.5%, respectively, according to the latest European Commission forecast. However, the bounce-back in CESEE next year will not be as strong as in the euro area, as the starting point is higher (i.e. the slump this year was smaller than in the euro area). Not until 2022 is the convergence of the CESEE region with the EU average expected to resume – and even then, its pace will be slower than in the past. The respective growth differential projected for 2022 is only 0.6 pp, less than the 1-2 pp typically recorded before the coronavirus crisis and the 2-3 pp before the global financial crisis of 2008-2009.

**… facilitated in the EU-CEE countries by EU transfers, especially from the newly established Next Generation EU (NGEU) recovery fund.** The planned NGEU recovery fund, totalling EUR 750 billion, to be distributed over the period 2021-2023 in the form of grants and loans, is aimed at facilitating economic recovery in EU member states, and at the same time also at fostering structural reforms, especially in such areas as digitalisation and climate change (for details, see Box 2.1). If approved,[10] NGEU disbursements to the EU-CEE countries will be rather large relative to their economies – especially in the cases of Croatia and Bulgaria, where they will average 3.7% and 3.3% of annual GDP, respectively. This is comparable to the size of the transfers that EU-CEE countries have been receiving under the outgoing EU Multiannual Financial Framework (MFF) for 2014-2020 (3-4% of GDP per year

[9] See, for instance, https://think.ing.com/articles/eurozone-hangover-in-the-making-while-the-partys-in-full-swing/

[10] At the time of writing, it is not yet certain whether the NGEU package will be adopted, since it includes conditions pertaining to the 'rule of law', to be met as a prerequisite for the disbursements – something that is opposed by countries such as Hungary and Poland.

on average); these have been an important pillar, especially of public-sector investments in those countries.[11]

### BOX 2.1 / NEXT GENERATION EU WILL BOOST ECONOMIC RECOVERY IN THE EU-CEE COUNTRIES

by Philipp Heimberger

Next Generation EU is the core building block of the fiscal policy response to the coronavirus crisis at the EU level. It provides for a total of EUR 750 billion, with EUR 390 billion in grants and EUR 360 billion in repayable loans. The European Commission will issue bonds on behalf of the EU to finance a temporary increase in the EU budget over the period 2021-2023. The grants will be channelled through several EU spending programmes (European Council 2020).

Of central importance is the so-called Recovery and Resilience Facility (RRF), through which EUR 310 billion of the grants are set to flow throughout the EU. The remaining EUR 80 billion in grants will flow through additional EU spending programmes (e.g. the Just Transition Fund). Some 70% of the RRF funds will be distributed in the years 2021 and 2022, and the remaining 30% in 2023. The allocation of grants for the years 2021-2022 has already been fixed: the numbers for each EU member state are based on population size in 2019, the inverse of GDP per capita in 2019, and the average unemployment rate over the period 2015-2019. However, the distribution key for the approximately EUR 94 billion in grants to be distributed in 2023 will change, as the unemployment criterion is to be replaced by the loss of real GDP in 2020 and the cumulative loss in real GDP over 2020-2021. These GDP numbers, however, are not yet known and will only be calculated in June 2022 and fixed thereafter; therefore, the exact allocation of grants through the RRF in 2023 currently remains unknown. Nevertheless, a couple of important observations can be made on the basis of the grants allocation in 2021-2022 and forecasts for what the funds distribution could look like in 2023.

Box Figure 2.1 presents the allocation of RRF grants across EU countries in relation to GDP. It can be seen that Croatia (11.0% of 2019 GDP) and Bulgaria (9.9%) are expected to receive the most grants in relation to the size of their economy over the next three years, while, of the EU-CEE countries, the Czech Republic will benefit the least (3.1% of GDP). On an average annual basis, the RRF grants to EU-CEE countries will thus range from 3.7% of GDP in Croatia to 1% in the Czech Republic.

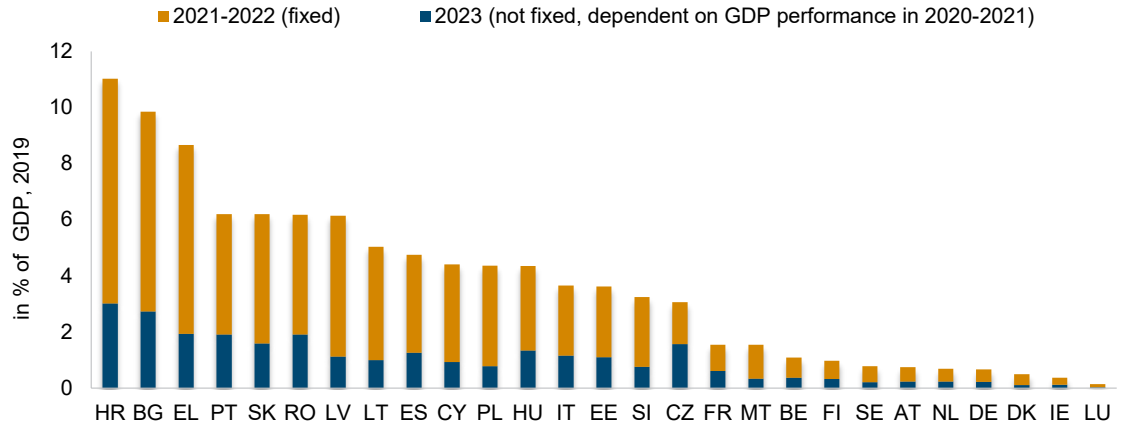
RRF grants will be vitally important for EU-CEE countries when it comes to compensating for the negative impact of the coronavirus pandemic on economic activity. National recovery and resilience plans – which every EU member state will need to submit by the end of April 2021, before RRF grants can flow – must, however, include a minimum of 37% of expenditure on climate. The European Commission encourages member states to speed up the development and use of renewables, to increase the energy and resource efficiency of public and private buildings, and to promote sustainable transport infrastructure (European Commission 2020). Despite these broad suggestions, there remains scope for interpretation about what will count as ‘expenditure on climate’. Furthermore, in terms of investment and reforms, it will be important for the spending plans of the individual member states to take into account the European Commission’s country-specific recommendations from the European semester.

[11] The next EU MFF for 2021-2027 has also yet to be approved; judging by past experience, funds will not be disbursed before 2023.

The RRF grants allocation data show that EU-CEE countries will receive relatively large direct contributions. There are, however, severe problems with only looking at how much specific countries are set to receive at the national level, as this ignores the coordinated nature and the demand spill-over effects from a simultaneous increase in public spending across all EU countries. In particular, there will be substantial spill-overs from EU-CEE countries to Germany and other euro area countries, due to trade networks and interconnected industrial structures. In the opposite direction, demand spill-overs are likely to be much smaller: the majority of euro area countries (and especially countries in Europe's industrial core, such as Austria, the Netherlands and particularly Germany) will receive a smaller direct boost to their GDP owing to relatively small grants contributions.

By relating the funds dispensed in the home country (in terms of grants) to the overall GDP effects from all Next Generation EU spending, Picek (2020) estimates relatively low domestic grant multipliers for the EU-CEE countries, ranging from a multiplier of 1.8 for Croatia to 3.0 for the Czech Republic. These relatively low multipliers reflect relatively small demand spill-overs from other EU countries. For countries such as Germany (4.1), the Netherlands (5.0) and Austria (6.4), we can expect much higher domestic grant multipliers, due to positive spill-overs from EU-CEE countries and member states (Picek 2020, p. 331).

**Box Figure 2.1 / Grants from EU Recovery and Resilience Facility, 2021-2023, as % of GDP**




Source: European Commission, own calculations.

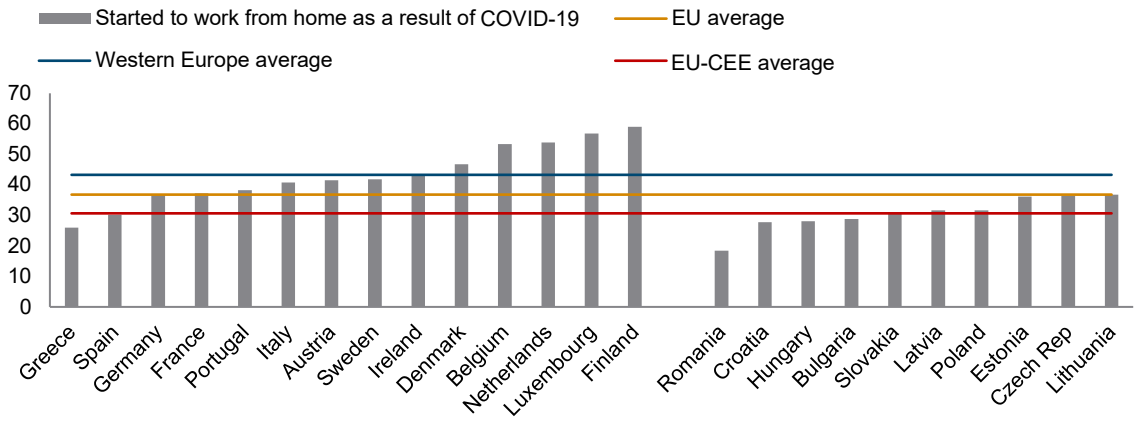
**However, even in the benign baseline scenario, the pre-crisis levels of real GDP will not be reached next year.** For the CESEE region as a whole, economic recovery next year will fall short of this year's recession (Overview Table 2.1). Only in Turkey, Lithuania and Serbia do we expect this to be the other way around, as strong growth momentum will carry over into next year. However, in Turkey large external imbalances make the country particularly vulnerable to any change in global investor sentiment. The economies of Croatia and Montenegro are expected to rebound quite strongly as well (by 5%) in the baseline scenario, as the tourism industry will partially recover the losses incurred this year, although their GDP will fall far short of pre-crisis levels. By contrast, in Russia and Kazakhstan growth in 2021-2022 will barely exceed 2.5%, as oil prices are unlikely to recover substantially and export volumes will still be constrained by the OPEC+ quotas; and in Ukraine, recovery will be similarly muted. Belarus is

the only CESEE country which in the baseline scenario will record another year of recession (-1.2%), mainly due to the expected fallout from the current political crisis.

**The main risks to our baseline forecast are (i) premature withdrawal of government support and (ii) the further spread of the coronavirus pandemic, which may necessitate renewed lockdowns.** The latter will not only have a direct contractionary impact on the CESEE economies, but will also weigh heavily on the demand for durable consumer and investment goods because of the high uncertainties. The economic impact of domestic lockdowns will be clearly amplified, if accompanied by renewed lockdowns in the euro area countries.

**Even in the baseline scenario, the coronavirus pandemic is likely to leave lasting legacies in the CESEE region, especially in the form of reduced demand for services.** It is conceivable that depressed demand for some types of services, such as transportation, accommodation, food services, entertainment and recreation, may become a 'new normal' over the forecast horizon and beyond, even if the coronavirus pandemic is successfully contained. Some other sectors, such as ICT, will probably benefit from the new situation and flourish, but may not offset the shortage of demand for more traditional services. Besides, the shift to digitalisation may be less pronounced in CESEE than, for instance, in Western Europe. Surveys suggest that on average only 31% of the population in EU-CEE have started working from home due to the COVID crisis, and in the remainder of the CESEE region this percentage is likely to be even lower (Figure 2.15). By contrast, in Western Europe 43% of respondents started working from home during the pandemic (although the discrepancy may be partly due to the above-mentioned structural differences, such as the lower share of services in CESEE as compared to Western Europe).

**Figure 2.15 / Respondents who started to work at home during the COVID-19 crisis, %**




Note: No comparable data for Slovenia.
Source: Eurofound (2020), Living, working and COVID-19 dataset.

**Under these conditions, a lot will depend on the continuation of government support measures, which may be especially difficult in the Western Balkans, Moldova and Ukraine due to financing constraints.** So far, government support measures have provided a temporary lifeline for many businesses, especially in the services sector. However, as fiscal space dwindles, and as the political

willingness to support arguably hopeless businesses eventually subsides,[12] a new wave of bankruptcies and a further surge in unemployment may follow, with repercussions for domestic demand. Fiscal space may become a binding constraint, especially in tourism-dependent countries with high public debt, such as Albania and Montenegro, as well as in countries that are heavily dependent on external support, such as Ukraine, Belarus, Moldova and Bosnia and Herzegovina. Non-EU CESEE countries will benefit from EU transfers much less than EU-CEE, where especially NGEU funds will play an important role next year and beyond. Most importantly, unless the pandemic is brought under control, renewed lockdowns will require an extension of existing – and possibly the reintroduction of new – government support measures to minimise the painful fallout for the economy. Whether this is possible in all CESEE countries is open to question and represents – along with the coronavirus pandemic itself – the main risk to our medium-term forecasts.

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[12] Indeed, active labour market policies aimed at retraining the labour force that has been (or may be) rendered idle in the wake of the pandemic may be the preferred policy option.