

21st Austria webinar, 12 March 2015

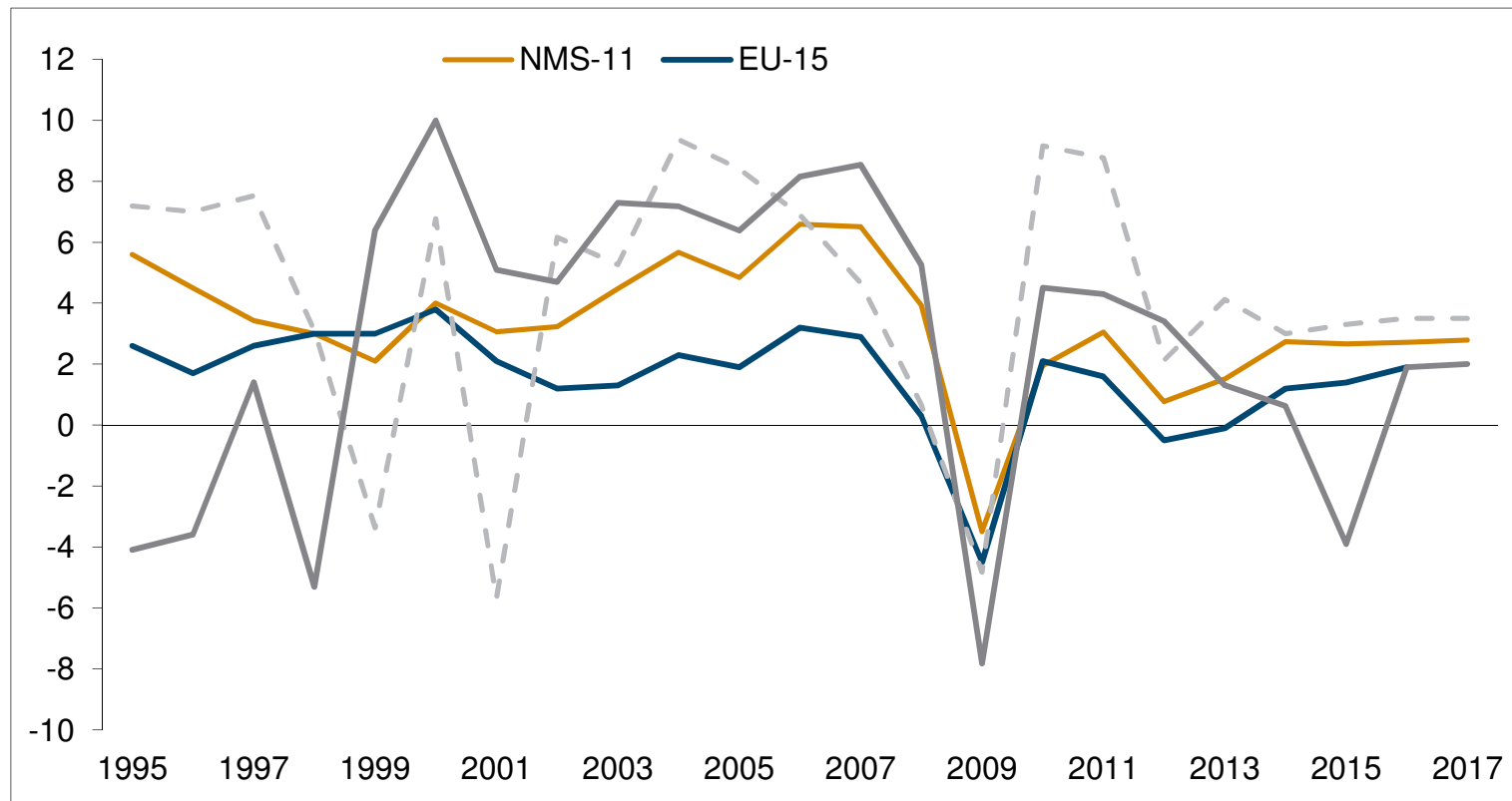
New wiiw forecast for
Central, East and Southeast Europe, 2015-2017

CESEE: A time of moderate expectations

Mario Holzner

A time of moderate expectations

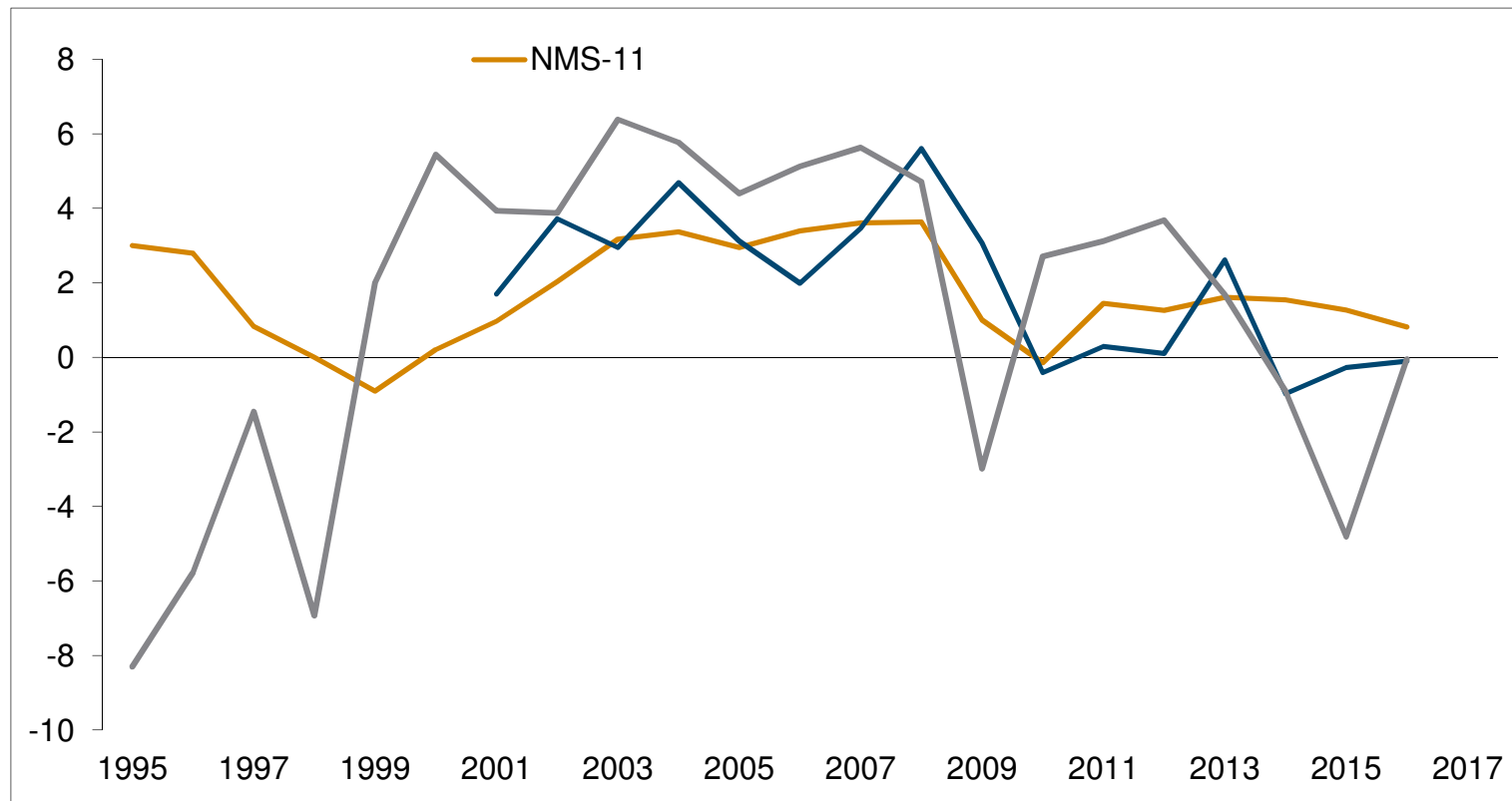
GDP growth rate since 1995



Source: wiiw (March 2015), Eurostat. Forecasts by wiiw and European Commission (Winter Report, February 2015).

Difference to EU-15 diminishing

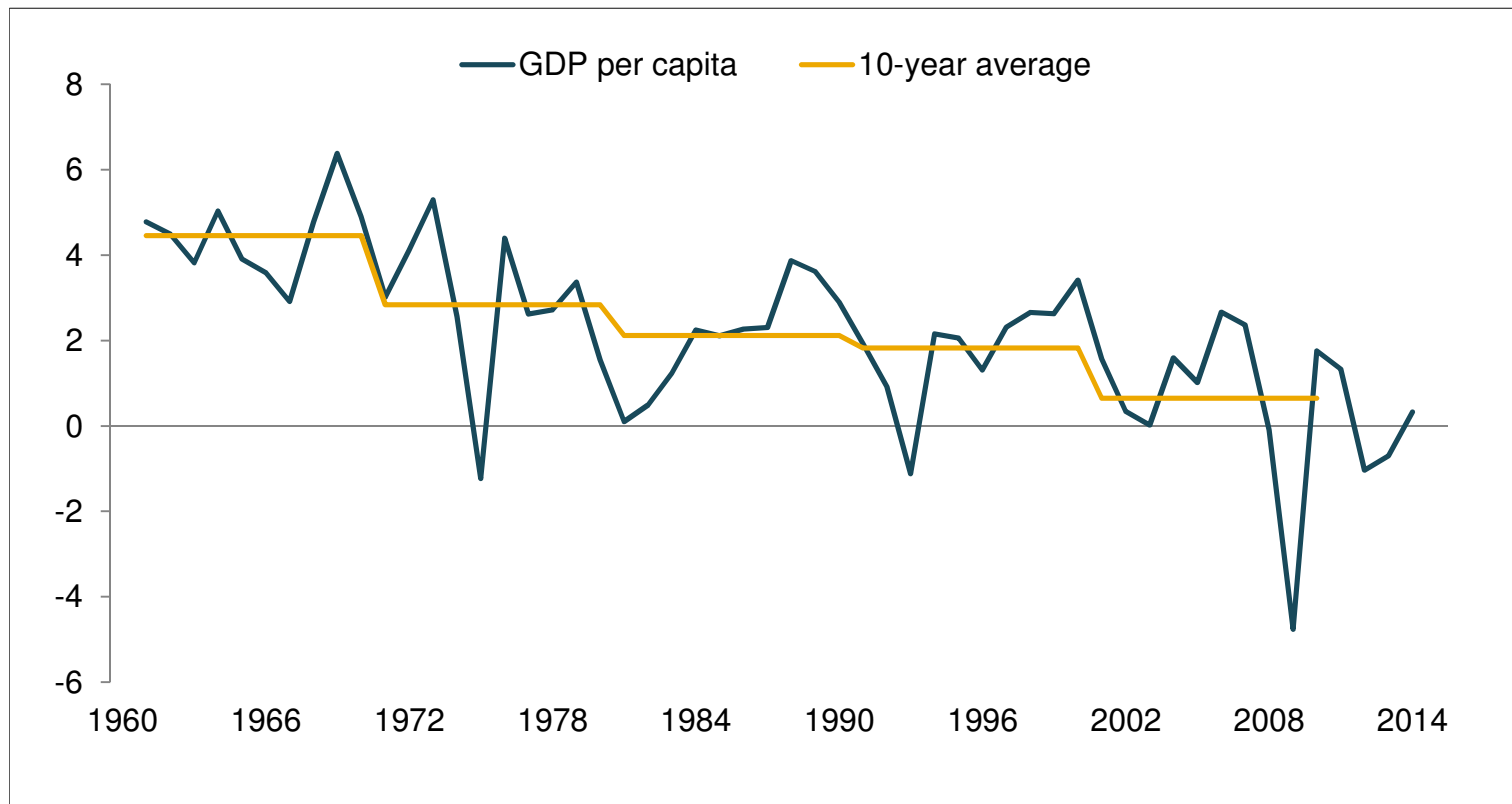
Differential in GDP growth vis-à-vis EU-15 since 1995, in pp



Source: wiiw (March 2015), Eurostat. Forecasts by wiiw and European Commission (Winter Report, February 2015).

The euro area seized by secular stagnation

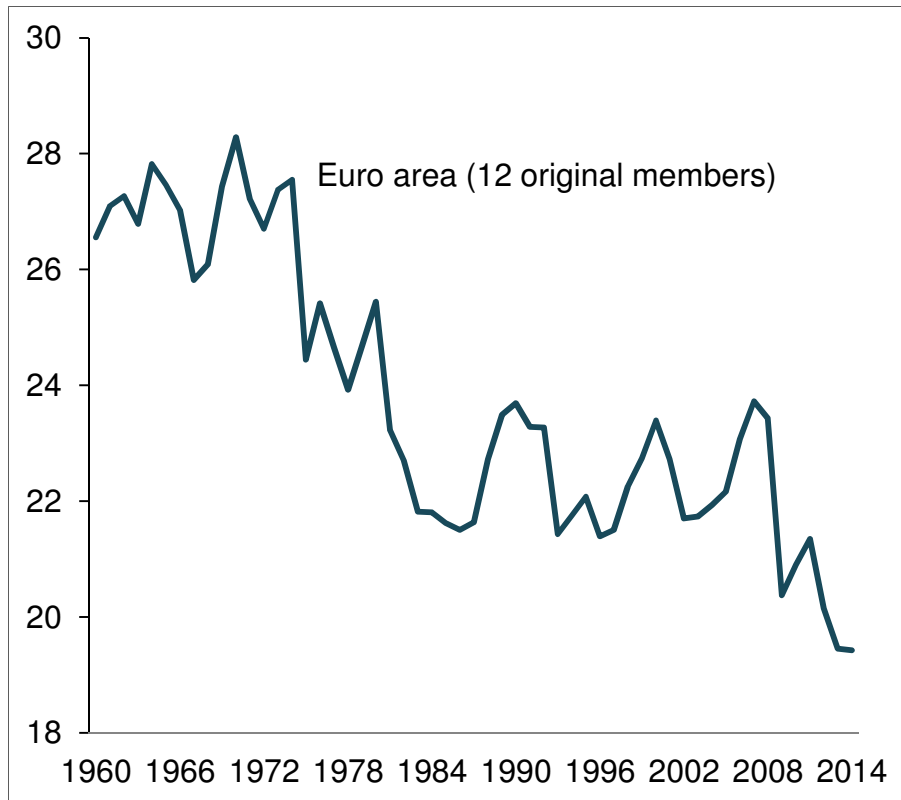
Euro area (12 original members) – per capita GDP growth rate



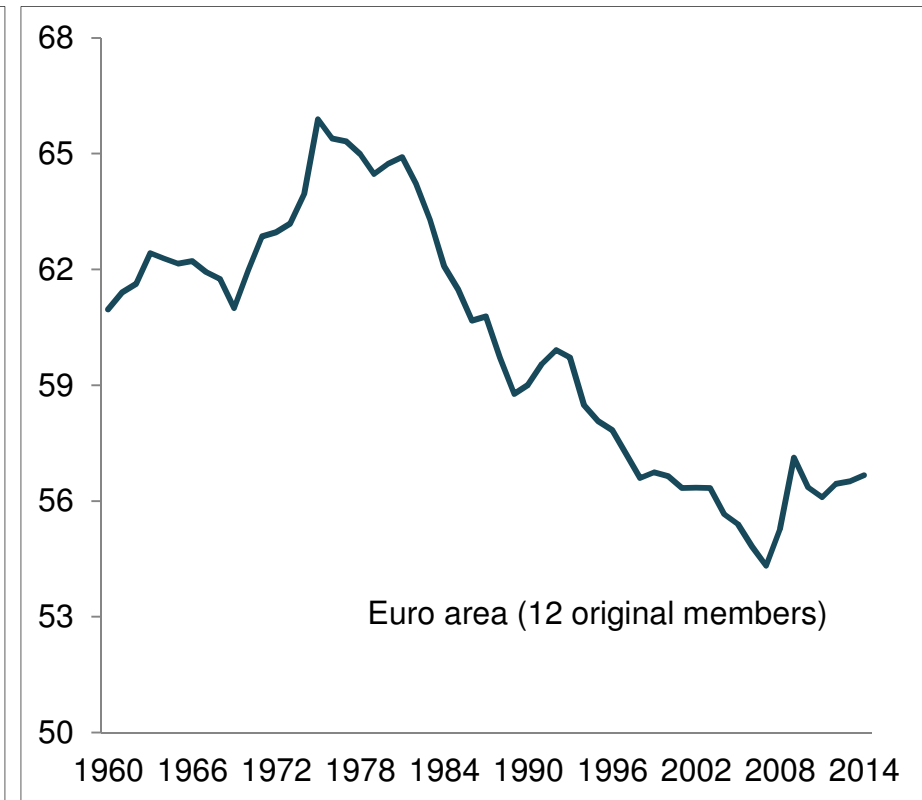
Source: Own calculations based on AMECO database.

Euro area investment and wage share tumbling

GDP share of gross capital formation



Adjusted GDP wage share



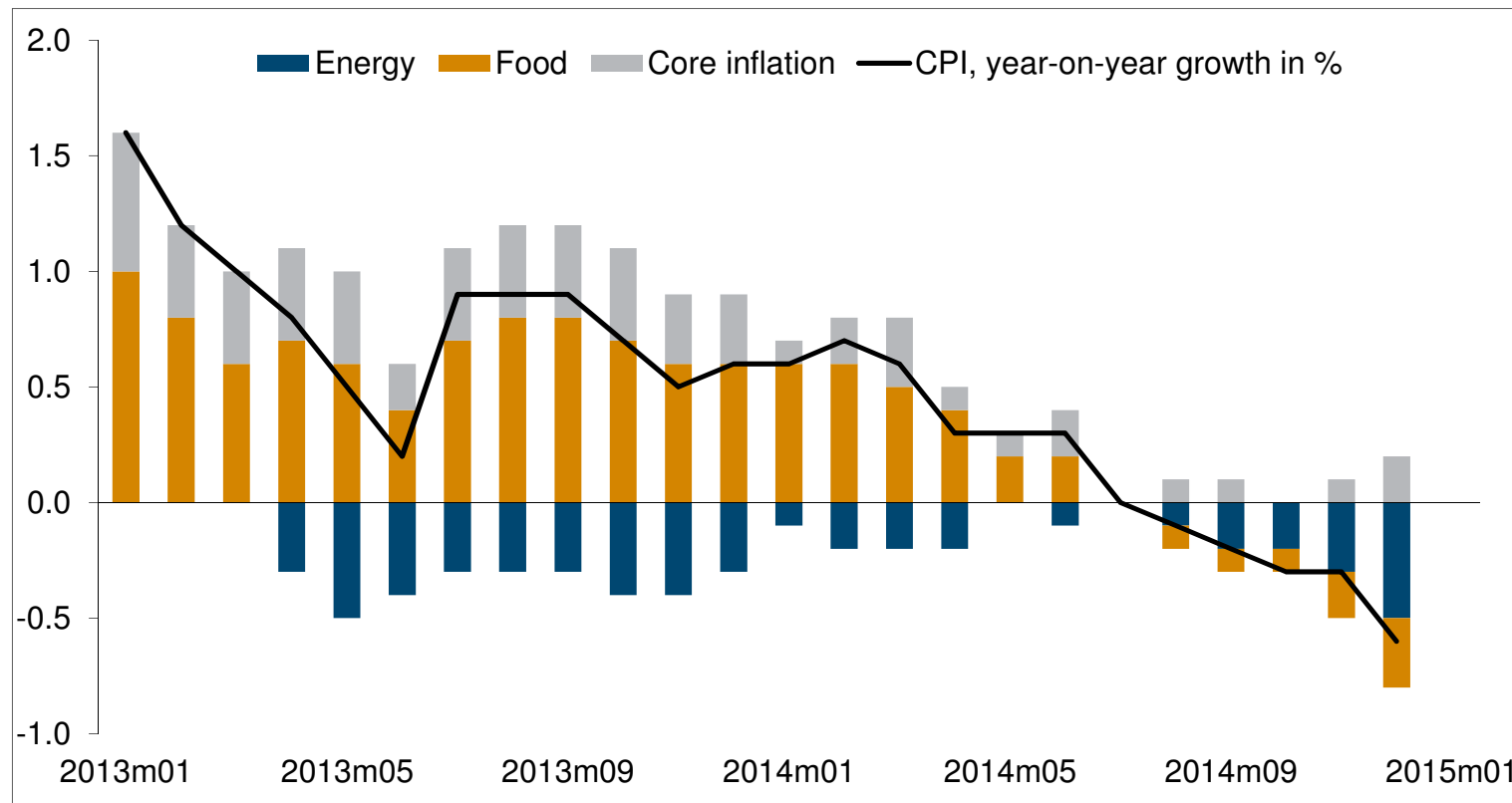
Source: Own calculations based on AMECO database.

Insufficiency of aggregate demand also in CESEE

- Disinflation → Deflation
- Unemployment high, or very high
- Diminishing role of trade balance
- Household consumption unimpressive
- Investment recovering only slowly

Apropos deflation: e.g. Poland

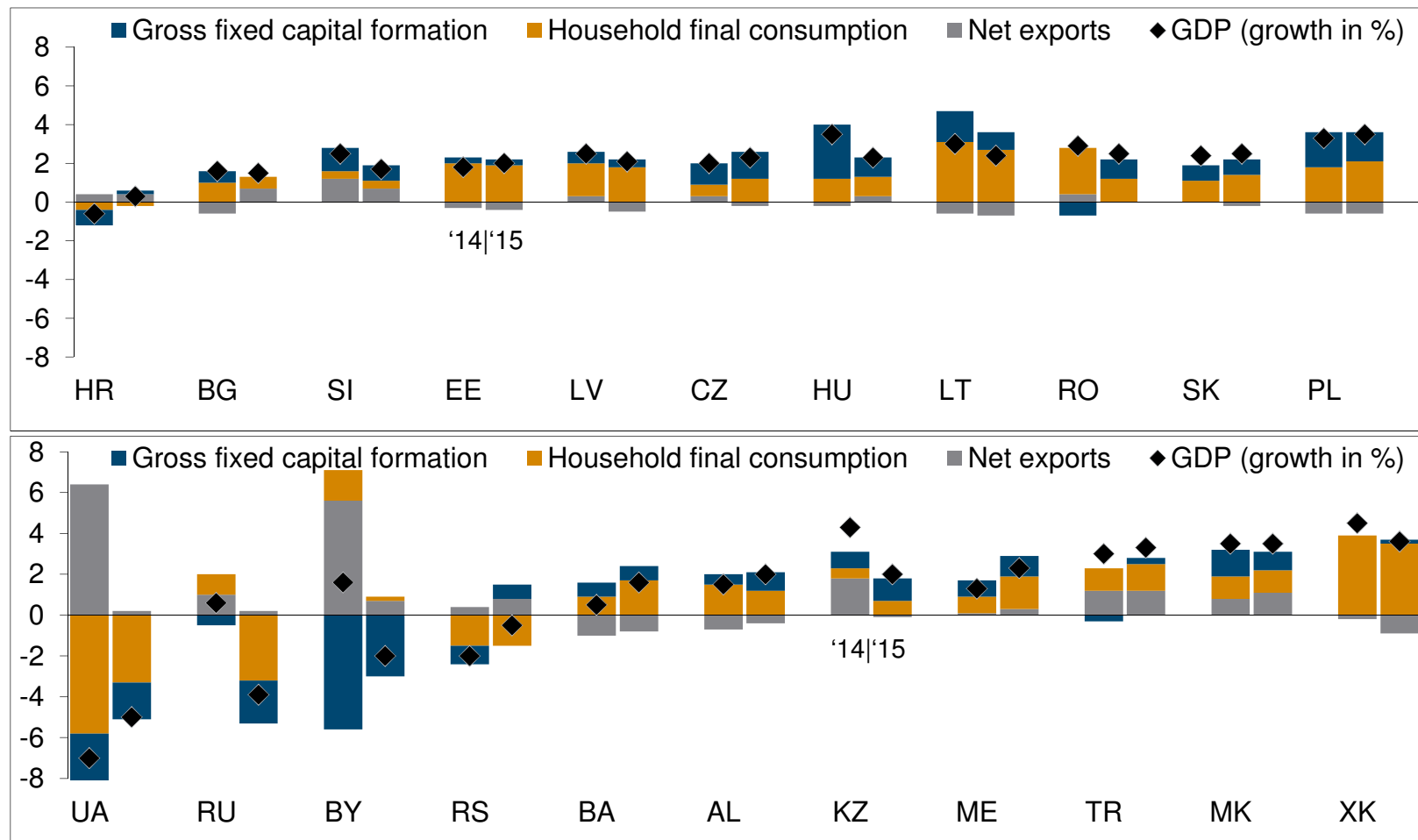
CPI growth and contribution of components, 2013-2015, in percentage points



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Growth: unimpressive

GDP growth in 2014-2015, and contributions of individual demand components in pp



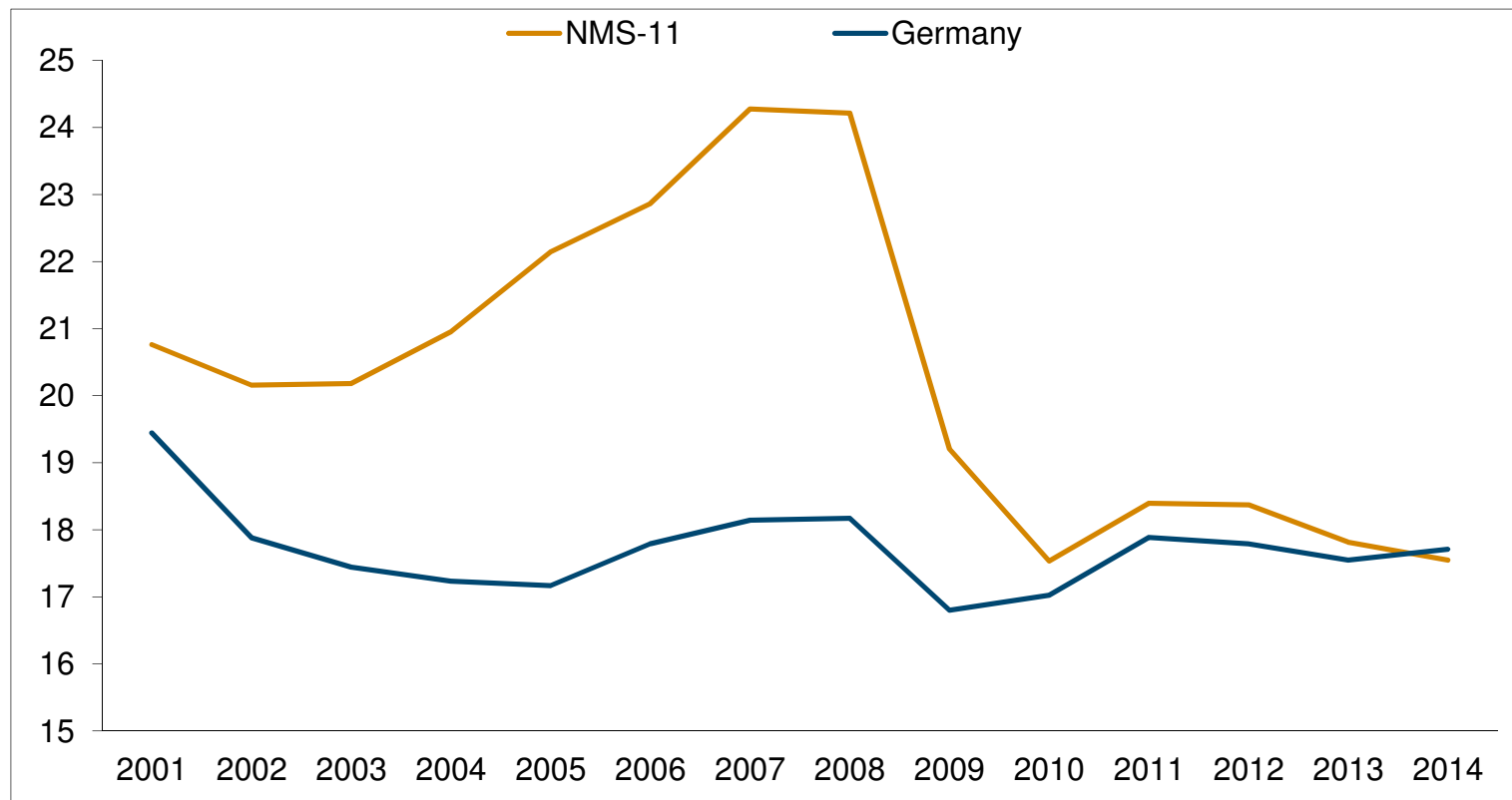
Source: wiiw Annual Database incorporating national and Eurostat statistics. Forecasts by wiiw.

Private investment

- Still depressed
- Unconstrained by the availability of funds
- Insensitive to interest rates
- Highly profitable
- Wage-led – not profit-led

Private investment still depressed

GDP share of private sector gross fixed capital formation, in %

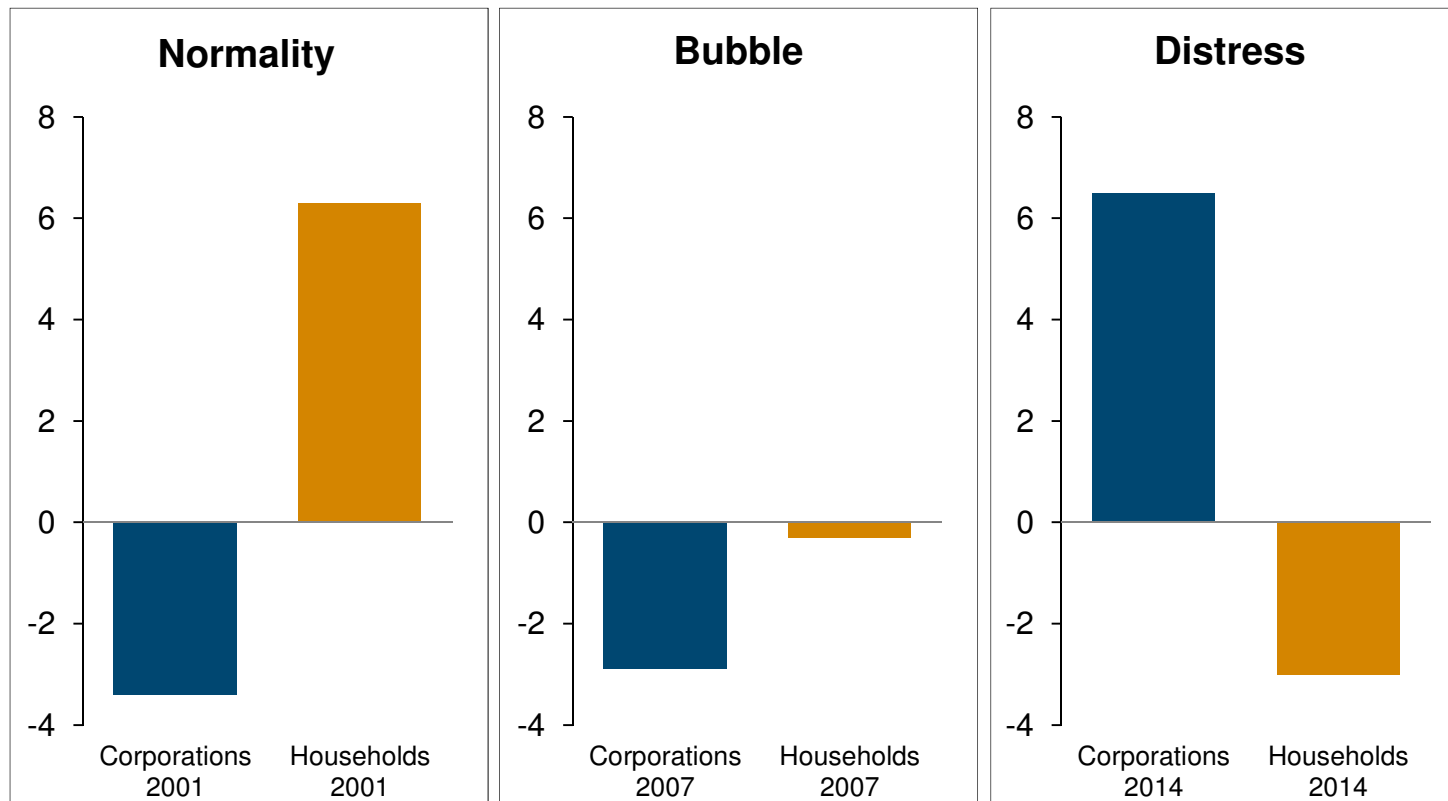


Source: Own calculations based on AMECO database.

Corporate investment unconstrained by availability of funds

E.g. Poland:

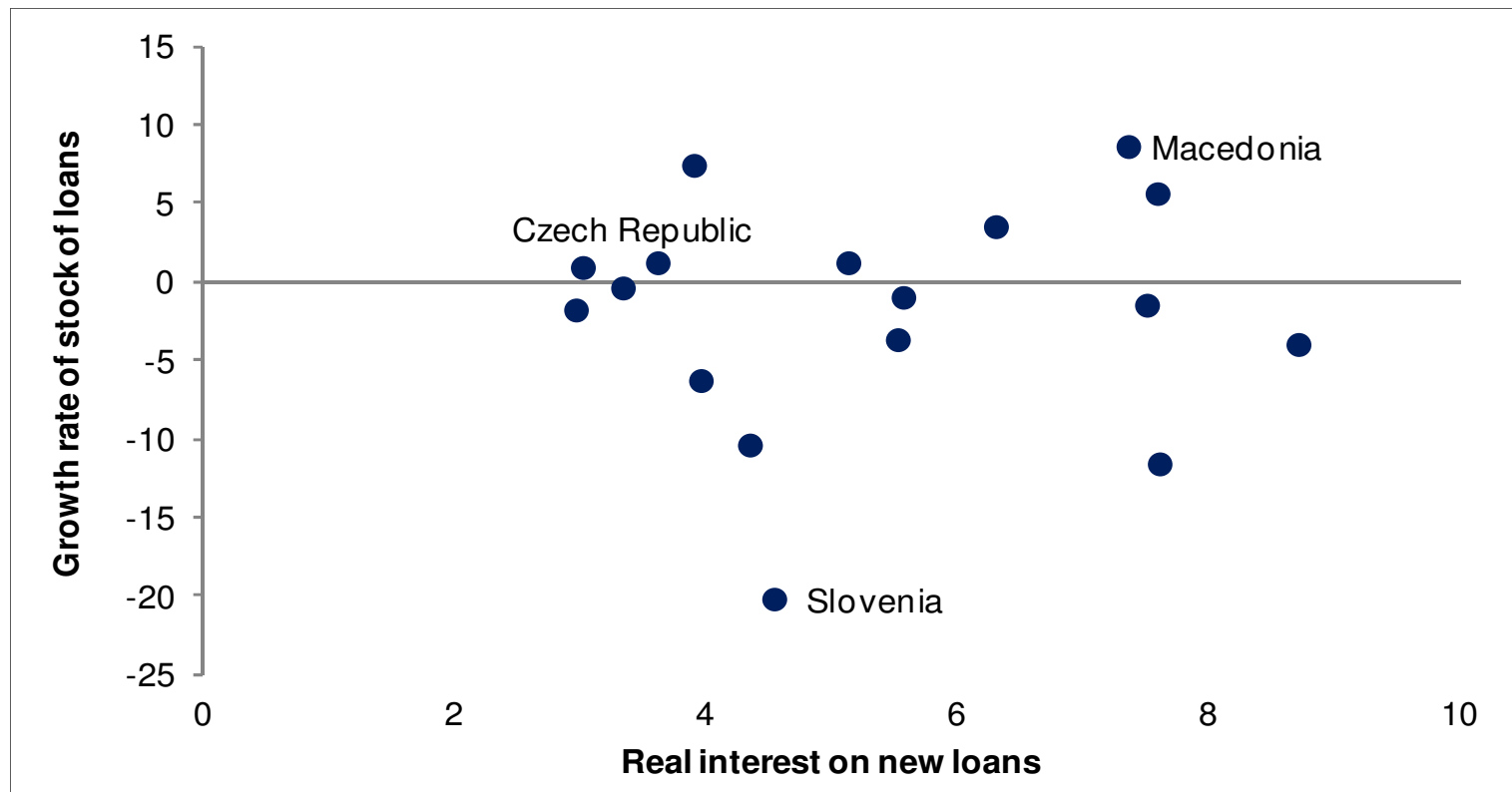
Net lending (+) or net borrowing (-): corporations and households, % GDP



Source: Own calculations based on AMECO database.

Corporate investment insensitive to interest rates

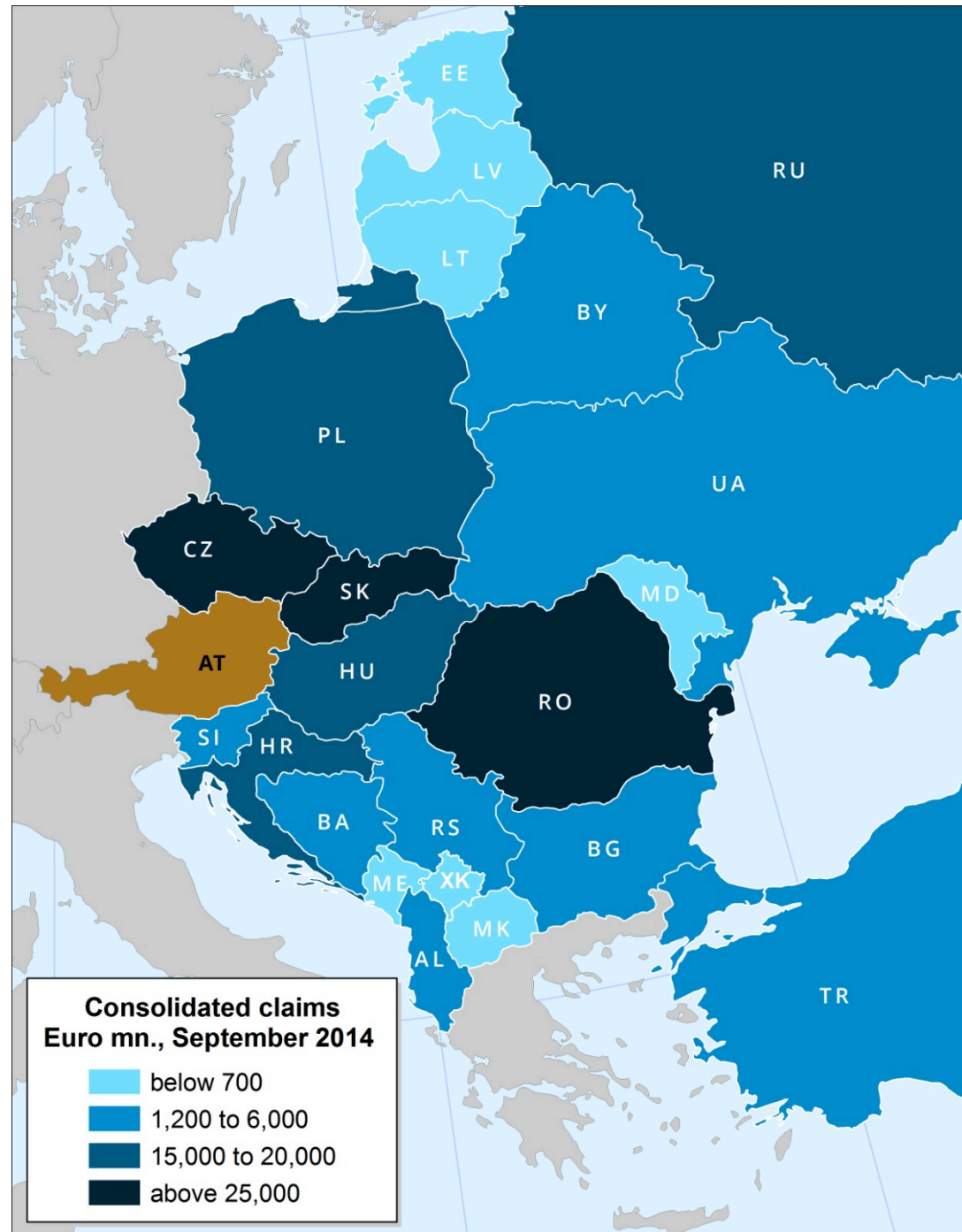
Non-financial corporations, CESEE 2014



Source: National bank statistics, wiiw own calculations.



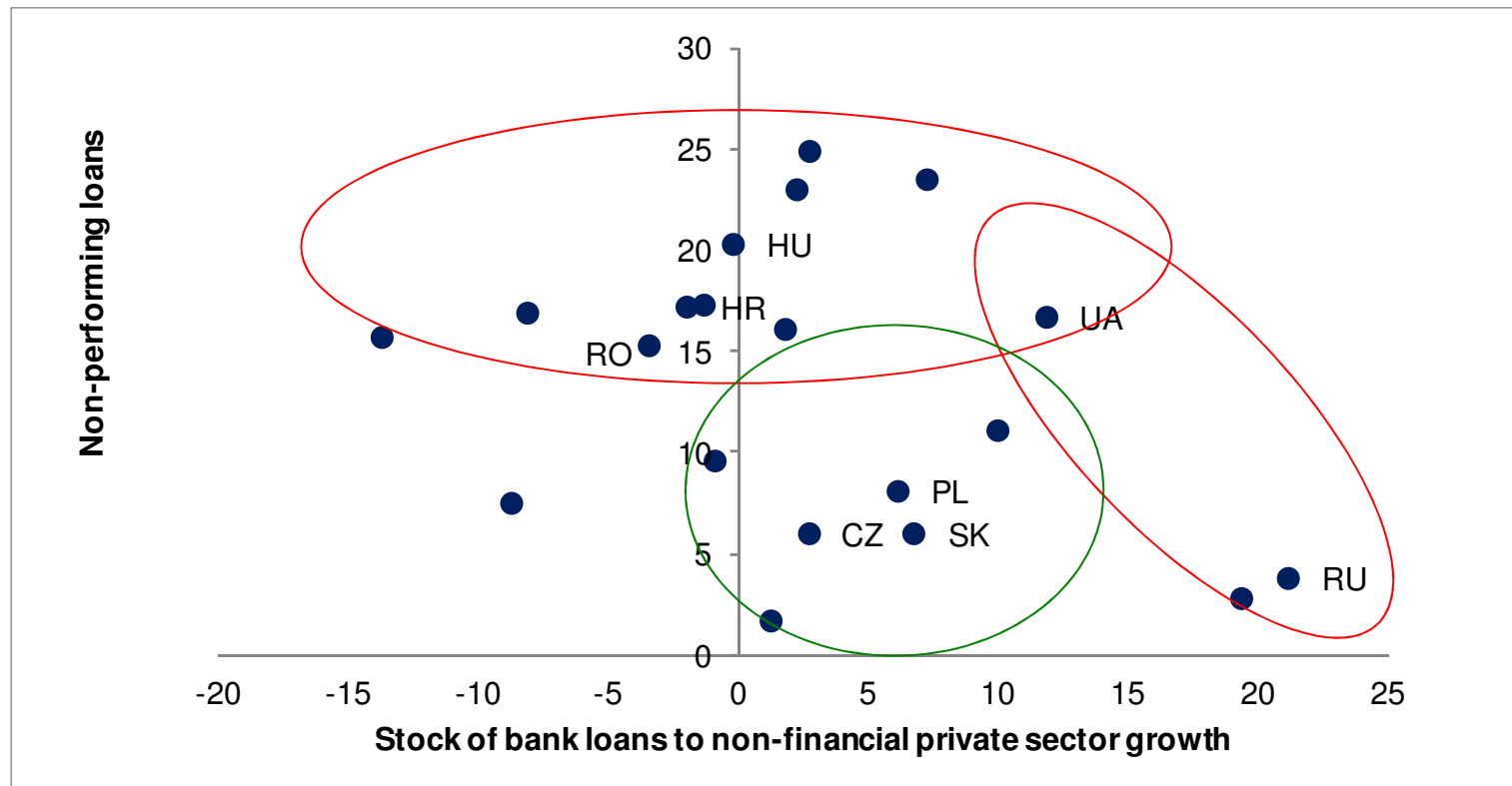
Austrian banks' exposure to CESEE substantial



Source: BIS, RBI, own calculations using USD/EUR exchange rate as of 30/09/2014.

Profits and risks unevenly distributed

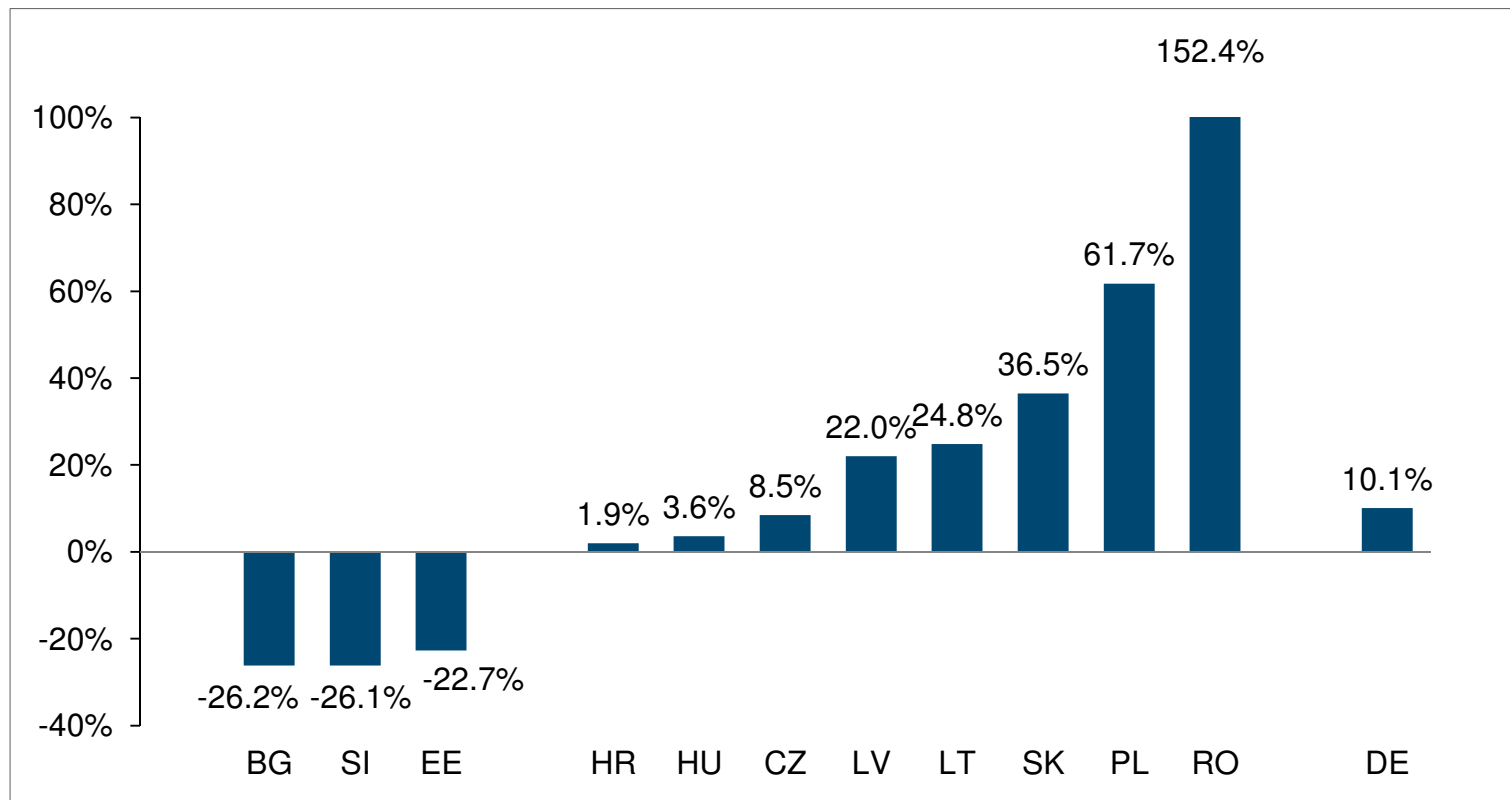
Private sector, CESEE 2014



Source: National bank statistics, wiiw own calculations.

Profitability of the capital stock mostly increasing

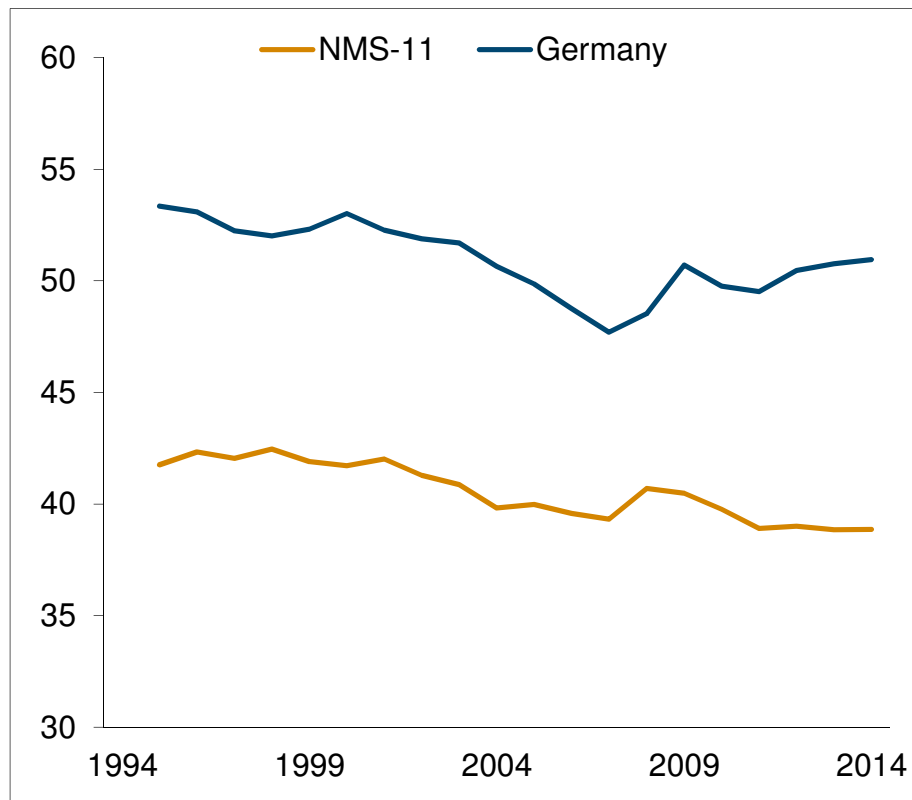
Net returns/net capital stock ratios for 2011-2014
(base period index 2000-2003), percentage change



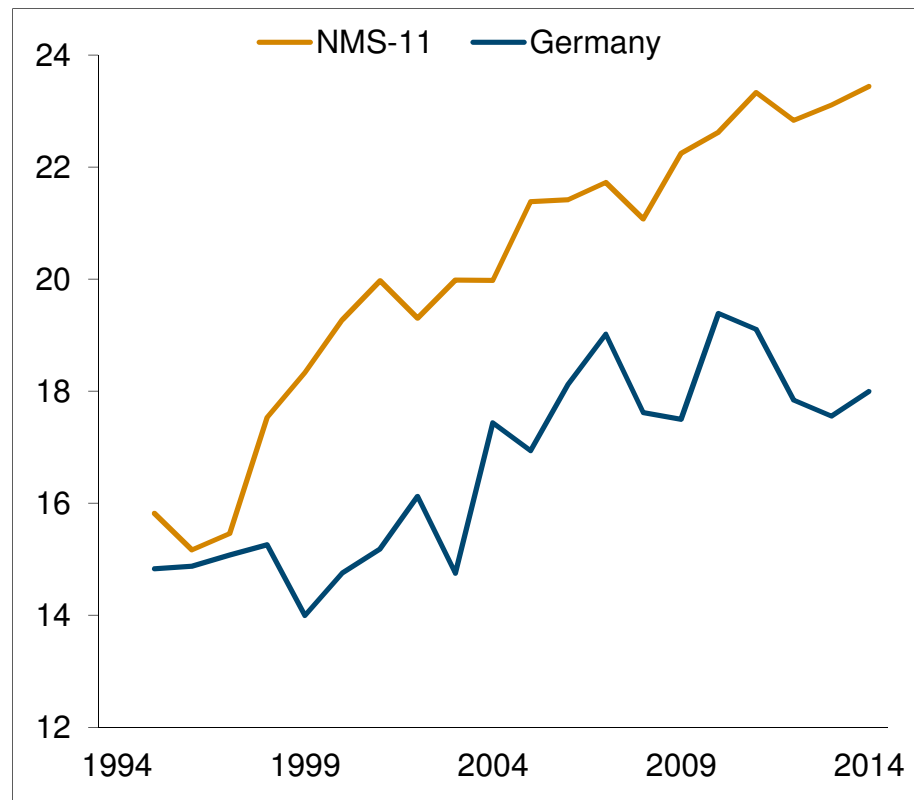
Source: AMECO.

Investment is wage-led (and not profit-led)

GDP shares of employee compensation, in %



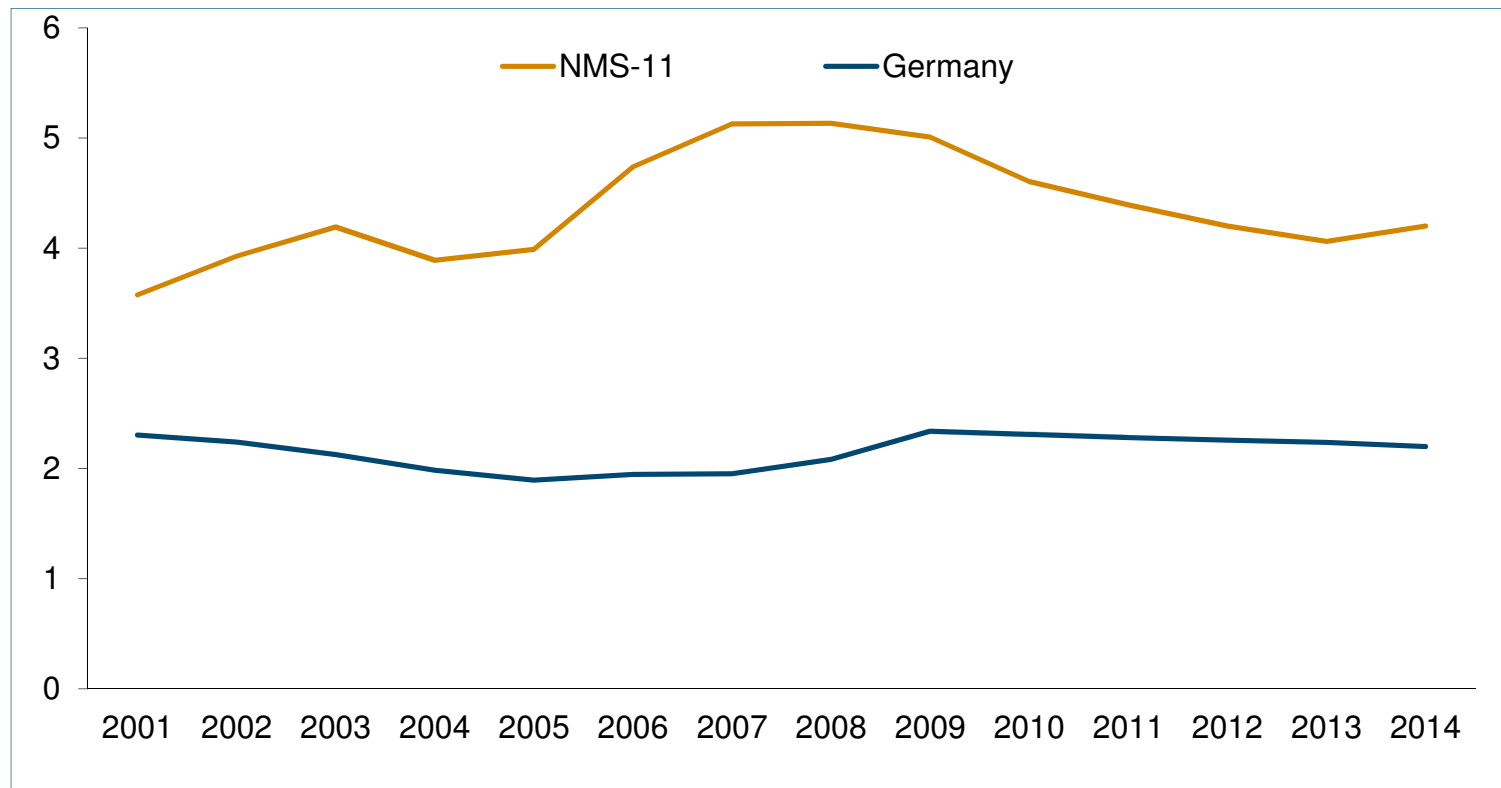
Share of the corporate sector in private gross disposable income, in %



Source: Own calculations based on AMECO database.

EU-funded public investment partly counterbalances private investment

GDP shares of public gross fixed capital formation, 2001-2014, in %



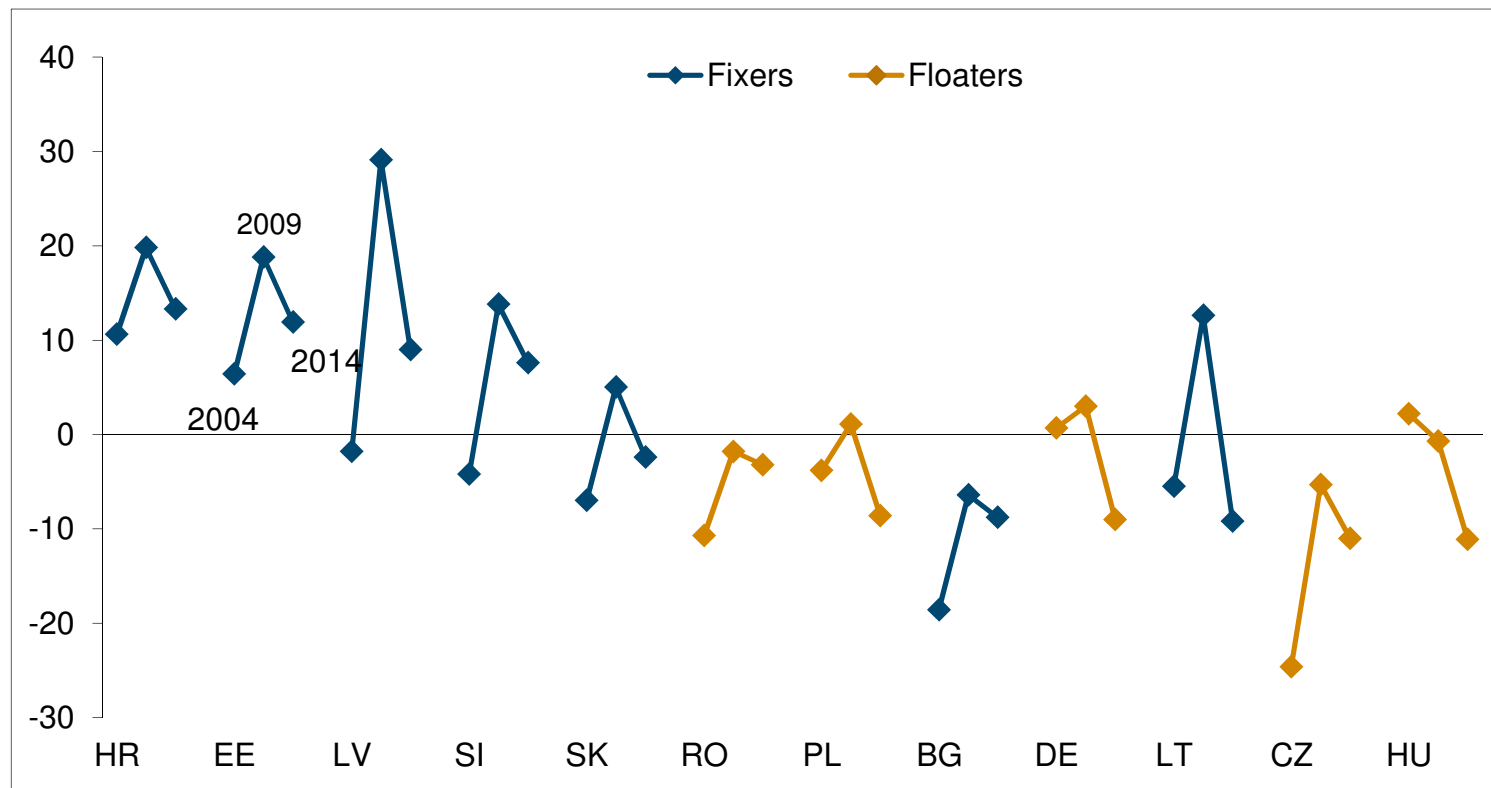
Source: Own calculations.

Macroeconomic round-up

- Nominal wages important ...
- ... but exchange rate as well
- Fiscal deficits and net lending abroad absorb excessive private savings in the NMS

Exchange rate regimes do matter

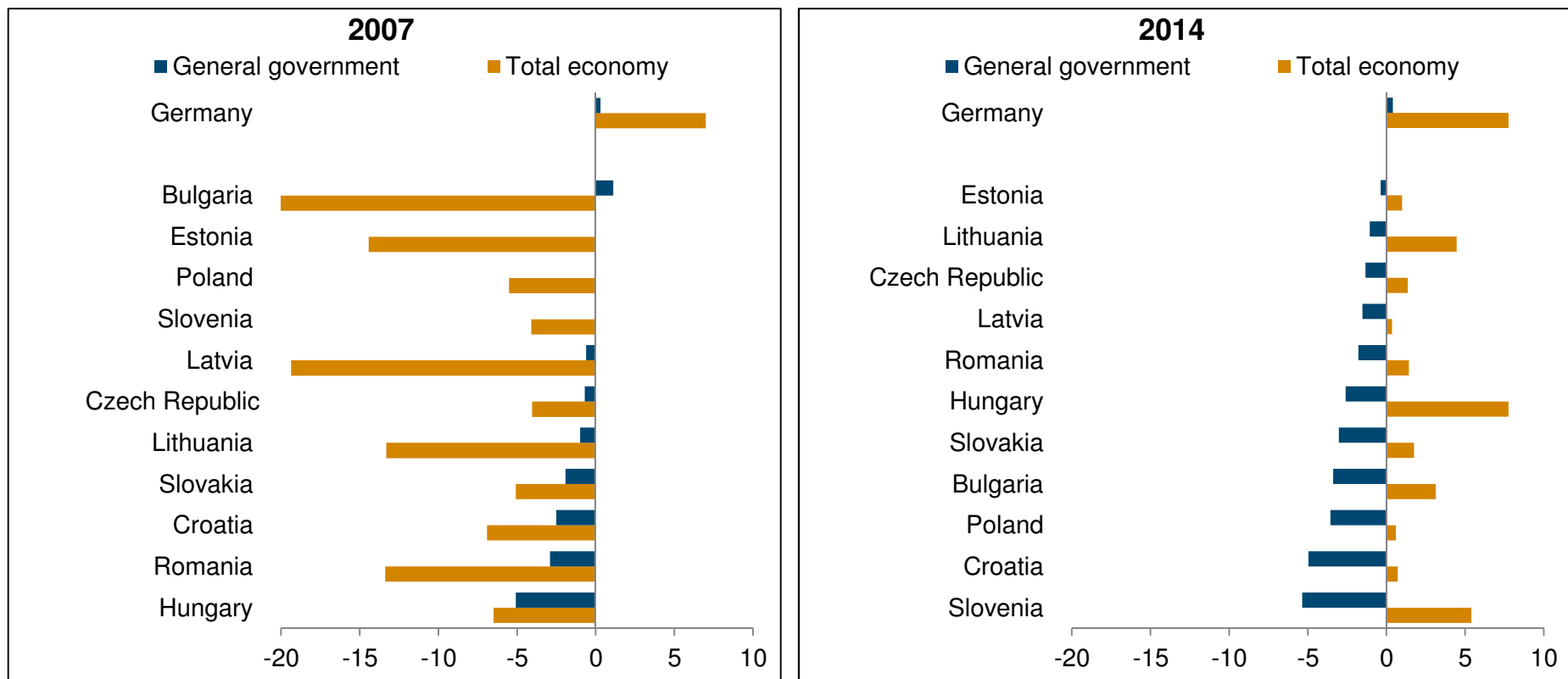
Percentage levels of overvaluation (positive) or undervaluation (negative) of NMS currencies vs. euro, 2004, 2009, 2014



Note: Over- or undervaluation in the price level in relation to the GDP per capita level.
Source: Own calculations.

Fiscal deficits and net lending abroad absorb excessive private savings in the NMS

Net lending (+) or net borrowing (–), 2007, 2014, in % of GDP



Remark: Bulgaria: -26.3.

Source: wiiw Annual Database incorporating national and AMECO statistics, own calculations.

2015-2017: A time of moderate expectations

- Weak wage growth, limited investment growth
- NMS & candidates: No substantial growth speed-up
- NMS growth differential vis-à-vis euro area diminishing from ~3% before crisis to ~1.5%
- Current account deficit quite low (NMS) or quite high (candidates)
- Inflation gradually returns to normalcy: energy prices stabilise, more borrowing (?)
- Unemployment recedes (NMS) or stays high (candidates)
- CIS hopefully recover in 2016
- EU economic paradigms need to be adjusted

GDP growth, wiiw forecast for 2015-2017

	2015	2016	2017
Kosovo	3.6	2.9	3.8
Poland	3.5	3.2	3.2
Macedonia	3.5	2.9	2.6
Turkey	3.3	3.5	3.5
Romania	2.5	3.0	3.0
Slovakia	2.5	2.7	3.0
Lithuania	2.4	2.9	3.2
Czech Republic	2.3	2.4	2.4
Hungary	2.3	2.0	2.0
Montenegro	2.3	2.6	2.9
Latvia	2.1	2.8	2.8

	2015	2016	2017
Estonia	2.0	2.5	3.1
Albania	2.0	2.2	2.4
Kazakhstan	2.0	3.5	4.5
Slovenia	1.7	1.8	2.0
Bosnia and Herzegovina	1.6	2.1	2.4
Bulgaria	1.5	1.9	2.3
Croatia	0.3	1.1	1.5
Serbia	-0.5	1.0	1.4
Belarus	-2.0	1.3	2.0
Russia	-3.9	1.9	2.0
Ukraine	-5.0	0.0	1.8

Source: wiiw forecast, February 2015.

Country codes

AL	Albania	ME	Montenegro
BA	Bosnia and Herzegovina	MK	Macedonia
BG	Bulgaria	PL	Poland
BY	Belarus	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		
NMS	New Member States		
SEE	Southeast Europe		