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New wiiw forecast for the EU MEMBER STATES in CENTRAL and EASTERN EUROPE (EU-CEE):
Growth will strengthen despite political risks in 2017-2019

- *The election of Donald Trump as US president, Brexit, a crowded election calendar in Western Europe, the migration crisis and Russian policy in Eastern Europe all create serious challenges for EU-CEE countries. This has the potential to materially harm growth in EU-CEE in 2017-2019.*

- *However, the wiiw Spring 2017 forecast concludes that the region will be able to shrug off these risks, and that growth will continue at a healthy rate, propelled by the strength of the labour market and a pick-up in investment as part of the new EU structural and cohesion funds cycle. By 2018 growth in EU-CEE will be double the eurozone level, allowing for further convergence with Western European per capita income levels.*

- *The report warns, however, that the European project is facing material uncertainty that could have far-reaching implications. If the region continues on its current course, free movement of labour and west-east fiscal transfers, both of which are crucial for development in EU-CEE, could be at risk.*

The following are the key findings of the wiiw Spring Forecast report:

- **Growth in EU-CEE will remain steady at 3% in 2017, before strengthening to 3.2% in 2018-2019.** Romania (4%) and Slovakia (3.5%) will post the fastest average growth in the region in 2017-2019, helped by large investment projects. At 2.9%, Croatia's rate of growth will be very healthy by post-crisis standards. Relative laggards will be the Czech Republic (2.4%) and Estonia (2.3%), in part reflecting their higher starting point compared with most regional peers.

- **The unemployment rate in EU-CEE will fall to 6% by 2019, the lowest level since the crisis.** It is already below 5% in the Czech Republic and Hungary, and will fall further from here. Croatia will remain a particularly weak point in EU-CEE, with joblessness forecast to still be 12% in 2019. In most of the region, labour markets are increasingly tight, which will push up wages, but external competitiveness will not suffer. The average level of education of workers will continue to rise, paving the way for productivity gains.

- **wiiw's core scenario is that EU-CEE will be able to shrug off the substantial political risks emanating from external and domestic sources this year.** Structural funds will not be affected during the current programming period (up to 2020), while momentum in the labour market appears durable.

- **However, downside risks are significant.** US president Donald Trump could usher in a new era of global protectionism, which would harm German industry and, both directly and indirectly via Germany, the many very open economies of EU-CEE. Meanwhile, Mr Trump's questioning of NATO will unsettle some EU-CEE countries, particularly those with misgivings about Russian influence in the region. Brexit will reduce opportunities for EU-CEE workers to find jobs abroad. Some EU-CEE governments have enacted policies that could damage business and investor confidence.

- **The EU project is facing major uncertainty.** The continued commitment of Western European Member States to free movement of labour and west-east fiscal transfers on the scale of the past decade is in doubt. Right-wing populist parties with specific anti-EU and/or anti-euro agenda are strong across Western Europe, and could advance in a series of important elections in 2017.

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OVERVIEW 2015-2016 AND OUTLOOK 2017-2019

	GDP (real change in % against prev. year)					Consumer prices (change in % against prev. year)					Unemployment (LFS) (rate in %, annual average)					Current account (in % of GDP)				
			Forecast					Forecast					Forecast					Forecast		
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Bulgaria	3.6	3.4	2.9	3.1	3.3	-1.1	-1.3	0.5	1.0	1.5	9.2	7.6	7.0	6.5	6.0	0.4	3.8	3.5	3.2	2.8
Croatia	1.6	2.8	2.8	2.9	3.0	-0.3	-0.6	1.3	1.6	1.6	16.3	13.5	13.0	12.5	12.0	5.1	3.7	2.1	1.5	0.9
Czech Republic	4.5	2.3	2.4	2.6	2.3	0.3	0.6	2.0	1.8	1.8	5.1	4.0	3.9	3.8	3.6	0.9	1.6	1.2	0.9	0.8
Estonia	1.4	1.3	2.2	2.3	2.4	0.1	0.8	2.0	2.5	3.0	6.2	6.6	6.7	7.0	7.0	2.2	2.7	0.9	0.4	0.0
Hungary	3.1	2.0	3.3	3.4	3.1	0.1	0.4	2.0	2.5	2.8	6.8	5.2	4.8	4.5	4.5	3.4	4.3	4.2	3.4	2.5
Latvia	2.7	1.8	2.5	2.7	2.8	0.2	0.1	1.8	2.1	2.3	9.9	9.7	9.2	8.8	8.4	-0.8	1.6	0.0	-1.1	-1.7
Lithuania	1.8	2.2	2.7	2.8	3.1	-0.7	0.7	2.1	2.3	2.7	9.1	8.0	7.2	6.5	6.0	-2.3	0.3	-1.2	-1.4	-1.8
Poland	3.9	2.8	2.9	3.0	3.1	-0.7	-0.2	1.4	1.9	2.0	7.5	6.3	6.2	6.1	6.1	-0.6	-0.5	-0.7	-1.1	-1.4
Romania	3.9	4.8	4.0	4.0	4.0	-0.4	-1.1	1.5	2.5	2.5	6.8	6.0	5.8	5.6	5.5	-1.2	-2.4	-2.5	-2.6	-2.6
Slovakia	3.8	3.3	3.1	3.6	3.9	-0.3	-0.5	1.2	1.8	1.8	11.5	9.7	9.0	8.5	8.0	0.2	-0.6	0.4	0.9	1.5
Slovenia	2.3	2.6	2.9	2.9	3.0	-0.8	-0.2	1.3	1.4	1.4	9.0	8.2	7.8	7.0	6.5	5.2	6.9	5.8	5.0	4.5
EU-CEE [1,2]	*3.7*	*3.0*	*3.0*	*3.2*	*3.2*	*-0.4*	*-0.2*	*1.5*	*2.0*	*2.1*	*7.8*	*6.6*	*6.3*	*6.1*	*6.0*	*0.4*	*0.7*	*0.4*	*0.0*	*-0.2*
EA-19	*2.0*	*1.7*	*1.6*	*1.8*	*.*	*0.0*	*0.2*	*1.7*	*1.4*	*.*	*10.9*	*10.0*	*9.6*	*9.1*	*.*	*3.7*	*3.6*	*3.2*	*3.1*	*.*
EU-28	*2.2*	*1.9*	*1.8*	*1.8*	*.*	*0.0*	*0.3*	*1.8*	*1.7*	*.*	*9.4*	*8.5*	*8.1*	*7.8*	*.*	*2.2*	*2.1*	*1.9*	*1.9*	*.*
WB [1,2]	*2.2*	*2.7*	*3.0*	*3.2*	*3.4*	*0.9*	*0.5*	*1.6*	*1.9*	*2.1*	*21.2*	*19.1*	*18.4*	*17.7*	*17.6*	*-6.1*	*-6.7*	*-6.6*	*-6.7*	*-6.7*
CIS + Ukraine [1,2]	*-3.0*	*0.0*	*1.7*	*1.9*	*2.2*	*17.1*	*8.6*	*5.8*	*5.3*	*5.2*	*5.9*	*5.9*	*6.0*	*5.8*	*5.6*	*3.6*	*0.6*	*0.8*	*0.5*	*0.2*
VIS-4 [1,2]	*3.9*	*2.6*	*2.9*	*3.0*	*3.0*	*-0.4*	*0.0*	*1.6*	*2.0*	*2.1*	*7.3*	*6.0*	*5.8*	*5.7*	*5.6*	*0.3*	*0.6*	*0.5*	*0.2*	*0.0*
BALT-3 [1,2]	*2.0*	*1.9*	*2.5*	*2.7*	*2.9*	*-0.3*	*0.5*	*2.0*	*2.3*	*2.7*	*8.7*	*8.2*	*7.7*	*7.3*	*7.0*	*-0.7*	*1.3*	*-0.3*	*-0.9*	*-1.3*
SEE-9 [1,2]	*3.2*	*3.8*	*3.5*	*3.6*	*3.6*	*-0.2*	*-0.7*	*1.4*	*2.0*	*2.2*	*12.8*	*11.3*	*10.9*	*10.4*	*10.2*	*-1.3*	*-1.7*	*-2.0*	*-2.2*	*-2.3*
NON-EU-11 [1,2]	*-0.2*	*0.6*	*1.9*	*2.2*	*2.5*	*13.8*	*8.1*	*6.5*	*5.8*	*5.6*	*7.6*	*7.6*	*7.7*	*7.4*	*7.2*	*0.9*	*-1.2*	*-1.2*	*-1.5*	*-1.9*
CESEE-22 [1,2]	*0.9*	*1.3*	*2.2*	*2.5*	*2.7*	*9.7*	*5.6*	*5.0*	*4.7*	*4.6*	*7.6*	*7.3*	*7.3*	*7.1*	*6.9*	*0.9*	*-0.7*	*-0.8*	*-1.3*	*-1.7*

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries).

Source: wiiw, Eurostat. Forecasts by wiiw (Feb 2017) and European Commission for EU and Euro area (Winter Report, Feb 2017).