

CE/SEE Watch: Fiscal consolidation vs anti-inflationary measures

From late 2021 governments in CE/SEE have been introducing varied measures to soften the hit from rising prices (energy and food in particular). While this slows fiscal consolidation, it should not lead to its reversal. However, as more measures are introduced, it is crucial that they are mostly targeted and temporary in order not to increase fiscal risks but also not to undermine the adjustments of the demand to the shifts in prices. With that, we share the views recently expressed also by the IMF.

Disclaimer 4

Analyst 7



As Europe prepares for more and possibly very severe disruptions to energy supplies, the concerns about the economic outlook keep increasing. However, this occurs also amid still no relief on the inflation side. Even though in CE/SEE some countries are probably reaching this year's peak, CPI may reach new highs next year amid regulatory energy price hikes (Poland) while for all those countries the path to lower inflation will be a long and slow one.

This results in ongoing activity not just on the monetary policy side (where possible) but also from the governments. The pandemic has marked a shift here, also taking into account the challenges that a policy of austerity brought after the financial crisis. With that, there is an ongoing policy focus on protecting the economies, households in particular, from current challenges with a broad approval for emergency spending.

The fiscal constraints remain, however, with some countries not able to finance broad programs to shield the economy while too extensive easing may also be a dangerous game that will come to the foreground at a later stage. For now, we see fiscal risks in the CE/SEE region as limited and definitely not in the focus and expect that the energy supply challenges will slow but not reverse the fiscal consolidation path.

While we already tracked the governments' antiinflationary measures in a previous note in April (CE/SEE Watch: Governments intensify interventions to limit price increases), with this update on the measures we take a look at the fiscal impact of the actions and selected country specifics.

Dorota STRAUCH

Analyst Editor

+48 609 920 663

dorota.strauch@raiffeisen.pl

David VAGENKNECHT

Analyst Editor

420 234 401 070

david.vagenknecht@rb.cz

Overview of antiinflationary measures applied in CE/SEE directly related to energy and food

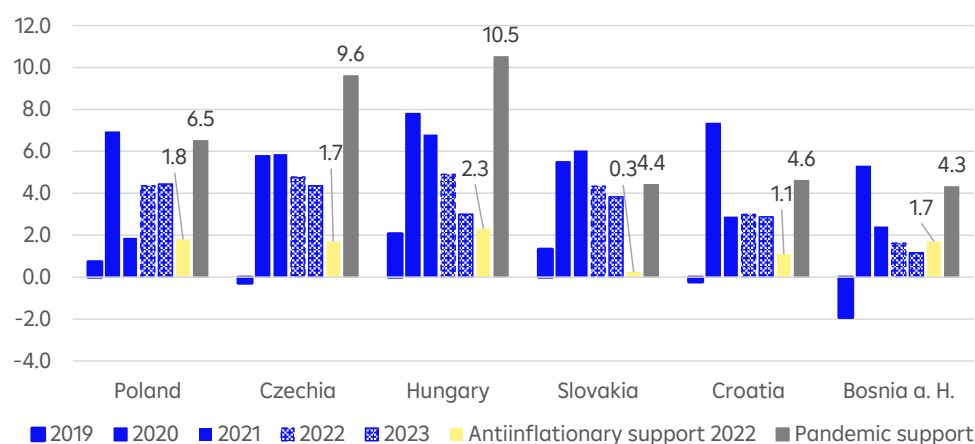
Type of measure	Countries
Fuel: price cap	Croatia, Hungary
Fuel: tax cut	Poland, Czechia, Serbia, Croatia, Bosnia and Herzegovina*
Electricity/energy: price cap/regulated prices	Poland, Hungary**, Slovakia, Romania, Albania, Serbia, Croatia, Bosnia and Herzegovina*
Electricity/energy: tax cut	Poland, Austria, Croatia
Food: price cap on key items	Hungary, Serbia
Food: tax cut	Poland, Croatia, Bosnia and Herzegovina*
Fertilisers: tax cut	Poland, Serbia, Croatia
Agriculture: subsidies	Poland, Kosovo, Croatia

*measures in Bosnia a.H. still not implemented (expected in September)

**electricity price cap for HH since 2015 but has recently been limited

Source: RBI/ Raiffeisen Research

Fiscal deficits (realised and forecasted by RBI) vs antipandemic and antiinflationary support (% GDP)



Pandemic support size based on IMF database (above the line measures) available at: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

*2022 support for Poland with the assumption of extension to full year)

**Measures in Bosnia a.H. expected to be approved in September

Source: Refinitiv, IMF, RBI/Raiffeisen Research

As visible in the graph above, the anti-inflationary shields are significant for some countries, exceeding 1% of GDP but still not comparable to the direct support provided during the pandemic. On top of measures related directly to the energy and food prices (as listed in the table above), the current support is enhanced by other actions like child benefits (Czechia, Austria), higher pensions (half of the recently announced support package in Czechia) or the loan holidays introduced in Poland.

What is key about the implemented measures is that in most countries they focus on the most vulnerable groups which spend a larger portion of their income on increasingly expensive energy and food. This seems the most reasonable solution as too broad measures may have countereffects via providing additional demand impulse and thus make it more difficult to contain inflation in a durable manner. That said **Poland** is the one exception where measures are mostly broad-based rather than focused on vulnerable

groups. For that reason, it is also the only country in CE/SEE where we project higher fiscal deficits in 2022 and 2023 compared to last year. The ratio at 4.4% GDP for both years does not seem very high in regional comparison (in CE especially) as 2021 brought a significant reduction in deficit spurred by fast recovery. Nevertheless, it is still a most pronounced change toward a more expansive fiscal approach which also adds to challenges in taming inflation. Worth noting here is the political context as Poland faces Parliamentary elections in 2023 which also poses risks of an even more expansive approach in the near future. On the other hand, the political motivations do not seem to accelerate anti-inflationary support in **Bosnia and Herzegovina** where measures were announced in early 2022 but have still not been introduced amid political stand-offs (we expect them to be approved in September).

In **Czechia**, the government came up with a sizeable support package (approx. 1.7% of GDP) lately to help ease the price burden carried by households. Crucial is to make the help accessible as data show only a fraction of households eligible for government support actually uses it so far.

In **Hungary** on the other hand, amid new measures aimed to consolidate public finances, one of the recently announced changes was the limit to the freezing of electricity prices for households which had been in place since 2015. After the change, from September 2022, above average gas and electricity consumption should be paid at market price.

As mentioned the breadth of the measures risks making the fight against inflation less effective. It gives additional funds to sustain the demand for energy (also that imported from Russia) rather than inducing a decline in dependency and a cut in demand for fossil fuels. Meanwhile, direct compensation while still boosting the overall demand may actually direct it elsewhere (to new energy sources or prompt a reduction in demand for energy while leaving the household with funds that can be spent on other goods/services).

With that in mind, it is important for the measures to be limited in scale and duration to soften the shock but not distort the price setting and the adjustment in demand, as has been underlined also by a recent [working paper from the IMF](#). The paper focuses on the impact of the rise in energy prices on households in Europe. It also looks at the distribution of the impact on the poor vs rich households, confirming the often larger burden on the low-income households compared to high-income. With that, the IMF also underlined the importance of the measures being directed toward the vulnerable, rather than in a broad manner.

The still-unfolding economic slowdown and challenges related to energy supplies, high inflation, and war in Ukraine keep the focus now more on dealing with those issues rather than on accelerating the post-pandemic fiscal tightening. While we do not forecast a reversal in the fiscal consolidation path, the elevated expenses on anti-inflationary or other anticrisis measures should be targeted at the most vulnerable, as well as combined with a more prudent approach in other areas of public finances. This is crucial in order not to raise vulnerability to any increase in fiscal scrutiny which is very likely to return once the current challenges are addressed.

Over the next several years, we project a gradual downward path of fiscal deficits in terms of GDP. That being said fiscal consolidation remains necessary to keep the budgets on a sustainable path in the long run. In our view, the consolidation effort should focus especially on the structural deficit in order to make sure that the economy generates enough to finance (quasi-)mandatory fiscal expenditure and operating costs.

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods used in the preparation of financial analyses is available under: www.raiffeisenresearch.com/concept_and_methods.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis.

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: www.raiffeisenresearch.com/disclosuresobjectivity

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history.

IMPORTANT LEGAL NOTICE

By opening and/or using the information, services, links, functions, applications or programmes (hereinafter: "contents") offered on this website, the user hereby agrees to be bound by the terms and conditions set out below:

Copyright law

The contents offered on this website and subsites (hereinafter: the "RBI Research-Website") are protected by copyright law. The downloading or storage of applications or programmes contained on the RBI Research-Website and the (complete or partial) reproduction, transmission, modification or linking of the contents of the RBI Research-Website shall only be permitted with the express and written consent of Raiffeisen Bank International AG ("RBI").

Information content, timeliness of information

The contents of the RBI Research-Website you are seeking to access is for information only and does neither qualify as investment advice nor constitute or form part of any offer to buy or sell any securities or other financial instruments as defined in Article 5 para 1 number 15 of EU Directive 2014/65 ("MiFID II") in any jurisdiction or jurisdictions, (and must not be considered in any way as an offer or sale in relation to any securities or other financial instrument). In particular, no securities have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and no such securities may be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

RBI has made every effort to ensure reliability in researching the information published on the RBI Research-Website or sent via RBI Research-Website as well as in selecting the source of information used. Nonetheless, RBI does not assume any liability whatsoever

for the correctness, completeness, timeliness or uninterrupted availability of the information made available on the RBI Research-Website or as regards the sources of information used.

The information contained on the RBI Research-Website as well as forecasts published on the RBI Research-Website are based on the information available and the market assessment at the point in time stated in the respective publications. Certain information on this website constitutes forward-looking statements. RBI does not assume and hereby as far as possible expressly excludes any liability for the correctness, completeness or actual occurrence of the events described in the forward-looking statements. Such statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Certain financial data (e.g. stock exchange prices) may in some cases only be published after a certain interval of time has lapsed as defined by the data vendor (usually about 15 minutes or previous day end-of-day quotes). Furthermore, please note that many of the times are given in Greenwich Mean Time (GMT).

You agree and acknowledge that the information and statements contained in the materials you are accessing on the RBI Research-Website speak only as of the date of such document and such information and statements will become inaccurate, stale and/or out-of-date thereafter. These materials should not be relied upon at any time for any investment decision.

RBI assumes no responsibility to maintain documents posted on the RBI Research-Website or to update any documents. Therefore, users of the RBI Research-Website acknowledge that the content of documents available on the RBI Research-Website may not show the most recent scenarios, analysis or conclusions.

Restricted access due to local regulations

Users of the RBI Research-Website can access some documents and information without registration requirements and without further barriers (the respective area on the RBI Research-Website is hereinafter referred to as "Unrestricted Area"). By accessing the Unrestricted Area, you agree and acknowledge that the materials on the RBI Research-Website may lawfully be made available in accordance with the laws of the jurisdiction in which you are located.

Other documents are only available to persons who have registered themselves in accordance with the required procedure. The part of the RBI Research-Website which can only be accessed by way of registration is hereinafter referred to as "Restricted Area").

Due to the laws applicable in some jurisdictions or regulations imposed by capital market or securities authorities, some of the information published on the RBI Research-Website (e.g. stock analyses) is not addressed to private individuals. In order to ensure the enforcement of such local access restrictions, RBI retains the right to take any (technical) measures it may deem suitable for restricting such information or segments of information subject to the aforementioned restrictions. The passing on of information contained on the RBI Research-Website, which is subject to local access restrictions valid in certain countries, to the persons stated in the relevant restrictions may constitute a breach of securities law or of other laws of said countries.

The distribution or dissemination of information published on the RBI Research-Website as well as the purchase and offering of the respective products in certain jurisdictions may be subject to restrictions or additional requirements. Persons who retrieve such information from the RBI Research-Website or into whose possession such information comes are required to inform themselves about and to observe such restrictions. In particular, the products to which such information published on the RBI Research-Website refers, may generally not be purchased or held by U.S. persons (the term "U.S. person" refers to any legal/natural person having its seat/residence in the U.S.A and any other person within the meaning given to it by Regulation S under the Securities Act 1933 as amended).

Users of the Unrestricted Area should be aware that the documents available on this part of the RBI Research-Website are not made available on the basis that any customer relationship is created between RBI and such user solely on the basis of such user having access to the respective documents. The documents available in the Unrestricted Area are intended to be available to users in the European Economic Area and in the United Kingdom.

Links to websites or URLs of third-party providers

With the exception of the cases regulated under § 17 of the Austrian E-Commerce Act, RBI does not assume any liability for the content of websites or URLs of other providers to which links are provided. Neither does RBI assume any liability for the uninterrupted availability or full functionality of the links to websites or URLs of third parties.

Exclusion of liability

RBI makes no warranty and will accept no liability for any damages whatsoever (including consequential or indirect damages, or lost profits) relating to the access to the RBI Research-Website, the opening, use or querying of the contents on the RBI Research-Website or relating to the links set up on the RBI Research-Website to websites or URLs of third parties. This applies also in cases in which RBI points out the possibility of incurring such damages.

Furthermore, RBI shall not be liable for technical disruptions such as server breakdowns, operating disruptions or failures of the telecommunications links and other similar events, which could lead to the (temporary) unavailability of the RBI Research-Website as a whole or parts of it.

Storage of registration data

The content in the Restricted Area of the RBI Research-Website is only available to registered users. By sending the completed online registration form, the user confirms the completeness and correctness of the data given and also confirms having truthfully answered the questions asked. Furthermore, by sending the completed online form, the user hereby declares his or her consent to the electronic processing of his or her registration data by RBI for both internal banking organisational purposes and for transmission to other credit institutions within the Raiffeisen Banking Group, which may in turn also process, pass on or use such data.

Changes to the RBI Research-Website

RBI retains the right to change and to remove the RBI Research-Website at any time (if necessary also without prior notice), in particular as regards changing existing contents (in full or in part) and adding new contents.

General terms and conditions of business

For (authorised) users who use the services of RBI provided on the RBI Research-Website, the General Terms and Conditions of Business, as amended, of RBI shall apply in addition to the terms and conditions of this Disclaimer.

Please also take note of the general information provided pursuant to § 5 of the E-Commerce Act!

Thomas SternbachLegal and ComplianceRaiffeisen Bank International AGAm Stadtpark 9, 1030 WienTel: +43-1-71707-1541Fax: +43-1-71707-761541thomas.sternbach@rbinternational.com

IF YOU CANNOT SO CERTIFY, YOU MUST CLICK THE BUTTON LABELLED "I DECLINE" OR OTHERWISE EXIT THIS WEBSITE.

BY ACCESSING THE MATERIALS ON THIS WEBSITE, YOU SHALL BE DEEMED TO HAVE MADE THE ABOVE REPRESENTATIONS AND CONSENTED TO DELIVERY BY ELECTRONIC TRANSMISSION.

GUNTER DEUBER

📍 Austria 📧
✉ gunter.deuber@rbinternational.com

GOTTFRIED STEINDL

📍 Austria 📧
✉ gottfried.steindl@rbinternational.com

PETER ÖHLINGER

📍 Austria 📧
✉ peter.oehlinger@rbinternational.com

FJORENT RRUSHI

📍 Albania 📧
✉ Fjorent.Rrushi@raiffeisen.al

ASJA GRDJO

📍 Bosnia Herzegovina 📧
✉ asja.grdjo@raiffeisengroup.ba

ANA LESAR

📍 Croatia 📧
✉ ana.lesar@rba.hr

HELENA HORSKA

📍 Czech Republic 📧
✉ Helena.Horska@rb.cz

VRATISLAV ZAMIS

📍 Czech Republic 📧
✉ Vratislav.Zamis@rb.cz

ZOLTÁN TÖRÖK

📍 Hungary 📧
✉ torok.zoltan@raiffeisen.hu

ANDREEA-ELENA DRAGHIA

📍 Romania 📧
✉ Andreea-Elena.DRAGHIA@raiffeisen.ro

GREGORY CHEPKOV

📍 Russia 📧
✉ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia 📧
✉ tibor_lorincz@tatrabanka.sk

CASPER ENGELEN

📍 Austria 📧
✉ casper.engelen@rbinternational.com

ANNE VALDER

📍 Austria 📧 German,
✉ anne.valder@rbinternational.com

BRISIDA BUZI

📍 Albania 📧
✉ Brisida.BUZI@raiffeisen.al

ARISTEA VLLAHU

📍 Albania 📧
✉ Aristea.Vllahu@raiffeisen.al

IVONA ZAMETICA

📍 Bosnia Herzegovina 📧
✉ ivona.zametica@raiffeisengroup.ba

ELIZABETA SABOLEK-RESANOVIC

📍 Croatia 📧
✉ elizabetha.sabolek-resanovic@rba.hr

LENKA KALIVODOVA

📍 Czech Republic 📧
✉ Lenka.Kalivodova@rb.cz

LEVENTE BLAHÓ

📍 Hungary 📧
✉ levente.blaho@raiffeisen.hu

DOROTA STRAUCH

📍 Poland 📧
✉ dorota.strauch@raiffeisen.pl

IONUT DUMITRU

📍 Romania 📧
✉ Ionut.Dumitru@raiffeisen.ro

STANISLAV MURASHOV

📍 Russia 📧
✉ stanislav.murashov@raiffeisen.ru

SERHII KOLODII

📍 Ukraine 📧
✉ serhii.kolodii@aval.ua

MATTHIAS REITH

📍 Austria 📧
✉ matthias.reith@rbinternational.com

FRANZ ZOBL

📍 Austria 📧
✉ franz.zobl@rbinternational.com

VALBONA GJEKA

📍 Albania 📧
✉ valbona.gjeka@raiffeisen.al

OLGA ZHEGULO

📍 Belarus 📧
✉ olga.zhegulo@priorbank.by

MIRZA ZORNIC

📍 Bosnia Herzegovina 📧
✉ mirza.zornic@raiffeisengroup.ba

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia 📧
✉ zrinka.zivkovic-matijevic@rba.hr

DAVID VAGENKNECHT

📍 Czech Republic 📧
✉ david.vagenknecht@rb.cz

GERGELY PÁLFFY

📍 Hungary 📧
✉ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania 📧
✉ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia 📧
✉ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia 📧
✉ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine 📧
✉ oleksandr.pecherytsyn@aval.ua

Imprint

Creation time of this publication: 05/08/2022 13:13 P.M. (CEST);

First Dissemination of this publication: 05/08/2022 13:13 P.M. (CEST)

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 Vienna Postal address: 1010 Vienna, Postfach 50 Phone: +43-1-71707-1846 Fax: +43-1-71707-1848 Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 4002771 S.W.I.F.T.-Code: RZBAAT WW Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria. Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association.

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna **Media Owner of this publication** Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen Am Stadtpark 9, A-1030 Vienna **Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:** Mag. Peter Brezinschek (Chairman), Mag. Helge Rechberger (Vice-Chairman) Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets. **Basic tendency of the content of this publication**

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area and Central and Eastern Europe under consideration of the global markets.

Producer of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna