

Macroeconomic policy challenges amid a changing geopolitical landscape

Debora Revoltella
Chief Economist, European Investment Bank

9th ECB conference on CESEE, July 17th-2023

Key messages

- Early start with monetary policy tightening,
- ... financial conditions follow swift, but CESEE structural specificities matter.
- The importance of investment in the digital and green transition.
- Evidence of policy impact – EIB loans for MBIL.

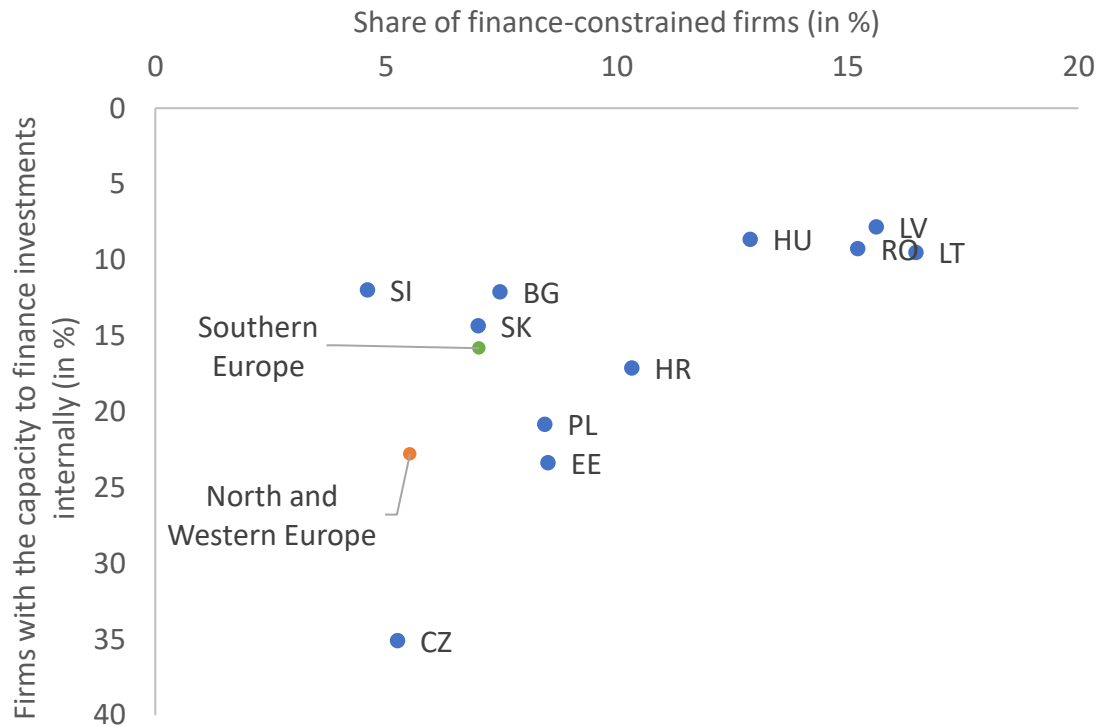
Also based on CESEE Bank Lending Survey (July 2023) and EIBIS (2022)

- [CESEE Bank Lending Survey – Spring 2023 \(eib.org\)](https://www.eib.org/de/publications/20220265-econ-eibis-2022-cesee)

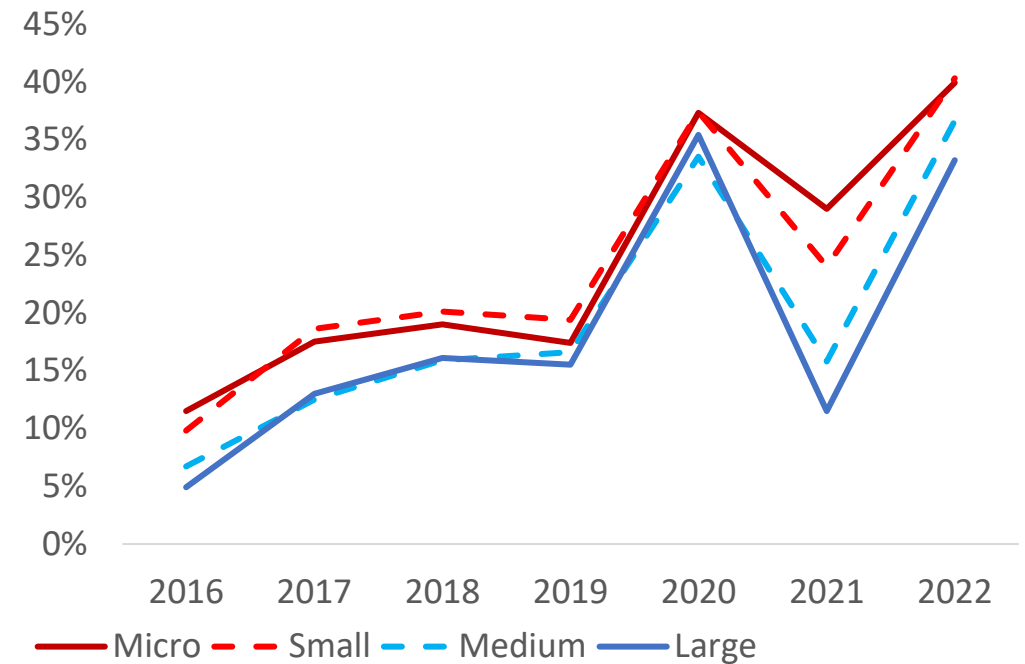
• <https://www.eib.org/de/publications/20220265-econ-eibis-2022-cesee>

Credit conditions are structurally tighter in CESEE and asymmetrically affecting firms

Credit constrained firms and firms happy to relying on their own resources – CESEE vs rest of EU



External financing conditions difficulties CESEE (% firms rejected, refused, received less or experiencing deterioration in financing conditions)

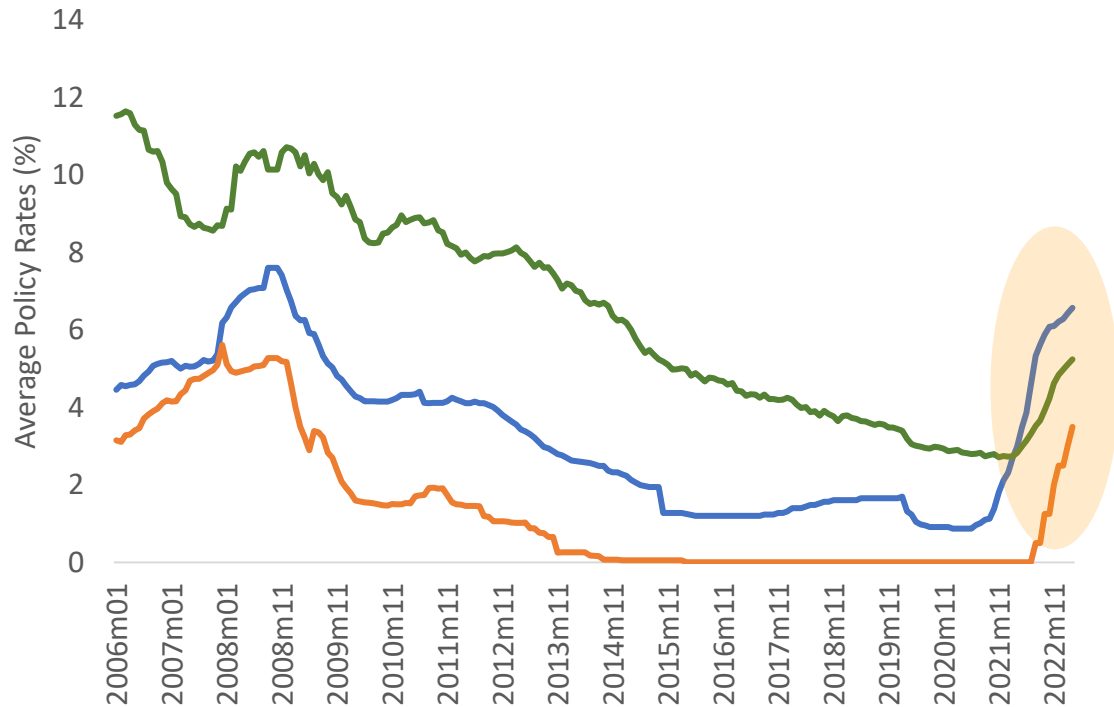


Sources: EIBIS 2022 Wave, collected in 2022Q2.

Note: credit constrained: rejected, discouraged or received less. Firms with capacity to finance investment internally (they do not ask for loans, as they have enough internal resources). Firms with external finance difficulties: rejected, discouraged or received less or declare a worsening of external financing conditions.

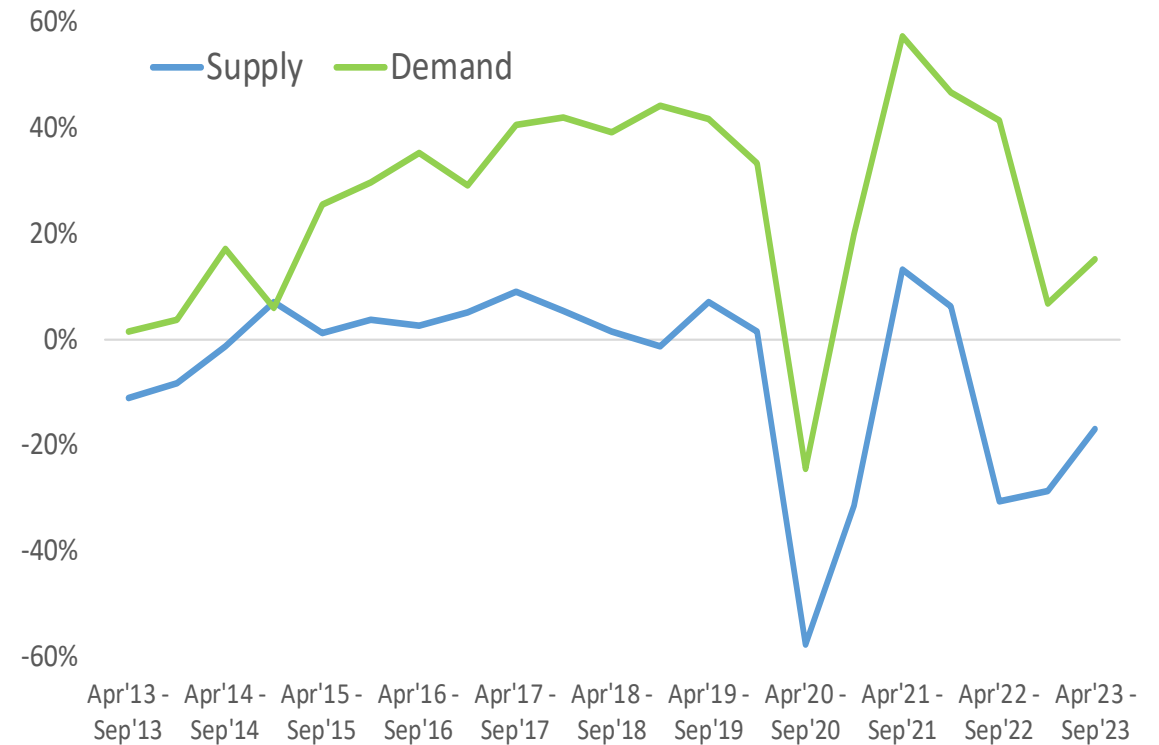
Early tightening of monetary policy leading to a swift tightening of credit standards and softening of credit demand

An early tightening cycle in CESEE



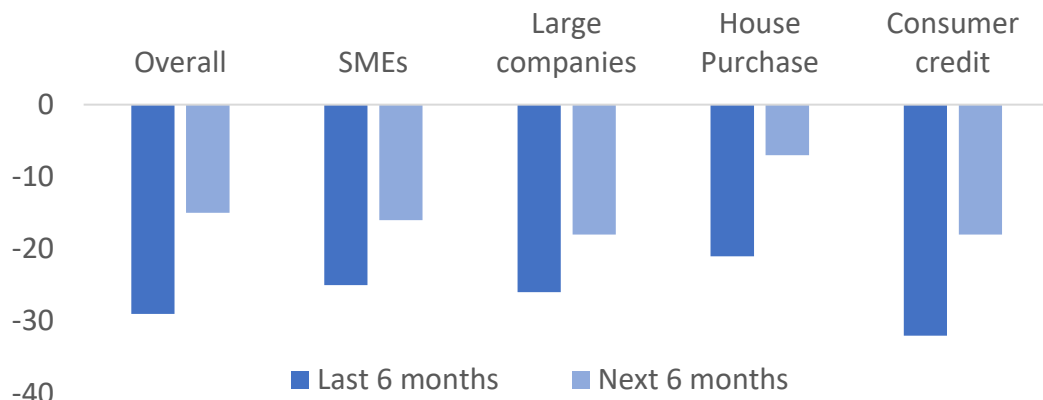
- CESEE EU non-euro countries (BG, HR till end 2022, CZ, HU, PL, RO)
- CESEE EU euro countries (EE, LV, LT, SI, SK, HR since 2023)
- CESEE Balkan countries (AL, XK, ME, MK, RS)

Financing conditions tightening also follows (EIB / Vienna Initiative BLS. Demand and credit standard – net percentage)

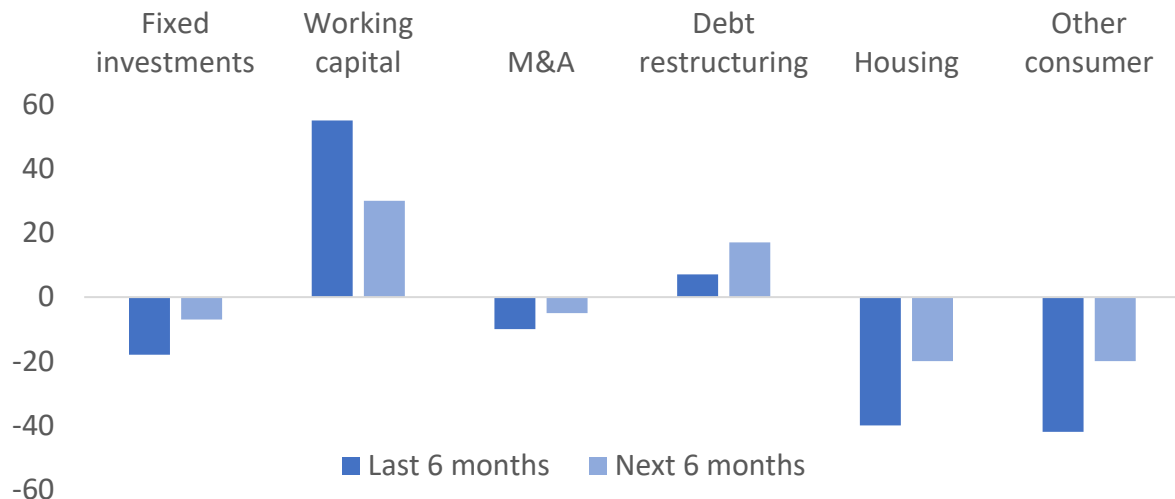


Supply and demand conditions react to policy shock. Overtime, the impact proves to be more immediate and persistent on supply conditions

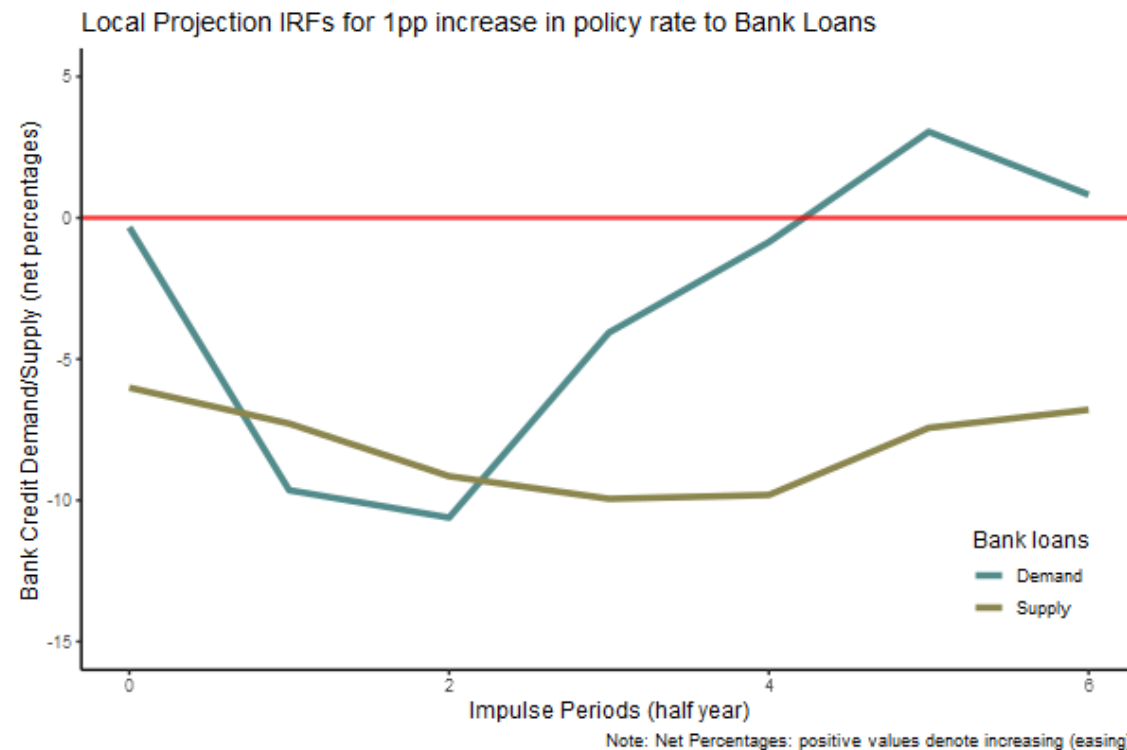
Supply conditions (net percentage)



Demand conditions (net percentage)



Impact of a policy shock on supply and demand – immediate and more persistent on supply conditions

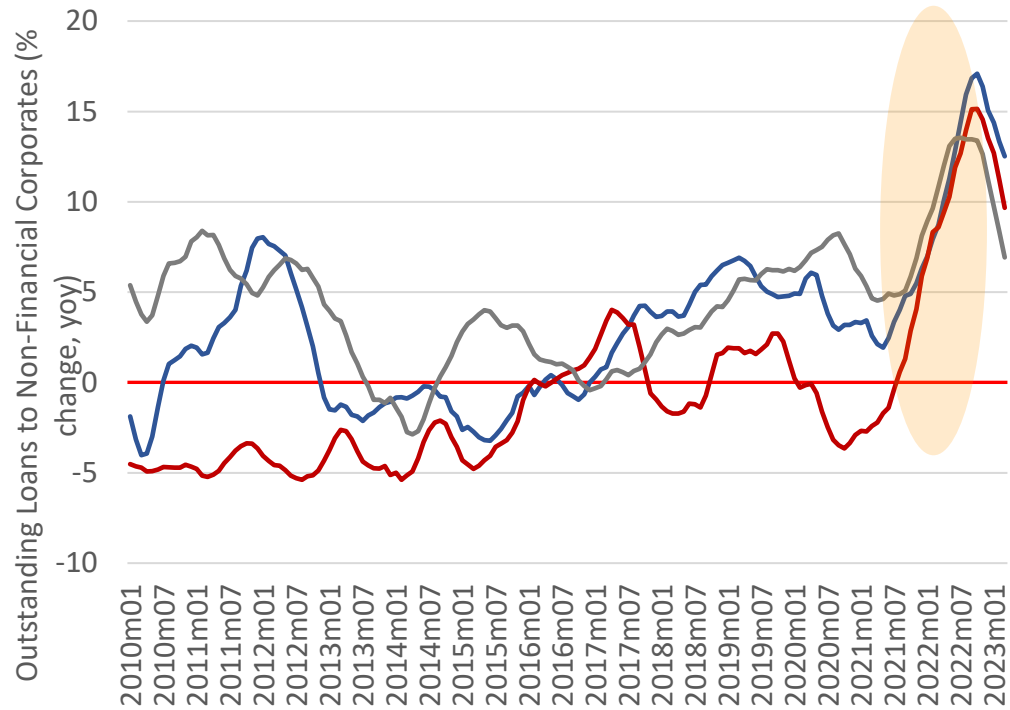


Note: Bank Credit Standards and Credit Demand is from EIB CESEE Bank Lending Survey. Policy rates are taken from WIIW database. Cover Period: 2013H1-2023H1. Country Coverage: AL BG CZ HR HU KS MK PL RO RS SI SK

Lending growth to non-financial corporations started to decline

Lending growth

(outstanding loans to NFC % yoy change)



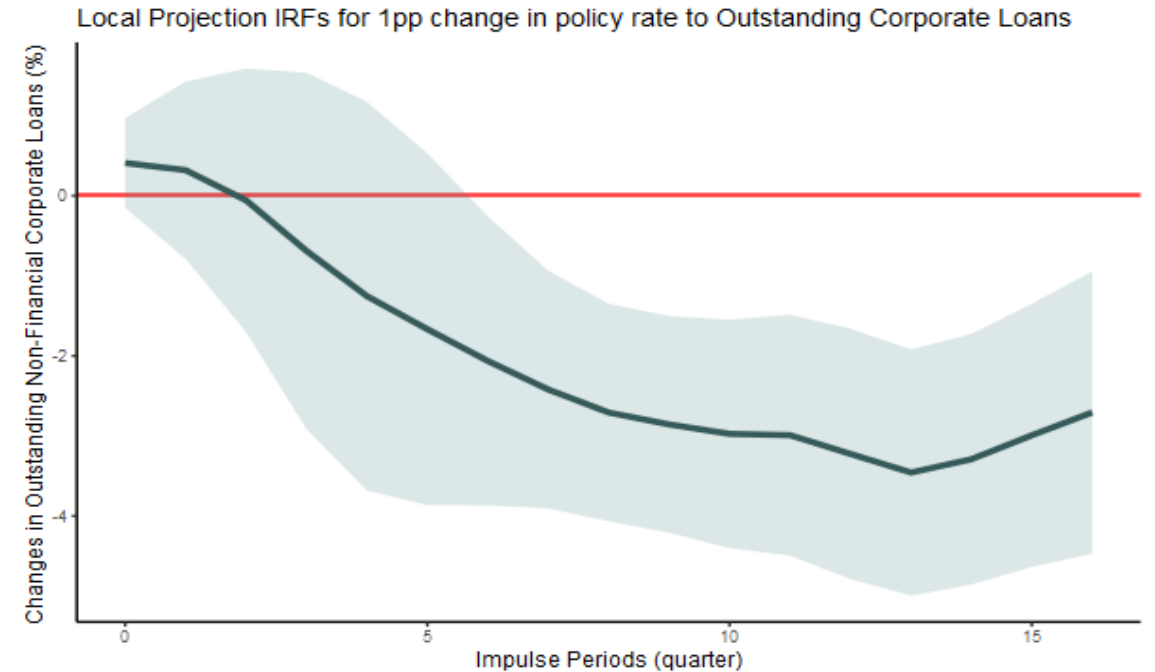
- CESEE EU non-euro countries (BG, HR, CZ, HU, PL, RO) - 3mth MA
- CESEE EU euro countries (EE, LV, LT, SI, SK) - 3mth MA
- CESEE Balkan countries (AL, XK, ME, MK, RS) - 3mth MA



Note: Croatia (HR) joined euro-zones in Jan 2023.
Sources: WIIW databases, EIB SG/ECON staffs' calculation..

Impulse response to change in policy rates

(quarter impulse response)



Note: Net Percentages: positive values denote increasing (easing). Shaded zones indicate 95 percentile confidence interval.

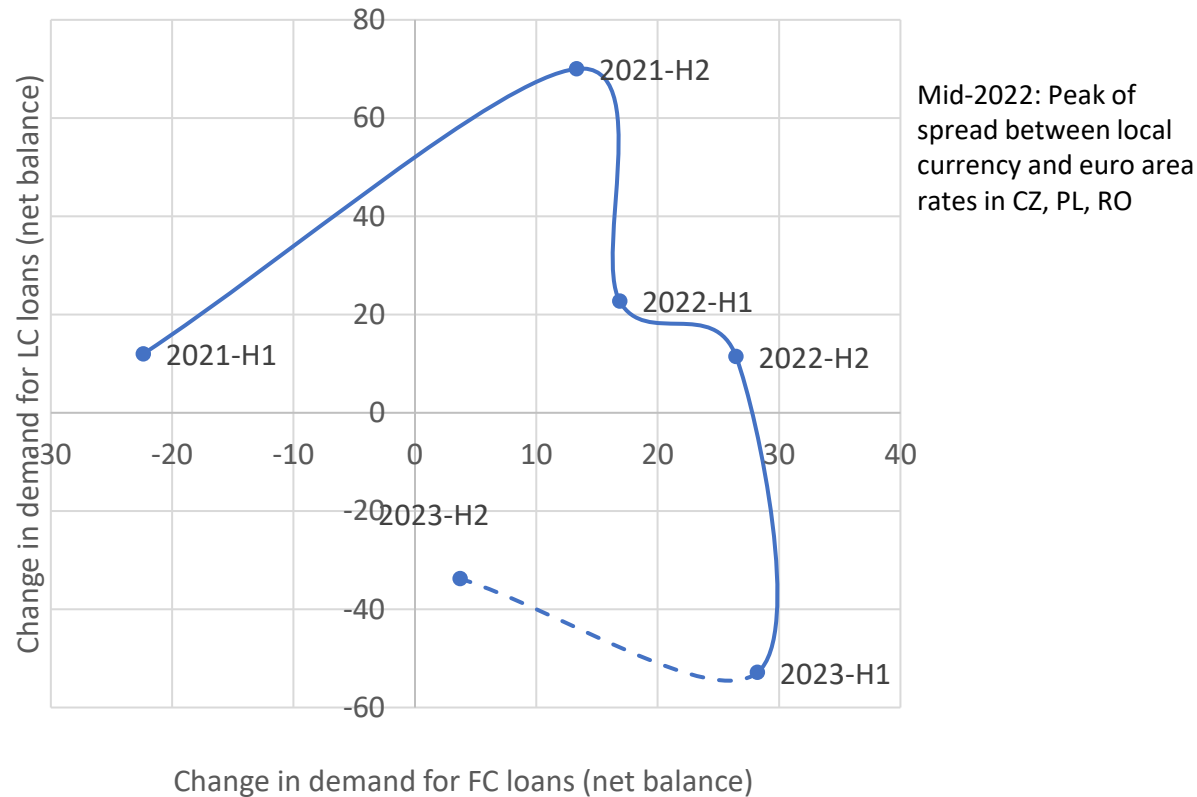
- Strongest impacts after 3 years (12 quarters), but steeper changes already started after 3 quarters

Note: Outstanding Corporate Loans changes (yoy) and Policy rates are taken from WIIW database. Cover Period: 2006-2023m4.

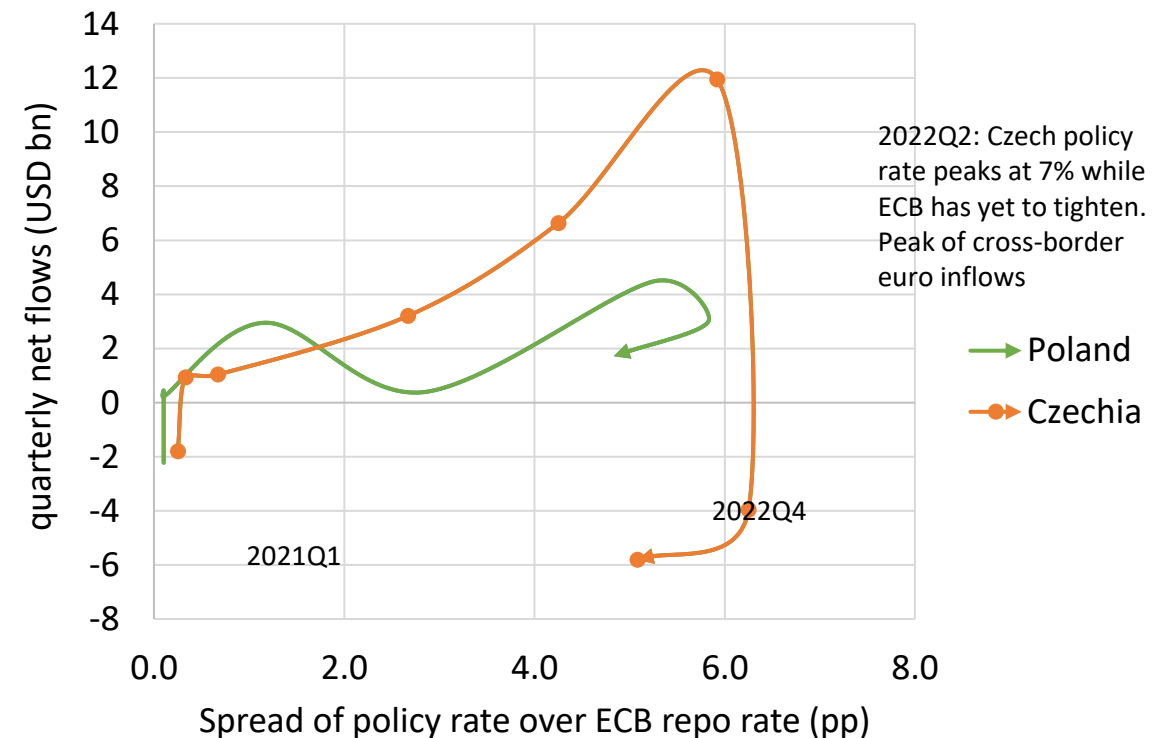
Country Coverage: AL BG CZ EE HR HU LT LV ME MK PL RO RS SI SK XK

However, CESEE specificities matter - demand for foreign currency loans in non-euro area CESEE increases as spread to ECB widened, fuelled by cross border finance

Substitution between LC and FC borrowing in CZ, PL, HU, RO as spread to ECB widens



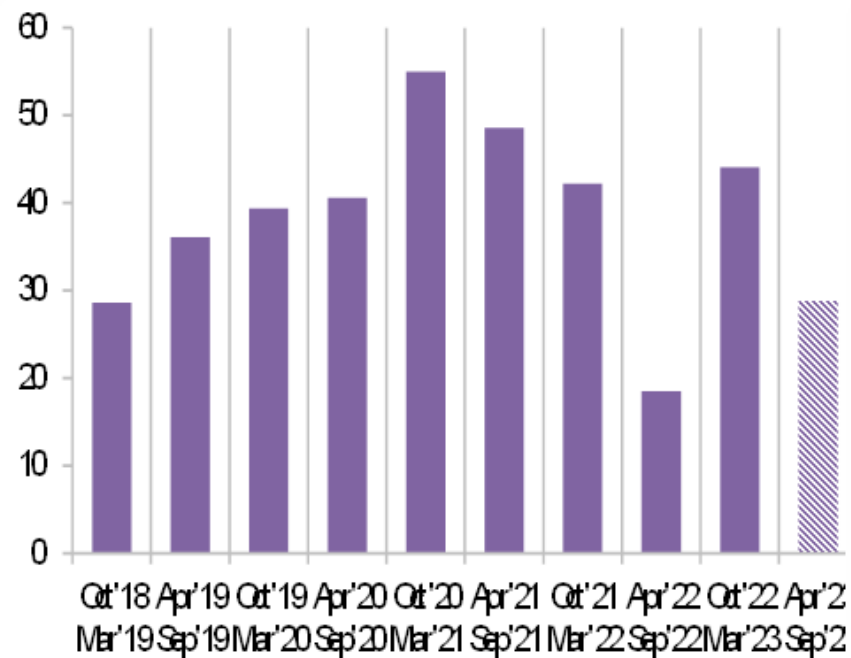
Euro-denominated cross-border bank net lending into CZ, PL, during the latest tightening round (2021Q1-2022Q4)



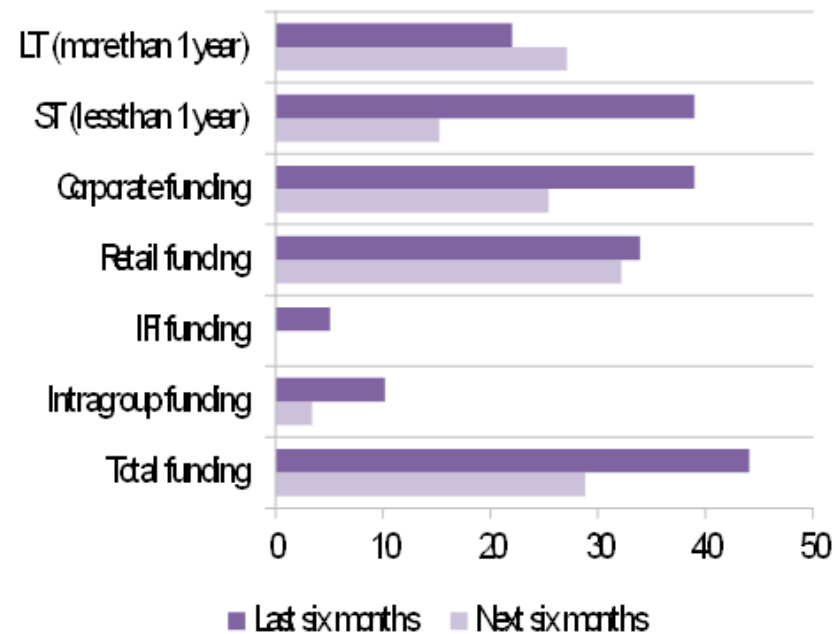
Source: EIB CESEE Bank Lending Survey

No major concerns for local banks funding overall, but some emerging risks associated to MREL

A. Trends in total funding conditions (shaded bar = expectations)



B. Breakdown of funding conditions: results from the latest survey

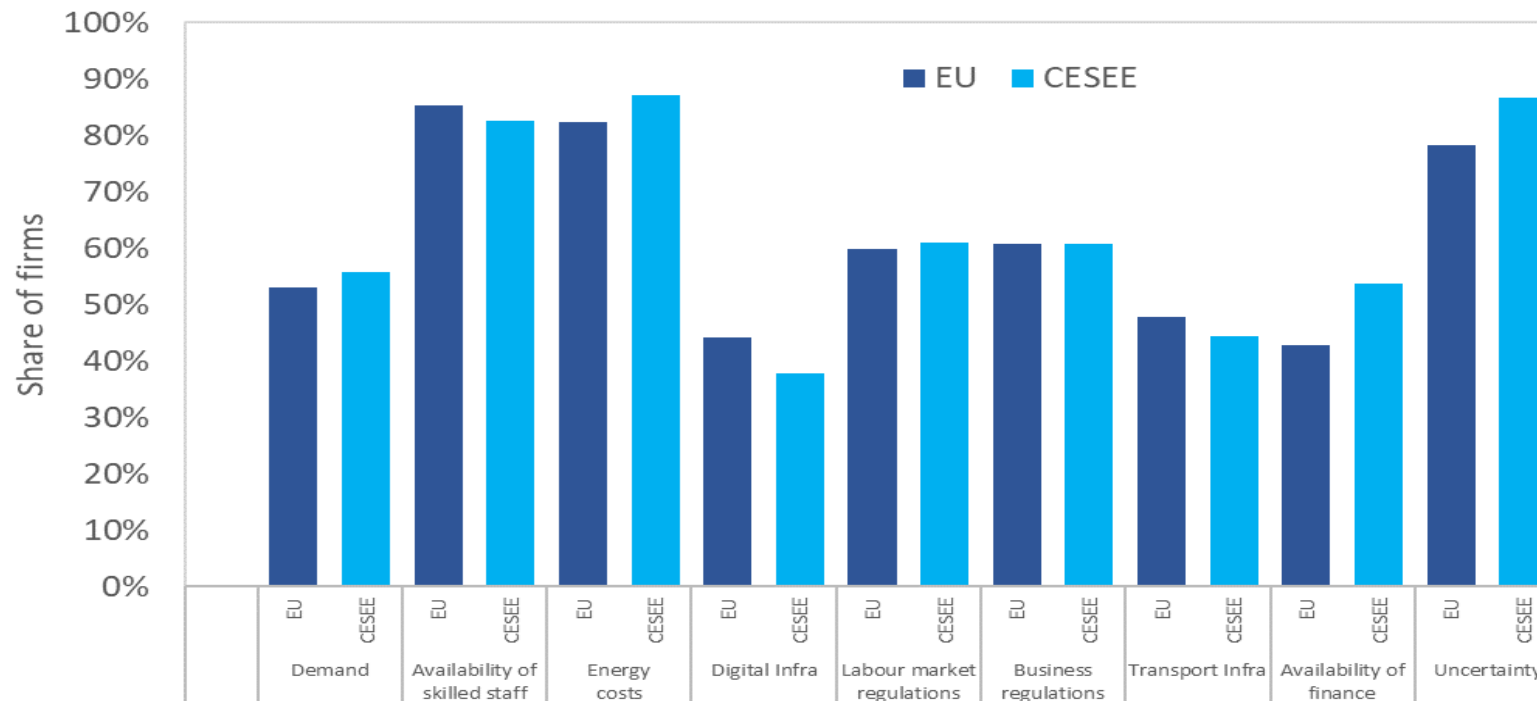


Source CESEE BLS

What does it mean for investment in the green and digital transition?

- Structural features matter for resilience and adaptation
- GVC, Innovation, Access to finance, Energy security and Structural Transformation are key for the region

Barriers to Investment



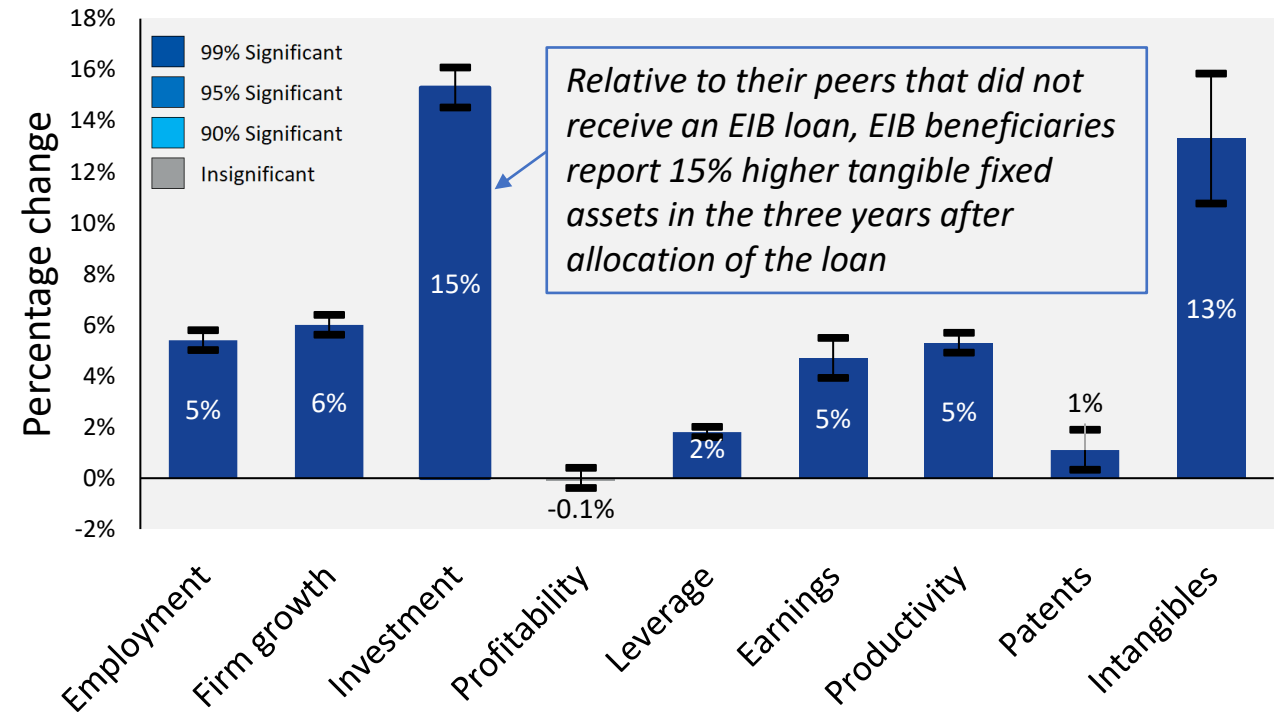
Impact of EIB lending to SMEs/Mid-caps in the EU

Relative to comparable peers, EIB intermediated loan recipients show **significantly higher** growth of:

- **Employment**
- **Firm size** (total assets)
- **Investment** (tangible fixed assets)
- **Leverage** ratio
- **Earnings** and **value added**
- **Innovation** activities

Analysis covers 96,830 beneficiary firms in the EU+UK in 2008-2017, using firm-level economic and financial data from 2005-2020

Average impact of EIB intermediated loan in 3 years after



Notes: The graph reports the average impact for MBIL recipients relative to their peers in the three years after the loan. The whiskers around the bars show the 95% confidence intervals.

Source: ECON estimations based on EIB allocation data and Bureau van Dijk's Orbis database.

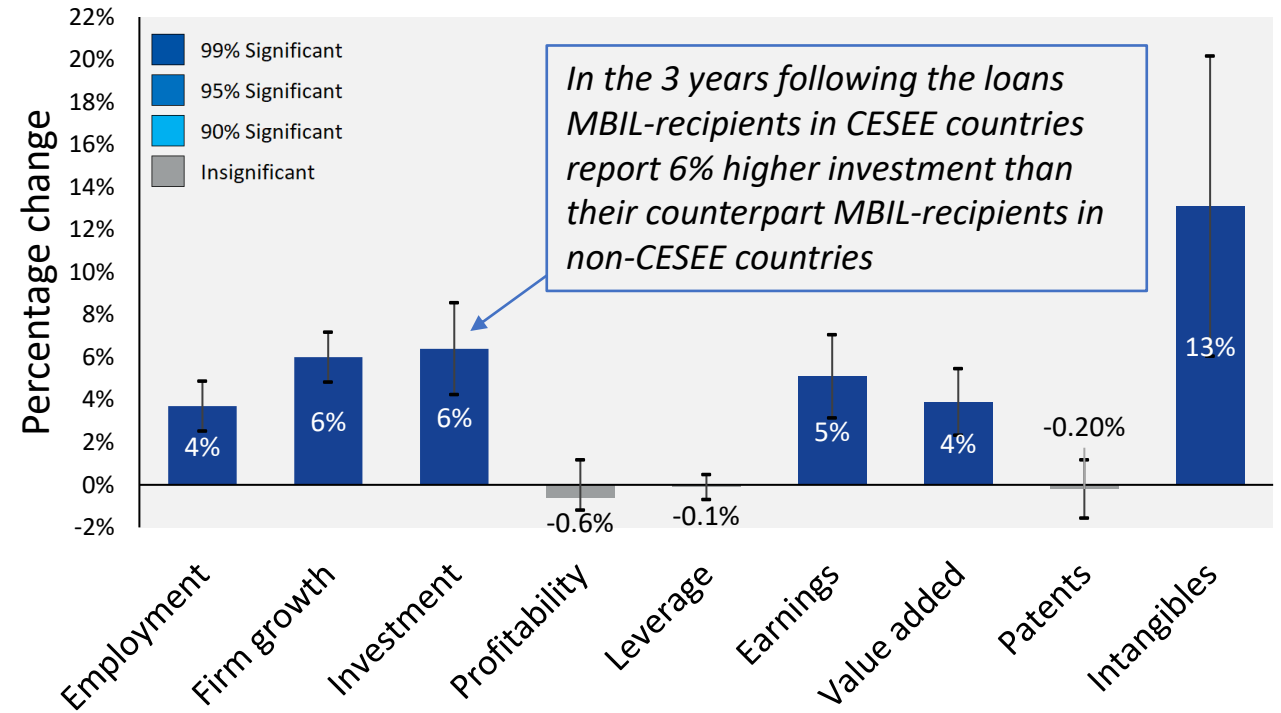
Additionality is stronger for firms in CESEE countries

Analysis zooms in on difference in impact for 16,512 beneficiary firms in CESEE that received loan in 2008-2017, relative to non-CESEE loan recipients

Relative to non-CESEE EIB loan recipients, CESEE recipients show **significantly higher** growth of:

- Employment
- Firm size
- Investment
- Earnings and value added
- Intangibles

Impact of recipient firms in CESEE
(estimates relative to non-CESEE recipients)



Notes: The graph reports the average impact for MBIL recipients in CESEE countries relative to their non-CESEE peers in the three years after the loan. The whiskers around the bars show the 95% confidence intervals.

Source: ECON estimations based on EIB allocation data and Bureau van Dijk's Orbis database.

- Early start with monetary policy tightening,
- ... financial conditions follow swift, while structural specificities matter.
- The importance of investment in the digital and green transition.
- The importance of targeted policy support!

CESEE Bank Lending Survey (July 2023) and EIBIS (2022)

[CESEE Bank Lending Survey – Spring 2023 \(eib.org\)](#)

<http://www.eib.org/de/publications/20220265-econ-eibis-2022-cesee>

Annex - there is some small green innovation, but finance is underdeveloped

Green EU patents are mainly produced by Northern and Western Europe, while in relative terms Central and Eastern Europe and Southern Europe are only slightly lagging.

(left axis: patent count; right axis: share of total patents, in%)

