

4-lateral meeting

Belgrade, May 17th 2018.

wiiw Spring Forecast for Central, East and Southeast Europe, 2018-2020

Riding the global growth wave

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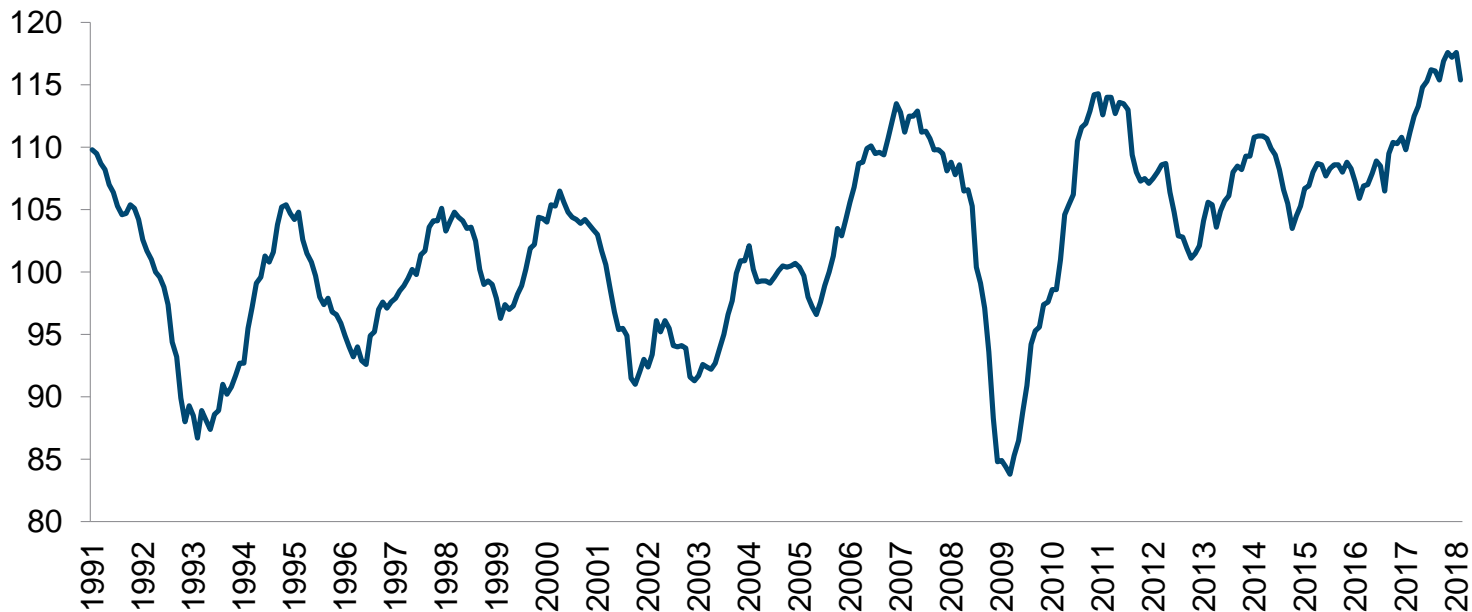
Overview

1. Global backdrop, new forecasts for CESEE.
2. Drivers of growth, 2018-20.
3. Is the region overheating?
4. What are the risks to growth?

1. Global backdrop, new forecasts

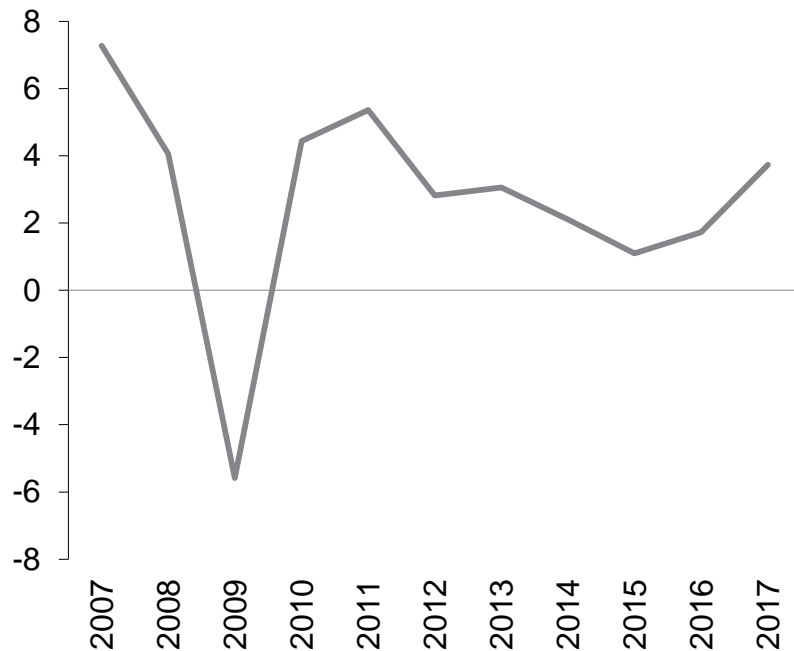
Global conditions: best coordinated upswing for almost a decade

German Ifo business climate index, 2005=100

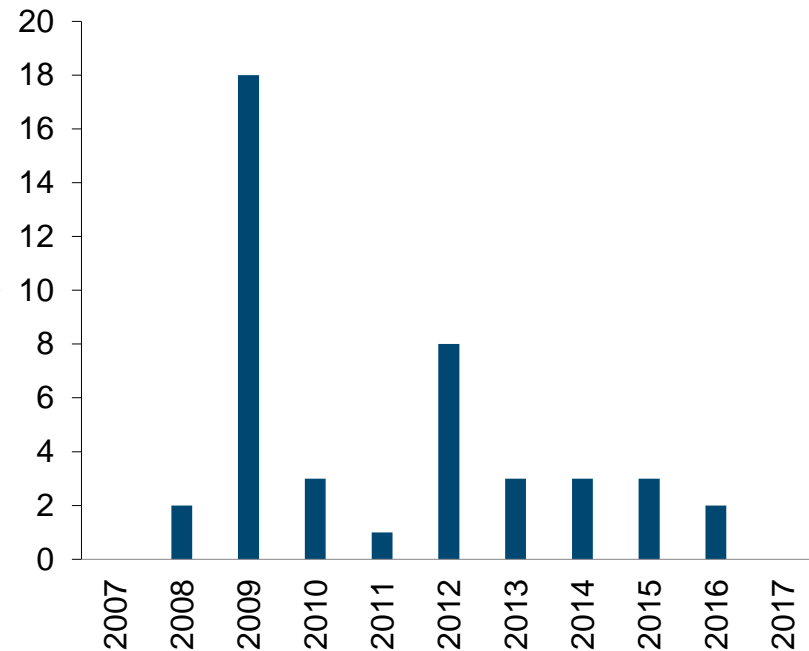


CESEE: 2017 the best year since 2011, first time all 22 economies grew since 2007

CESEE-22 real GDP growth, %

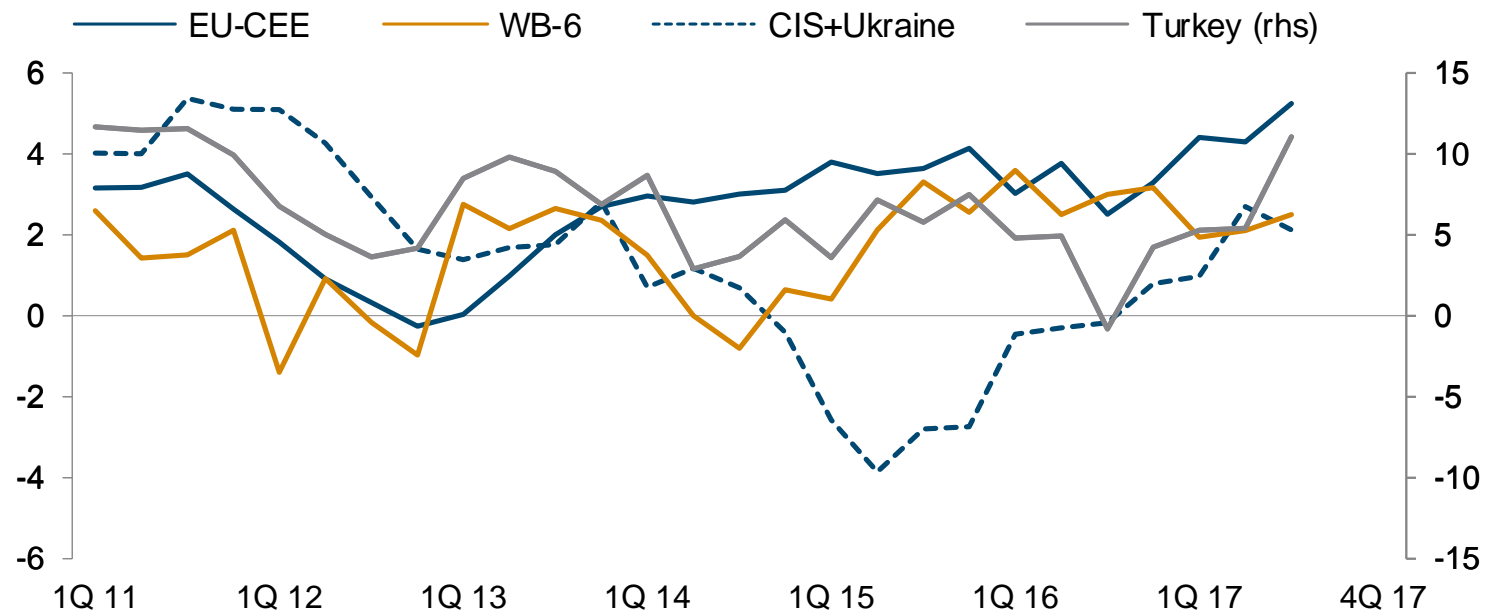


Countries recording negative growth



CESEE growth: Clear upturn in most of region since 2016

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
WB	SK	↑ 0.1	↑ 0.2	↑ 0.2
	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
	TR	↑ 1.1	↑ 0.6	↑ 0.2
	BY	↑ 0.4	↑ 0.5	↑ 0.5
	KZ	↑ 0.8	→ 0.0	↓ -0.5
CIS +UA	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

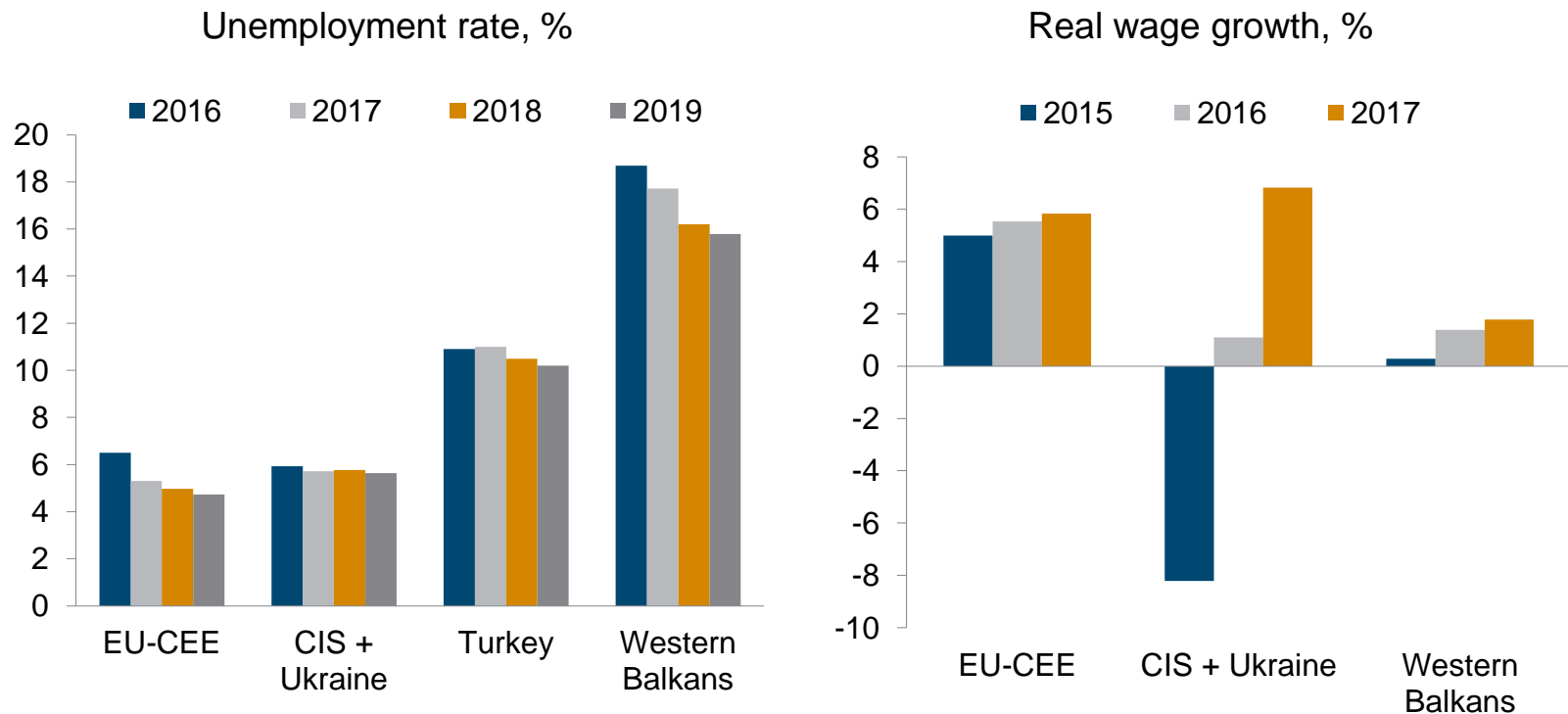
	Forecast, %			
	2017	2018	2019	2020
EU-CEE	4.4	3.9	3.4	3.2
WB	2.5	3.3	3.2	3.2
Turkey	6.5	4.5	4.1	3.9
CIS + Ukraine	2.1	2.0	1.9	1.9
CESEE-22	3.7	3.1	2.9	2.8

		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.

2. Drivers of growth

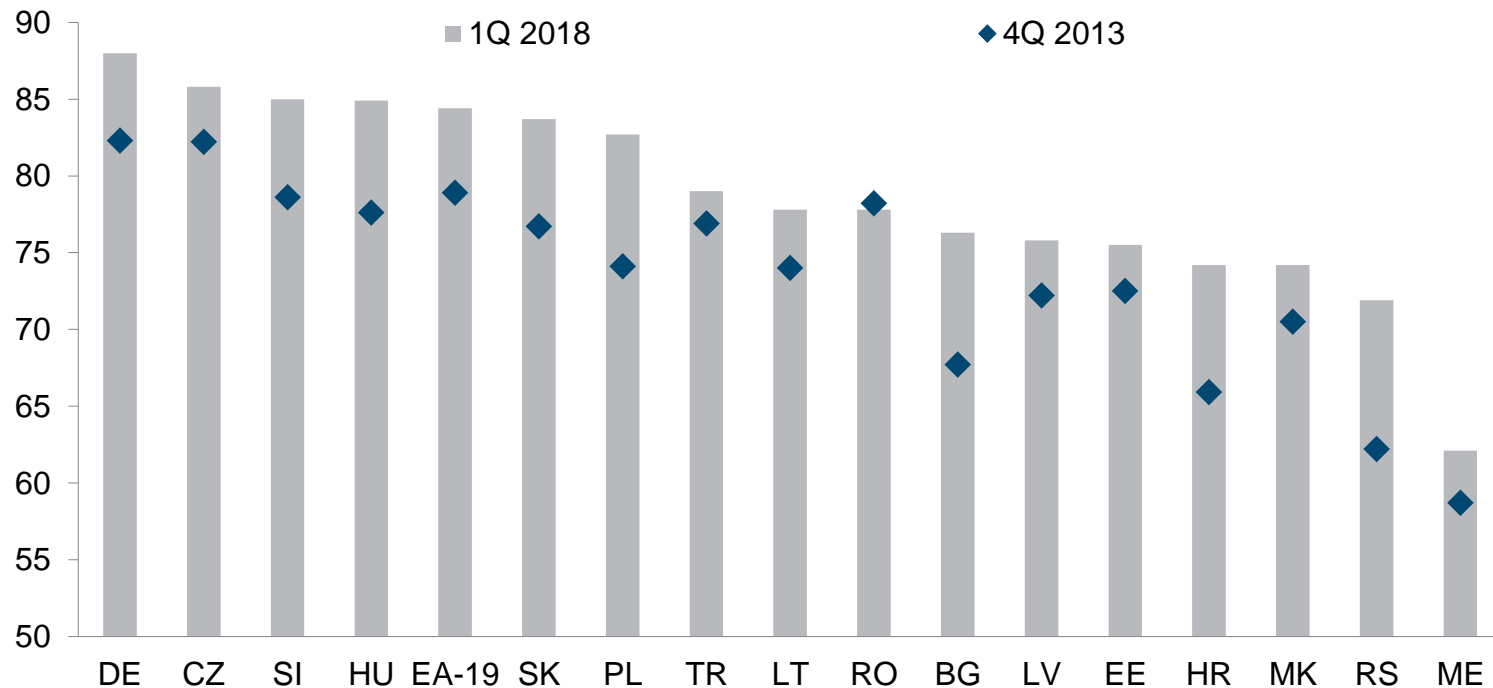
Drivers of growth (I): Positive outlook for consumption



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

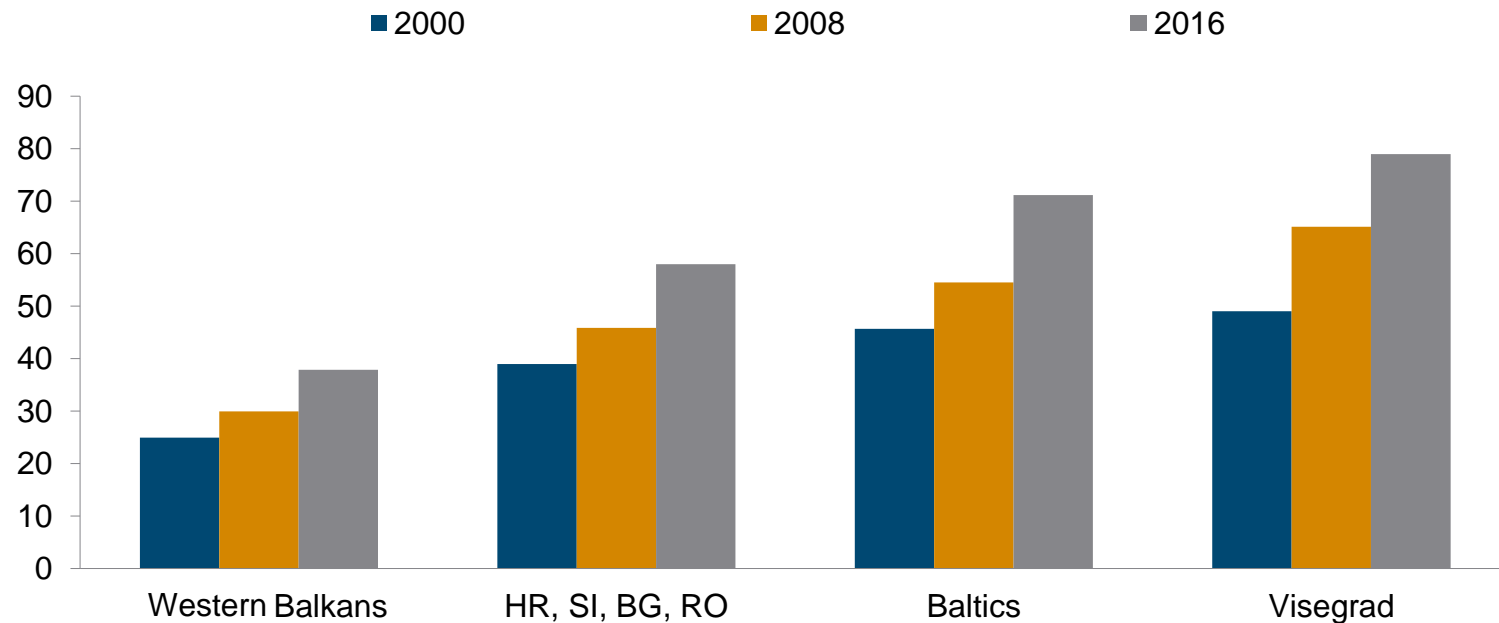
Drivers of growth (II): Investment will grow faster than GDP in most places during the forecast period

Capacity utilisation, %, seasonally adjusted data



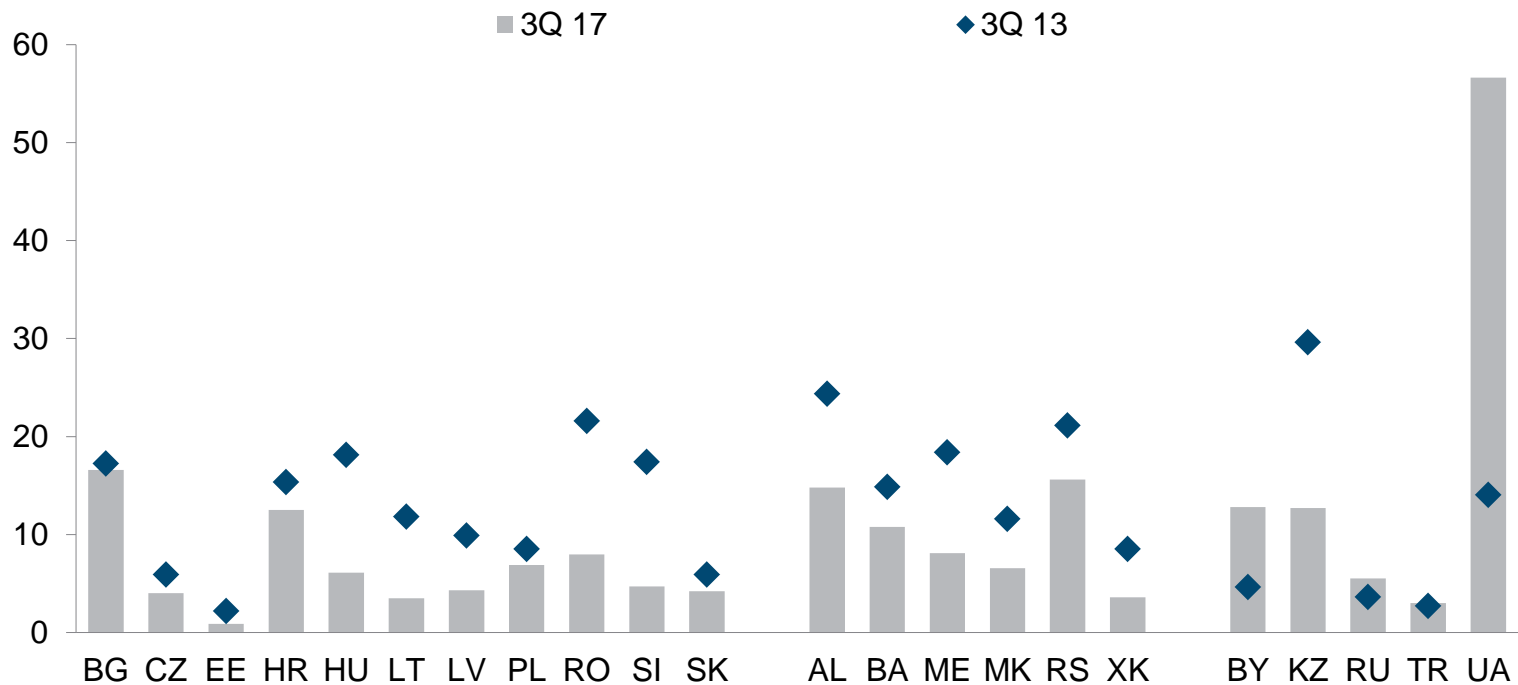
Drivers of growth (III): Higher export share and sound external competitiveness

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



3. Is CESEE overheating?

THE WALL STREET JOURNAL.

Buoyant Central and Eastern Europe Revives **Overheating** Fears



Adding to signs of **overheating** in the Romanian economy, the country's inflation has been rapidly catching up with a rebound across Central Europe since mid-2016.

FINANCIAL TIMES

Central Europe grows at fastest rate in 9 years

Romania expands by 8.6% raising concerns about **overheating**



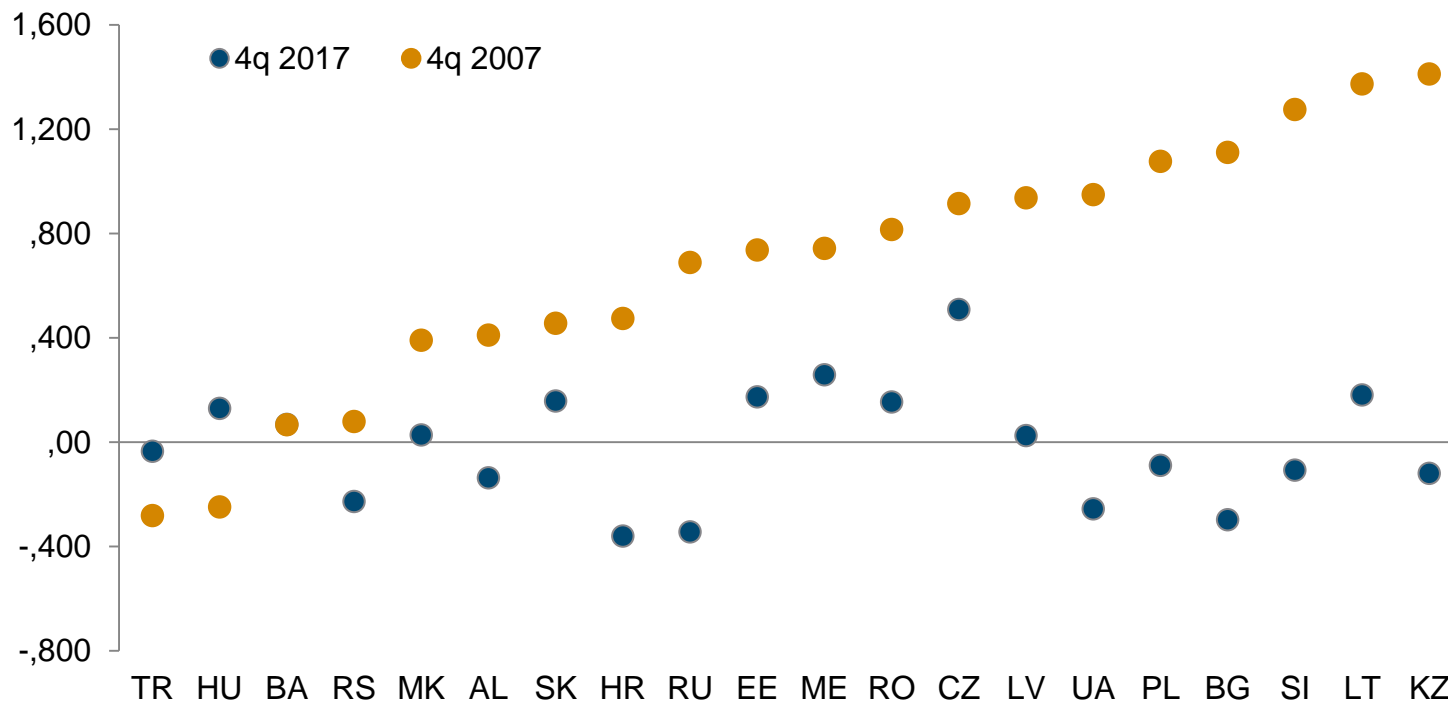
Red Hot Emerging-Market Stocks
Are Showing Signs of **Overheating**



the help of policy stimulus and favorable external conditions. Such has been the strength of the recovery that the economy now faces signs of **overheating**; a

CESEE is not overheating, but pockets of risk exist

wiiw Overheating index, standard deviations from historical average

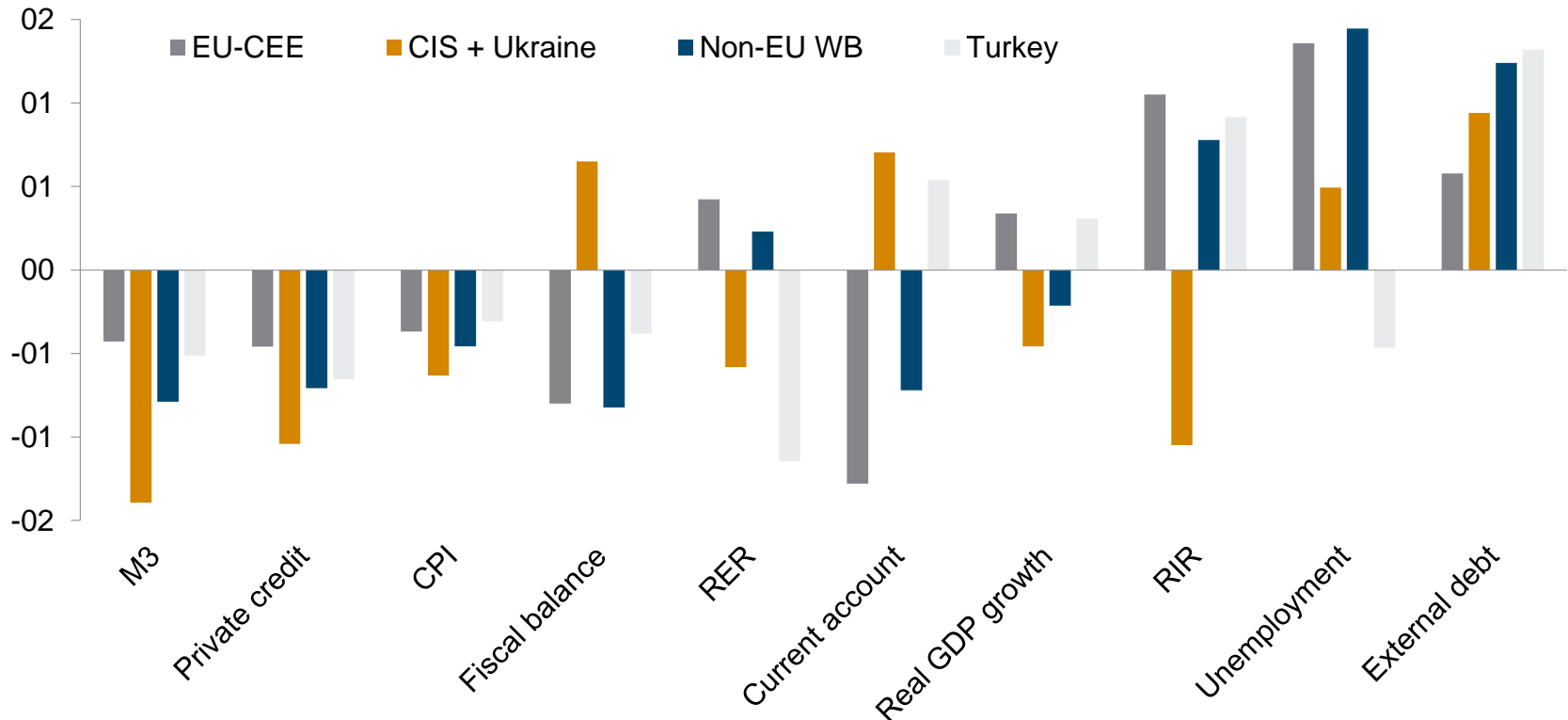


Note: Values represent average of 11 indicators. Historical average for Q4 2007 value = 2000-2007, for Q4 2017 value = 2000-2017.

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

Overheating clearest in labour markets and external debt

wiiw Overheating index, standard deviations from historical average



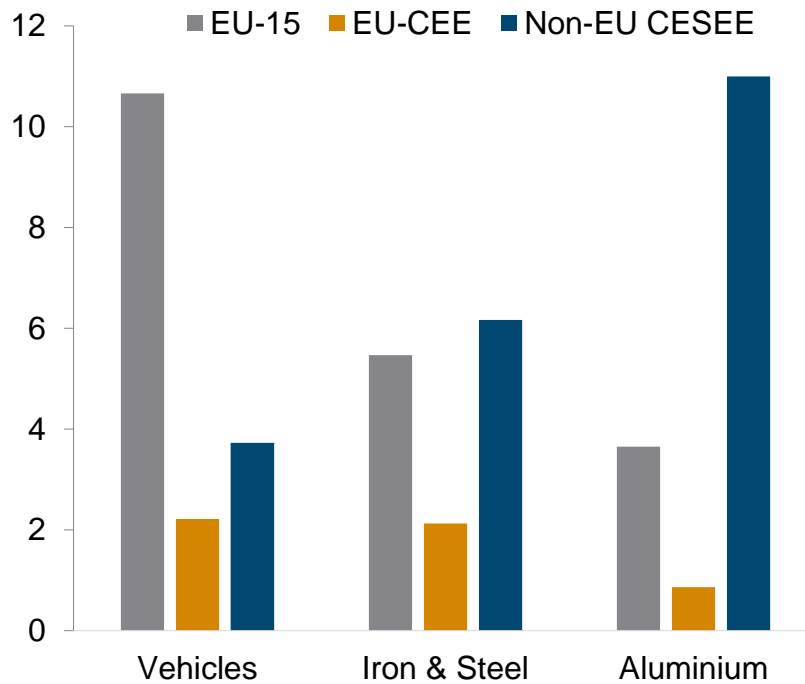
4. What are the risks to growth?

As growth has risen, so have the risks

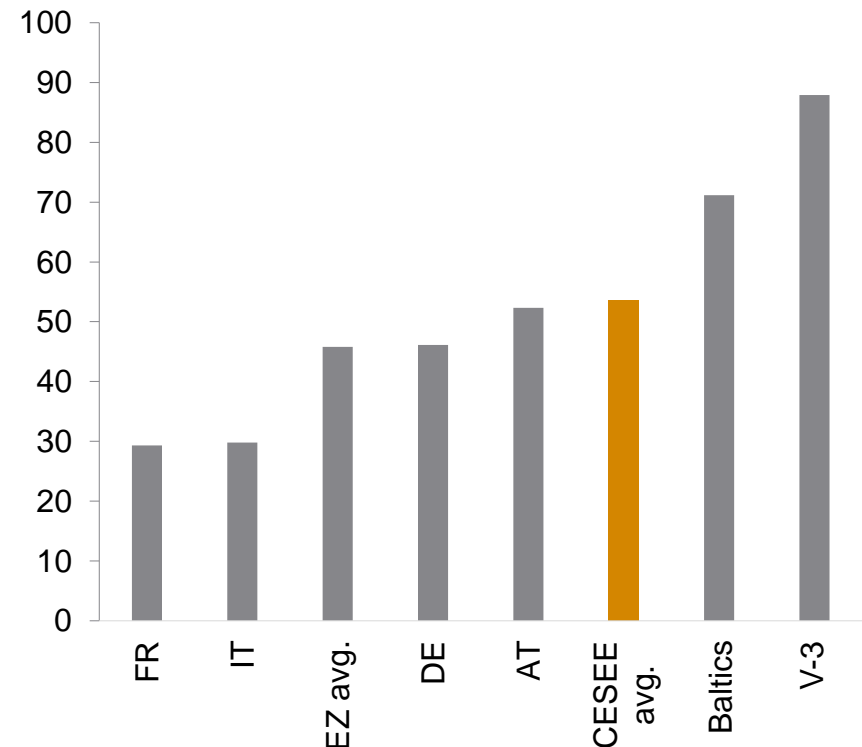
	Higher risk	Lower risk
Higher/near-term impact	<ul style="list-style-type: none">• Global trade war	<ul style="list-style-type: none">• End ultra-loose global monetary policy• Bursting of financial bubbles• Ukraine crisis• Eurozone break-up
Lower/longer-term impact	<ul style="list-style-type: none">• East-West EU splits• Threats to rule of law• Brexit	<ul style="list-style-type: none">• Demographic decline brings growth constraints

The region would be badly affected by a global trade war

Exports to US as share of total, %

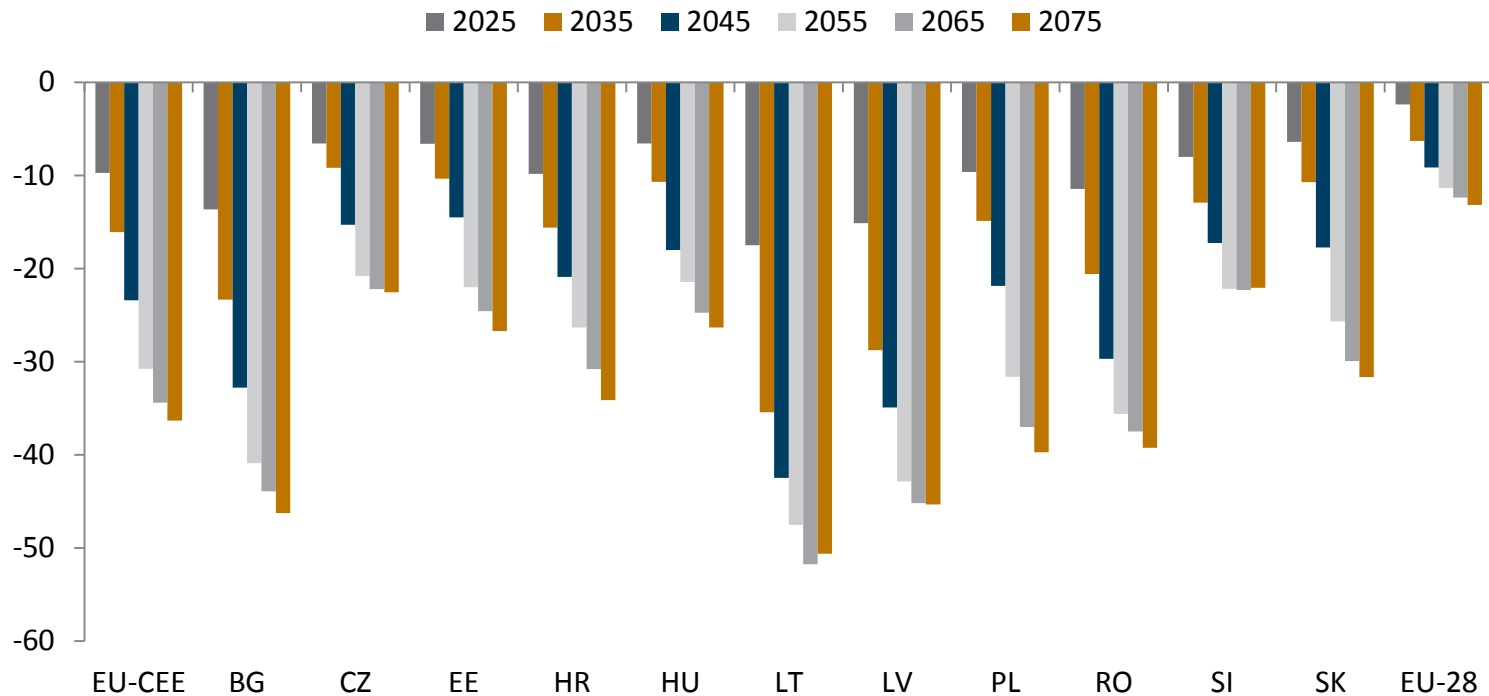


Exports, % of GDP, 2016



Demographic decline brings long-term challenges

% change in working-age population compared to 2015



Note: Figures based on Eurostat baseline scenario.

Source: Eurostat; own calculations.

Conclusions

- Growth at highest level for six years. Outlook positive.
- In general region not overheating.
- Risks to growth have risen.
- Convergence will continue, with long-term challenges.

Thank you for your attention!

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