## 4.2. BUSINESS CYCLE MONITOR: OVERHEATING STILL VISIBLE IN REGIONAL LABOUR MARKETS

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› For the whole CESEE region the average value of our headline business cycle index dropped slightly, by 0.02 points compared to Spring 2019, dragged down by the recession in Turkey. For the region as a whole, conditions are stable, with no clear signs of under- or overheating relative to the historical period according to the headline index (Figure 4.2).

› In Q2 2019, the business cycle index for nine CESEE economies was below the long-term average, including all countries in the CIS and Ukraine region. For all countries except Hungary, the headline index is below the immediate pre-crisis level, when the region was clearly overheating (see Figure 4.2).

› Hungary, the Czech Republic and Romania had the highest scores for the headline business cycle index in Q2 2019. The highest increases in scores compared with the Spring were observed for Latvia, Croatia and Estonia. Turkey has moved to the bottom of the ranking following a strong decline in the headline score (down by 0.5 relative to Q4 2018 value). Turkey is showing signs of potential underheating for six indicators included in the headline index: real GDP growth, unemployment rate, current account, real exchange rate, private credit and property prices (see Table 4.3). We expect this to change in the coming quarters as the economy recovers.

› Potential labour market overheating persists throughout CESEE, whereas overheating in property prices, real interest rates and external debt now affects less countries than in Spring. We identify potential underheating for fiscal balances in several Visegrád and Western Balkan countries, implying that there is room for fiscal policy to remain expansionary if required to mitigate the deteriorating external environment (see Table 4.3 and Figure 4.3).

› Our Autumn update identifies several country specific risks. In Turkey, bringing high inflation under control is essential for a sustained economic recovery (the most recent data indicate reason for optimism in this regard). Significant real exchange rate appreciation in Ukraine might become challenging for external competitiveness. Negative or zero real interest-rates remain typical for all countries in EU-CEE except Croatia. While property price growth has slightly slowed in Slovenia and Latvia, its acceleration in Hungary is becoming a cause for concern (see Table 4.4).

Figure 4.2 / Business Cycle Index
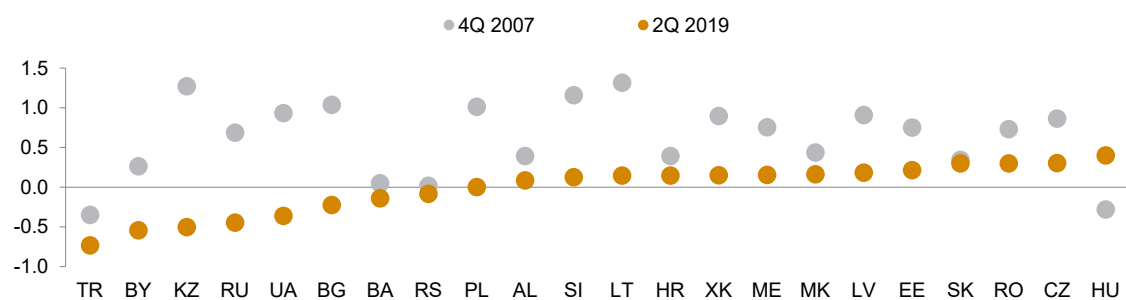
Note: Number of standard deviations from historical mean, average of 11 indicators. Indicators are those in Table 4.3.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.
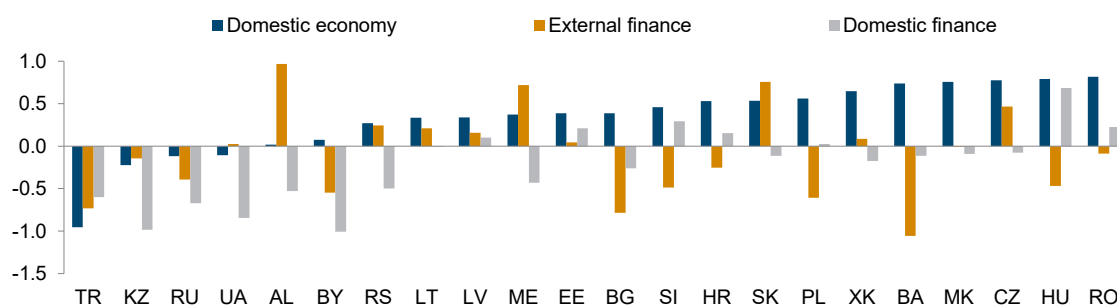
Table 4.3 / Number of standard deviations from historical mean, 2Q 2019

	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemployment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
BG	-0.05	1.47	-0.25	-1.56	0.49	-1.28	0.40	-0.36	-0.64	-0.82	0.11
CZ	-0.05	2.29	0.09	-1.12	0.94	1.58	0.07	-0.46	-0.18	-1.14	1.34
EE	0.12	1.23	-0.18	-0.85	1.43	-0.44	0.93	-0.39	-0.37	1.04	-0.16
HR	0.29	1.96	-0.66	-0.73	0.10	-0.13	0.84	-0.29	-0.36	-1.49	2.08
HU	1.00	1.67	-0.30	-0.33	-0.47	-0.61	2.31	0.55	0.14	-1.00	1.42
LT	-0.08	1.17	-0.08	-1.16	1.21	0.58	0.78	-0.41	-0.24	-0.42	0.24
LV	-0.05	1.25	-0.19	-0.60	0.94	0.13	0.78	-0.59	-0.05	0.16	0.21
PL	0.61	1.50	-0.43	-1.39	-0.83	0.40	1.00	-0.54	-0.07	-2.22	1.96
RO	0.11	2.81	-0.47	-0.19	0.02	-0.09	1.29	-0.45	-0.83	0.31	0.80
SI	0.38	1.50	-0.50	-1.40	-0.11	0.04	1.44	-0.14	0.20	-1.25	1.20
SK	-0.18	2.05	-0.27	-0.55	0.76	2.06	1.20	-0.40	-0.25	-1.23	0.11
AL	-0.60	1.51	-0.86	-0.59	2.52	0.97	1.47	-0.83	-1.31	-1.45	
BA	-0.01	2.46	-0.23	-1.11	-1.75	-0.31	0.82	-0.38	-0.40	-0.50	
ME	0.36	1.37	-0.62	0.03	0.79	1.33	0.64	-0.35	-0.68	-1.33	
MK	0.23	2.41	-0.37	-0.84	-0.53	1.36	0.83	-0.51	-0.28	-0.05	-0.45
RS	-0.13	1.51	-0.57	-0.17	0.87	0.03	-0.14	-0.52	-0.59	-1.10	-0.12
XK	0.33	1.37	0.23	-0.67	0.57	0.36	1.49	-0.47	-0.43	-1.28	
TR	-1.45	-1.67	0.25	-1.84	-2.50	2.15	0.22	-1.18	-0.15	-0.06	-1.84
BY	-0.80	1.69	-0.67	-1.22	-1.22	0.80	-0.51	-1.17	-0.91	-1.44	
KZ	-0.69	1.00	-0.98	-0.04	-1.21	0.82	-1.60	-0.77	-1.44	-0.13	
RU	-0.53	1.44	-1.27	-0.07	-0.18	-0.94	-0.63	-0.54	-1.09	-0.62	-0.48
UA	0.12	-0.08	-0.36	0.45	-0.81	0.43	-1.45	-0.65	-1.05	-0.23	

overheating ▉ (orange)   underheating ▉ (grey)

> 1 SD above historical average   > 1 SD below historical average

Notes: Data for unemployment, current account, real interest rate, fiscal balance are inverted (as for these indicators lower values would indicate overheating). Historical mean calculated for 4Q 2000 - 2Q 2019. Calculations are based on four-quarter trailing averages.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Figure 4.3 / Sub-components of the Business Cycle Index, 2Q 2019

Note: Number of standard deviations from historical mean, average of indicators in each sub-component. Indicators are those in Table 4.3.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Table 4.4 / Over-/under-heating in relation to regional peers, 2Q 2019 (4-q trailing average)

	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemployment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
	%	%	% yoy	% of GDP	2015 = 100	% of GDP	%	% yoy	% yoy	% of GDP	% yoy
BG	3.5	4.7	3.0	7.9	99.1	59.5	-2.9	6.8	9.0	1.9	6.0
CZ	2.7	2.1	2.2	0.7	107.7	79.2	-0.4	6.4	5.9	0.1	9.3
EE	4.6	4.9	3.1	1.3	104.5	76.9	-3.0	5.2	9.6	-1.4	5.4
HR	2.9	7.4	1.2	-0.3	100.6	82.7	1.8	2.5	6.4	-0.6	7.3
HU	5.2	3.6	3.5	-1.1	98.9	79.0	-2.5	10.8	9.7	-2.0	14.9
LT	3.8	6.1	2.3	1.9	103.4	74.9	-2.2	4.9	10.4	-1.2	7.1
LV	3.7	6.8	3.0	-1.1	102.4	119.6	-2.9	-4.7	13.7	-2.5	8.4
PL	4.8	3.7	1.5	-0.4	96.2	61.4	0.0	6.3	9.1	0.1	7.6
RO	4.4	4.0	4.0	-4.8	95.9	47.9	-1.5	7.2	9.0	-3.8	4.0
SI	3.6	4.6	1.8	5.3	99.4	90.9	-1.8	3.4	8.2	0.5	8.3
SK	3.5	6.0	2.5	-2.4	100.0	109.7	-2.4	8.8	6.3	-0.8	6.3
AL	3.1	12.0	1.7	-7.7	113.7	62.5	-0.7	-1.1	1.7	-1.8	
BA	3.0	17.5	1.3	-4.5	96.5	24.3	-1.3	5.8	9.2	1.1	
ME	4.0	14.9	1.4	-21.0	100.3	56.9	4.3	8.6	0.7	2.0	
MK	3.4	18.9	1.3	-1.0	98.7	74.1	1.2	8.0	11.4	-2.1	-1.0
RS	3.3	11.7	2.3	-6.4	104.9	61.7	0.7	8.7	12.2	0.3	9.4
XK	4.7	28.6	2.5	-6.6	99.8	29.9	3.9	11.1	7.5	2.8	
TR	-1.1	12.7	19.9	0.1	68.4	59.3	3.4	12.1	23.0	-3.0	4.7
BY	1.3	4.6	5.5	-0.5	89.2	60.5	4.3	11.9	11.5	3.2	
KZ	4.0	4.8	5.5	-0.8	71.7	89.5	3.5	-0.3	1.0	-1.1	
RU	1.6	4.7	4.3	6.7	100.2	28.2	3.1	12.9	10.0	4.0	5.1
UA	3.4	8.6	9.2	-3.0	111.9	80.6	8.0	5.3	7.6	-1.3	

potential overheating/instability
relative to regional peers

underheating/stability
relative to regional peers

Notes: CPI: consumer price index, CA: current account, RER: real exchange rate (EUR) CPI deflated; values more than 100 means appreciation and vice versa; RIR: real interest rate CPI deflated.
For all indicators higher values indicate overheating, except unemployment, current account, real interest rate, and fiscal balance.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.