Press conference, 13 March 2018

New wiiw forecast for Central, East and Southeast Europe, 2018-2020
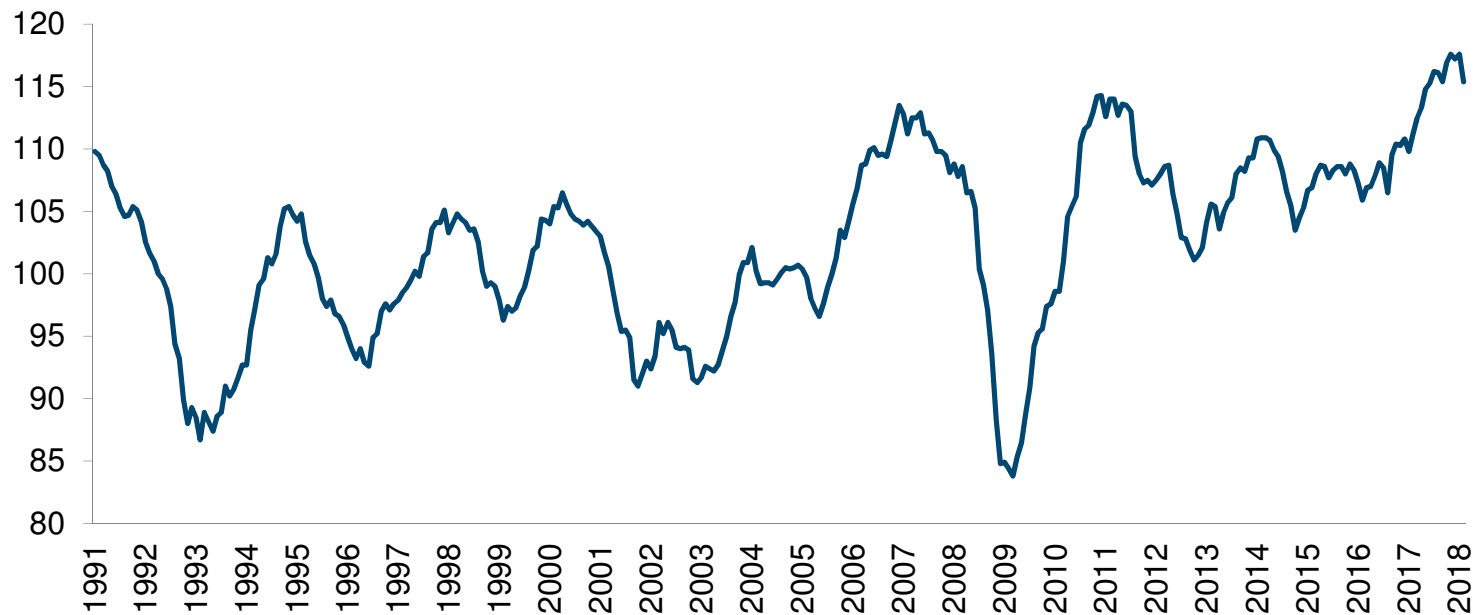
Riding the global growth wave

Richard Grieveson

Overview

1. Global backdrop, drivers of growth in CESEE, forecasts 2018-20.

2. Is the region overheating?

3. Where are the risks to growth?

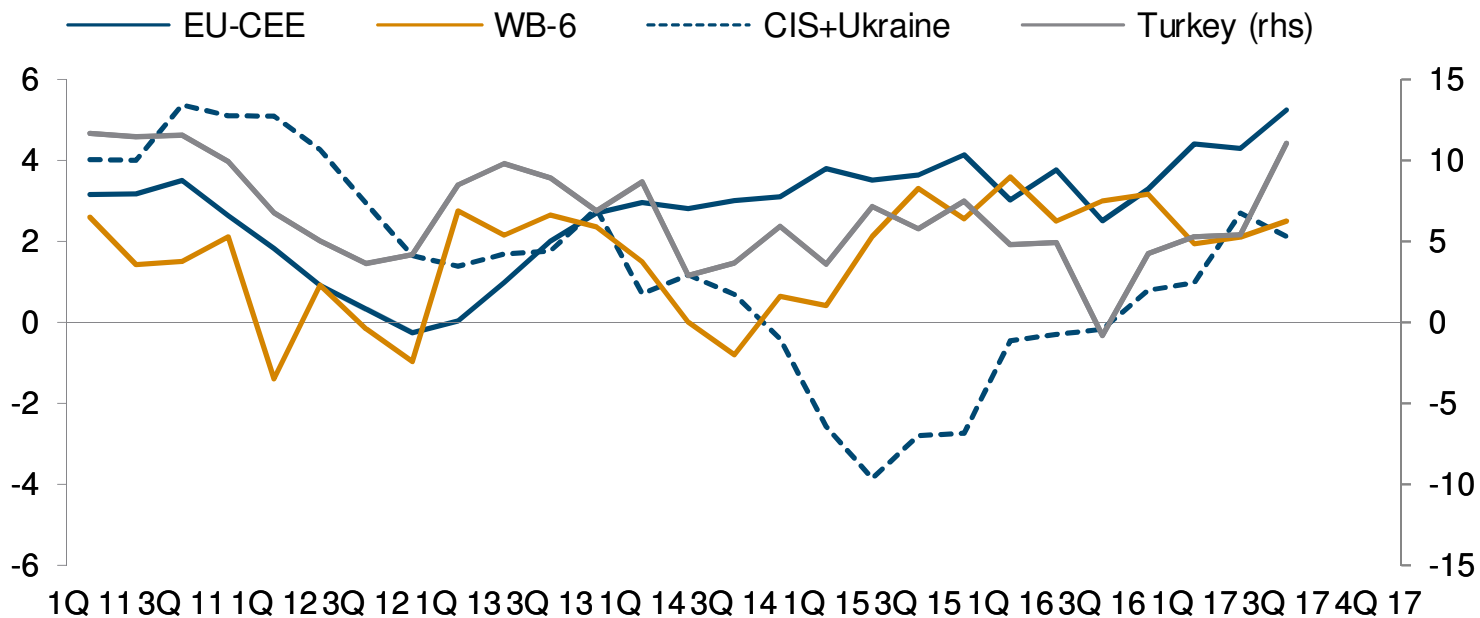4. Long-term convergence: can CESEE break out of the semi-periphery trap?

Global conditions: best coordinated upswing for almost a decade

German Ifo business climate index, 2005=100

CESEE: 2017 the best year since 2011, first time all 22 economies grew since 2007

Quarterly real GDP growth, change in % against preceding year

Forecast revisions: Mostly positive upgrades in 2018, mixed for 2019

Real GDP growth revisions, regional and by country

	Revisions, pp		
	2017	2018	2019
EU-CEE	⬆ 0.3	⬆ 0.2	⬇ -0.1
WB	⬇ -0.1	⬆ 0.2	➡ 0.0
Turkey	⬆ 1.1	⬆ 0.6	⬆ 0.2
CIS + Ukraine	⬆ 0.2	⬇ -0.1	⬇ -0.3
CESEE-22	⬆ 0.5	⬆ 0.2	⬇ -0.1

		Revisions, pp		
		2017	2018	2019
EU-CEE	BG	➡ 0.0	⬇ -0.1	➡ 0.0
	CZ	⬆ 0.5	⬆ 0.3	⬆ 0.2
	EE	⬆ 0.5	⬆ 0.2	➡ 0.0
	HR	➡ 0.0	➡ 0.0	➡ 0.0
	HU	➡ 0.0	⬇ -0.1	⬇ -0.4
	LT	⬆ 0.1	⬇ -0.3	⬇ -0.2
	LV	⬆ 0.3	➡ 0.0	⬆ 0.1
	PL	⬆ 0.8	⬆ 0.3	⬆ 0.2
	RO	⬆ 1.2	⬆ 0.2	⬇ -0.8
	SI	⬆ 0.6	➡ 0.0	⬇ -0.2
	SK	⬆ 0.1	⬆ 0.2	⬆ 0.2
WB	AL	➡ 0.0	⬇ -0.1	⬇ -0.1
	BA	➡ 0.0	➡ 0.0	⬇ -0.2
	ME	⬆ 1.2	➡ 0.0	➡ 0.0
	MK	⬇ -1.3	⬆ 0.3	➡ 0.0
	RS	➡ 0.0	⬆ 0.3	⬆ 0.1
	XK	⬆ 0.2	⬆ 0.1	➡ 0.0
Turkey	TR	⬆ 1.1	⬆ 0.6	⬆ 0.2
CIS +UA	BY	⬆ 0.4	⬆ 0.5	⬆ 0.5
	KZ	⬆ 0.8	➡ 0.0	⬇ -0.5
	RU	⬇ -0.2	⬇ -0.1	⬇ -0.3
	UA	⬆ 0.1	⬇ -0.1	⬆ 0.2

Remark: Current forecast and revisions relative to the wiiw Autumn forecast 2017. Colour scale reflects variation from the minimum (red) to the maximum (green) values. Source: wiiw forecast.

# Growth forecasts: Convergence will continue in next three years

Real GDP growth forecast, regional and by country

	Forecast, %			
	2017	2018	2019	2020
EU-CEE	4.4	3.9	3.4	3.2
WB	2.5	3.3	3.2	3.2
Turkey	6.5	4.5	4.1	3.9
CIS + Ukraine	2.1	2.0	1.9	1.9
CESEE-22	3.7	3.1	2.9	2.8

		Forecast, %			
		2017	2018	2019	2020
EU-CEE	BG	3.8	3.6	3.5	3.4
	CZ	4.2	3.5	3.2	3.2
	EE	4.3	3.5	2.9	2.5
	HR	3.0	2.7	3.0	3.0
	HU	4.0	3.8	2.6	1.7
	LT	3.9	3.2	2.6	2.2
	LV	4.5	3.8	3.3	2.7
	PL	4.6	3.8	3.5	3.3
	RO	6.9	4.7	3.8	4.2
	SI	4.6	3.9	3.5	3.5
	SK	3.4	3.8	4.2	3.3
WB	AL	3.9	4.1	4.0	3.9
	BA	3.0	3.4	3.3	3.3
	ME	3.9	2.9	3.0	3.1
	MK	0.5	3.4	3.4	3.2
	RS	1.9	2.8	2.8	2.8
	XK	3.9	3.9	3.8	3.8
Turkey	TR	6.5	4.5	4.1	3.9
CIS +UA	BY	2.4	2.8	3.1	3.1
	KZ	3.8	3.0	3.0	3.0
	RU	1.5	1.8	1.6	1.6
	UA	2.1	2.9	3.2	3.2

Remark: Current forecast and revisions relative to the wiiw Autumn forecast 2017. Colour scale reflects variation from the minimum (red) to the maximum (green) values. Source: wiiw forecast.
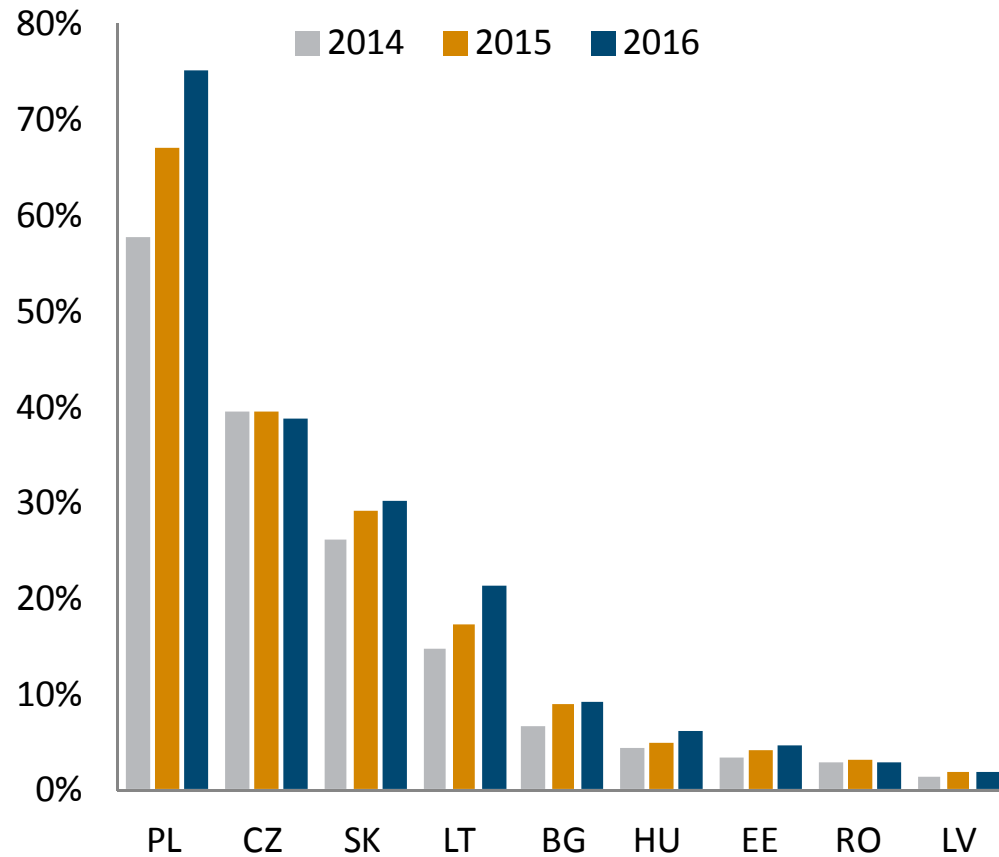
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Drivers of growth (I): Positive outlook for consumption
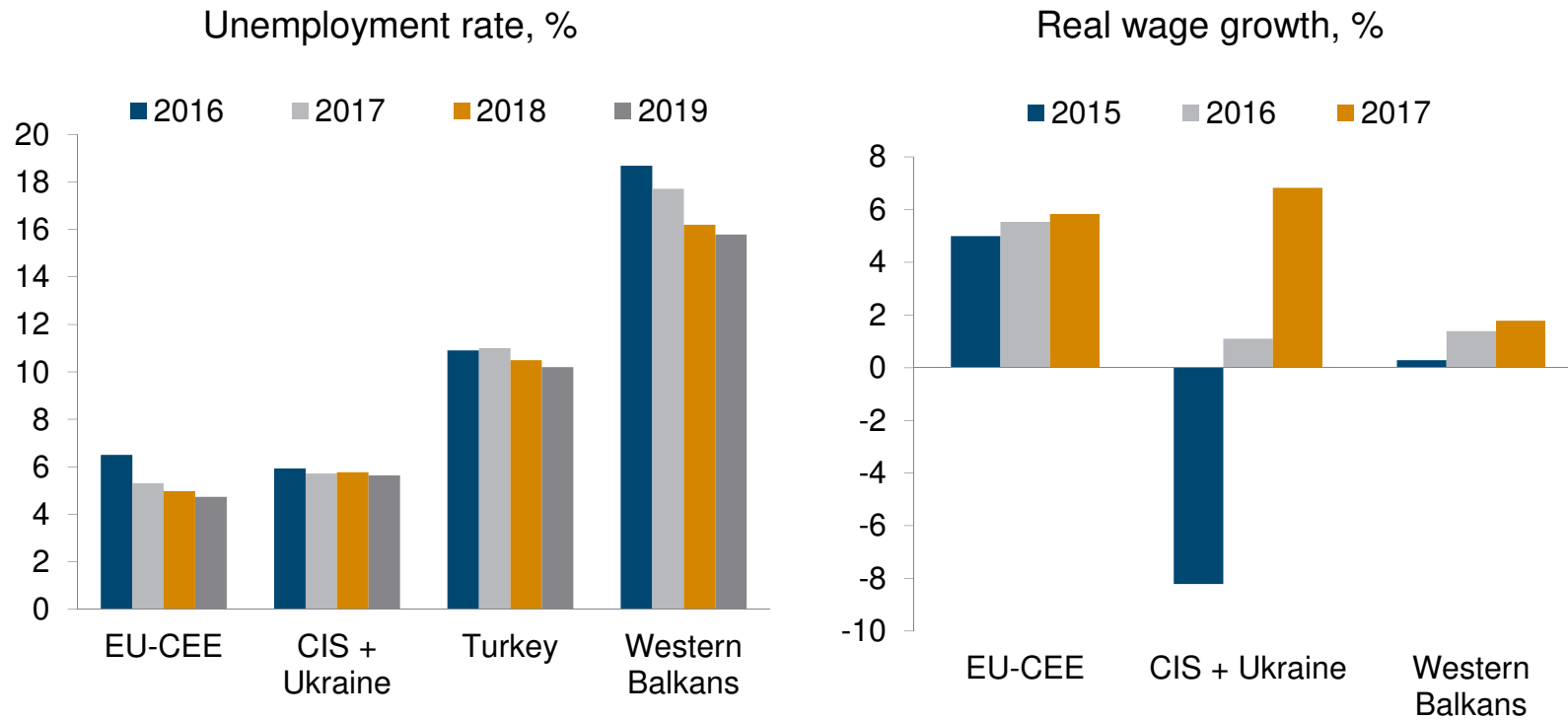
Unemployment rate, %

Real wage growth, %

Ukrainian migration helping to relieve labour shortages
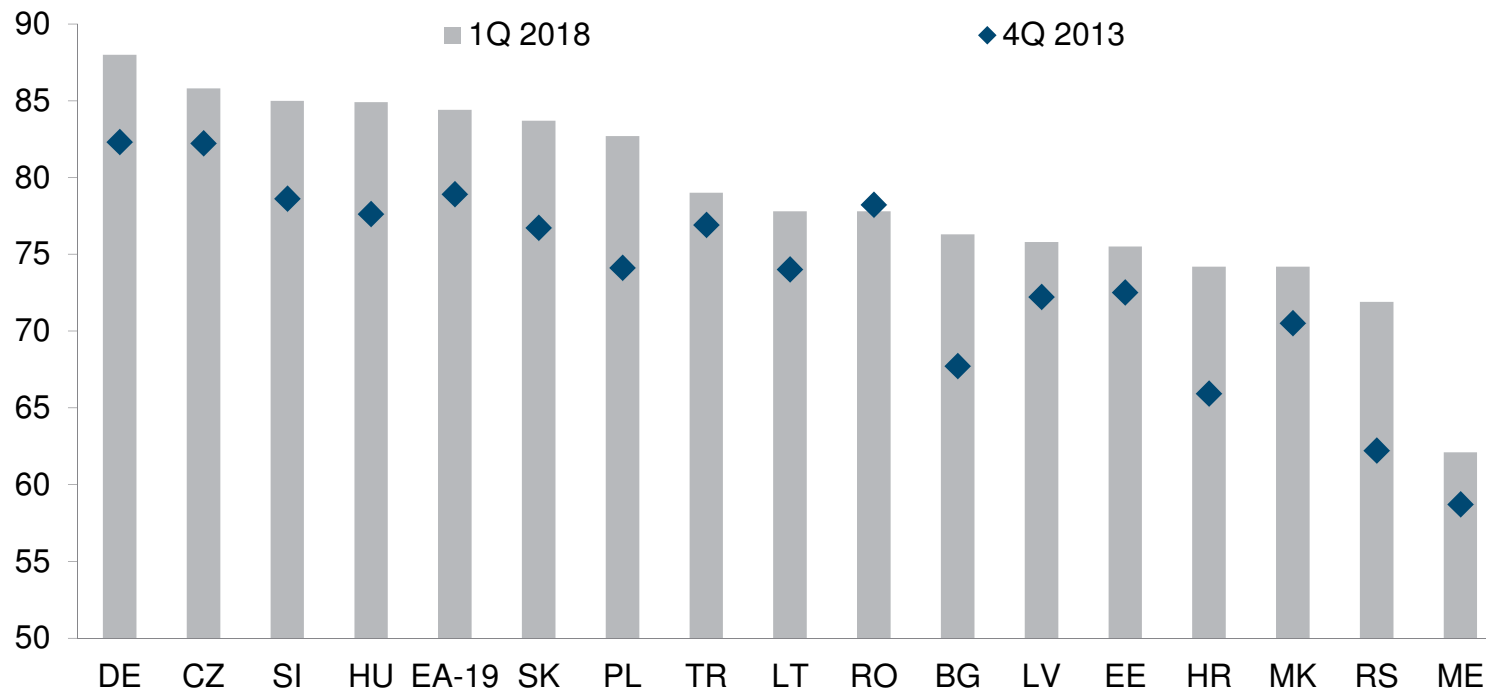
The share of residence permits issued to Ukrainians over total immigrants

Drivers of growth (II): Investment will grow faster than GDP in most places during the forecast period
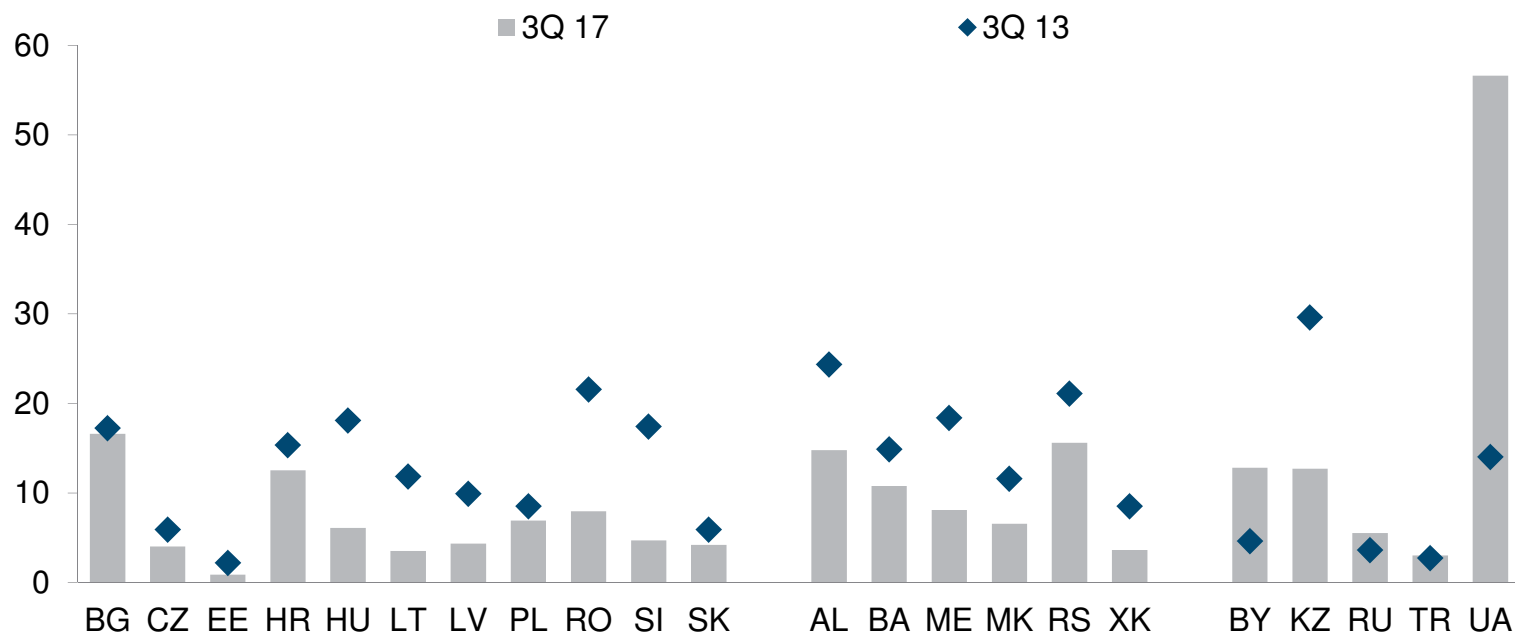
Capacity utilisation, %, seasonally adjusted data.

Drivers of growth (III): Expansion of external sector means better placed to take advantage of upswing
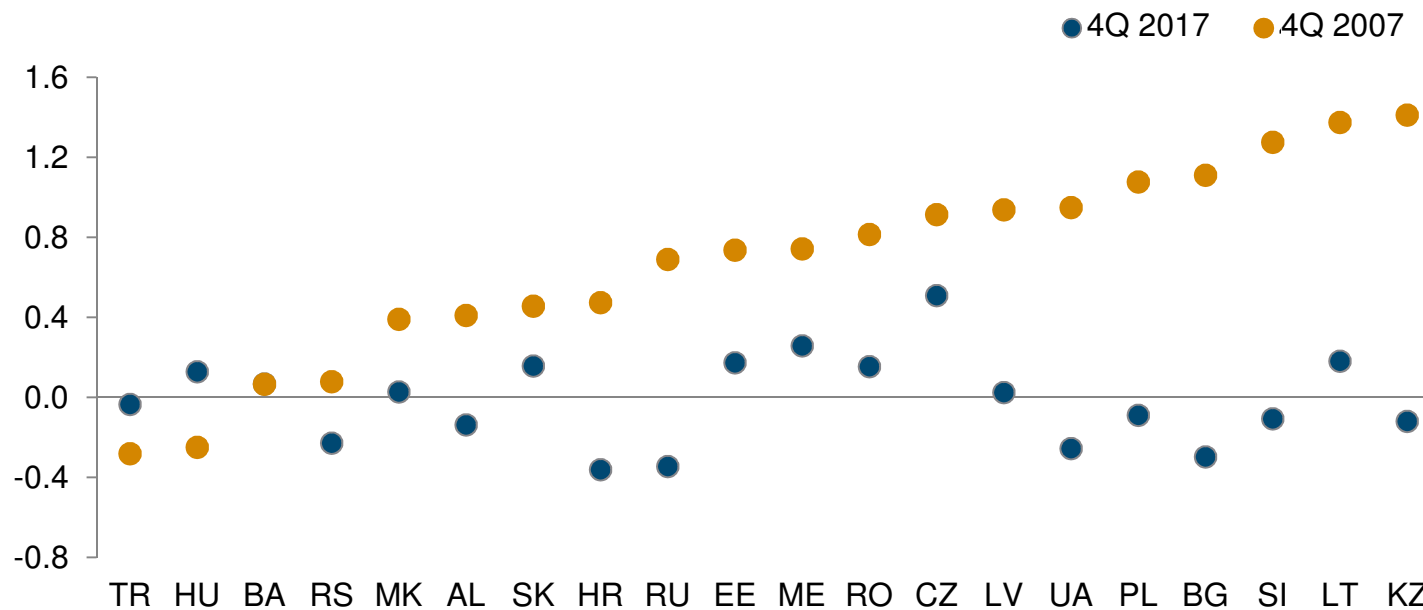
Exports of goods and services, % of GDP
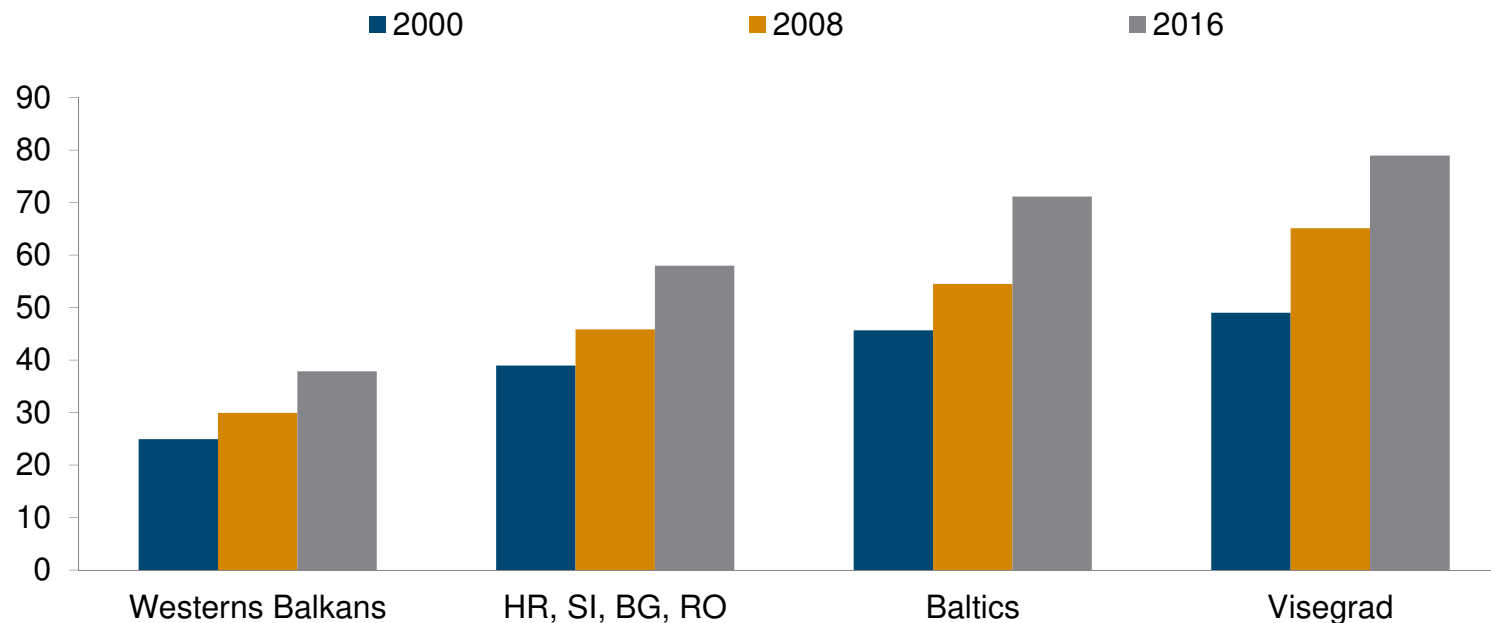
Banking sector mostly well placed to support growth

Bank non-performing loans in % of total loans
end of period

Is CESEE overheating?

wiiw Overheating index, standard deviations from historical average

Note: Values represent average of 11 indicators. Historical average for Q4 2007 value = 2000-2007, for Q4 2017 value = 2000-2017.

Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

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Risks to growth (I): Global

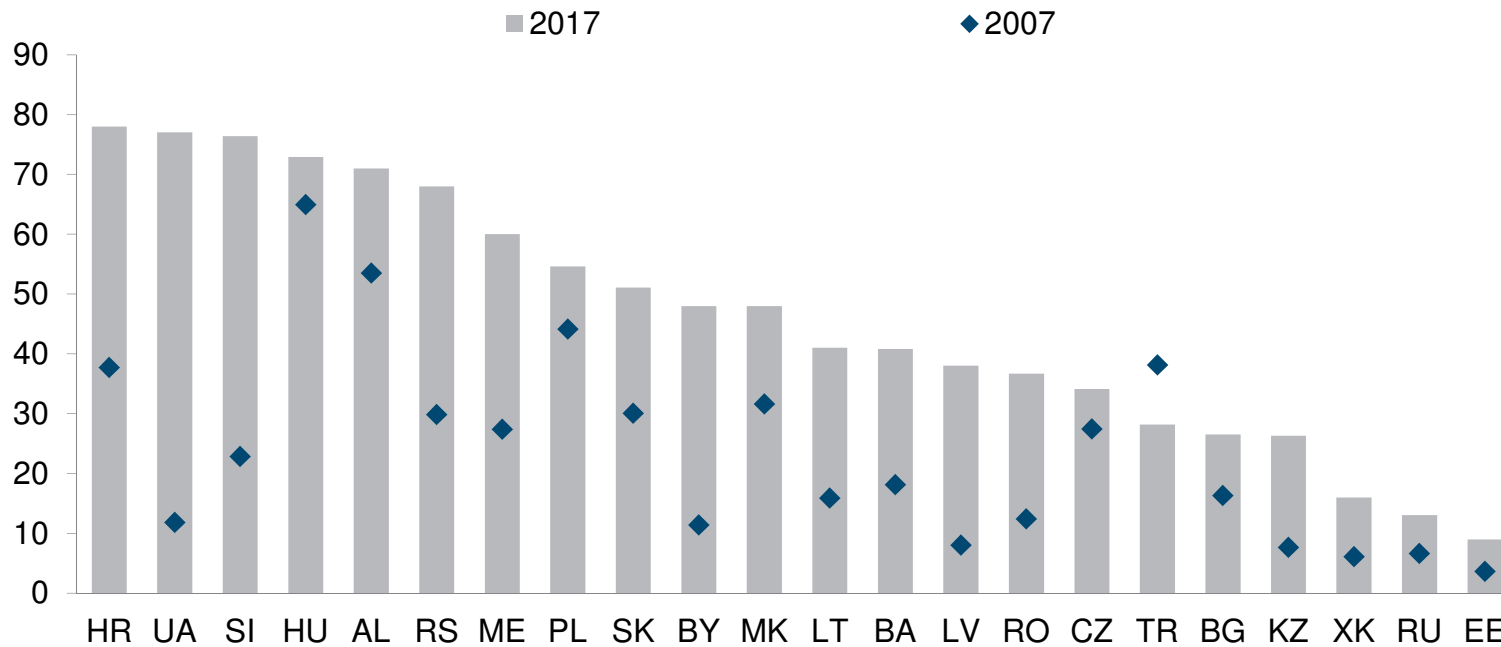End of ultra-loose monetary policy; bursting of bubbles; trade war

S&P 500, January 2009=100
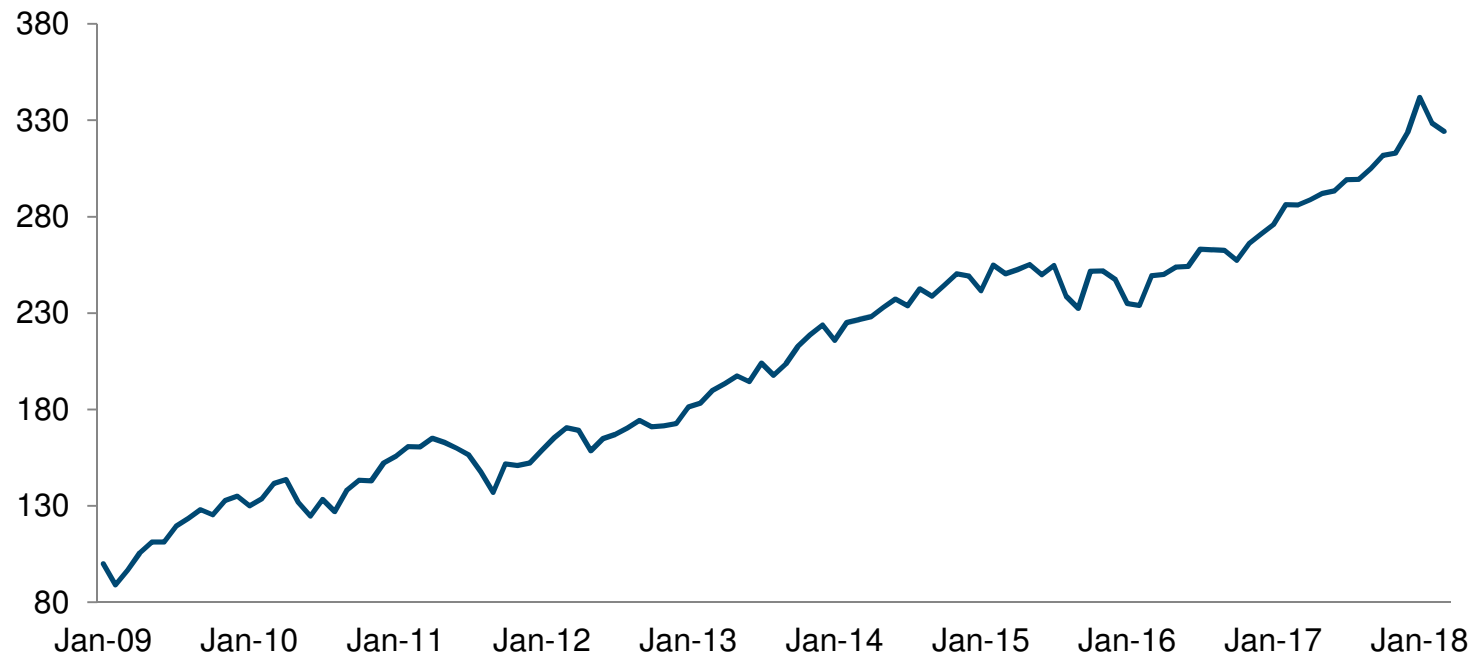
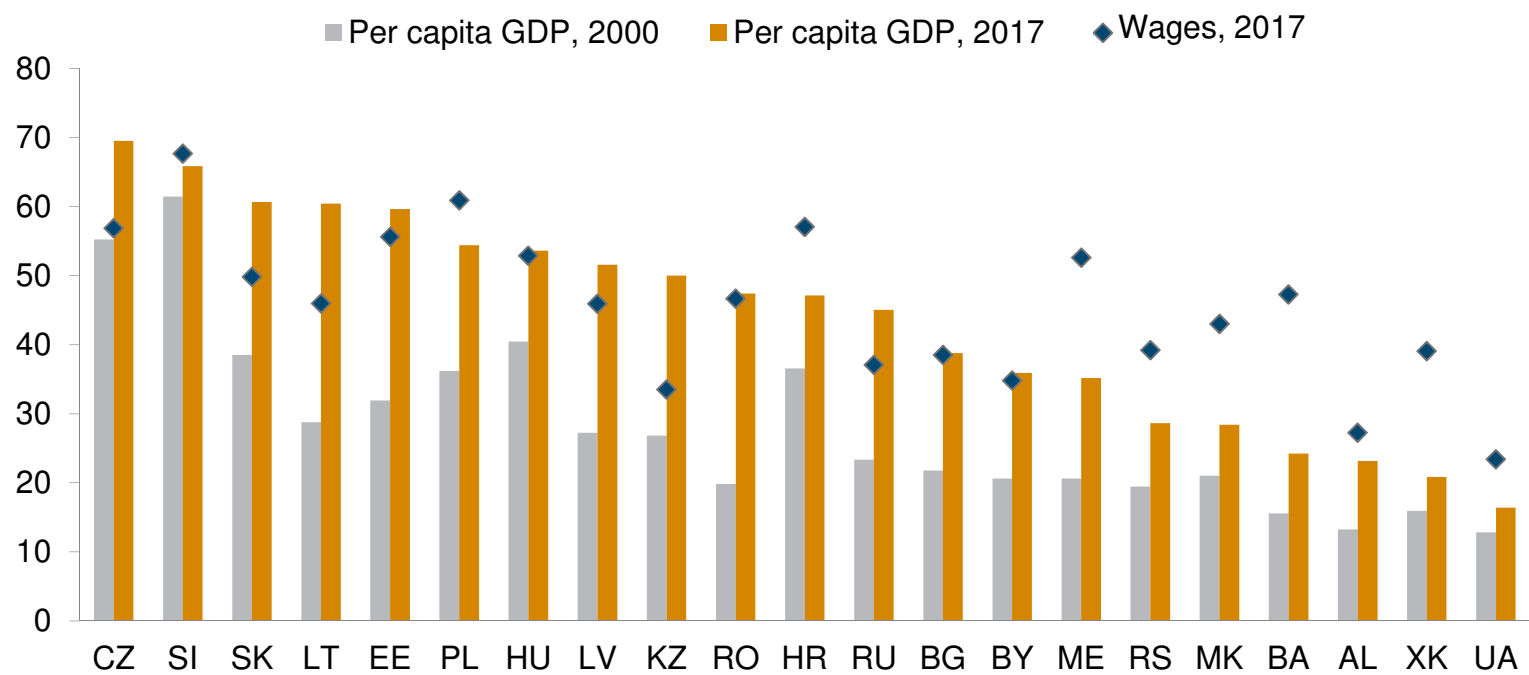# Risks to growth (II): Regional

Pockets of high corporate and/or sovereign leverage; East/West EU splits; threats to rule of law; Ukraine crisis; break up of the eurozone.

General government gross debt, in % of GDP

Convergence: Success but also disappointment

Indicators of convergence, Austria=100

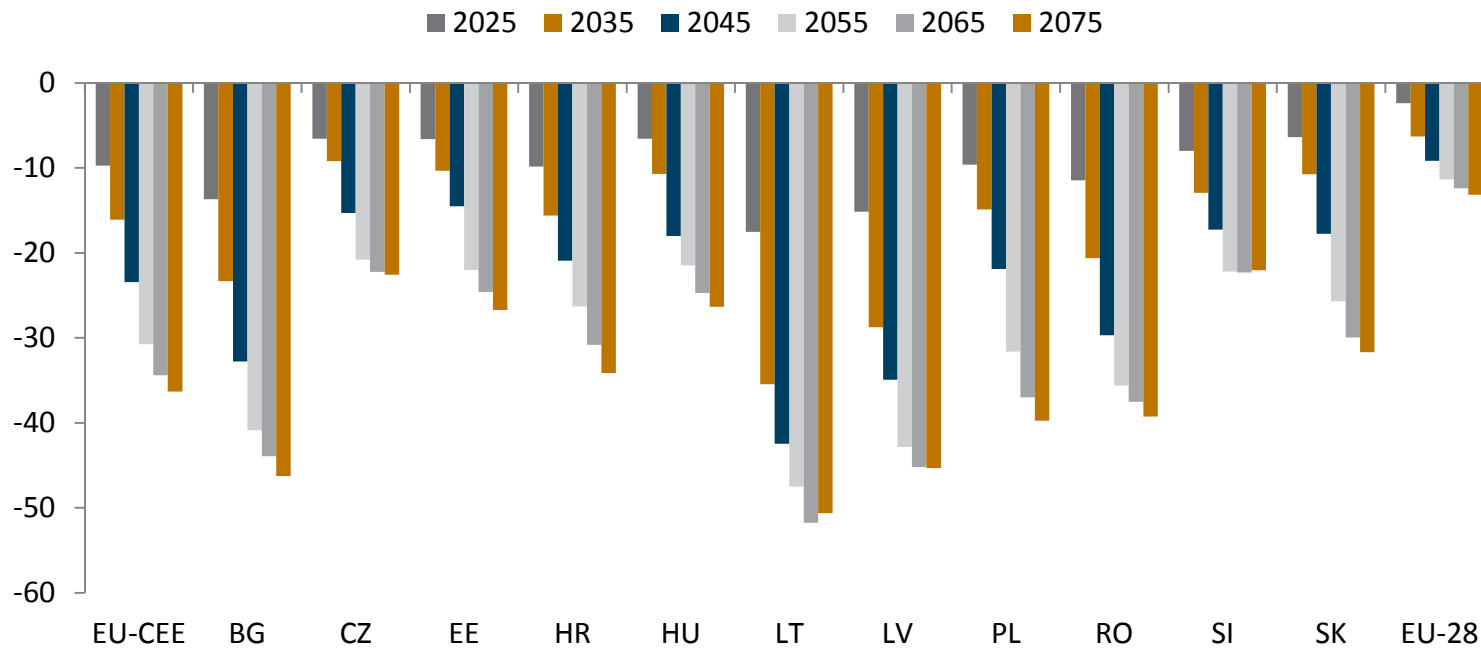■ Per capita GDP, 2000   ■ Per capita GDP, 2017   ◆ Wages, 2017

Note: CESEE wages based on register-based surveys, Austria refers to national account data.

Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

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Long-term challenge 1:
Demographic decline

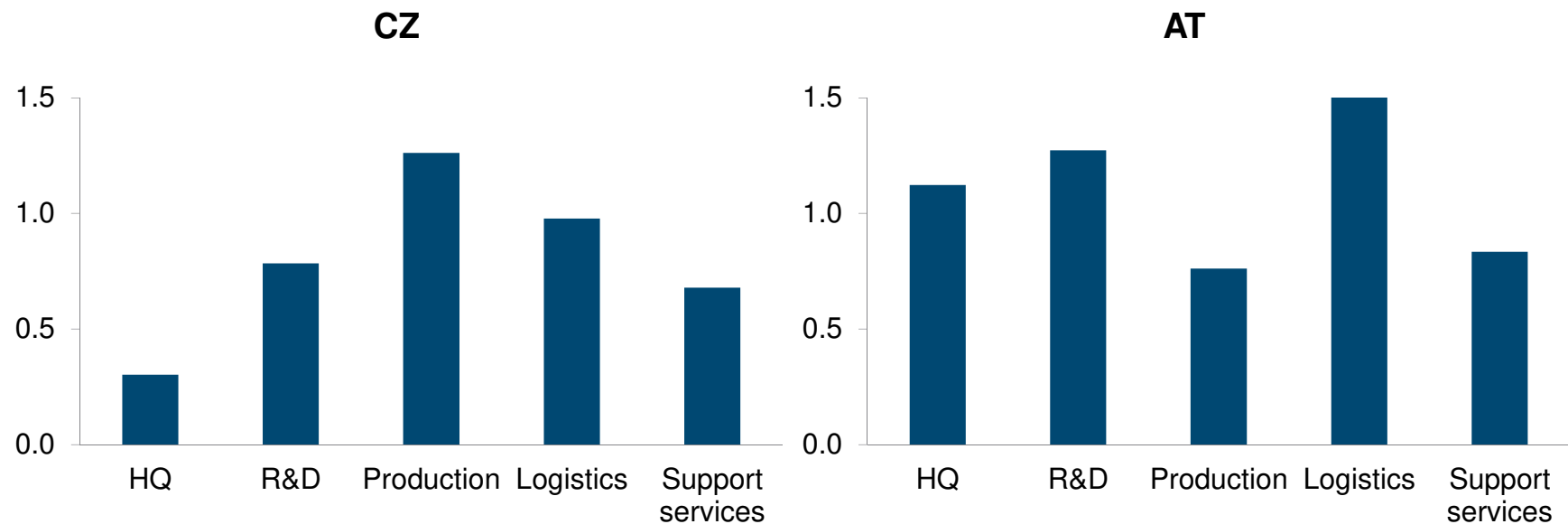Demographic trends in working-age population change in % compared to 2015

Note: Figures based on Eurostat baseline scenario.

Source: Eurostat; own calculations.

Long-term challenge 2:
Can CESEE break out of semi-periphery trap?

Functional specialisation, averages 2003-2015

CZ

AT

Note: Relative functional specialisation retrieved from inward greenfield FDI projects in the manufacturing sector. For each function the global average equals 1.
Source: fDi markets database, wiiw calculations.

![wiiw logo]

Conclusions

- Growth at highest level for six years. Outlook positive

- In general no overheating

- Several risks to growth

- Convergence will continue, with long-term challenges

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CESEE	Central, East and Southeast Europe
CIS	Commonwealth of Independent States
EU-CEE	European Union – Central and Eastern Europe
WB	Western Balkans