

Press conference, 7 November 2018

New wiiw forecast for Central, East and Southeast Europe, 2018-2020

## Robust growth in the face of increased negative risks

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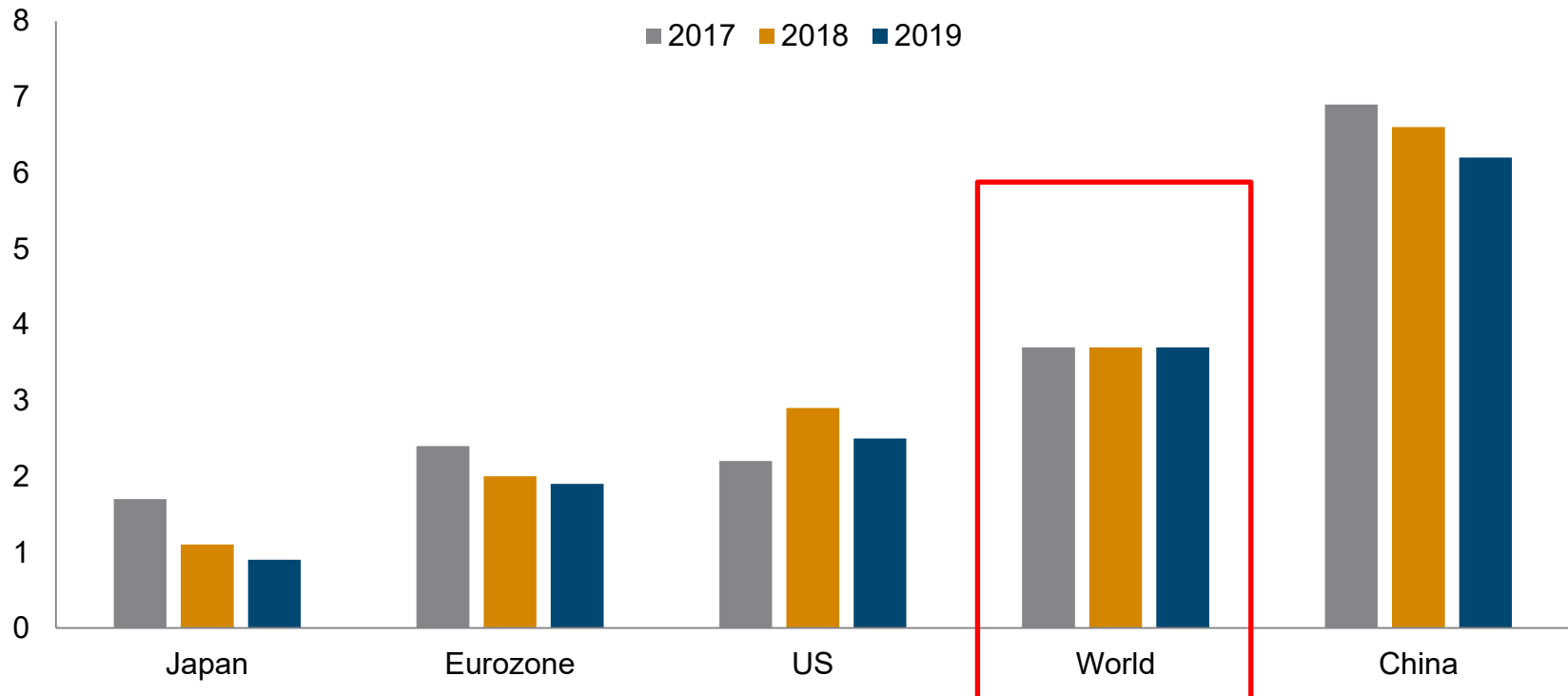
## Overview

1. Changes to the wiiw Forecast Report
2. Global and eurozone overview
3. New forecasts for CESEE 2018-20
4. Main drivers of growth
5. Risks to the outlook
6. Conclusions

1. Global and eurozone backdrop: multiple headwinds weighing on growth

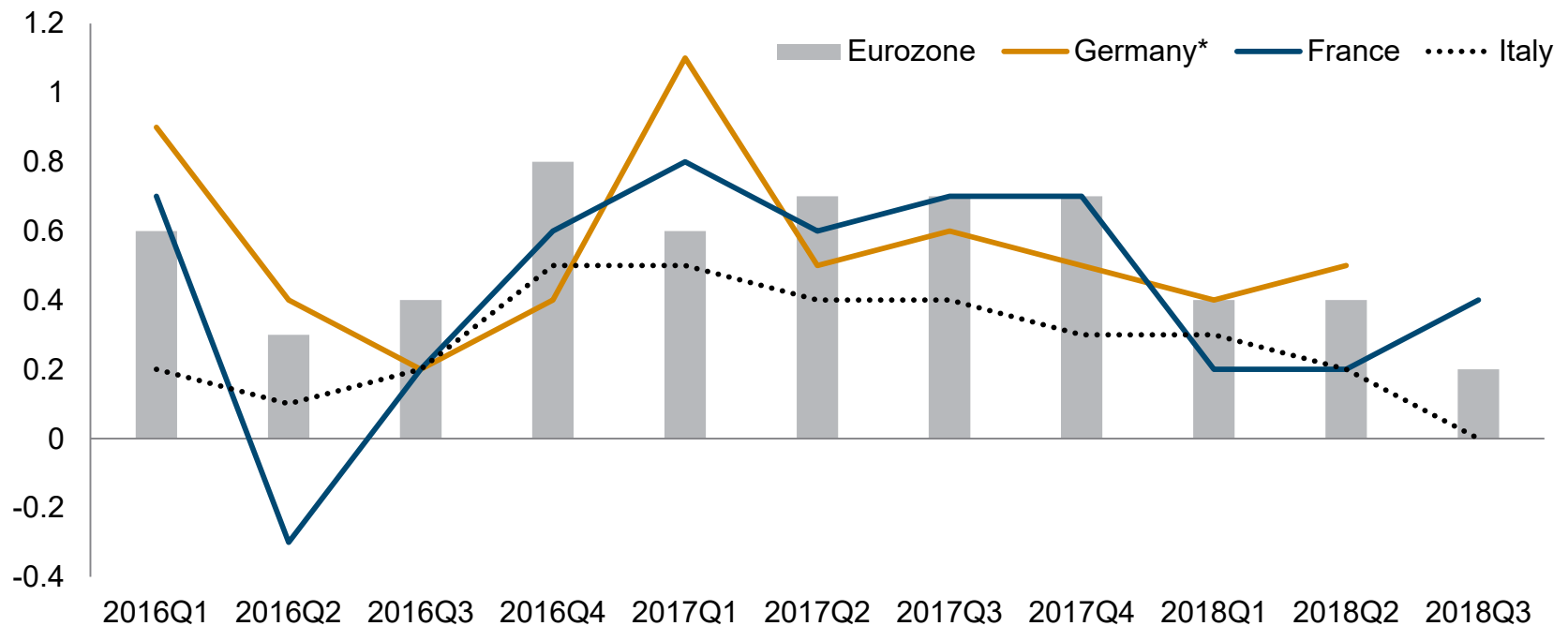
## Global growth still reasonably robust – IMF forecasts around 3.7% this year and next (same as 2017)

Real GDP growth, % per year, major economies



But significant headwinds for CESEE: trade tensions, eurozone + China slowdown, higher US rates

Eurozone real GDP, seasonally adjusted, % change quarter on quarter



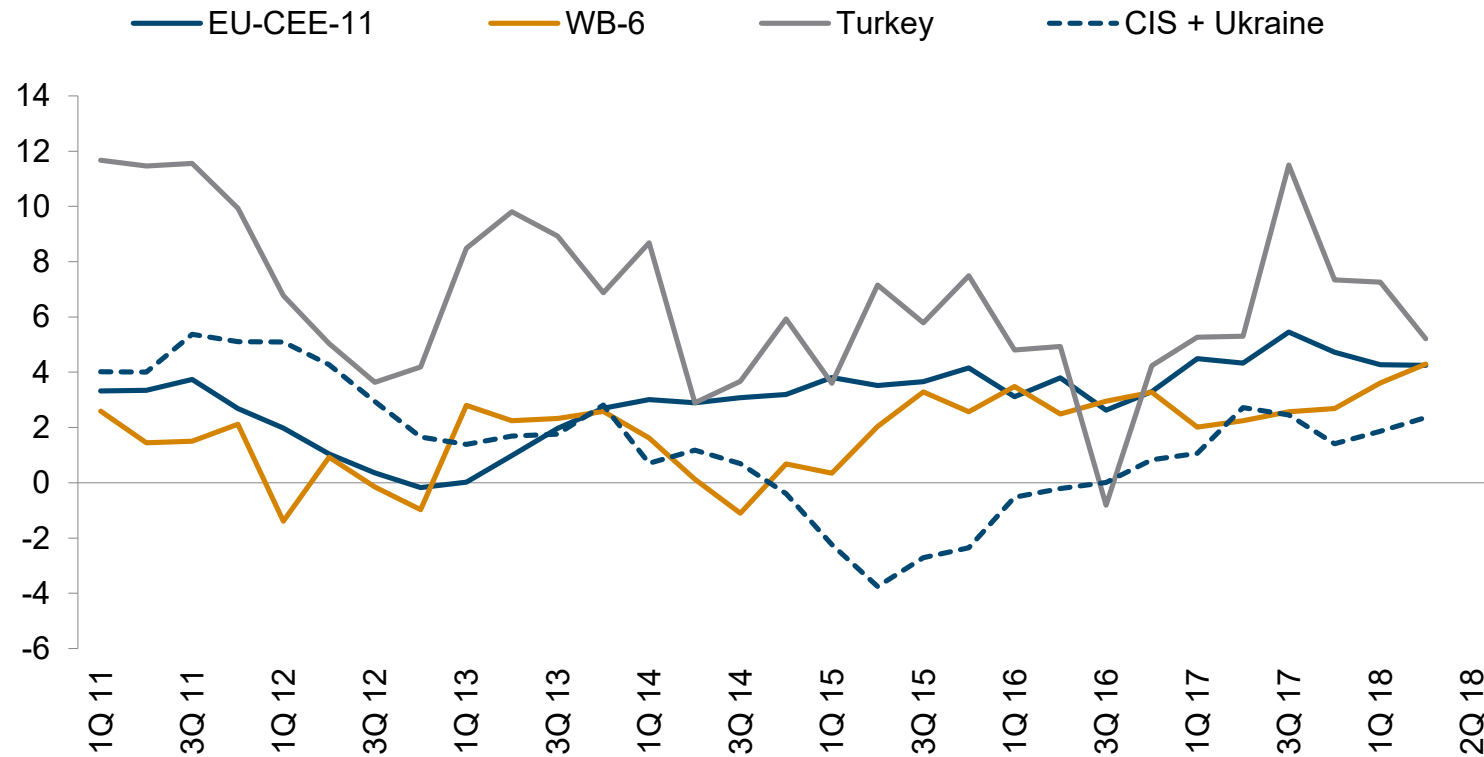
\* Q3 data for Germany not yet available.

Source: Eurostat.

## 2. New forecasts for CESEE in 2018-20

# Growth still healthy in most of the region

Quarterly real GDP growth, change in % against preceding year



# Most of the region at/past the peak

## wiiw real GDP growth forecasts

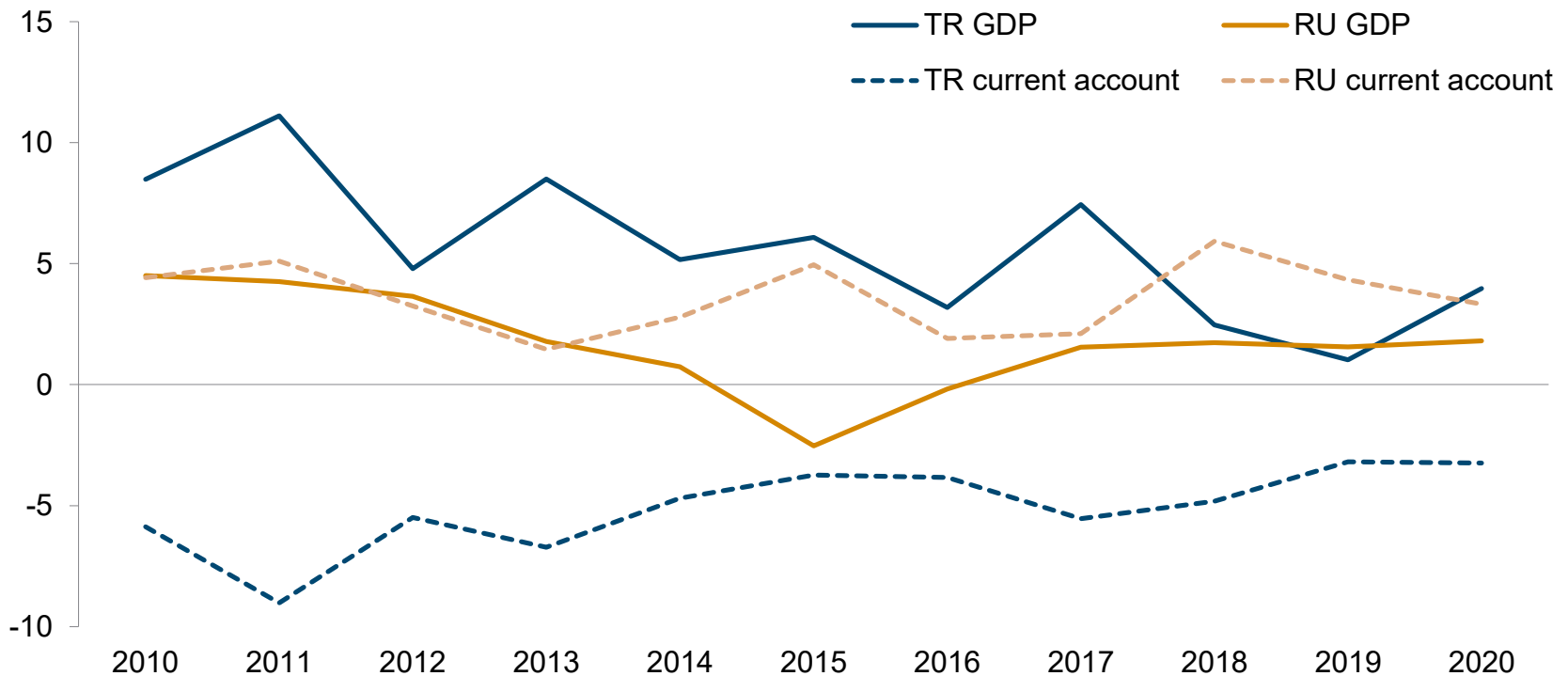
		Forecast, %			Revisions, pp		
		2018	2019	2020	2018	2019	2020
EU-CEE	BG	3.3	3.2	3.0	↓ -0.2	↓ -0.2	↓ -0.1
	CZ	3.3	3.2	3.1	↓ -0.4	↓ -0.1	↓ -0.1
	EE	3.5	3.1	2.7	→ 0.0	→ 0.0	↓ -0.3
	HR	2.5	2.6	2.7	→ 0.0	↓ -0.1	↓ -0.1
	HU	4.3	3.0	2.3	↑ 0.3	↑ 0.2	↓ -0.1
	LT	3.5	3.0	2.6	↑ 0.2	→ 0.0	→ 0.0
	LV	4.1	3.3	3.0	↑ 0.2	↓ -0.3	↓ -0.1
	PL	5.0	3.5	3.3	↑ 1.2	→ 0.0	→ 0.0
	RO	3.8	3.6	3.7	↓ -0.4	↑ 0.1	↓ -0.1
	SI	4.5	3.6	3.5	↓ -0.3	↓ -0.1	↓ -0.1
	SK	3.8	4.1	3.3	→ 0.0	↓ -0.1	→ 0.0
Western Balkan	AL	4.1	4.0	4.0	↑ 0.3	↓ -0.1	→ 0.0
	BA	3.0	3.4	3.4	↓ -0.3	↑ 0.1	↑ 0.1
	ME	4.2	3.1	3.1	↑ 1.0	↓ -0.1	↑ 0.1
	MK	2.9	2.8	3.1	↓ -0.6	↓ -0.3	↓ -0.2
	RS	4.3	3.4	2.8	↑ 0.7	↑ 0.4	→ 0.0
	XK	4.2	4.0	4.2	↑ 0.3	↑ 0.2	↑ 0.4
Turkey	TR	2.5	1.0	4.0	↓ -2.0	↓ -3.1	→ 0.0
CIS+UA	BY	3.7	3.0	2.8	↓ -0.3	↓ -0.7	↓ -0.6
	KZ	4.0	3.1	3.0	→ 0.0	↑ 0.1	→ 0.0
	RU	1.7	1.6	1.8	↑ 0.2	→ 0.0	↑ 0.1
	UA	3.3	2.7	2.0	→ 0.0	↓ -0.4	→ 0.0

Note: Current forecast and revisions relative to the wiiw Summer Forecast 2018. Colour scale variation from the minimum (red) to the maximum (green).



# What is wrong with Russia and Turkey?

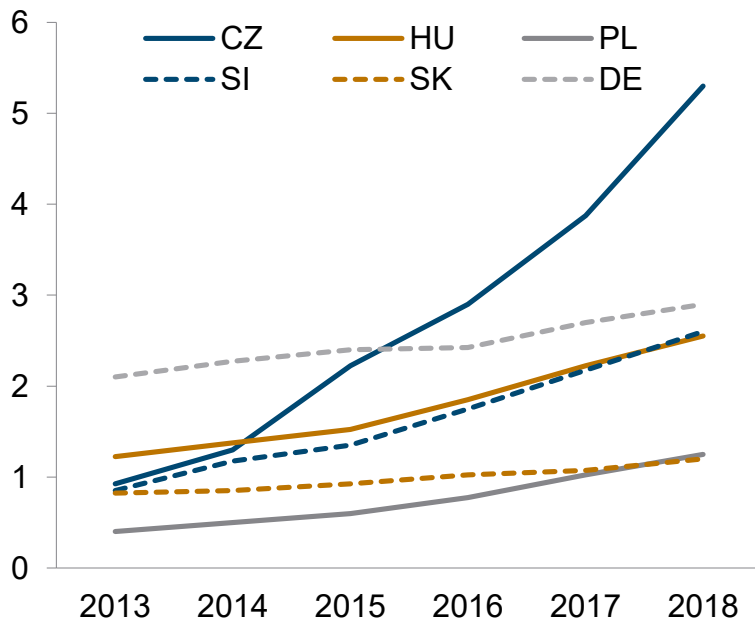
Annual real GDP growth, % change against preceding year  
 Current account balance, % of GDP



### 3. Main drivers of growth

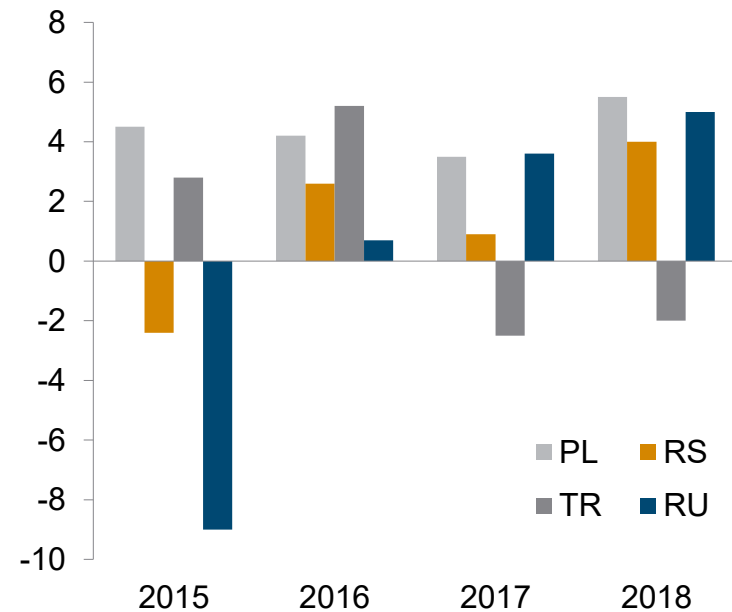
# Strong wage growth supporting private consumption

Job vacancy rate, %



Note: Data for 2018 are an average of first two quarters.  
Source: Eurostat.

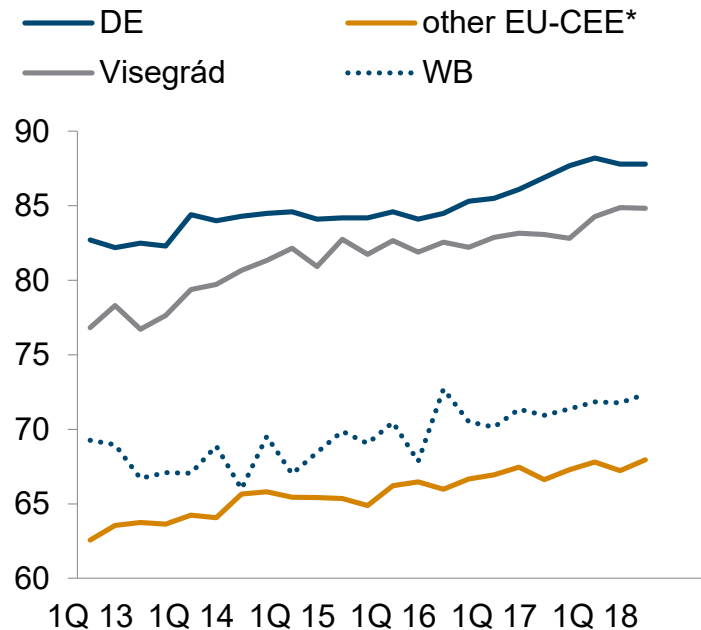
Average monthly gross wages, real change in % against preceding year



Source: wiiw Annual Database incorporating national and Eurostat statistics.

# Capacity constraints spurring investment

Capacity utilisation, %  
seasonally adjusted

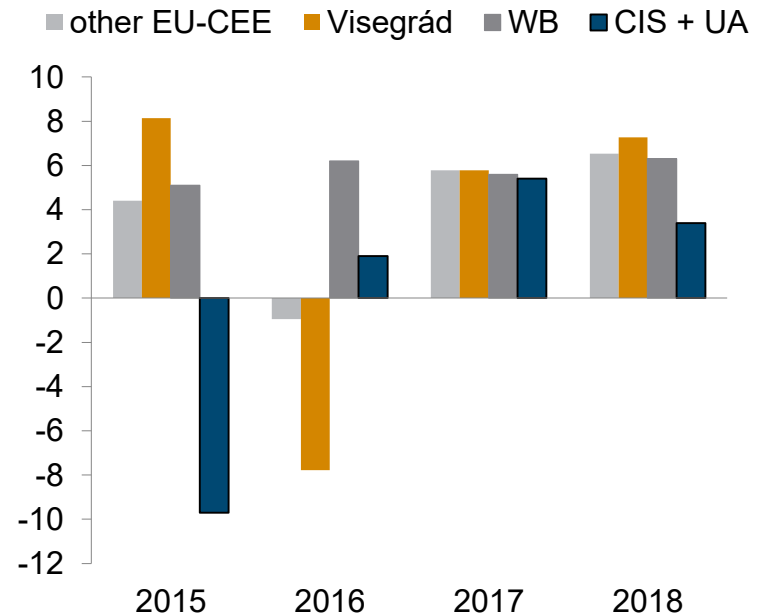


\* EU-CEE excl. Visegrád.

Note: Simple averages for country aggregates.

Source: Eurostat statistics.

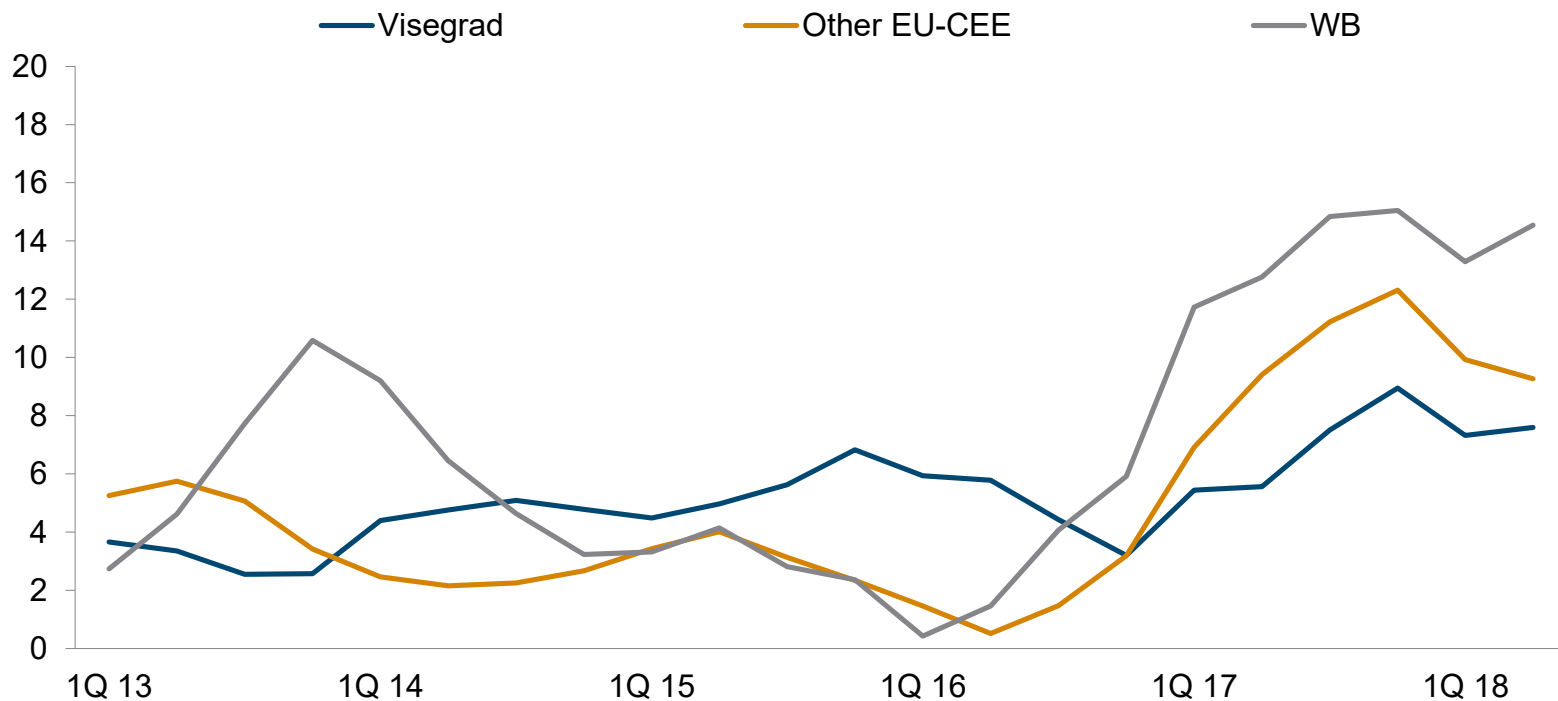
Real GFCF  
change in % against preceding year



Source: wiiw Annual Database incorporating national and Eurostat statistics.

# Export growth slowing down amid weakening external environment

Exports of goods (customs statistics) growth, %, 4-quarter moving average

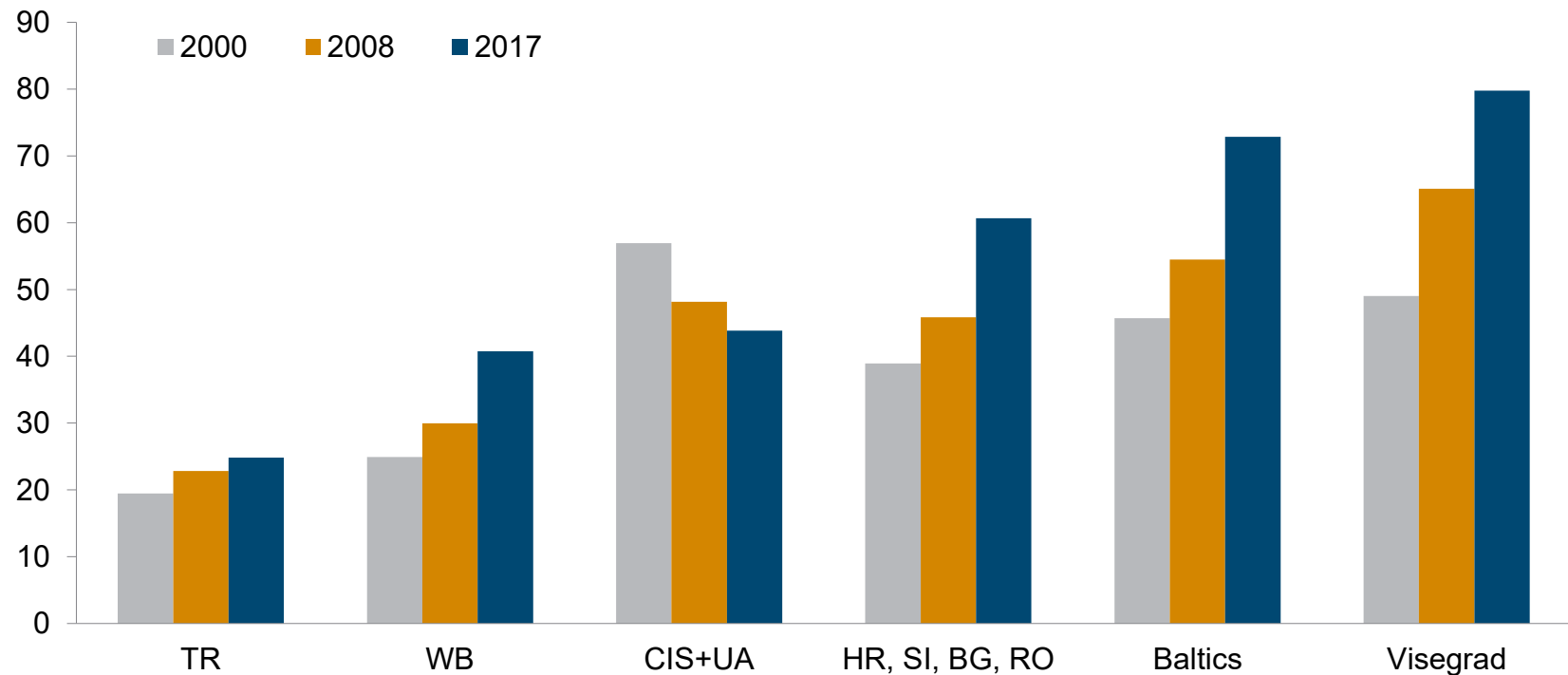


Note: Simple averages for country aggregates. WB excluding XK, CIS excluding BY.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

## Visegrád countries and Baltics are most exposed to global demand decline

Exports of goods and services, % of GDP

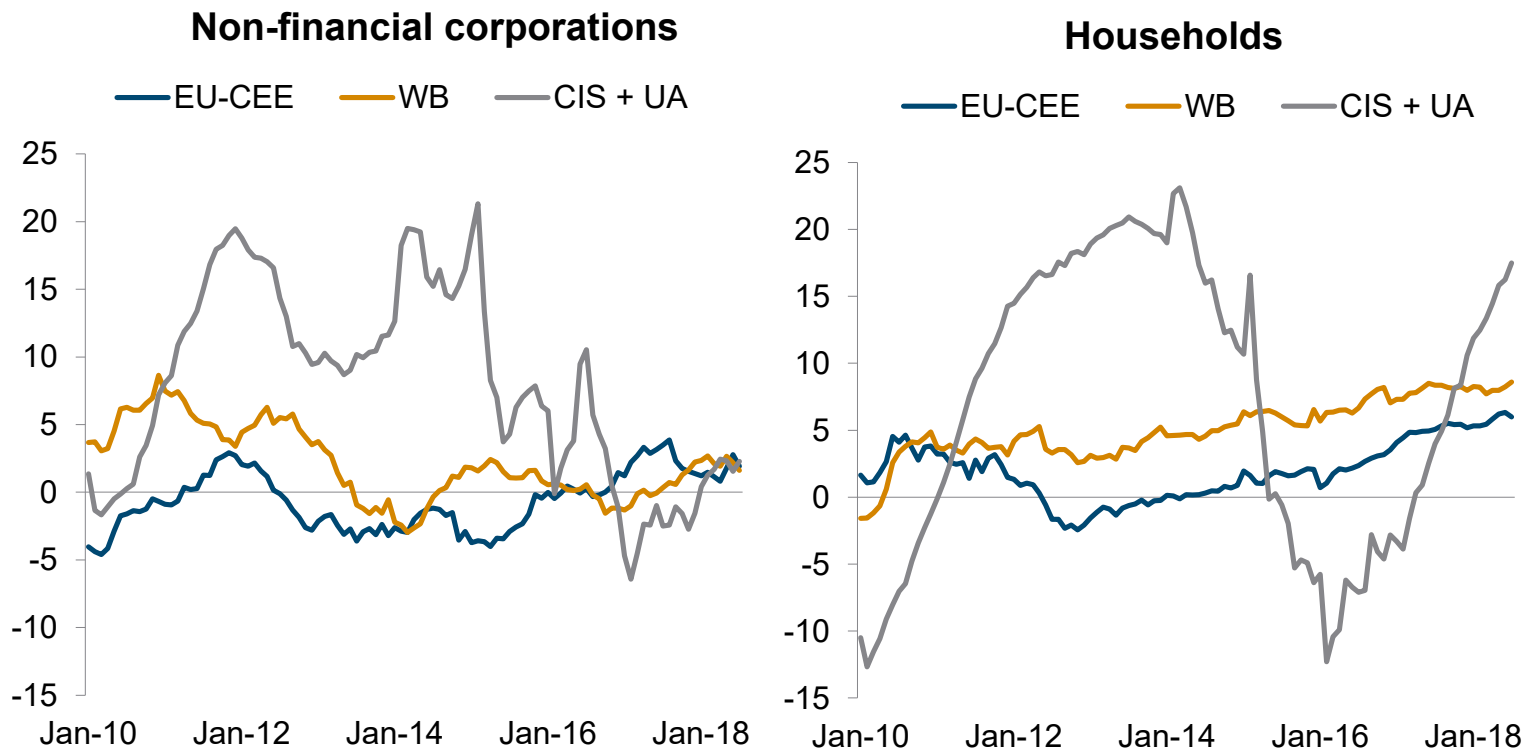


Note: Simple averages for country aggregates.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

# Credit cycle is firming, in particular for households

Credit growth, % year on year

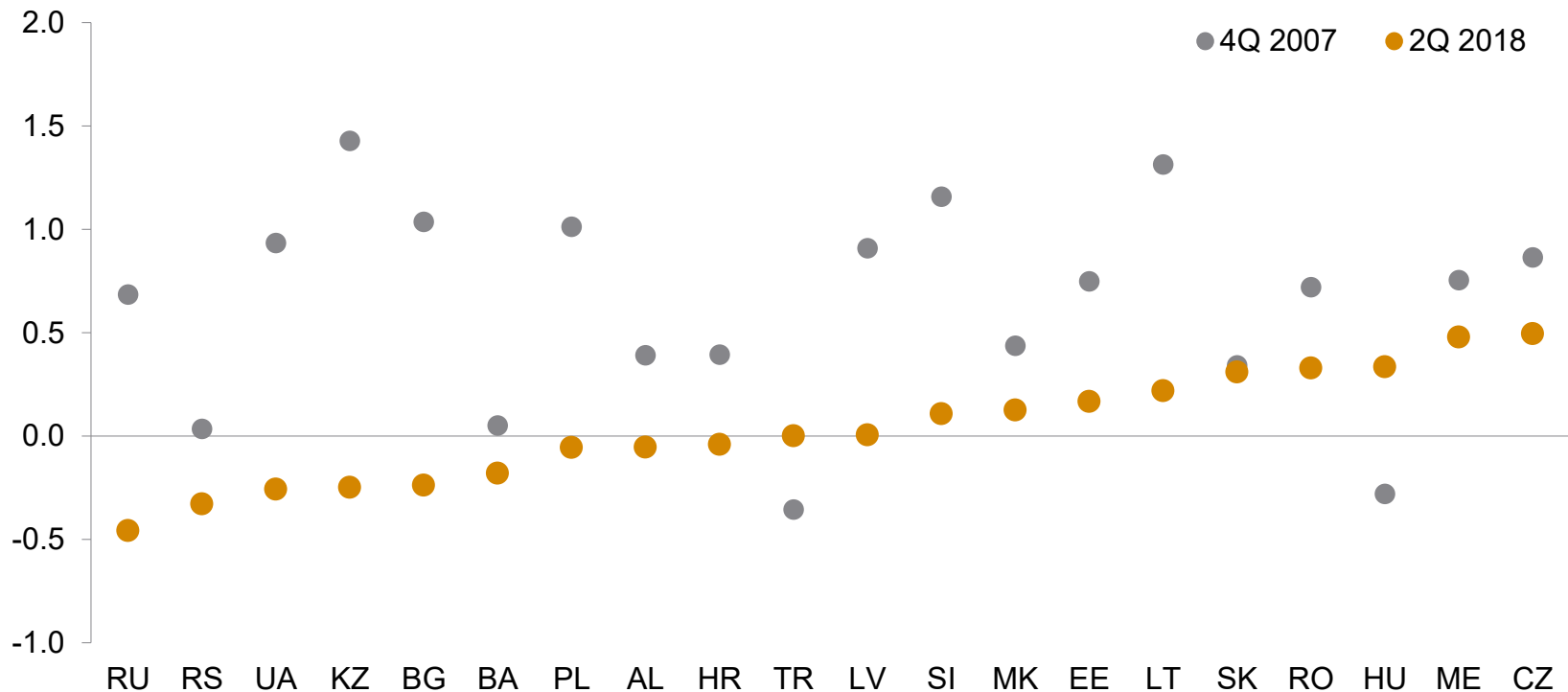


Note: Simple averages for country aggregates. WB excluding XK, CIS excluding BY.

Source: wiiw Monthly Database incorporating national statistics.

# CESEE overheating risks subside

wiiw business cycle index



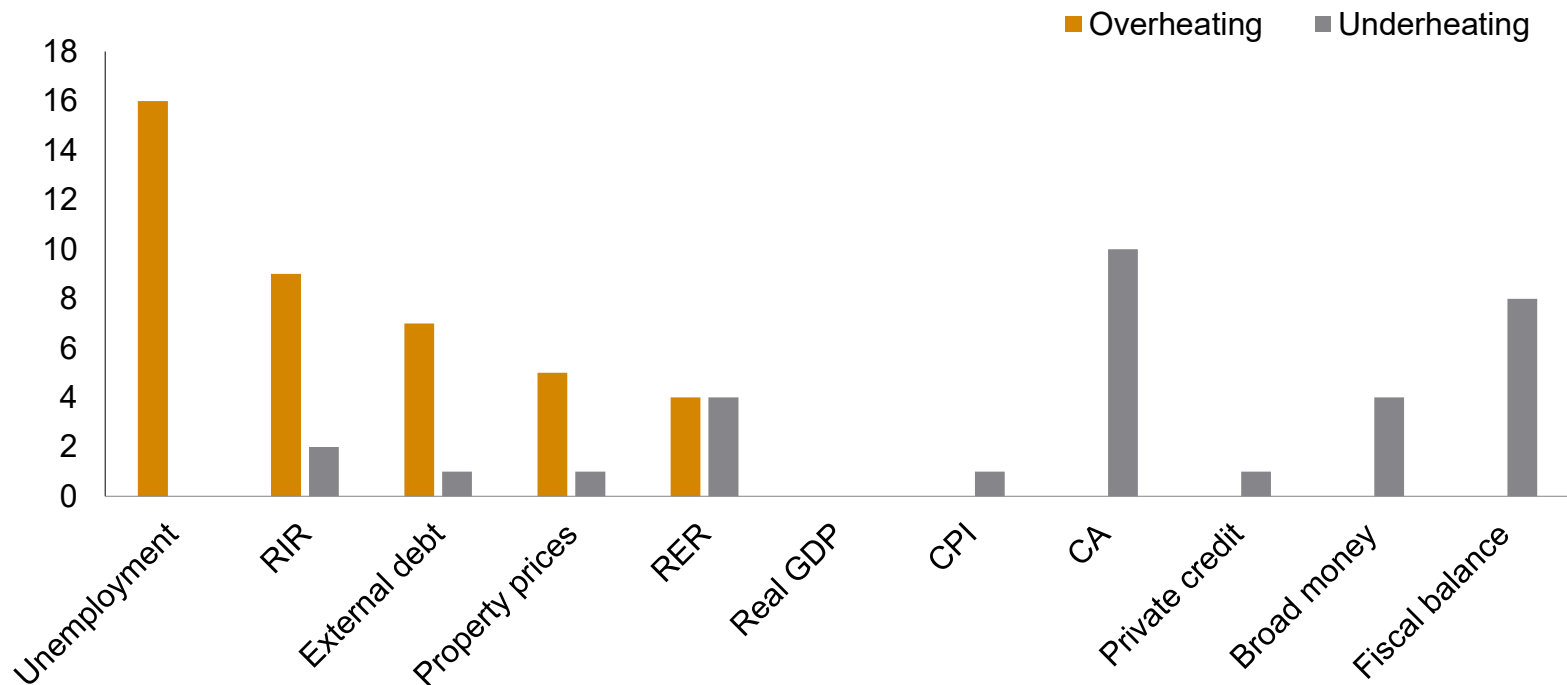
Note: Number of standard deviations from historical mean, average of 11 indicators.

Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.



# Main potential sources of risk are tight labour markets, low/negative real interest rates, and high property prices

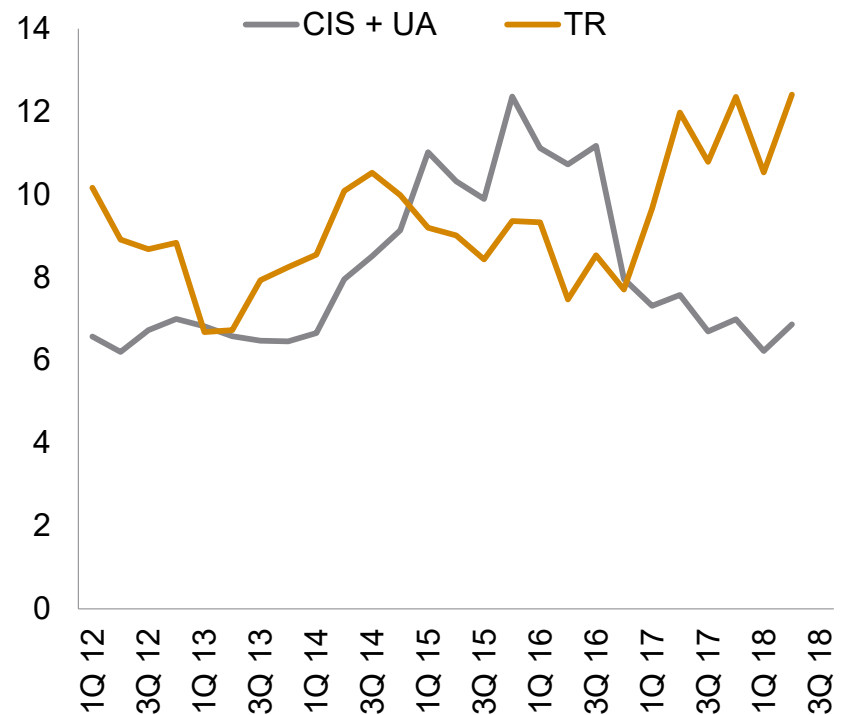
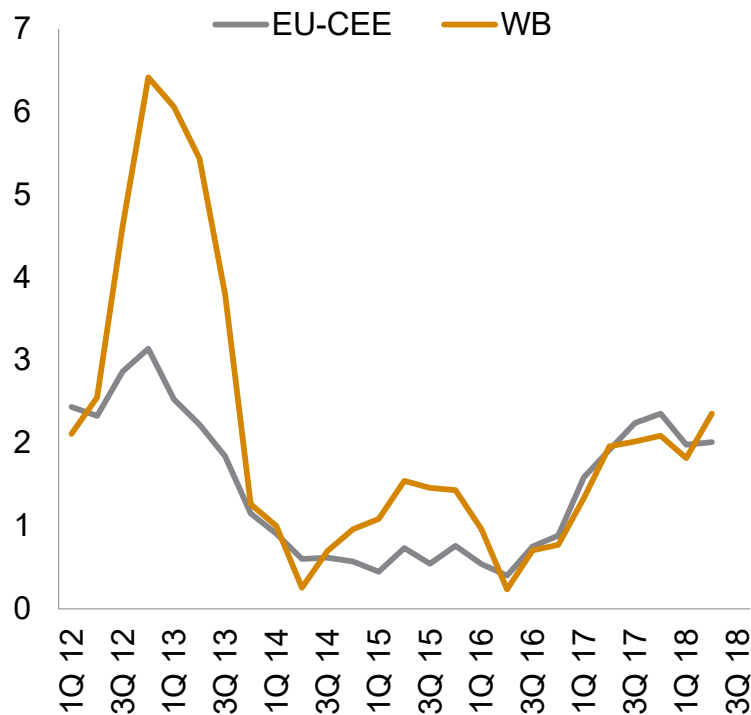
Number of countries in CESEE showing overheating or underheating by indicator, Q2 2018



Notes: CPI: consumer price index, CA: current account, RER: real exchange rate (EUR) CPI deflated, RIR: real interest rate CPI deflated.

# Concerns about overheating are soothed by relative lack of inflation

Core inflation, % change year on year

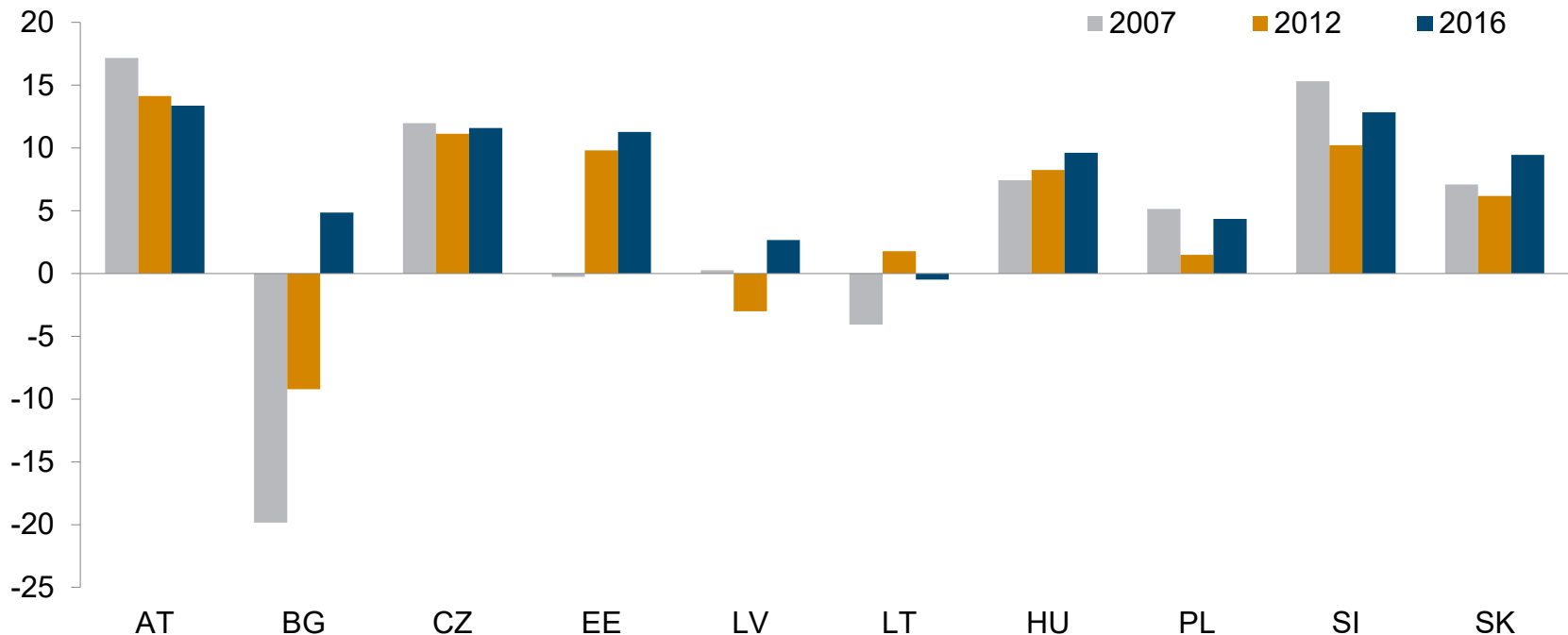


Note: Core inflation (HICP/COICOP), overall index excluding energy. Simple averages for country aggregates. WB excluding XK, CIS excluding BY. Source: Eurostat and national statistics.

# Why is inflation not higher? (1)

## Increasing savings rates reduce wage pass-through

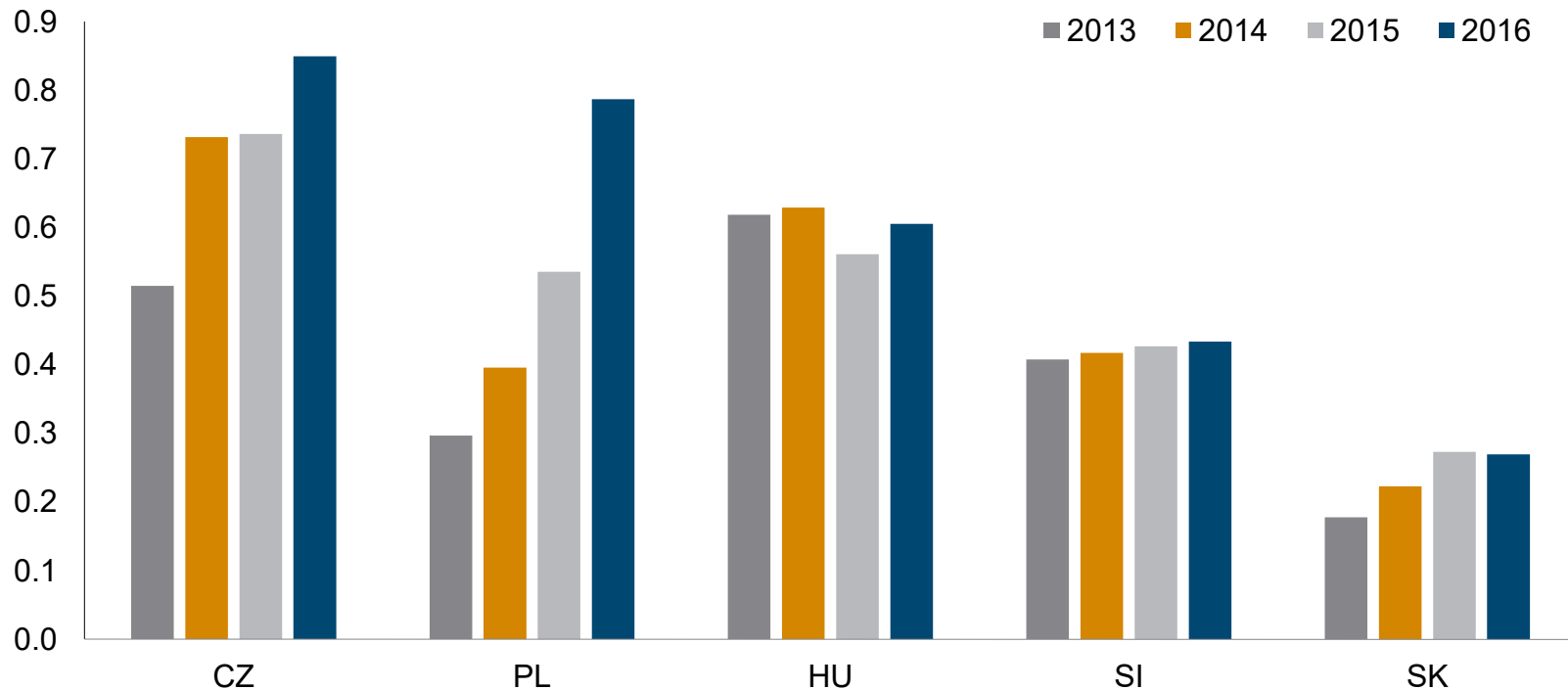
Gross household savings rate, %



## Why is inflation not higher? (2)

### Growing remittance outflows

Migrant remittance outflows, % of GDP



## Recent pace of convergence has been strong for most, but will slow from here

Percentage-point change in real per capita GDP (PPP) level versus Austria between 2012 and 2017



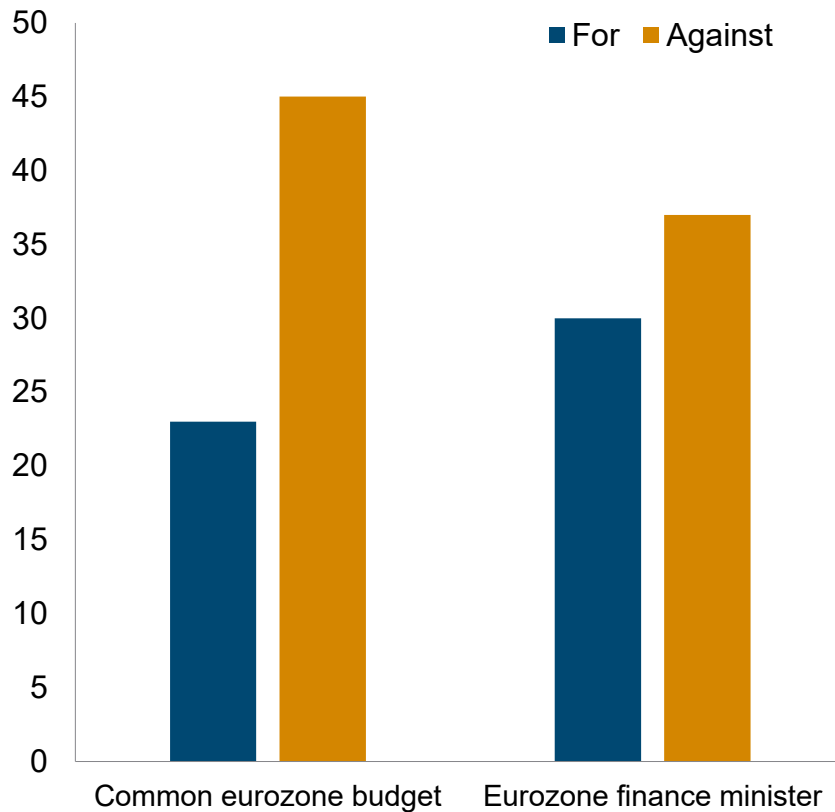
4. Risks to the outlook: Watch out for trade war, eurozone crisis and next EU budget

## wiiw CESEE risk matrix October 2018

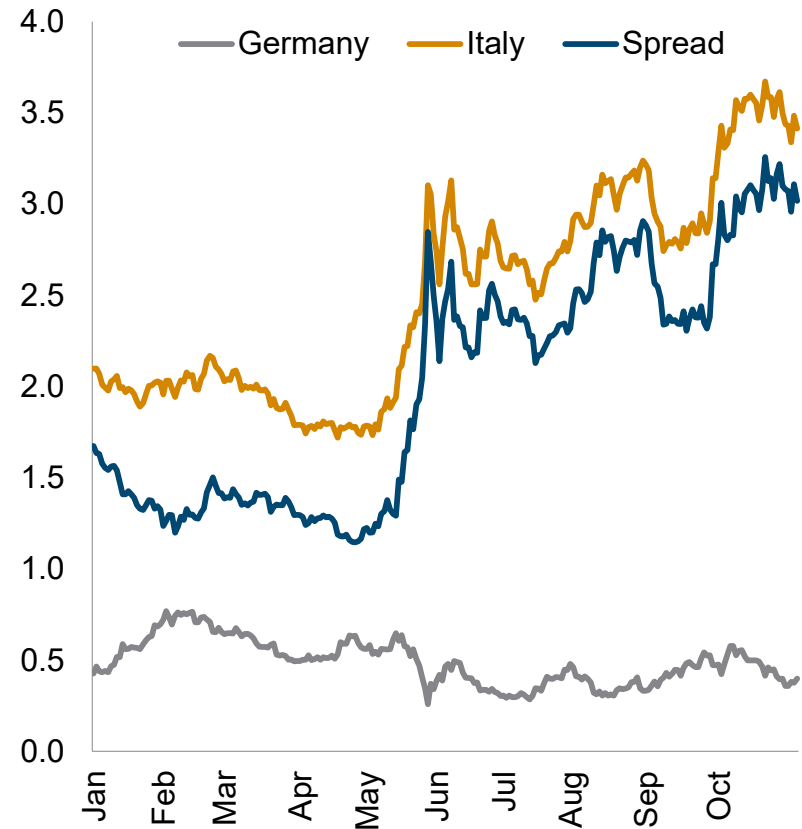
		Impact on CESEE countries		
		High	Medium	Low
Likelihood	High	<p>Global trade war</p> <p>Smaller EU budget (only EU-CEE countries)</p> <p>No eurozone reform</p>	<p>Rule of law and institutions deteriorate further</p>	
	Medium	<p>Labour shortages stimulate higher investment</p>		
	Low	<p>Formalised core/periphery in EU (only EU-CEE countries)</p>	<p>EM crisis affects more countries in CESEE</p> <p>Faster-than-expected ECB tightening</p> <p>Hard/no deal Brexit</p>	<p>Improvement in EU-Russia relations</p>

# A. Eurozone does not reform and new crisis breaks out

German opinion poll, Oct 2017, %



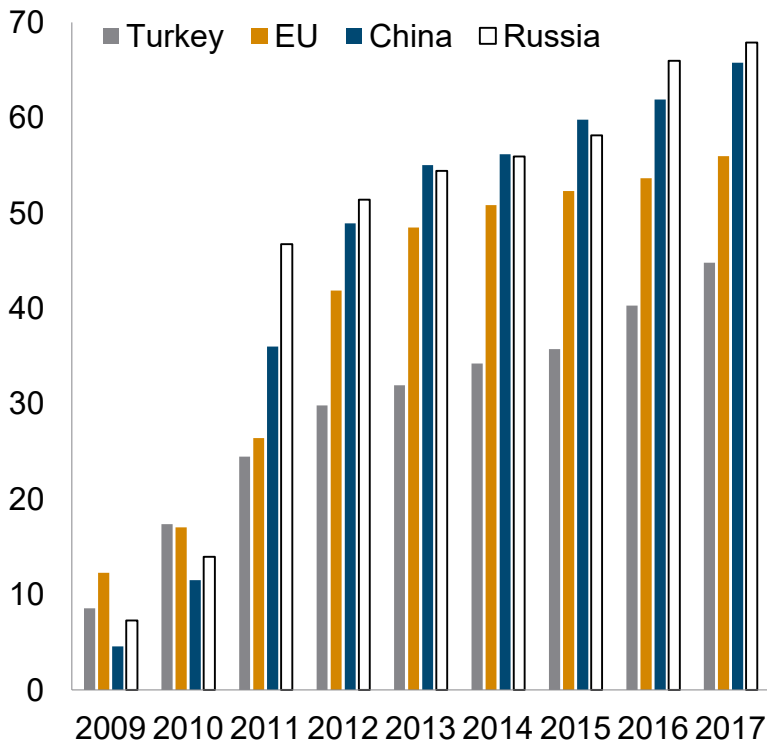
10-year bond yields, %





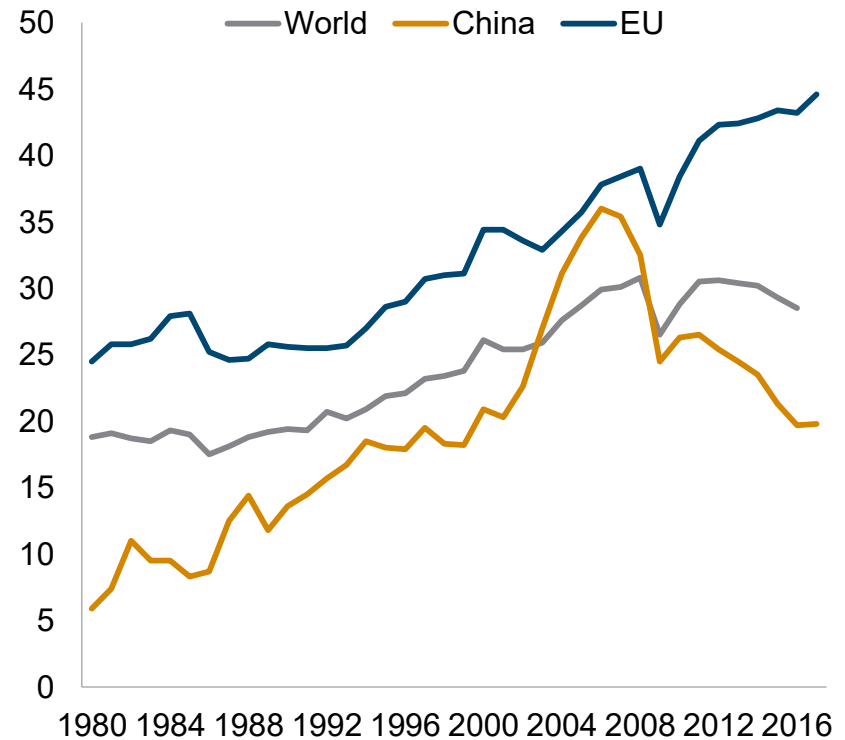
## B. Wider trade war (1): It has already started

Share of imports to US subject to  
,harmful' trade restrictions,  
by exporter, %



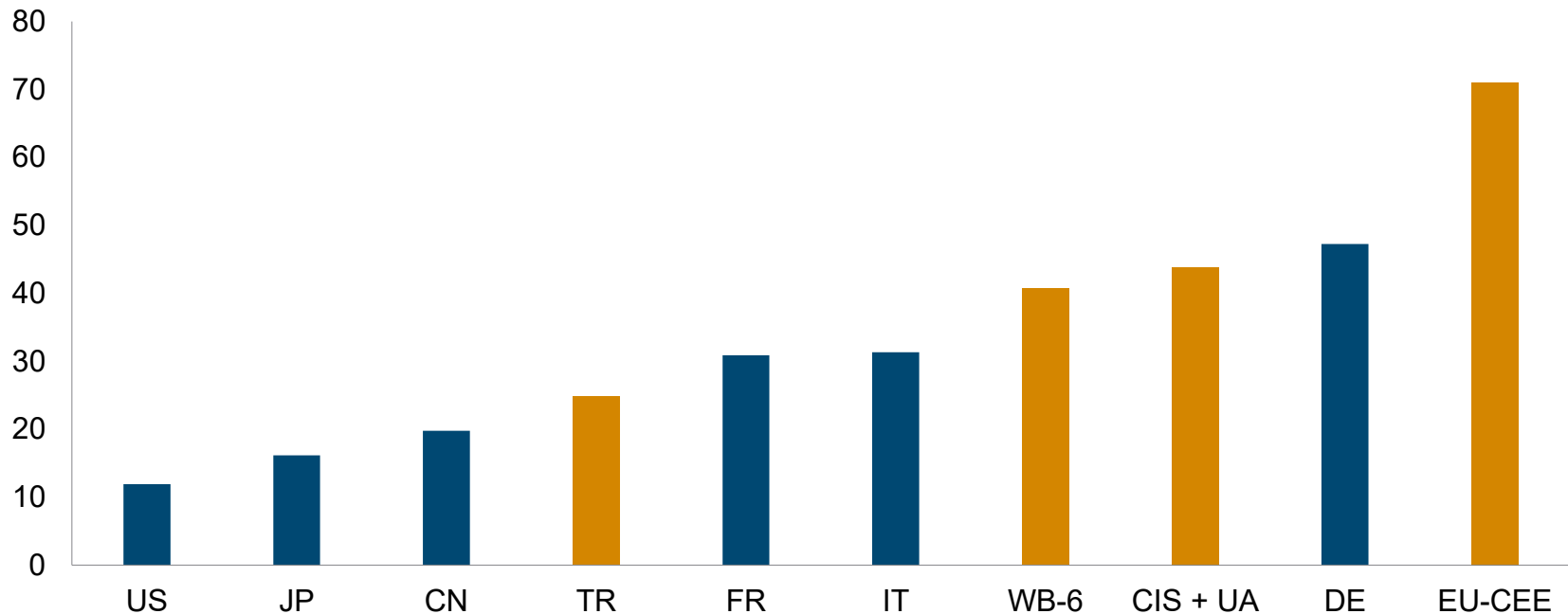
Sources: Global Trade Alert, World Bank.

Exports of goods and services,  
% of GDP



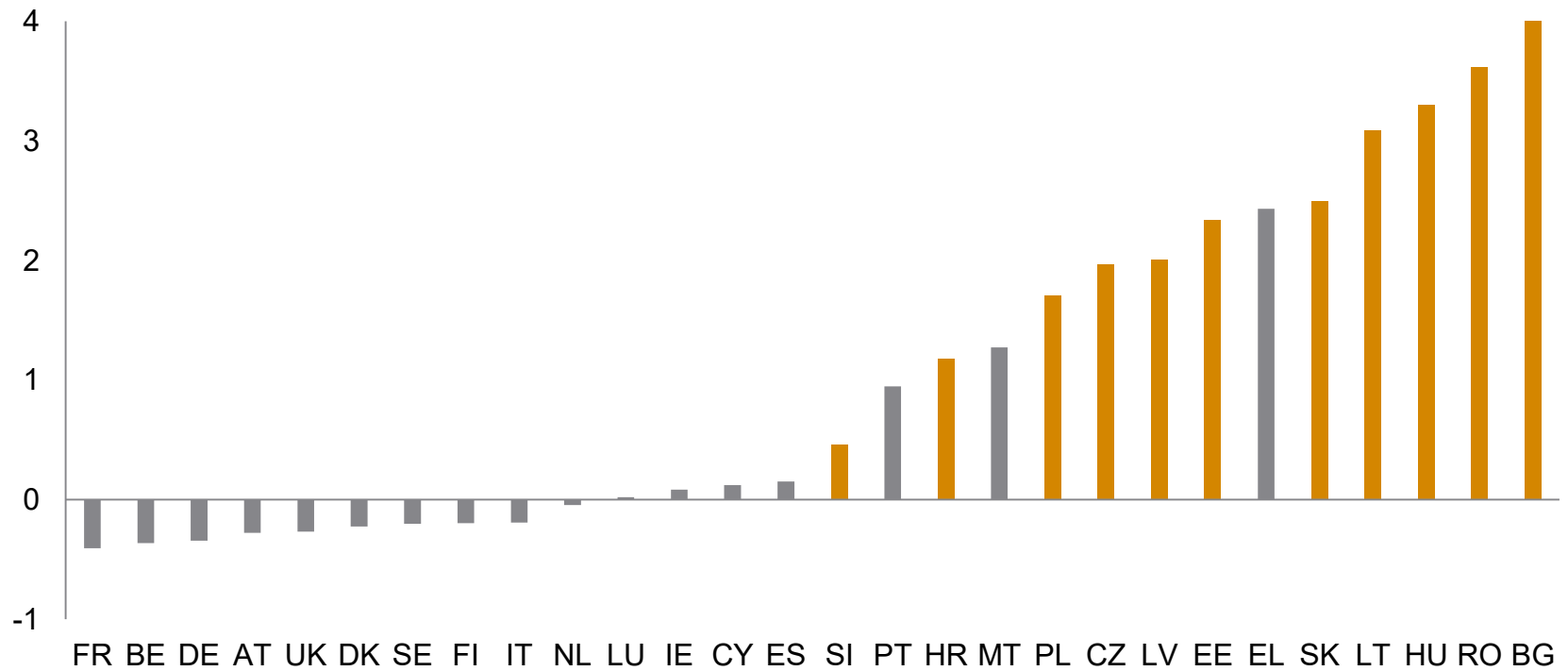
## B. Wider trade war (2): Region's economies are mostly very open

Exports of goods and services, % of GDP, 2017 (or latest available)



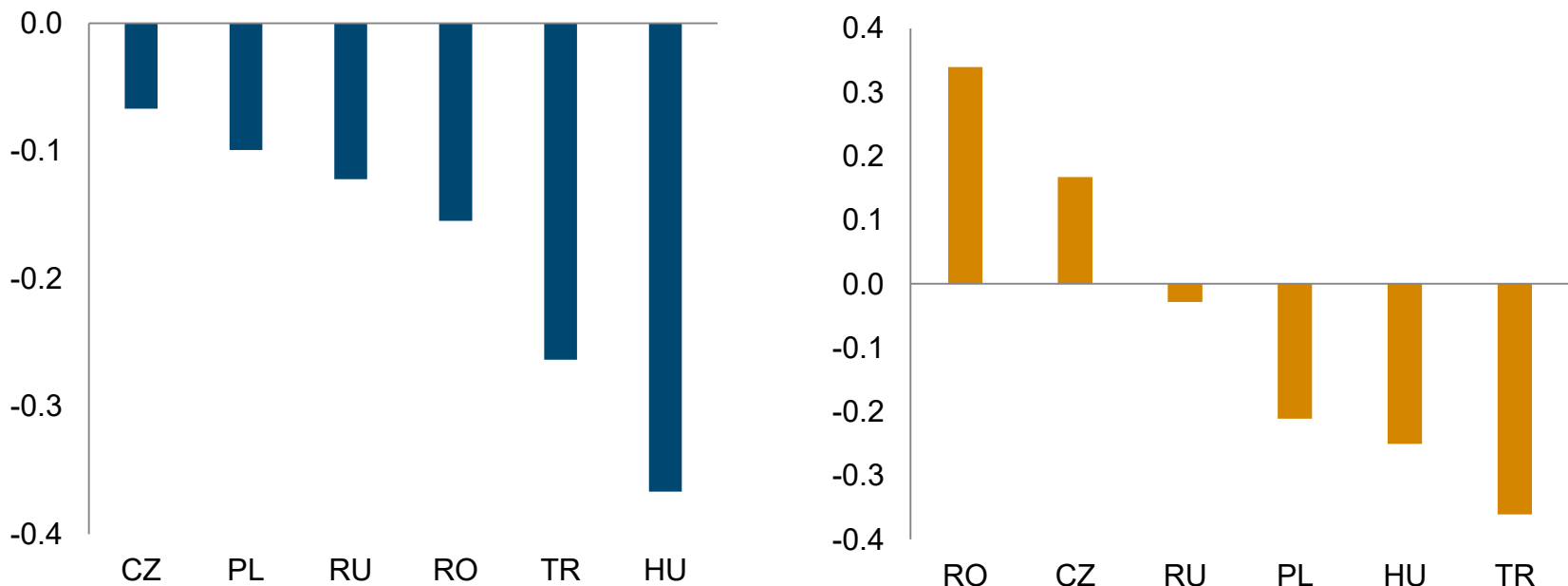
## C. Smaller post-Brexit EU budget (and increased conditionality)

Operating budget balance with the EU, % of GNI, 2016



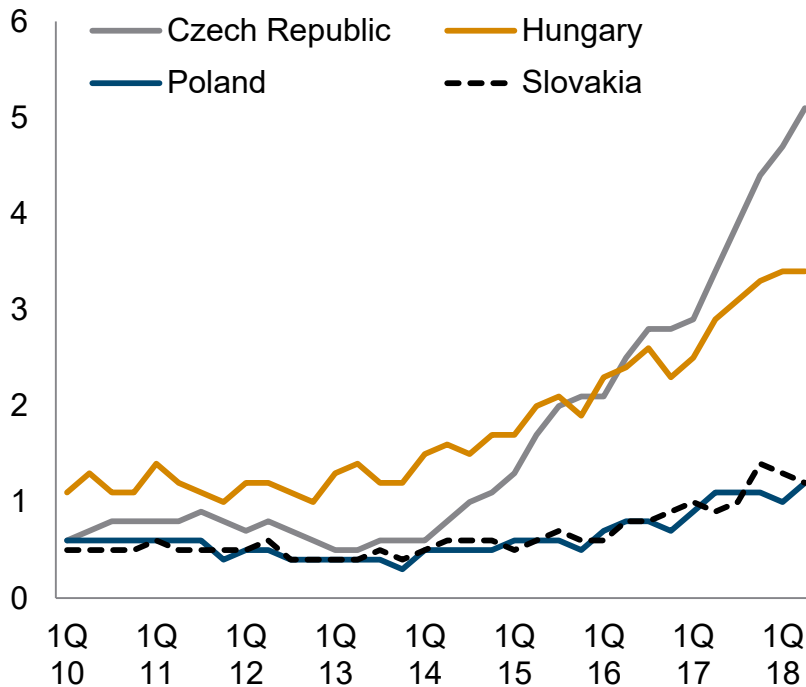
## D. Continued decline in quality/independence of institutions and rule of law

Change in World Bank Governance Indicators, 2010-2017, regulatory quality (left) and rule of law (right)

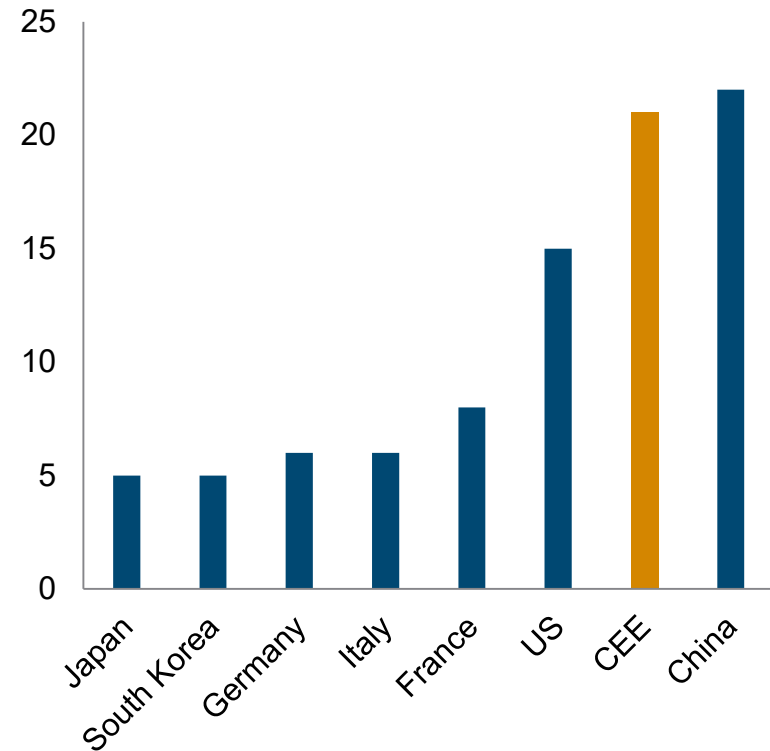


## E. Labour shortages stimulate higher investment

Job vacancy rate in manufacturing, 10 employees or more, %



% increase in imports of multipurpose industrial robots, 2018-2020



## 5. Conclusions

## Conclusions

- Across most of the region, growth will still be quite strong ...
- ... but it will slow during forecast period amid weakening external environment.
- Downside risks to growth are increasing.
- Tight labour markets will push up wages (and consumption).
- High levels of capacity utilisation will spur increases in investment.
- Turkey should bounce back by end-2019.
- Russia faces a low-growth future due to structural issues.

## 6. wiiw Handbook of Statistics

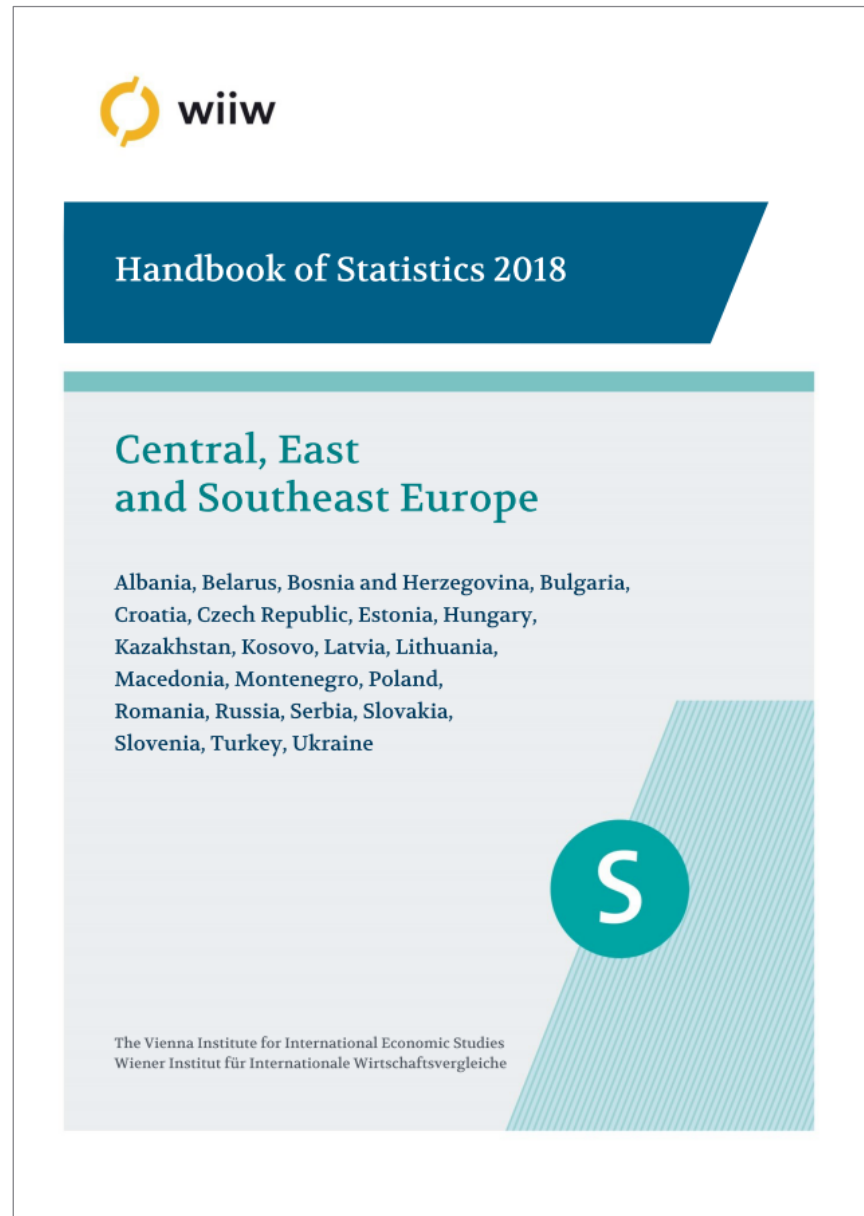


## New edition 2018

336 pages incl. 250 tables, 15 maps  
and 6 graphs

Available from December  
PDF, Excel from 26 November

- Comparable indicators for CESEE-22 countries
- Most recent structural data on
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  - Gross investment
  - Employment
  - Wages
  - Foreign direct investment
  - Foreign trade
  - Balance of payments



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