

Press conference, 28 June 2018

New wiiw forecast for Central, East and Southeast Europe, 2018-2020

## **Part 1: Growth has passed its peak**

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## Slowdown in EU-CEE and Turkey, upswing in the Western Balkans and parts of the CIS

### Real GDP growth and forecast

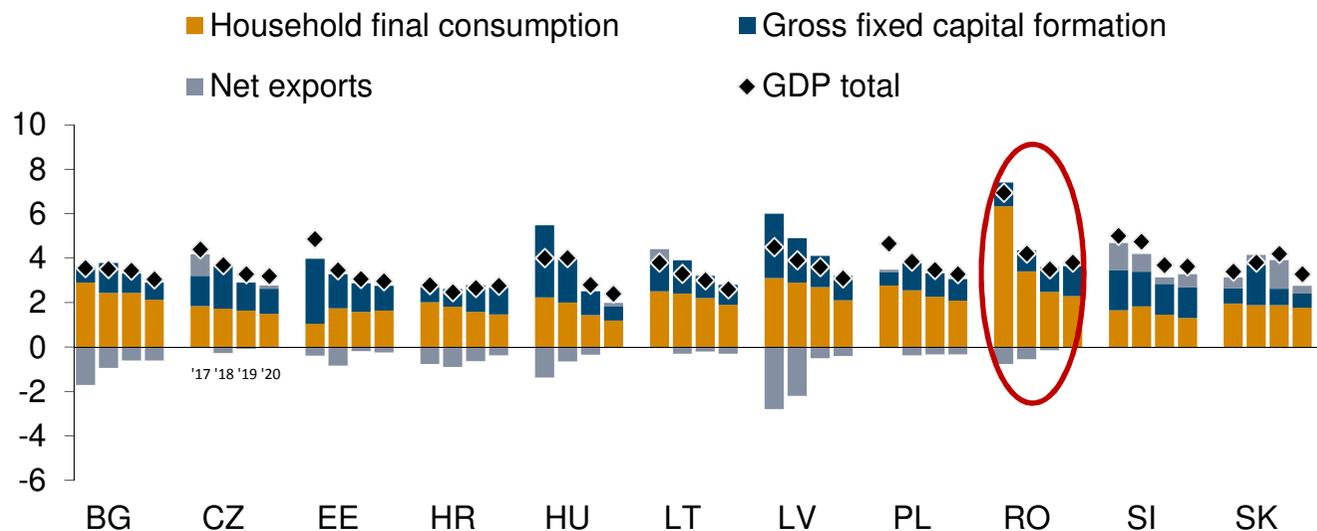
|                | 2017       | 2018       | 2019       | 2020       |
|----------------|------------|------------|------------|------------|
| <b>Turkey</b>  | <b>7.4</b> | <b>4.5</b> | <b>4.1</b> | <b>4.0</b> |
| <b>Romania</b> | <b>6.9</b> | <b>4.2</b> | <b>3.5</b> | <b>3.8</b> |
| Slovenia       | 5.0        | 4.8        | 3.7        | 3.6        |
| Estonia        | 4.9        | 3.5        | 3.1        | 3.0        |
| Poland         | 4.7        | 3.8        | 3.5        | 3.3        |
| Latvia         | 4.5        | 3.9        | 3.6        | 3.1        |
| Czech Republic | 4.4        | 3.7        | 3.3        | 3.2        |
| Montenegro     | 4.4        | 3.2        | 3.2        | 3.0        |
| Kazakhstan     | 4.0        | 4.0        | 3.0        | 3.0        |
| Hungary        | 4.0        | 4.0        | 2.8        | 2.4        |
| Albania        | 3.8        | 3.8        | 4.1        | 4.0        |

|                        | 2017 | 2018 | 2019 | 2020 |
|------------------------|------|------|------|------|
| Lithuania              | 3.8  | 3.3  | 3.0  | 2.6  |
| Kosovo                 | 3.7  | 3.9  | 3.8  | 3.8  |
| Bulgaria               | 3.6  | 3.5  | 3.4  | 3.1  |
| Slovakia               | 3.4  | 3.8  | 4.2  | 3.3  |
| Bosnia and Herzegovina | 3.0  | 3.3  | 3.3  | 3.3  |
| Croatia                | 2.8  | 2.5  | 2.7  | 2.8  |
| Ukraine                | 2.5  | 3.3  | 3.1  | 2.0  |
| Belarus                | 2.4  | 4.0  | 3.7  | 3.4  |
| Serbia                 | 1.9  | 3.6  | 3.0  | 2.8  |
| Russia                 | 1.5  | 1.5  | 1.6  | 1.7  |
| Macedonia              | 0.0  | 3.5  | 3.1  | 3.3  |

Note: Colour scheme: dark blue – strong growth slowdown (2018 vs 2017); blue – growth slowdown; red – growth acceleration; black – steady GDP growth. Source: wiiw, wiiw forecasts (June 2018).

## Growth determinants in EU-CEE

GDP growth 2017-2020 in % and contribution of individual demand components in percentage points

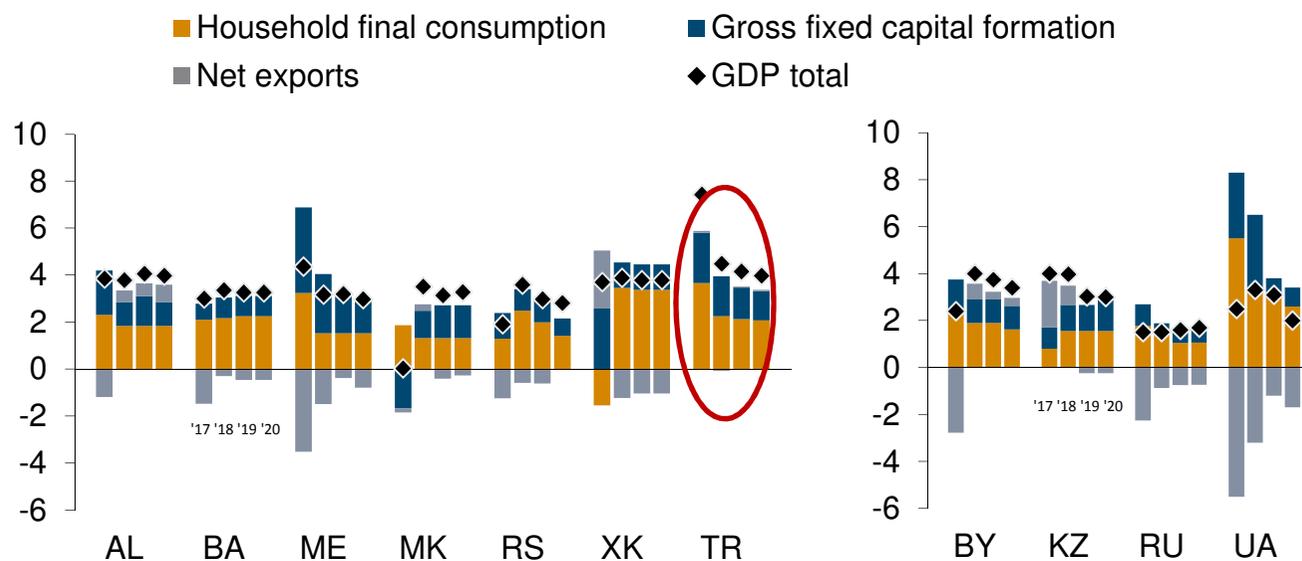


Source: wiiw Annual Database based on national statistics and Eurostat; own calculations.

Forecast: wiiw.

# Growth determinants in the Western Balkans, Turkey, CIS and Ukraine

GDP growth 2017-2020 in % and contribution of individual demand components in percentage points



Source: wiiw Annual Database based on national statistics and Eurostat; own calculations.

Forecast: wiiw.

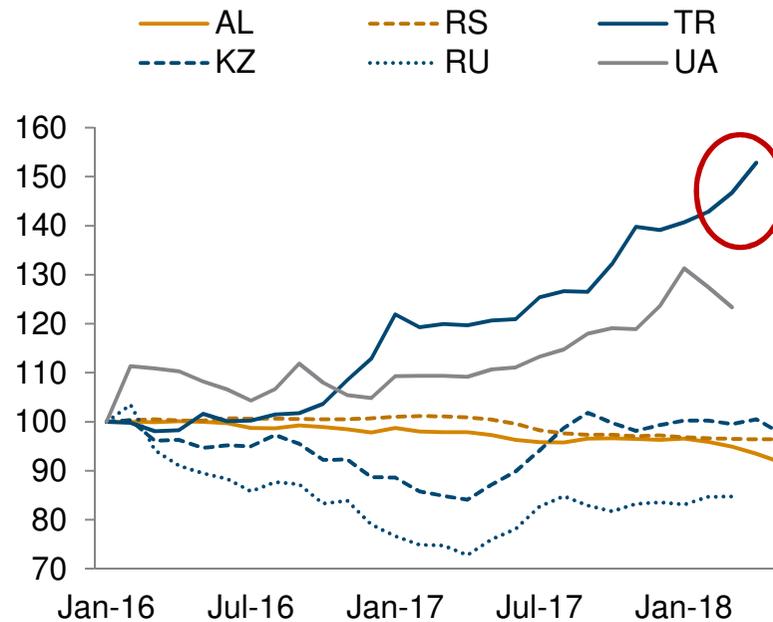
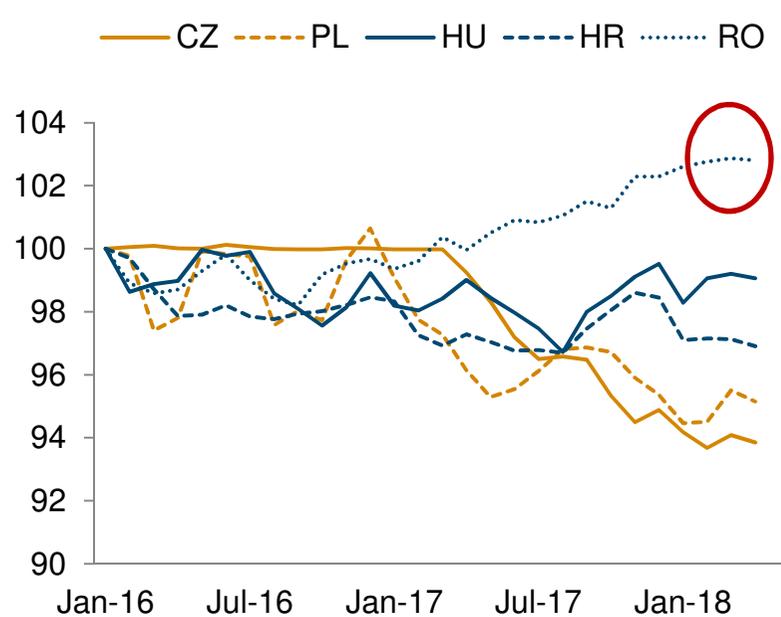
## Private consumption growth is losing momentum

- Romania, Turkey: end of ‘overheating’
  - Tightening monetary policy in response to currency depreciation
  - Poor implementation of tax reform (Romania)
- In general: only slight weakening
  - Shift in spending priorities towards real estate purchases
  - Increase in remittances transferred abroad (mainly to Ukraine)
- Acceleration in only a few countries:
  - Kosovo (political crisis has been overcome)
  - Slovenia, Serbia, Bosnia and Herzegovina, Kazakhstan (fiscal loosening, increase in bank lending)
  - Estonia (income tax cuts)

# Nominal exchange rate to the euro

January 2016 = 100

Romania and Turkey depreciating, Czech Republic appreciating



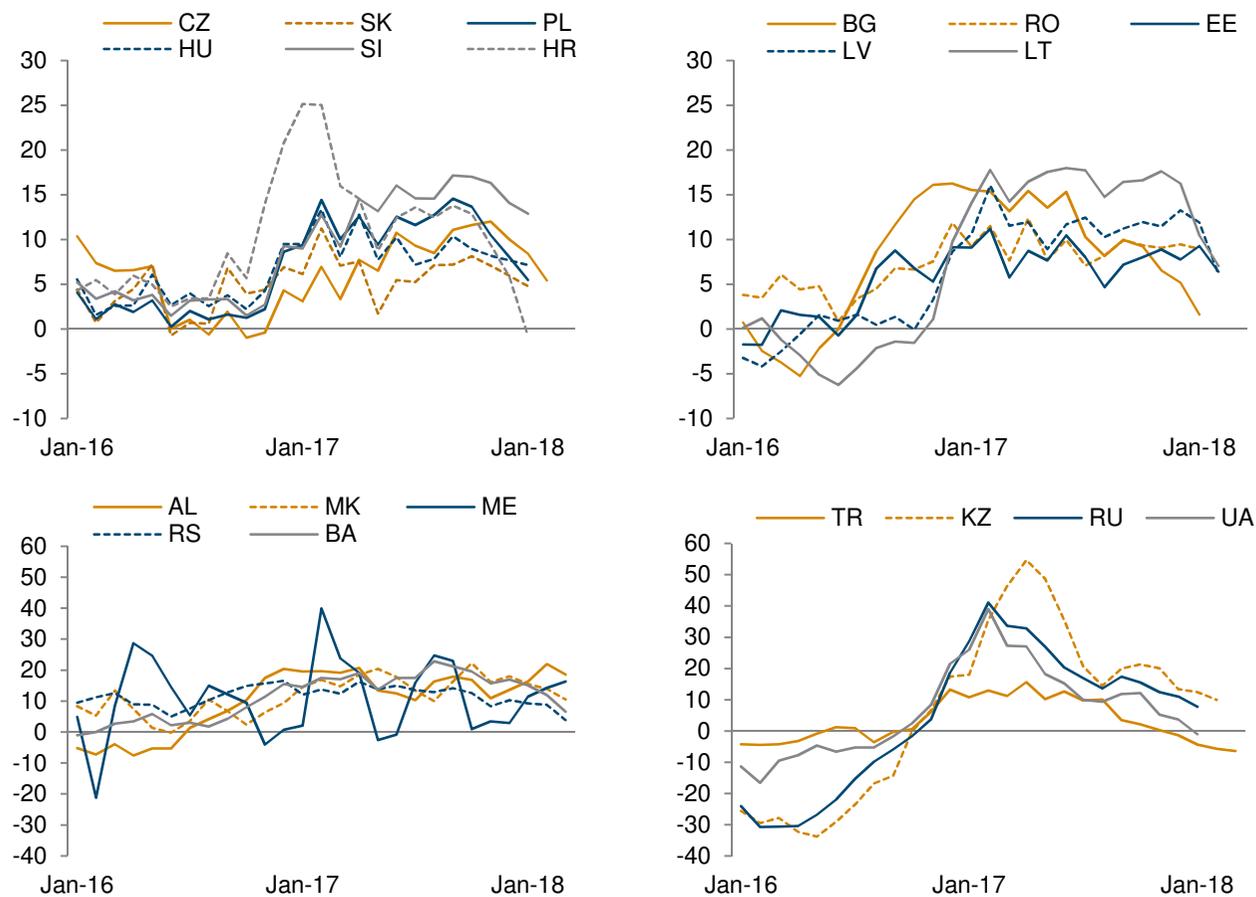
Note: Rising line indicates currency depreciation.

Source: wiiw Monthly Database based on national statistics and Eurostat.

# Export dynamics slightly weakening

Goods exports (nominal, euro basis), 2016-2018

Change against preceding year in %, moving 3-month average

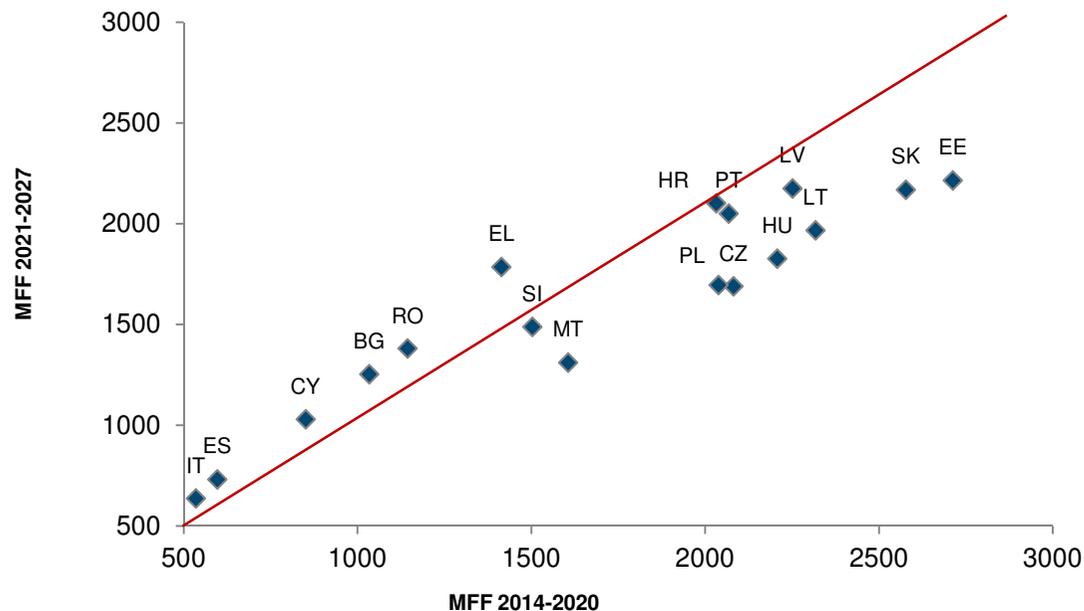


## Investment demand continues to be strong

- Explains half of the GDP growth in half of the CESEE countries
- Reasons:
  - labour force shortages
  - high capacity utilisation
  - low interest rates
- EU-CEE: EU transfers important
- Western Balkans: increasingly attractive for foreign direct investors
  - in addition: infrastructure investments (also related to 'New Silk Road')
  - Macedonia: political crisis has been overcome
- Ukraine: recovery from the slump of 2014-2015

## Post-Brexit EU budget: cuts for most EU-CEE countries

ESIF, planned allocations, in EUR per capita



Note: ESIF – European Structural and Investments Fund. MFF – Multiannual Financial Framework. MFF 2021-2027 data are in 2018 prices.

Source: European Commission, Smart Specialisation Platform.

## Prospects for euro introduction generally dim with the exception of Croatia

Criteria for euro introduction, May 2018 ('+' = criterion has been met)

| Criterion  | BG | CZ | HU | PL | RO | HR |
|--|----|----|----|----|----|----|
| Price stability  | +  | -  | -  | +  | -  | +  |
| Soundness and stability of public finances                 | +  | +  | +  | +  | +  | +  |
| Long-term interest rate                                    | +  | +  | +  | -  | -  | +  |
| Legislation, in particular on the role of the central bank | -  | -  | -  | -  | -  | +  |

Note: The fifth criterion (exchange rate stability) requires participation in the European Exchange Rate Mechanism (ERM2). Since no EU-CEE country is currently participating in ERM2, none of the countries comply with this criterion.

Source: European Commission (2018), Convergence Report, Institutional Paper No. 078, May.

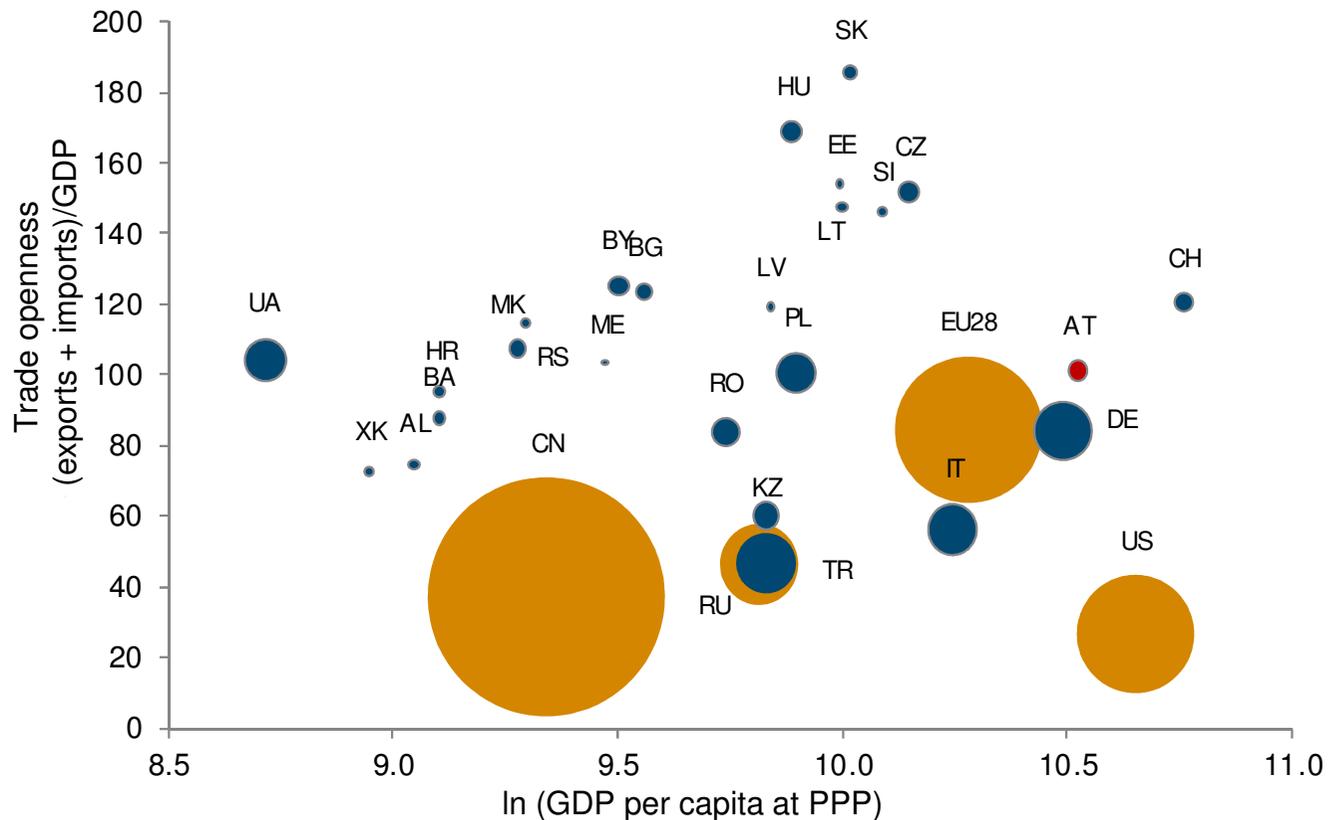
## Part 2: Austria's economic relations with Central, East and Southeast Europe (CESEE)

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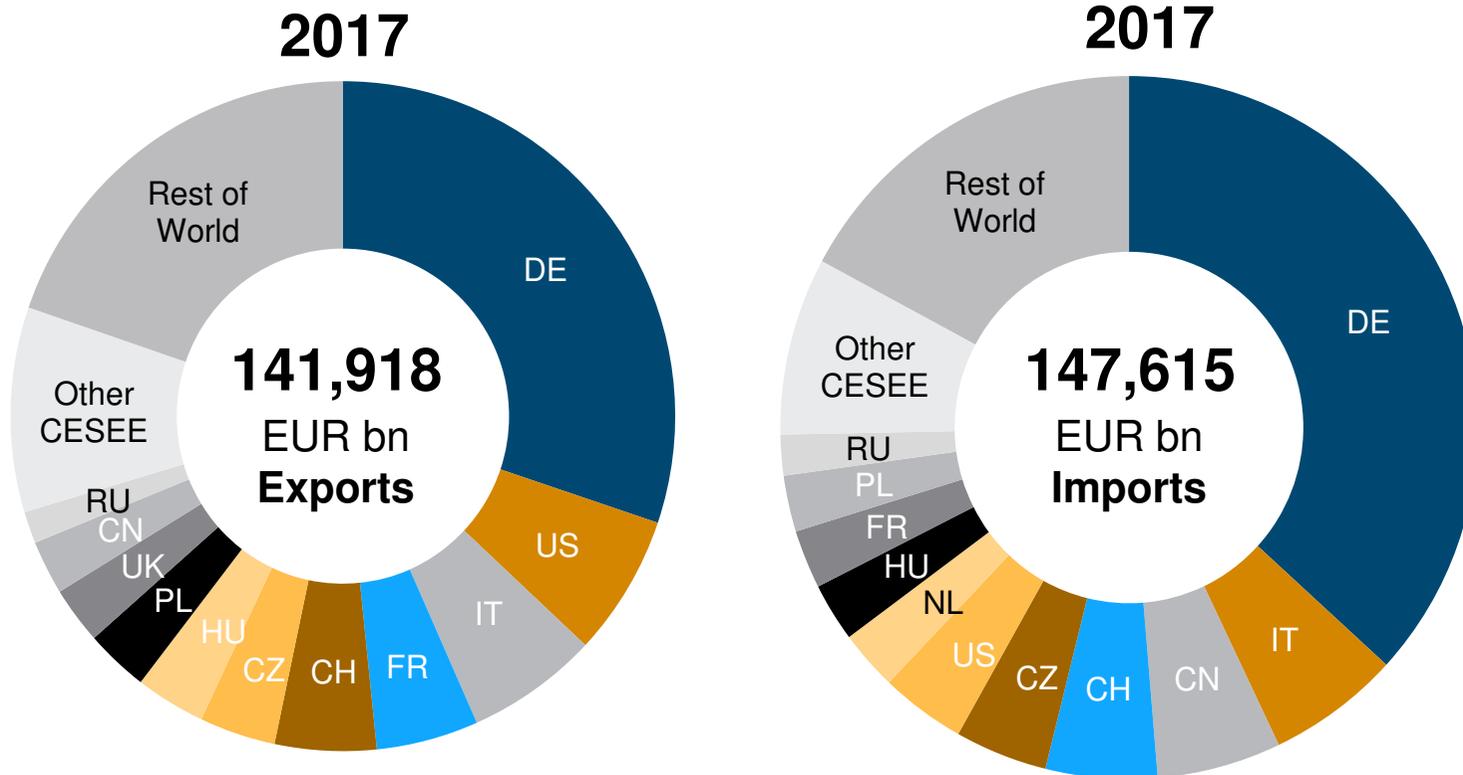
## Context Austria's EU Presidency and paradigm shift on the world economic stage



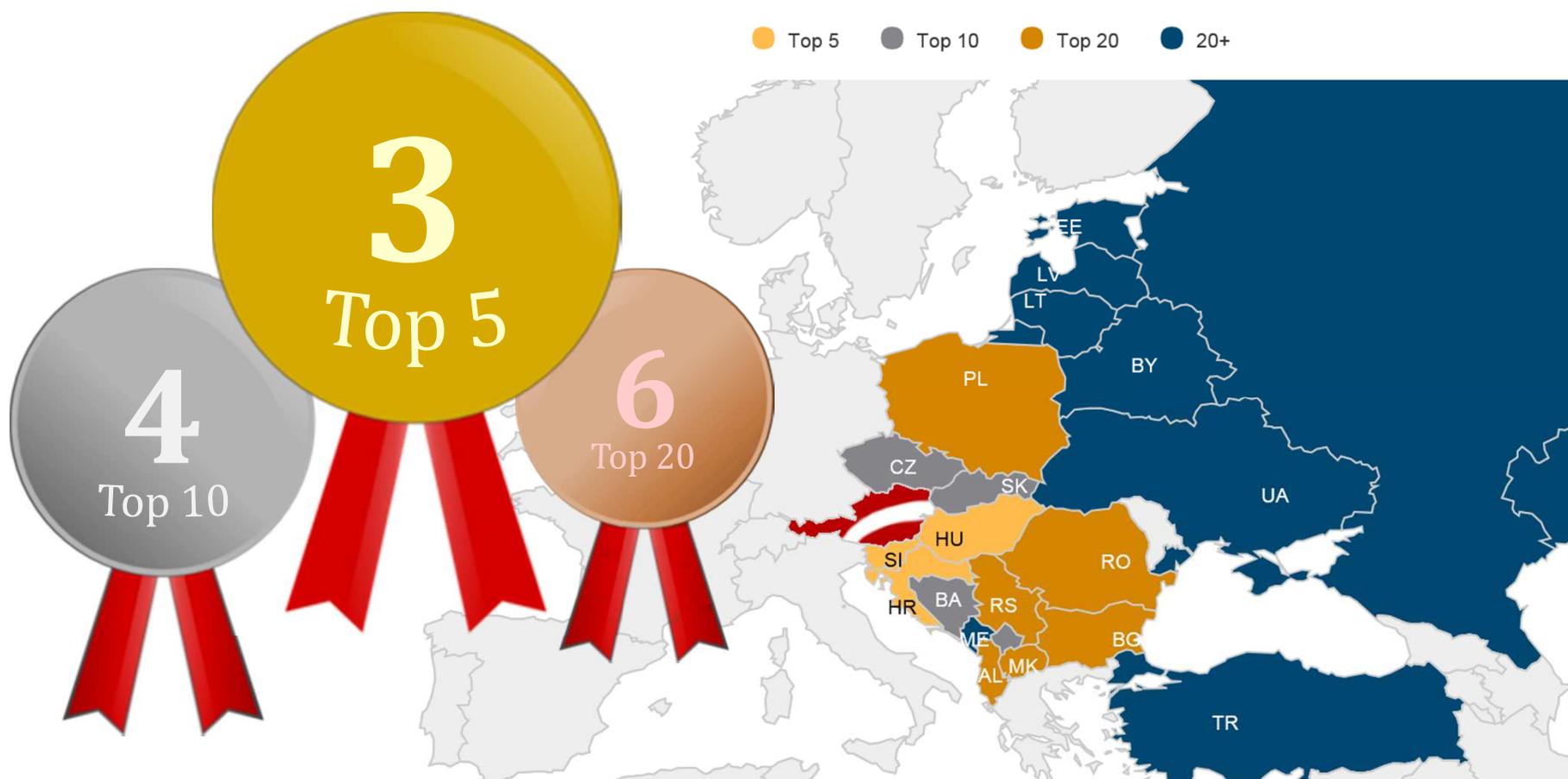
Note: Bubble size in relation to population. GDP = gross domestic product, PPP = purchasing power parity, i.e. accounting for the local price level.

Source: wiiw Annual Database, Eurostat, WDI World Bank.

V-4 the only export destination gaining shares since the economic and financial crisis. Germany's dominance increases concerns about US trade policy.



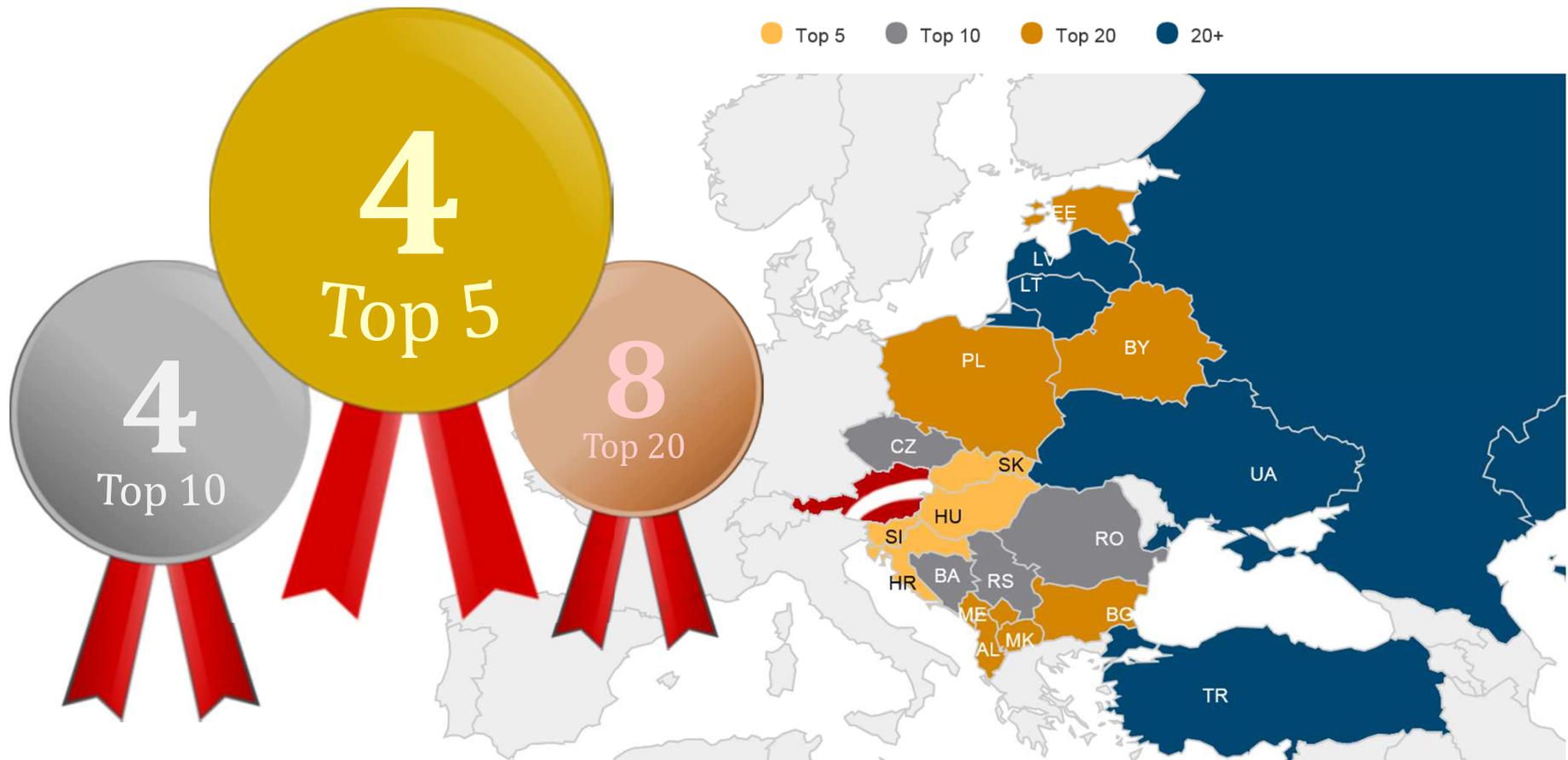
Austria among the top 5 export destinations for Slovenia (7.4%), Croatia (6.2%) and Hungary (5.0%) in 2017 ...



Note: Ranking by share in total exports 2017.

Source: wiiw Database incorporating national and Eurostat statistics.

... and among the top 5 countries of origin for imports of Slovakia (10.2%), Slovenia (9.3%), Croatia (7.5%) and Hungary (6.3%)

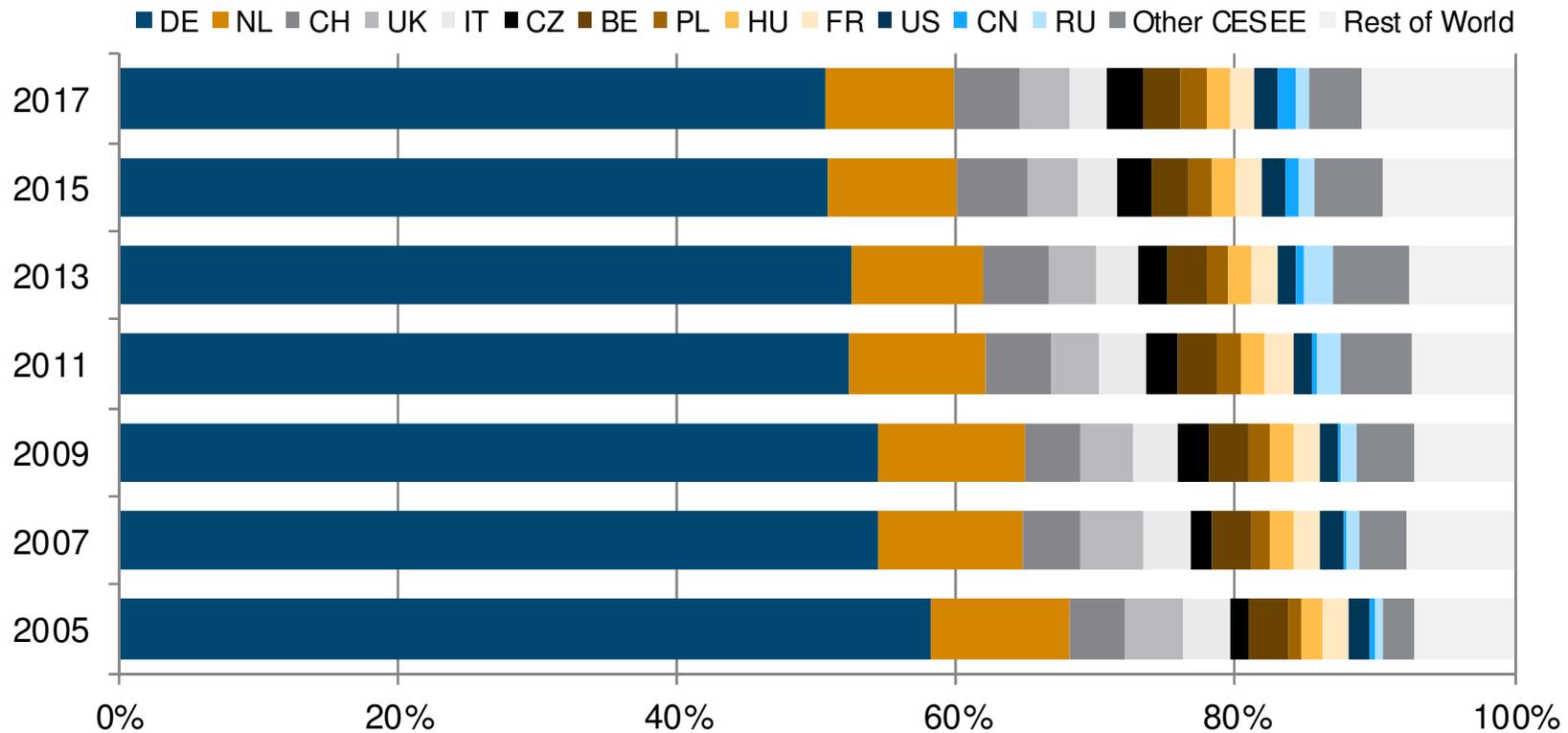


Note: Ranking by share in total imports 2017.

Source: wiiw Database incorporating national and Eurostat statistics.

New record with 29 million arrivals and 106 million overnight stays, with growing shares for CESEE and China

### Overnight stays of foreign tourists in Austria



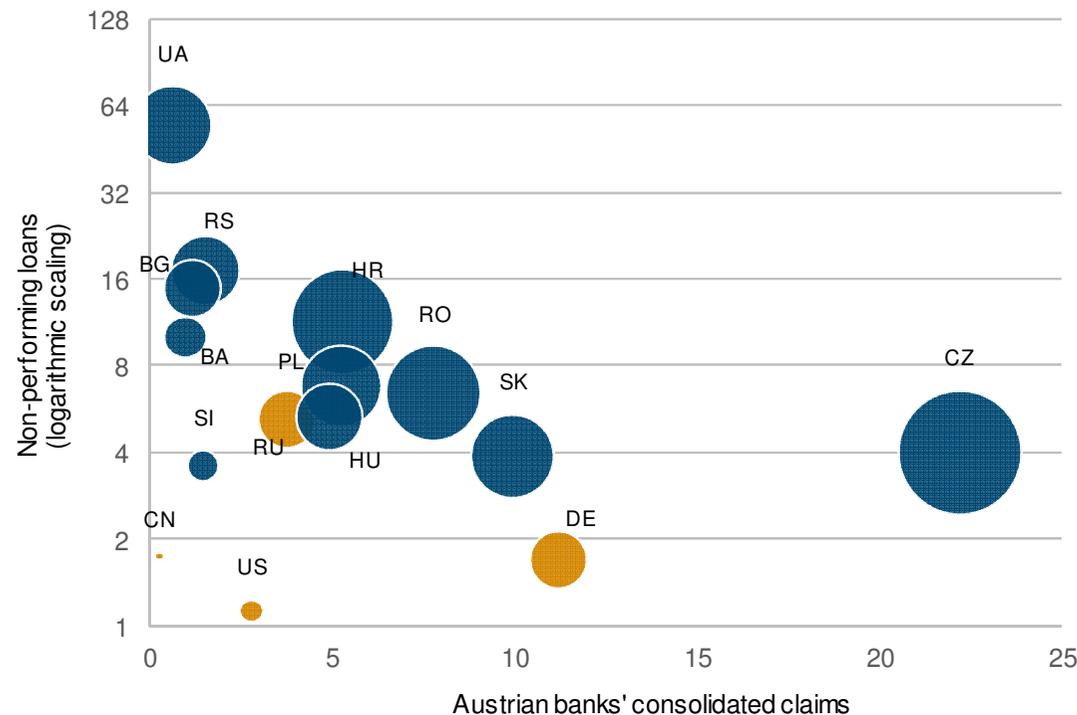
Austria remains top investor in CESEE (stock: 32.5%) and makes above-average profits in the region (income: 40.7%)



Note: Ranking by share in total FDI stock, 2016. Data for 2017: AL, BG, EE, KZ, XK, HR, LV, LT, UA.

Source: wiiw Database incorporating national and Eurostat statistics.

The share of non-performing loans has decreased for countries with the largest claims. Ukraine (+24pp NPL) ranks 23<sup>rd</sup> by its share in Austrian claims.



Note: Non-performing loans (latest available data): Loans more than 90 days overdue.

Sources: Foreign claims: BIS. Non-performing loans: national statistics for CESEE, IMF for other countries.

## Austria vs China as economic partners of CESEE

|                  | ISO2 | Exports CESEE |       | Imports CESEE |       | FDI stock CESEE |     |  |
|------------------|------|---------------|-------|---------------|-------|-----------------|-----|--|
|                  |      | AT            | CN    | AT            | CN    | AT              | CN  |  |
| <b>EU-CEE-11</b> | BG   | 1.8           | 2.4   | 2.4           | 3.7 ● | 9.7 ●           | 0.3 |  |
|                  | CZ   | 4.4 ●         | 1.3   | 3.9 ●         | 7.3 ● | 11.0 ●          | 0.5 |  |
|                  | EE   | 0.3           | 1.7   | 1.0           | 4.7 ● | 1.6             | 0.1 |  |
|                  | HR   | 6.2 ●         | 0.9   | 7.5 ●         | 3.2 ● | 20.0 ●          | 0.0 |  |
|                  | HU   | 5.0 ●         | 1.6   | 6.3 ●         | 5.9 ● | 10.2 ●          | 0.3 |  |
|                  | LT   | 0.5           | 0.7   | 1.1           | 2.9   | 1.1             | 0.0 |  |
|                  | LV   | 0.4           | 1.1   | 1.0           | 3.0 ● | 1.4             | 0.5 |  |
|                  | PL   | 1.9           | 1.0   | 2.1           | 8.0 ● | 4.0 ●           | 0.1 |  |
|                  | RO   | 2.3           | 1.2   | 3.3 ●         | 5.0 ● | 11.9 ●          | 0.1 |  |
|                  | SI   | 7.4 ●         | 1.7   | 9.3 ●         | 4.5 ● | 24.7 ●          | 0.1 |  |
|                  | SK   | 6.0 ●         | 1.6   | 10.2 ●        | 4.2 ● | 16.0 ●          | 0.1 |  |
| <b>WB-6</b>      | AL   | 0.7           | 3.1 ● | 1.2           | 7.9 ● | 6.4 ●           | 0.1 |  |
|                  | BA   | 8.1 ●         | 0.3   | 3.4 ●         | 6.5 ● | 19.2 ●          | 0.0 |  |
|                  | MK   | 1.2           | 1.1   | 1.7           | 5.8 ● | 12.2 ●          | 0.8 |  |
|                  | ME   | 0.5           | 1.7   | 1.9           | 9.6 ● | 3.4 ●           | .   |  |
|                  | RS   | 2.7           | 0.4   | 3.1 ●         | 8.1 ● | 11.6 ●          | .   |  |
|                  | XK   | 2.8 ●         | 1.5   | 1.7           | 9.0 ● | 6.0 ●           | .   |  |

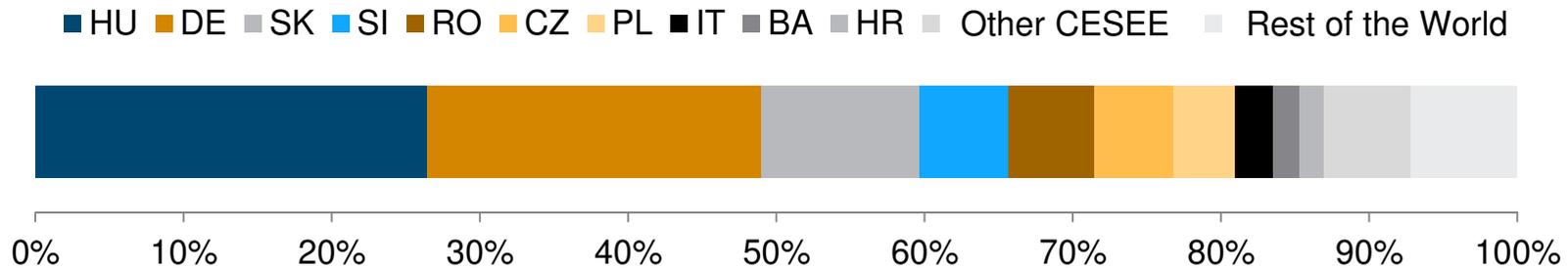
Note: ● TOP 5 ● TOP 10. Data refer to shares from the perspective of CESEE.

FDI data: 2017 for AL, BG, EE, XK, HR, LV, LT; 2016 for all other countries.

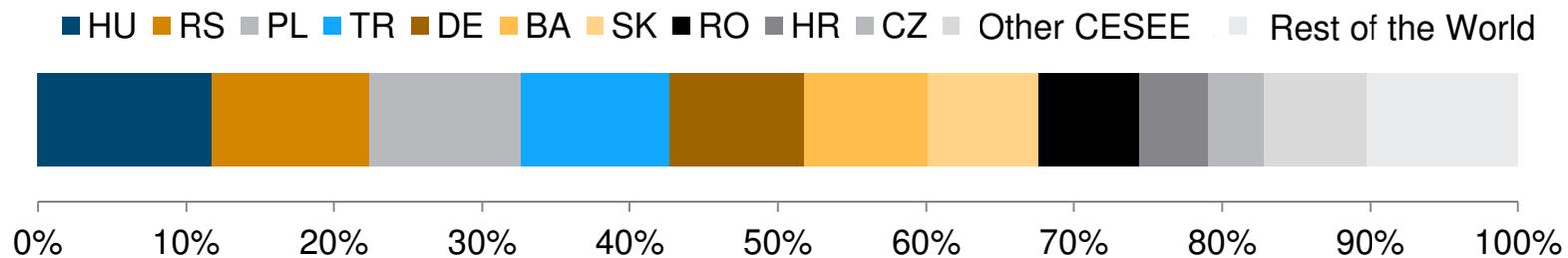
Source: wiiw Database incorporating national and Eurostat statistics.

## Migration from CESEE: From guest worker to brain drain

Compensations of employees transferred from Austria



Workers' remittances transferred from Austria



Note: Top 10 according to 2017 ranking, shares in %, data based on BPM6 methodology.

Source: Oesterreichische Nationalbank (OeNB).

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Appendix of data to the Report,  
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to the Report, tool to create  
customised graphs

## Country codes

|        |   |    |            |
|--------|---|----|------------|
| AL     | Albania                                     | ME | Montenegro |
| BY     | Belarus                                     | MK | Macedonia  |
| BA     | Bosnia and Herzegovina                      | PL | Poland     |
| BG     | Bulgaria                                    | RO | Romania    |
| CZ     | Czech Republic                              | RS | Serbia     |
| EE     | Estonia                                     | RU | Russia     |
| HR     | Croatia                                     | SI | Slovenia   |
| HU     | Hungary                                     | SK | Slovakia   |
| KZ     | Kazakhstan                                  | TR | Turkey     |
| LT     | Lithuania                                   | UA | Ukraine    |
| LV     | Latvia                                      | XK | Kosovo     |
| CESEE  | Central, East and Southeast Europe          |    |            |
| CIS    | Commonwealth of Independent States          |    |            |
| EU-CEE | European Union – Central and Eastern Europe |    |            |
| WB     | Western Balkans                             |    |            |