

Press conference, 27 March 2019

New wiiw forecast for Central, East and Southeast Europe, 2019-2021

**Moving into the slow lane**

**Richard Grieveson**

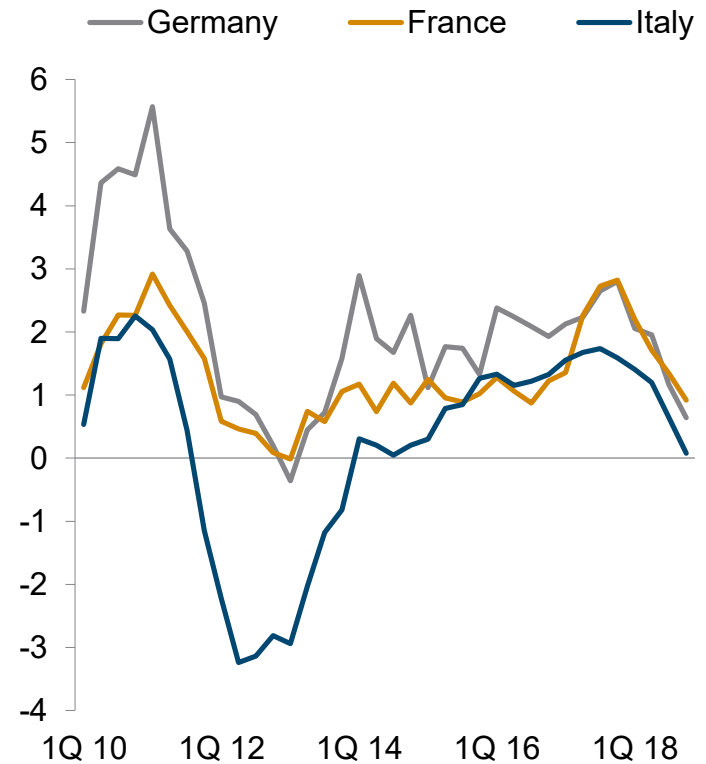
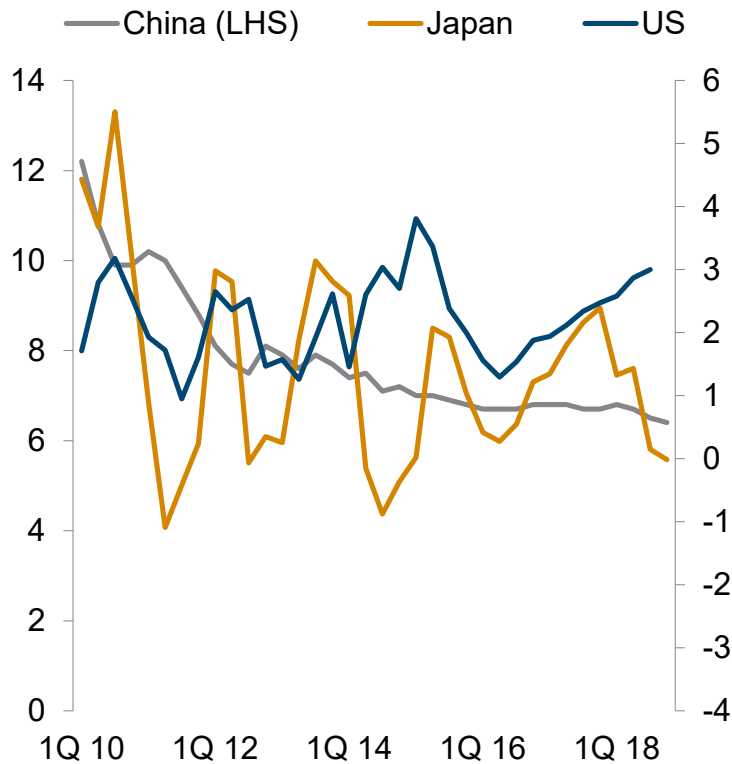
## Overview

1. Global economy: End of the cycle
2. Outlook for CESEE in 2019-21: Adjusting to life in the slow lane
3. Risks: Eurozone downturn/crisis, trade war, next EU budget, Brexit
4. Financial sector in CESEE ten years after the crisis
5. Long-term challenges: How well prepared is CESEE for the future?

# 1. Global economy: End of the cycle

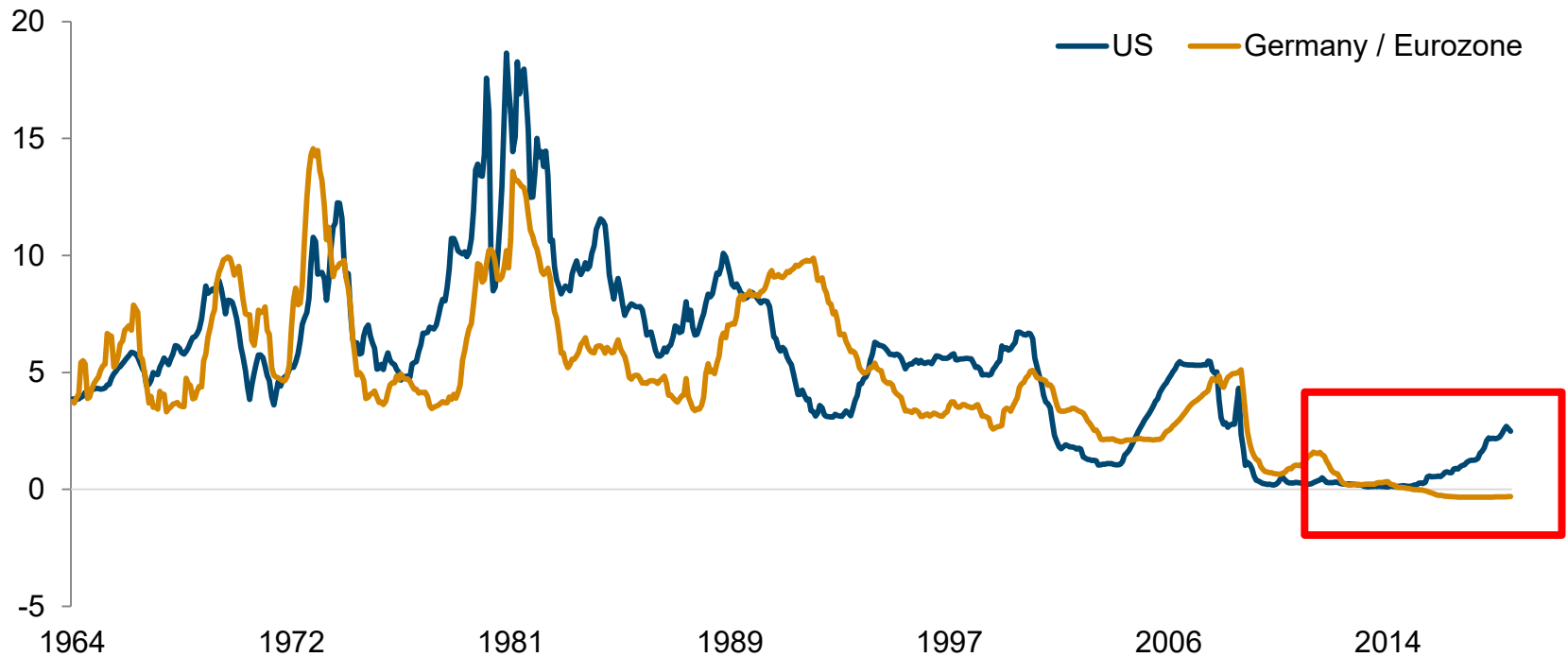
# Global growth trends: Major slowdowns in China and Germany

Quarterly real GDP growth, year-on-year



# Global monetary policy remains (and will remain) extraordinarily loose.

Short-term interest rates, % per annum



Source: OECD.

Note: Germany / Eurozone = Germany until 1999, Eurozone thereafter.

## 2. Outlook for CESEE in 2019-21: Adjusting to life in the slow lane

## Still tale of two CESEEs, but slowdown imminent for almost all countries

		Forecast, %				Revisions, pp		
		2018	2019	2020	2021	2018	2019	2020
EU-CEE11	BG	3.0	2.8	2.5	2.5	↓ -0.3	↓ -0.4	↓ -0.5
	CZ	3.0	2.6	2.7	2.8	↓ -0.3	↓ -0.6	↓ -0.4
	EE	3.9	2.9	2.5	2.2	↑ 0.4	↓ -0.2	↓ -0.2
	HR	2.7	2.6	2.5	2.5	↑ 0.2	→ 0.0	↓ -0.2
	HU	4.9	3.3	2.3	1.9	↑ 0.6	↑ 0.3	→ 0.0
	LT	3.5	3.0	2.6	2.3	→ 0.0	→ 0.0	→ 0.0
	LV	4.8	3.5	3.0	2.5	↑ 0.7	↑ 0.2	→ 0.0
	PL	5.1	3.7	3.3	3.3	↑ 0.1	↑ 0.2	→ 0.0
	RO	4.2	2.8	3.0	3.2	↑ 0.4	↓ -0.8	↓ -0.7
	SI	4.5	3.2	3.0	2.9	→ 0.0	↓ -0.4	↓ -0.5
	SK	4.1	3.6	3.0	2.5	↑ 0.3	↓ -0.5	↓ -0.3
WB6	AL	4.1	3.8	3.8	3.4	→ 0.0	↓ -0.2	↓ -0.2
	BA	2.9	2.5	2.6	2.7	↓ -0.1	↓ -0.9	↓ -0.8
	ME	4.0	2.5	2.2	2.0	↓ -0.2	↓ -0.6	↓ -0.9
	MK	1.9	3.0	3.0	3.0	↓ -1.0	↑ 0.2	↓ -0.1
	RS	4.4	3.4	2.9	2.9	↑ 0.1	→ 0.0	↑ 0.1
	XK	3.9	4.1	4.0	3.9	↓ -0.3	↑ 0.1	↓ -0.2
Turkey	TR	2.9	-0.7	3.2	3.7	↑ 0.4	↓ -1.7	↓ -0.8
CIS4+UA	BY	3.0	2.4	2.2	2.0	↓ -0.7	↓ -0.6	↓ -0.6
	KZ	4.1	3.0	3.0	3.0	↑ 0.1	↓ -0.1	→ 0.0
	MD	4.0	3.8	3.6	3.5	.	.	.
	RU	2.3	1.8	1.7	1.9	↑ 0.6	↑ 0.2	↓ -0.1
	UA	3.3	2.5	2.0	2.9	→ 0.0	↓ -0.2	→ 0.0

# Real wages a major growth driver, underpinned by tighter labour markets.

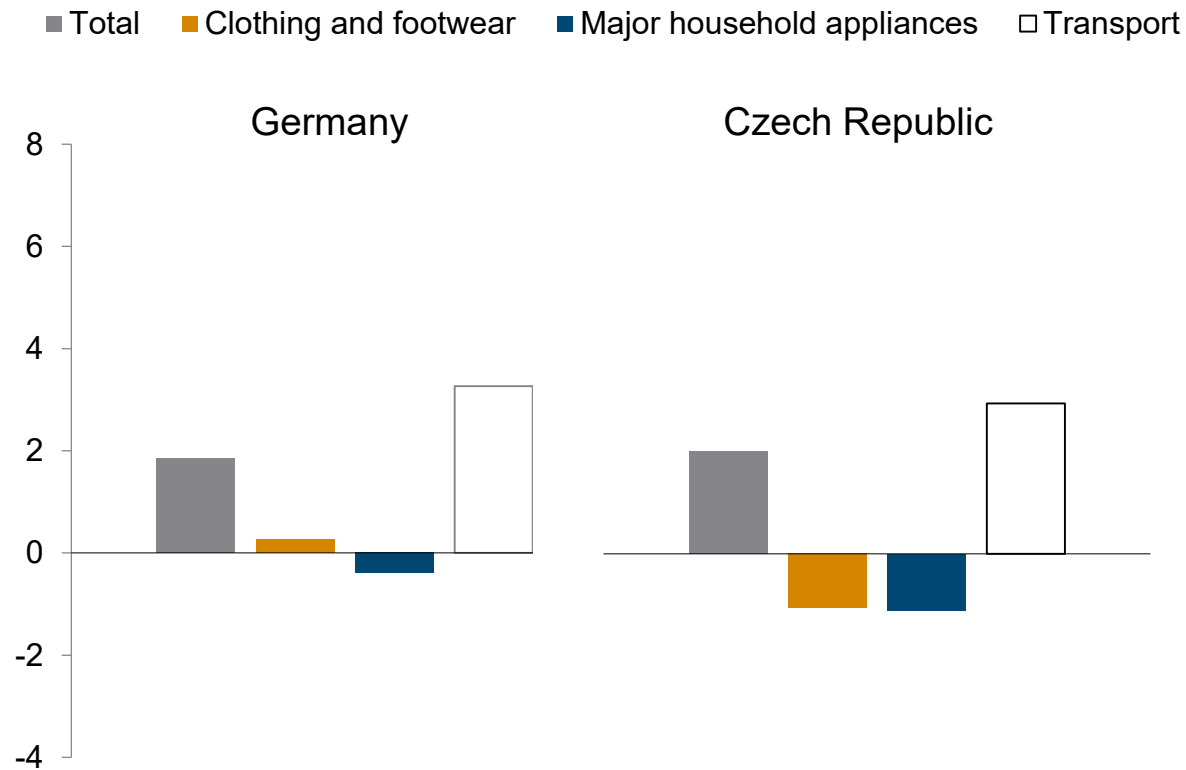
Wages and inflation, % change, 2018





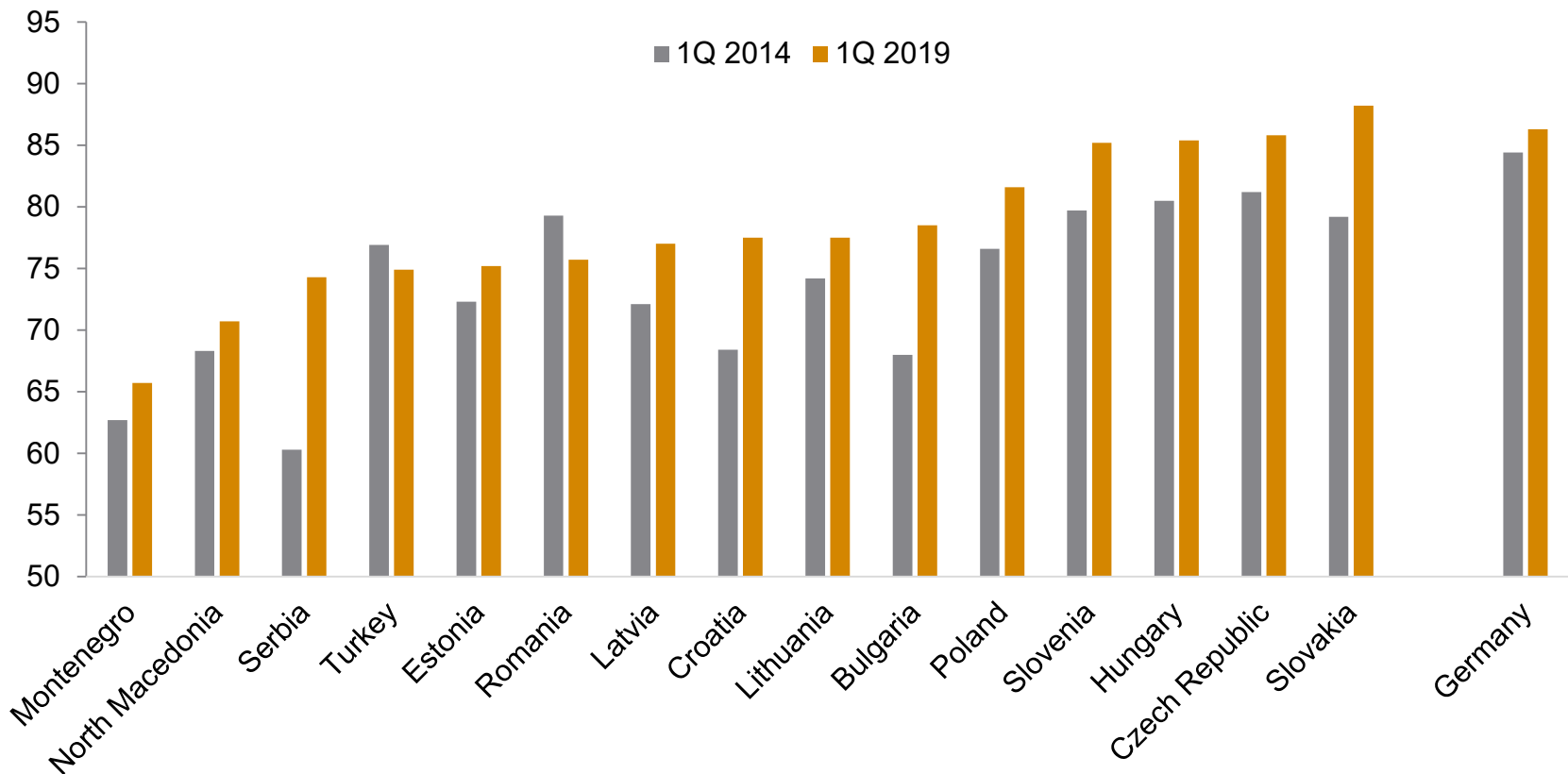
# Inflation set to remain low: Eurozone trends, expectations de-anchoring, productivity, competition etc.

## EU-harmonised inflation in 2018, selected components



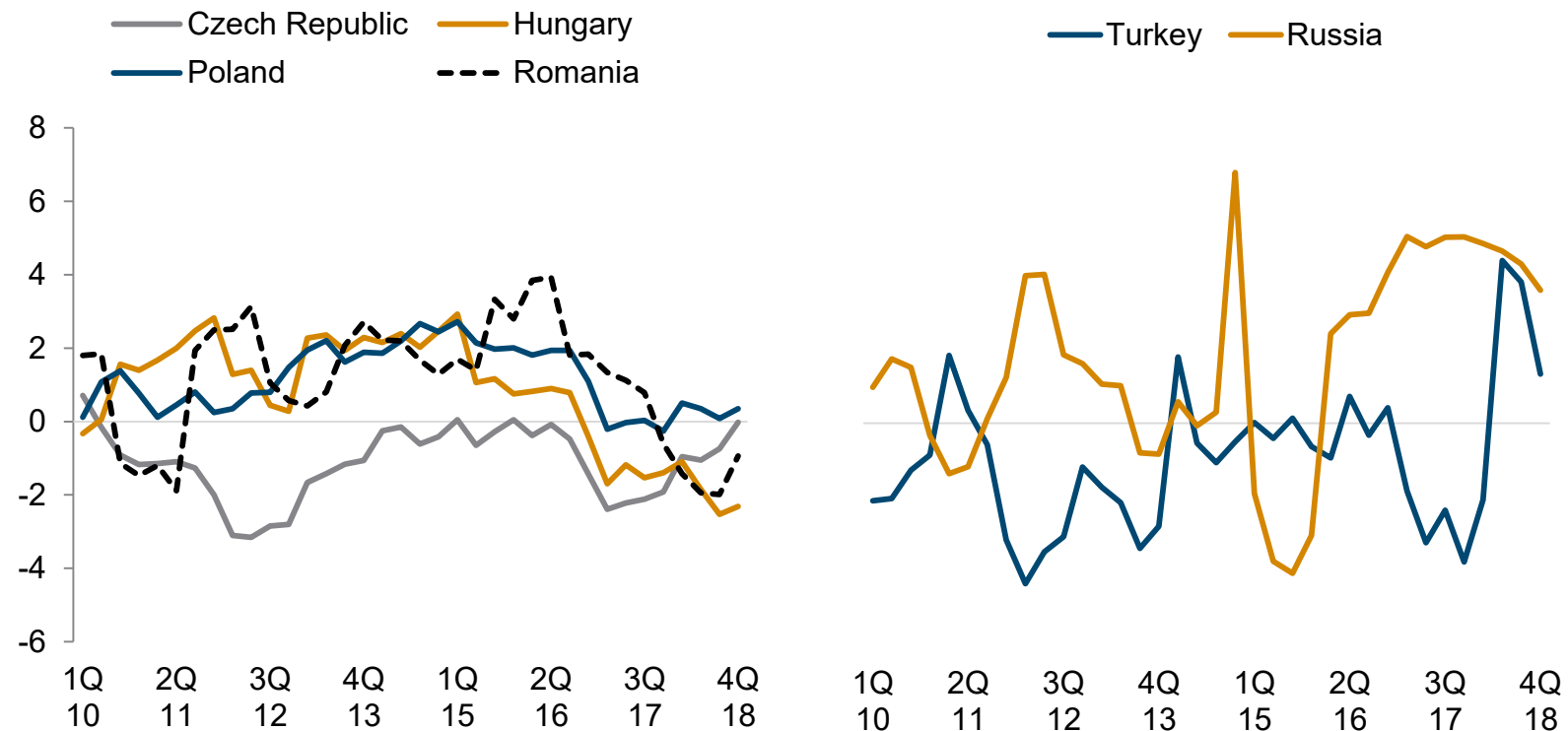
## Investment outlook is still fairly positive in the short run ...

### Capacity utilisation in manufacturing industry, %



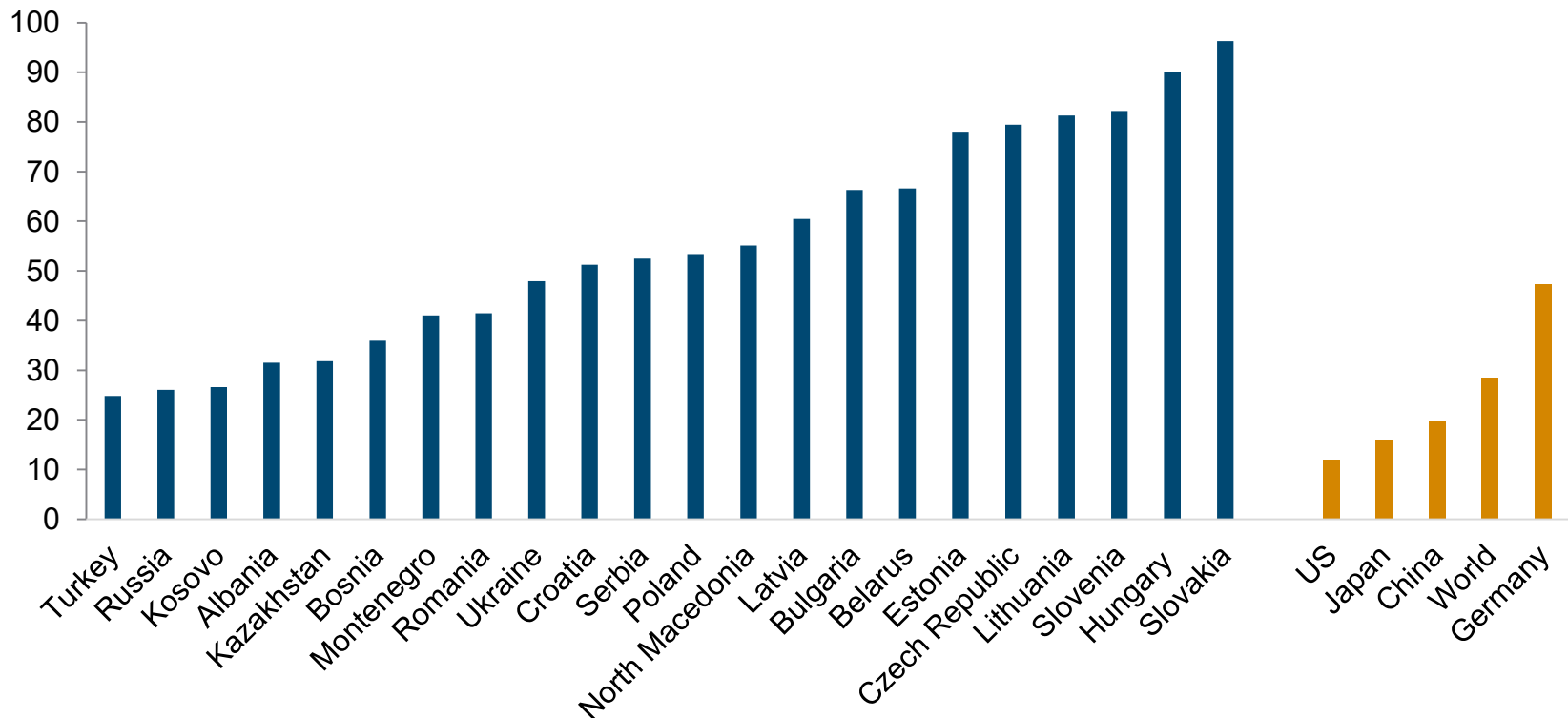
# Real interest rates to remain at historically low levels outside CIS, Ukraine and Turkey

Real interest rates, CPI-adjusted, %



# Who's afraid of a global slowdown? External resilience will be severely tested

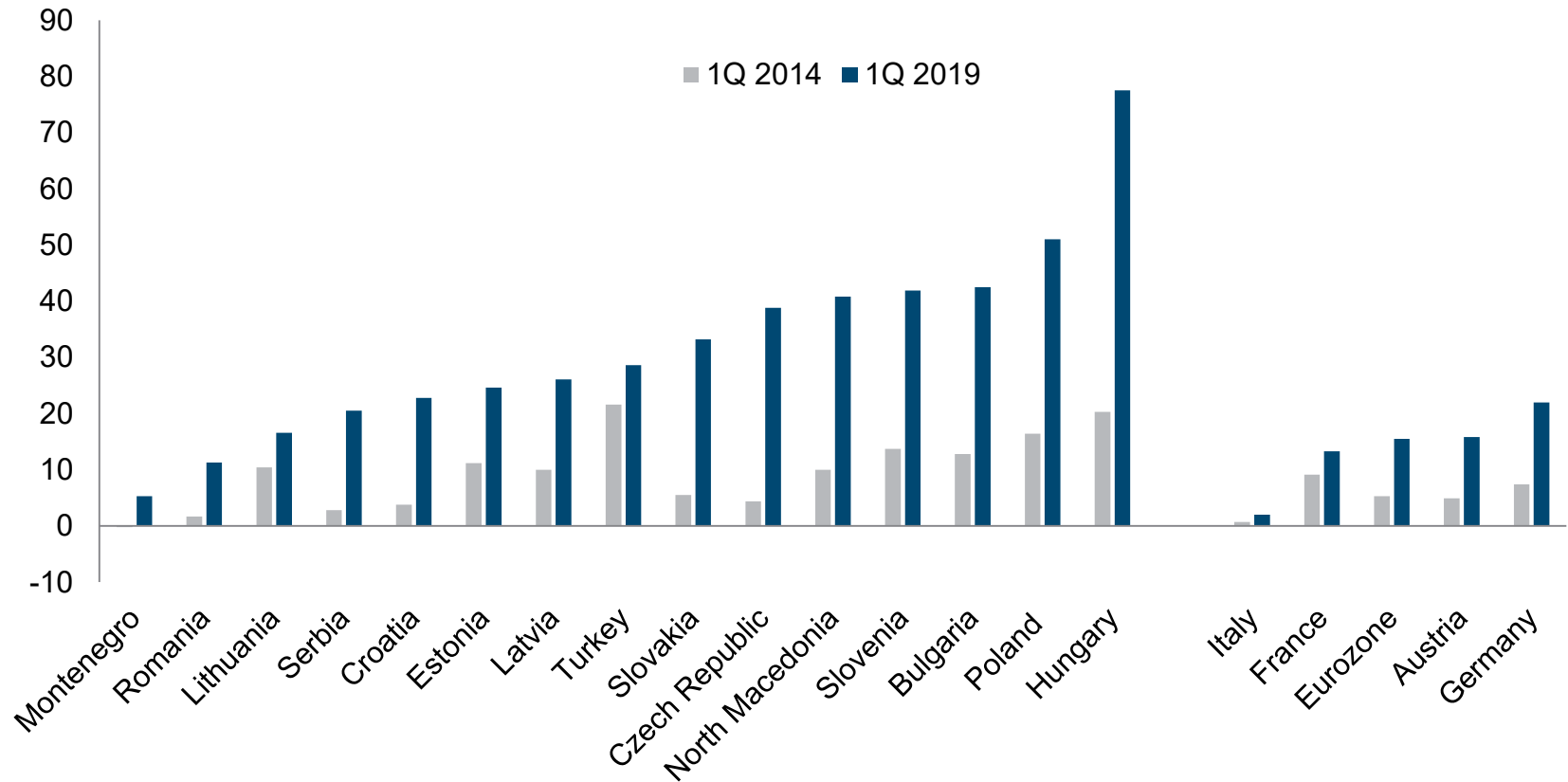
Exports of goods and services, % of GDP, 2017



Source: World Bank.

# Labour shortages an increasing impediment to growth

Firms in industry reporting labour as constraint on production, balance of positive and negative responses



### 3. Major risks to the forecast

## Major risks to the forecast

- Taking into account likelihood and impact on CESEE, three still stand out:
  - i. Deeper **Eurozone** downturn/crisis
  - ii. Global **trade war**, including higher US tariffs on EU cars
  - iii. Smaller **EU budget**

## Brexit: Everything is still possible

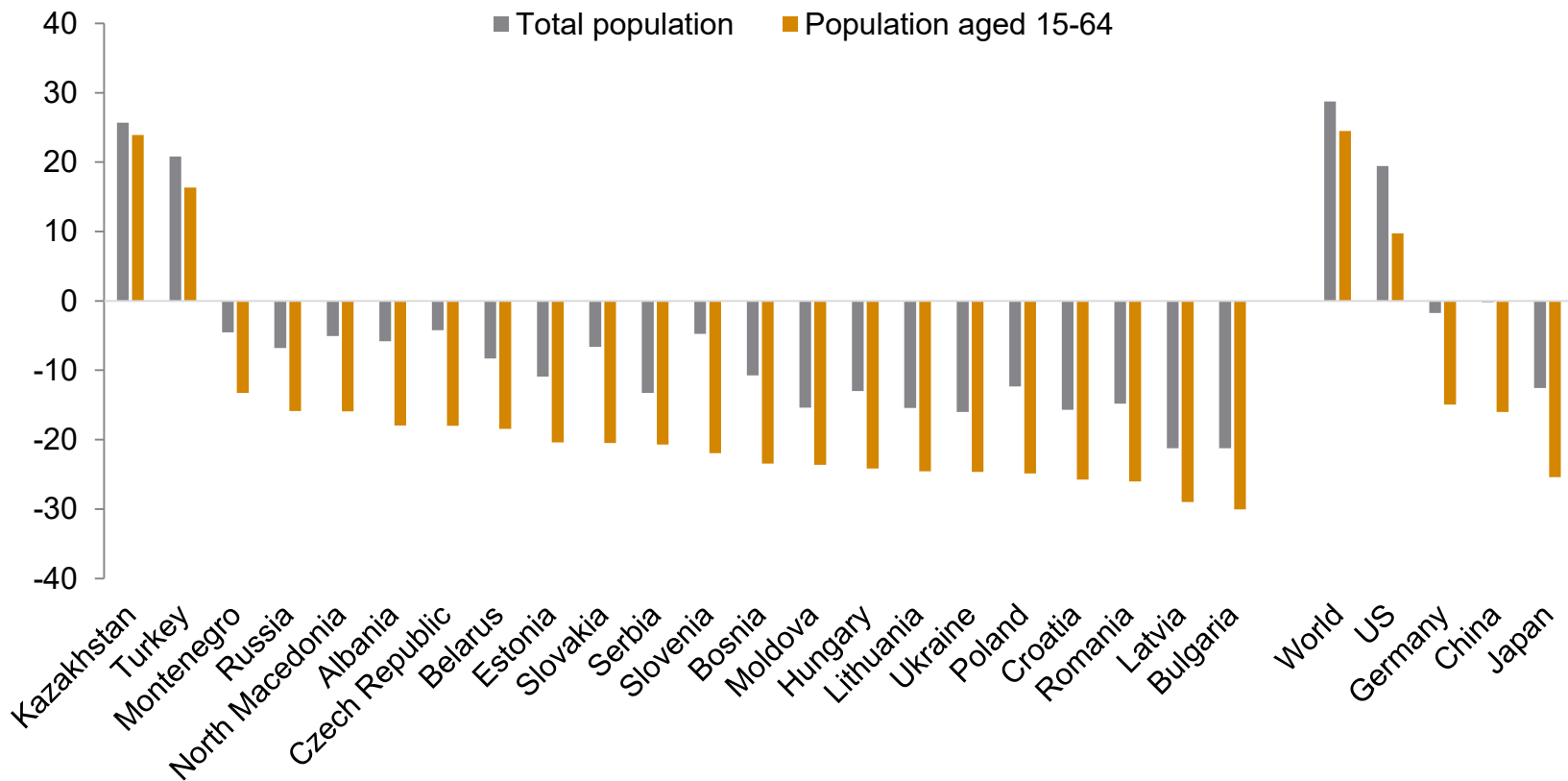
- High degree of uncertainty: All outcomes seem unlikely
- What is clear on UK side: Majority for current deal plus Customs Union
- What is not clear on EU side: What happens if no resolution by April 12th?
- Risk of „no deal“ still quite low, but certainly not impossible
- This is just the beginning, Brexit will be with us for years



## 4. An increasingly challenging long-term outlook

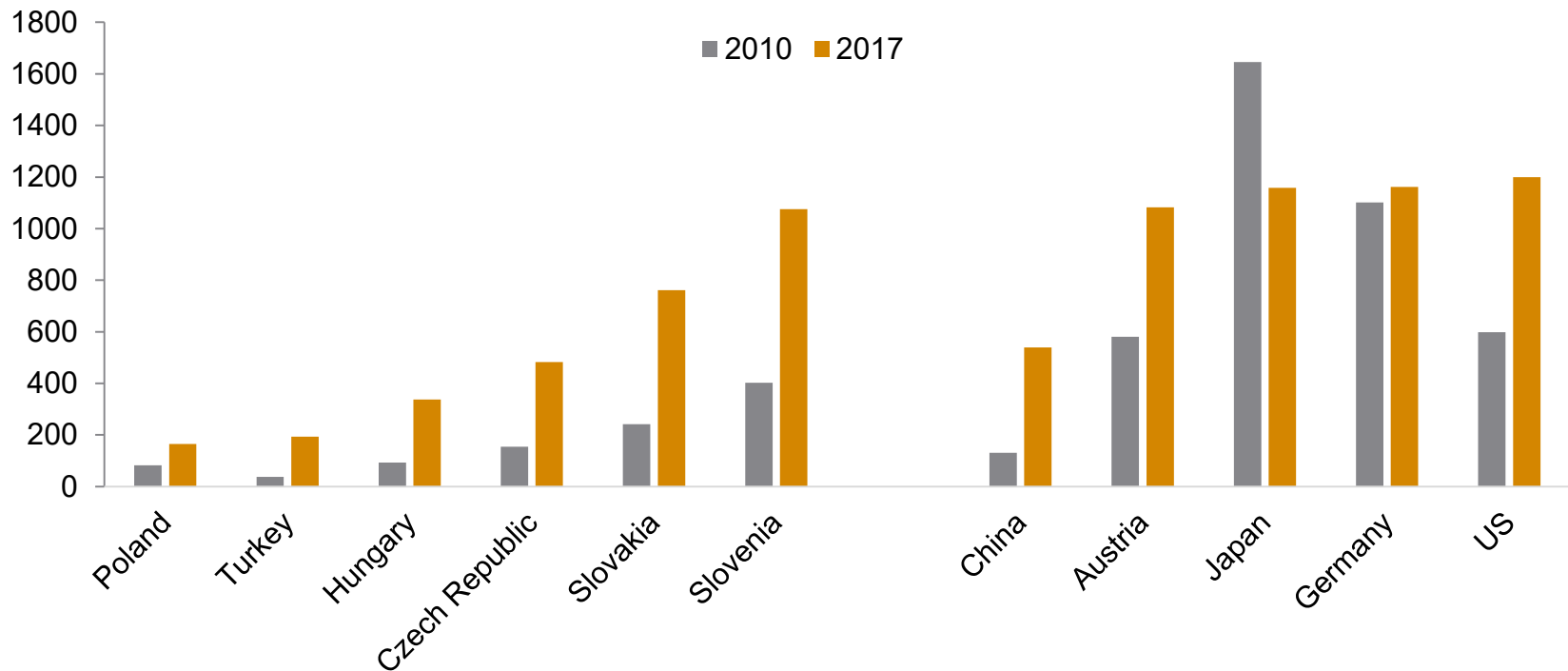
# A. Unprecedented demographic decline in peacetime

UN population projections, % change between 2015 and 2045



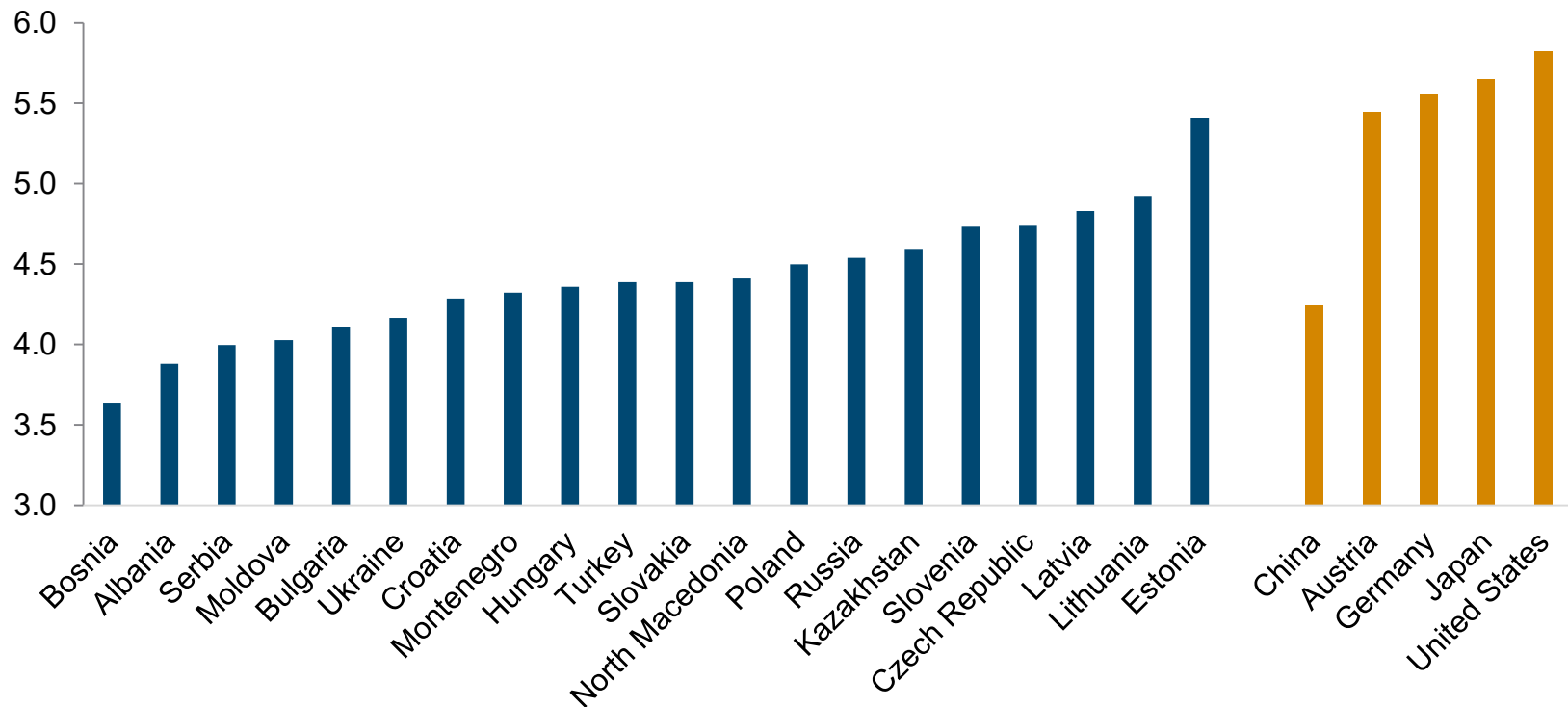
## B. Relatively low level of automation compared with frontrunners

Estimated number of multipurpose industrial robots per 10,000 persons employed in automotive industry



## C. Lack of preparedness for new digital economy?

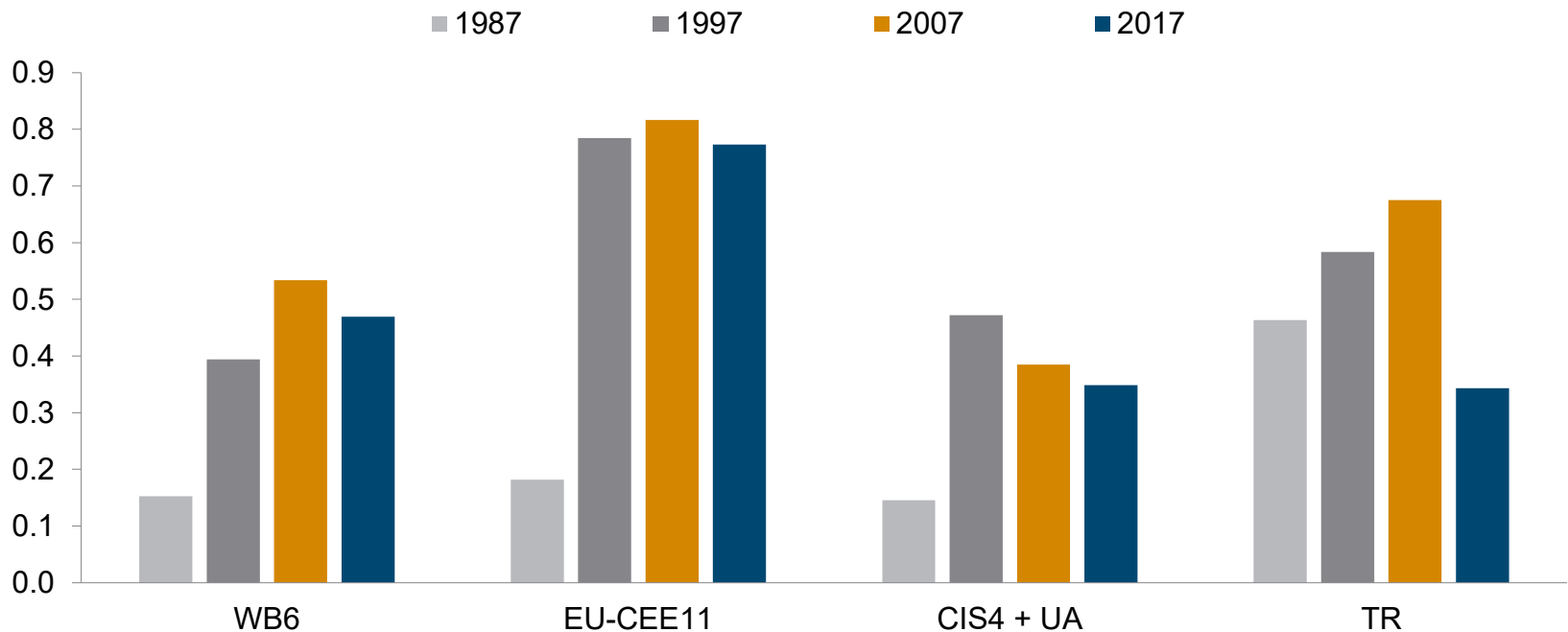
### World Economic Forum Networked Readiness Index



Note: The index assesses countries indicators including the legal framework around ICT, ICT use by government and firms, availability of latest technologies and venture capital, tax rate on profits, ease of starting a business, education level, coverage of electricity, mobile and broadband, innovation capacity, and knowledge-intensive jobs as share of workforce.

## D. Rise of authoritarianism/state capture, with implications for institutions

V-Dem Electoral Democracy Index, overall score over time



## Conclusions

- Past the peak: **growth will be lower** from here, due to weaker activity in China + Germany plus labour shortages.
- But still a **story of two CESEEs**: ‘goldilocks’ in EU-CEE and much of WB6, tougher conditions in CIS, Ukraine + Turkey.
- Medium-term, **Russia will remain regional laggard**. Brighter but volatile future for **Turkey**, a lot depends on Fed + US relationship. Particularly big slowdown vs current levels for **Hungary** by 2020-2021.
- Still most worried about **EZ, trade war and next EU budget**. High level of uncertainty around Brexit, but direct links to CESEE are limited.
- Real challenges for CESEE are in medium and long term. **Demographics, automation, digitalisation, institutions** represent daunting list of potential issues for policy-makers and firms in the region.

# Thank you for your attention!

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## Country codes

AL	Albania	KZ	Kazakhstan	RS	Serbia
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BA	Bosnia and Herzegovina	LV	Latvia	SI	Slovenia
BG	Bulgaria	MD	Moldova	SK	Slovakia
CZ	Czech Republic	ME	Montenegro	TR	Turkey
EE	Estonia	MK	North Macedonia	UA	Ukraine
HR	Croatia	PL	Poland	XK	Kosovo
HU	Hungary	RO	Romania		

CESEE23                      Central, East and Southeast Europe

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CIS4+UA                      Commonwealth of Independent States-4 and Ukraine

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EA19                              Euro area

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EU-CEE11                      European Union – Central and Eastern Europe

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WB6                                Western Balkans

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