wiiw
www.wiiw.ac.at

Wiener Institut für Internationale Wirtschaftsvergleiche

The Vienna Institute for International Economic Studies

Oppolzergasse 6, A-1010 Vienna, Austria, Tel. (+43-1) 533 66 10, Fax (+43-1) 533 66 10-50, E-mail: wiiw@wiiw.ac.at

PRESS RELEASE

Revised wiiw Forecast for Central, East and Southeast Europe

Marked growth slowdown in 2008-2010 – but no recession

The region of Central, East and Southeast Europe has not remained unaffected by the worsening global environment and will experience a marked economic growth slowdown, but not a recession such as in the eurozone or the USA. Growth in the new EU member states will decline from 6.3% on average in 2007 to 5.0% in 2008 and 2.7% in 2009. For 2010 an optimistic scenario assumes a modest recovery to 3.5%. In Southeast Europe an average growth of 3% is expected for 2009. The noticeable growth slowdown is a consequence of the strong fall in the demand for exports from the region, of the slowdown or even decline in investment and of the spillover of the international financial crisis which has drastically diminished the availability of credit. Unemployment will temporarily rise in most countries of the region in 2009. These are the key findings of the latest forecast of the Vienna Institute for International Economic Studies (wiiw).

Significant worsening of the international environment and large uncertainties

The global economic environment has drastically worsened as compared to July 2008 when the last wiiw forecast was made. For the eurozone, the US and Japan all international forecasts now reckon with recession next year, i.e. a decline in economic growth over more than two quarters. For 2009, OECD, IMF and the European Commission expect a GDP decline of up to -1% for the US, the eurozone and also for Japan. These forecasts are fraught with large uncertainties; a recovery is expected at the end of 2009 at the earliest. Much will depend on the effectiveness of the measures now launched or discussed in Europe and the US in order to support the economy and the banking system.

Falling exports, weaker private consumption and investment

The growth slowdown in the countries of Central, East and Southeast Europe is to a good deal ‘imported’, i.e. associated with the spillover of the international financial crisis, lower demand for exports from the region and the concomitant decline in investment and consumption. The export problem is particularly evident in the car and car component industries and in the metals sector; in the latter prices fell drastically. Countries with a high share of car exports, such as Slovakia, Poland, Hungary and Slovenia, or steel exports, such as Ukraine and Romania, are and will be affected to different degrees.

Homemade instability raises the danger of contagion

In several of the countries of the region the negative external developments meet with a homemade component: high growth rates in the past few years have been accompanied by high current account deficits that had to be financed by foreign capital inflows. Should these inflows dry out or even turn into outflows (as has happed frequently in the case of portfolio investments), that growth model cannot be sustained. The collapse of the growth rates in the Baltic countries is the most illustrating example here. Some countries suffer in addition from a high share of short-term foreign currency loans, in particular Bulgaria, Romania, Latvia and Croatia. Countries with a fixed exchange rate are under especial pressure in the current circumstances: if they were to experience a devaluation, the private sector's high share of foreign debt would lead to payment difficulties ('currency mismatch'); expectations of this to happen may in turn trigger capital flight, and fixed exchange rate regimes may be abandoned. High public debt, such as in Hungary, is another factor that may trigger particularly difficult situations, as well as an abrupt worsening of the terms of trade, which affects also countries in Southeast Europe.

In this context, the response of international foreign direct investors is hard to assess. FDI has played a vital role in the strong growth process, by helping to build sustainable export industries. As we expect some decline in FDI as well, this may affect particularly the 'laggards' in Southeast Europe, delaying their development.

Uncertainties of the forecast

In the current circumstances forecasts are fraught with exceptionally large uncertainties, in particular concerning the duration of the banking crisis and the impact of the severe worsening of credit availability on real expenditures on investment and consumption. In addition, developments in Central, East and Southeast Europe are strongly dependent on the business cycle in Western Europe where the further course of the banking crisis and the success of the stimulus packages that have been launched or discussed are still uncertain. wiiw experts expect that the current crisis will be felt also in the medium term (the next four to five years) – and that a growth model based on cheap and easily accessible external financing, (partly) involving speculation, has become obsolete.

wiiw, 27 November 2008

Enquiries:

Dipl.-Ing. Peter Havlik, Tel. 533 66 10 – 15, E-mail: havlik@wiiw.ac.at
Prof. Vladimir Gligorov, Tel. 533 66 10 – 23, E-mail: gligorov@wiiw.ac.at
Univ.Prof. Michael Landesmann, Tel 533 66 10 E-Mail: landesmann@wiiw.ac.at

Overview developments 2006-2007 and outlook 2008-2010

	GDP					Consumer prices					Unemployment, based on LFS [1)]					Current account				
	real change in % against previous year					change in % against previous year					rate in %, annual average					in % of GDP				
	2006	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**	**2006**	**2007**	**2008**	**2009**	**2010**
			Forecast					**Forecast**					**Forecast**					**Forecast**		
Czech Republic	6,8	6,6	4,6	3,5	4	2,5	2,8	6	2,8	2,5	7,1	5,3	5	5,5	6,0	-2,6	-1,8	-2,5	-2,6	-2
Hungary	4,1	1,1	1,3	-1	1	3,9	8,0	6,3	4,5	3,5	7,5	7,4	7,8	8,8	8,2	-7,5	-6,4	-5,8	-4,5	-4,9
Poland	6,2	6,7	5,4	3,8	4,5	1,0	2,5	4	3	2,6	13,8	9,6	9	9,5	9,5	-2,7	-3,8	-5	-5	-4,5
Slovak Republic	8,5	10,4	7	5	4	4,5	2,8	4,2	4	3,5	13,3	11,0	10	11	11	-7,0	-5,3	-6,3	-7	-7,8
Slovenia	5,9	6,8	4,7	3	3	2,5	3,6	6	4,5	4	6,0	4,9	5	6	6	-2,8	-4,8	-6,0	-5,5	-4,5
NMS-5 [2)3)]	*6,2*	*6,1*	*4,7*	*3,1*	*3,7*	*2,1*	*3,5*	*4,9*	*3,2*	*2,8*	*11,4*	*8,5*	*8,1*	*8,8*	*8,8*	*-3,8*	*-4,0*	*-4,7*	*-4,6*	*-4,3*
Bulgaria	6,3	6,2	6	3	4	7,3	8,4	12	7	5	9,0	6,9	6	7	7	-17,8	-21,8	-23,0	-16,9	-16,0
Romania	7,9	6,0	8,0	3	4	6,6	4,8	8	6	5	7,3	6,4	6	7	7	-10,4	-14,0	-13,3	-9,9	-9,9
Estonia	11,2	7,1	-2,0	-2	-1	4,4	6,6	11	7	6	5,9	4,7	5,5	7,5	8,5	-16,7	-18,1	-12,2	-9,9	-9,0
Latvia	12,2	10,3	-1,5	-3	-1	6,5	10,1	16	11	7	6,8	6,1	6,5	8	9	-22,5	-23,8	-13,8	-10,0	-9,1
Lithuania	7,7	8,8	3,8	1	1,5	3,7	5,7	11	8	6	5,6	4,3	4,5	6	7	-10,6	-14,6	-13,6	-11,1	-10,4
NMS-10 [2)3)]	*6,7*	*6,3*	*5,0*	*2,7*	*3,5*	*3,2*	*4,3*	*6,3*	*4,4*	*3,6*	*10,0*	*7,7*	*7,3*	*8,2*	*8,2*	*-6,0*	*-7,1*	*-7,2*	*-6,3*	*-6,0*
EU-15 [3)4)]	*2,9*	*2,7*	*1,1*	*-0,1*	*0,8*	*2,2*	*2,1*	*3,5*	*2,2*	*2,1*	*7,7*	*7,0*	*7,1*	*8,1*	*8,4*	*-0,1*	*0,1*	*-0,4*	*-0,1*	*-0,1*
EU-27 [3)]	*3,3*	*3,1*	*1,4*	*0,2*	*1,1*	*2,3*	*2,4*	*3,9*	*2,4*	*2,2*	*8,2*	*7,1*	*7,0*	*7,8*	*8,1*	*-0,8*	*-0,7*	*-0,9*	*-0,7*	*-0,6*
Croatia	4,8	5,6	3,5	2,5	2	3,2	2,9	6,3	4	3,5	11,1	9,6	9,8	10,5	11	-7,9	-8,6	-10	-9	-8
Macedonia	4,0	5,0	4	3	3	3,2	2,3	5	3	3	36,0	34,9	34	35	35	-0,9	-3,0	-9,0	-4,6	-4,2
Turkey	6,9	4,6	2,1	2,1	4,5	9,6	8,8	10,5	9,0	8	9,9	9,9	10,5	12	11	-6,1	-5,8	-6,1	-5,7	-5,8
Candidate countries [2)3)]	6,7	4,7	2,2	2,1	4,3	9,0	8,3	10,1	8,5	7,6	10,8	10,7	11,3	13	12	-6,2	-5,9	-6,4	-6,0	-5,9
Albania	5,5	6,0	5,8	4,1	6	2,4	2,9	4,1	2	3	13,8	13,5	13	12	11	-6,5	-10,5	-15,1	-10,3	-11,8
Bosnia & Herzegovina	6,9	6,8	5,2	3,0	4	6,2	1,5	7,6	2,5	2	31,1	29,0	23,4	26	27	-7,8	-12,6	-14,4	-12,0	-11,5
Montenegro	8,6	10,3	6	3	3	3,0	4,2	7	3	3	29,6	19,3	18	19	20	-24,7	-32,5	-28,6	-16,7	-12,5
Serbia	5,6	7,1	5	3	3	11,7	7,0	12	8	6	20,9	18,1	21	23	23	-10,1	-13,2	-16,9	-13,3	-13,5
Potential candidate countries [2)3)]	6,0	7,0	5,2	3,2	3,7	8,6	5,0	9,6	5,6	4,5	22,0	19,5	19,9	21	21	-9,7	-13,6	-16,6	-12,7	-12,7
Kazakhstan	10,7	8,9	4	3	5	8,6	10,8	17	9,5	9	7,8	7,3	6,8	7,5	7	-2,5	-7,0	2,9	0,6	-0,7
Russia	7,4	8,1	7,0	5,2	6,1	9,7	9,1	15	15	10	7,2	6,1	5,8	5,5	5,5	9,5	5,9	6,3	0,9	0,0
Ukraine	7,3	7,6	4,5	0,5	2,5	9,1	12,8	23	14	10	6,8	6,4	6,6	7,5	7,5	-1,5	-3,8	-6,0	-7,2	-5,7
China [5)]	11,1	11,9	9,5	8,8	9,5	1,5	4,8	6,0	4,0	4,0	4,1	4,0	4,3	4,5	4,3	9,4	11,5	9,0	8,0	7,6

*) Note: NMS: The New EU Member States.

1) LFS - Labour Force Survey. - 2) wiiw estimate. - 3) Current account data include flows within the region. - 4) Consumer prices refer to Euro area (16 countries including Slovakia). - 5) Registered urban unemployment rate, end of period.

Source: wiiw (November 2008), Eurostat; forecasts: wiiw, European Commission (Autumn Report 2008) for EU-15, EU-27 and Euro area (16 countries).