

wiiw Spring Seminar, 7 April 2016

Economic Prospects for CESEE

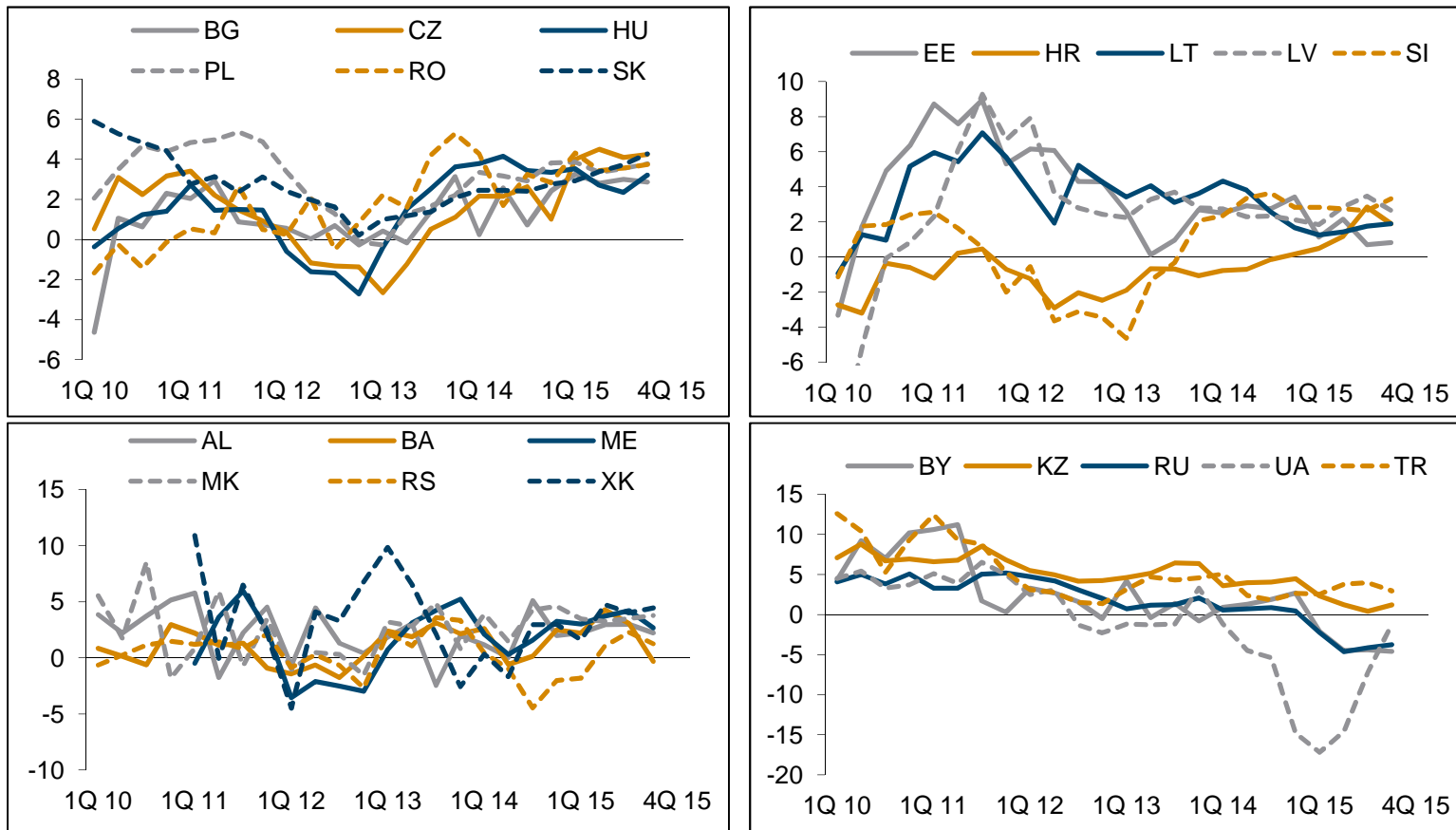
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Main questions after a year of consumption revival/decline:

- Will investments contribute more to future growth?
 - Can Russia and UA overcome the depression?
-
- 2015 GDP growth
 - higher than expected in the EU-CEE and WB – reached peak
 - lower in the CIS-3 and UA – bottoming out in late 2016
 - Future growth factors for EU-CEE and WB based on stability achieved:
 - household consumption the main driver – real wages rise (low inflation)
 - emigration leads to labour shortages and pressure on wages
 - reviving investments, both public and private – EU transfers cyclical
 - more fiscal space following rebalancing, except in HR, HU, RS, SI
 - current account balance will deteriorate within narrow margins
 - risks stemming from global and EU growth slowdown (assumptions: EC Winter Forecast)
 - CIS and UA depressed by low oil prices, depreciation, inflation, rebalancing needs, conflicts and embargoes – future depends on oil prices and reforms

Divergence of economic growth: EU-CEE, WB and Turkey rise, CIS-3 and Ukraine fall

Quarterly real GDP growth of the CESEE countries, change in % against preceding year



Source: National and Eurostat statistics.

Greens and reds: real GDP growth forecast and revisions

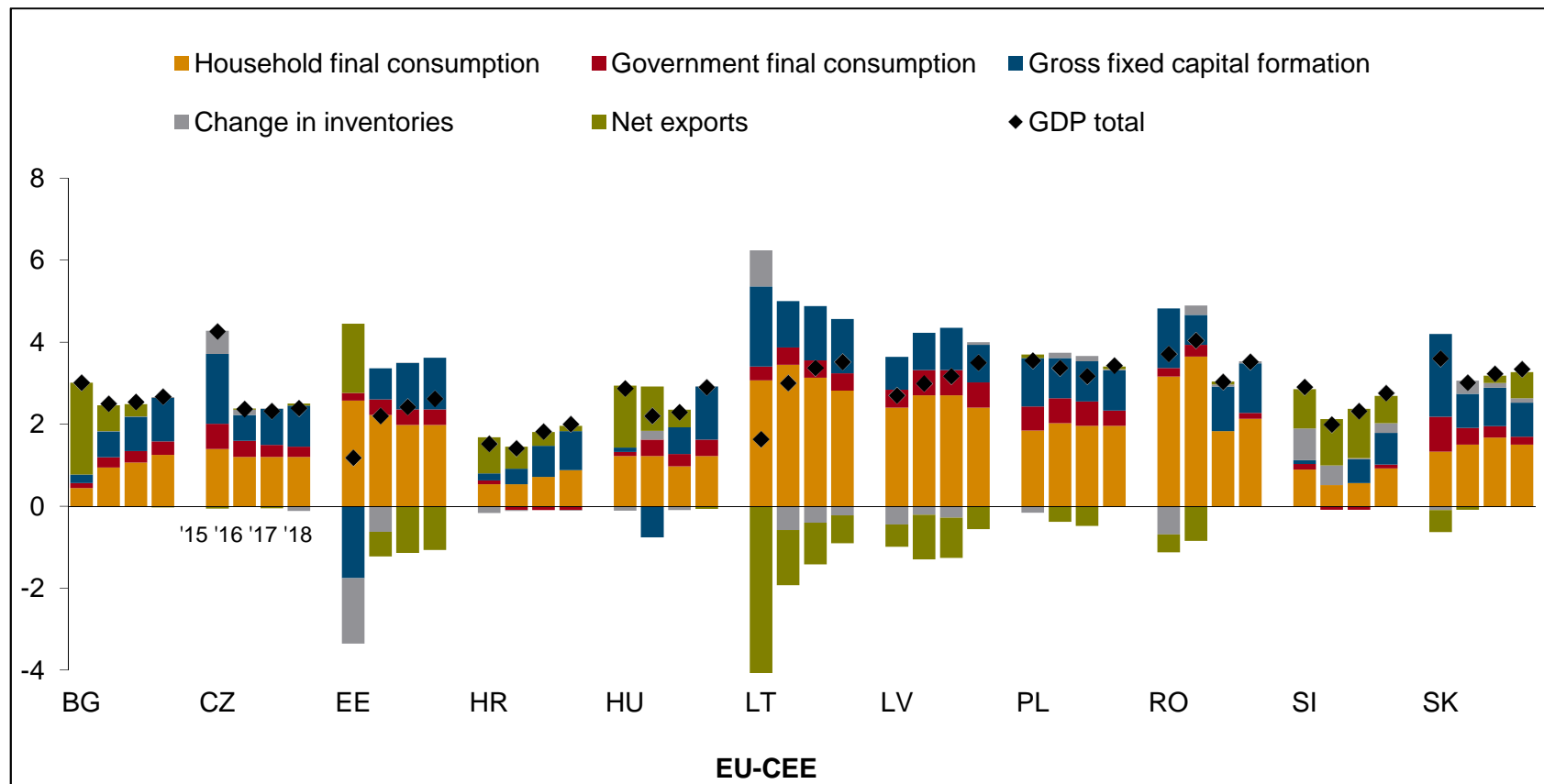
		Forecast, %			
		2015	2016	2017	2018
EU-CEE	BG	3.0	2.5	2.5	2.7
	HR	1.6	1.4	1.8	2.0
	CZ	4.3	2.4	2.3	2.4
	EE	1.1	2.2	2.4	2.6
	HU	2.9	2.2	2.3	2.9
	LV	2.7	3.0	3.2	3.5
	LT	1.6	3.0	3.4	3.5
	PL	3.6	3.4	3.2	3.4
	RO	3.7	4.0	3.0	3.5
	SK	3.6	3.0	3.2	3.3
	SI	2.9	2.0	2.3	2.8
Western Balkans	AL	2.6	3.2	3.5	3.6
	BA	2.3	2.9	2.9	3.1
	XK	3.7	3.9	4.3	4.0
	MK	3.7	3.4	3.1	3.1
	ME	3.2	2.8	2.8	3.1
	RS	0.7	1.6	1.7	2.0
Turkey	TR	3.3	3.2	3.1	3.0
CIS-3 +UA	BY	-3.9	-2.6	0.5	1.5
	KZ	1.2	1.0	2.5	3.5
	RU	-3.7	-0.8	0.8	1.8
	UA	-9.9	0.0	1.9	2.5

Colour scale reflects variation from the minimum (red) to the maximum (green) values.

Source: wiiw Annual Database incorporating national and Eurostat statistics; wiiw forecast.

Main growth drivers: household consumption and investment

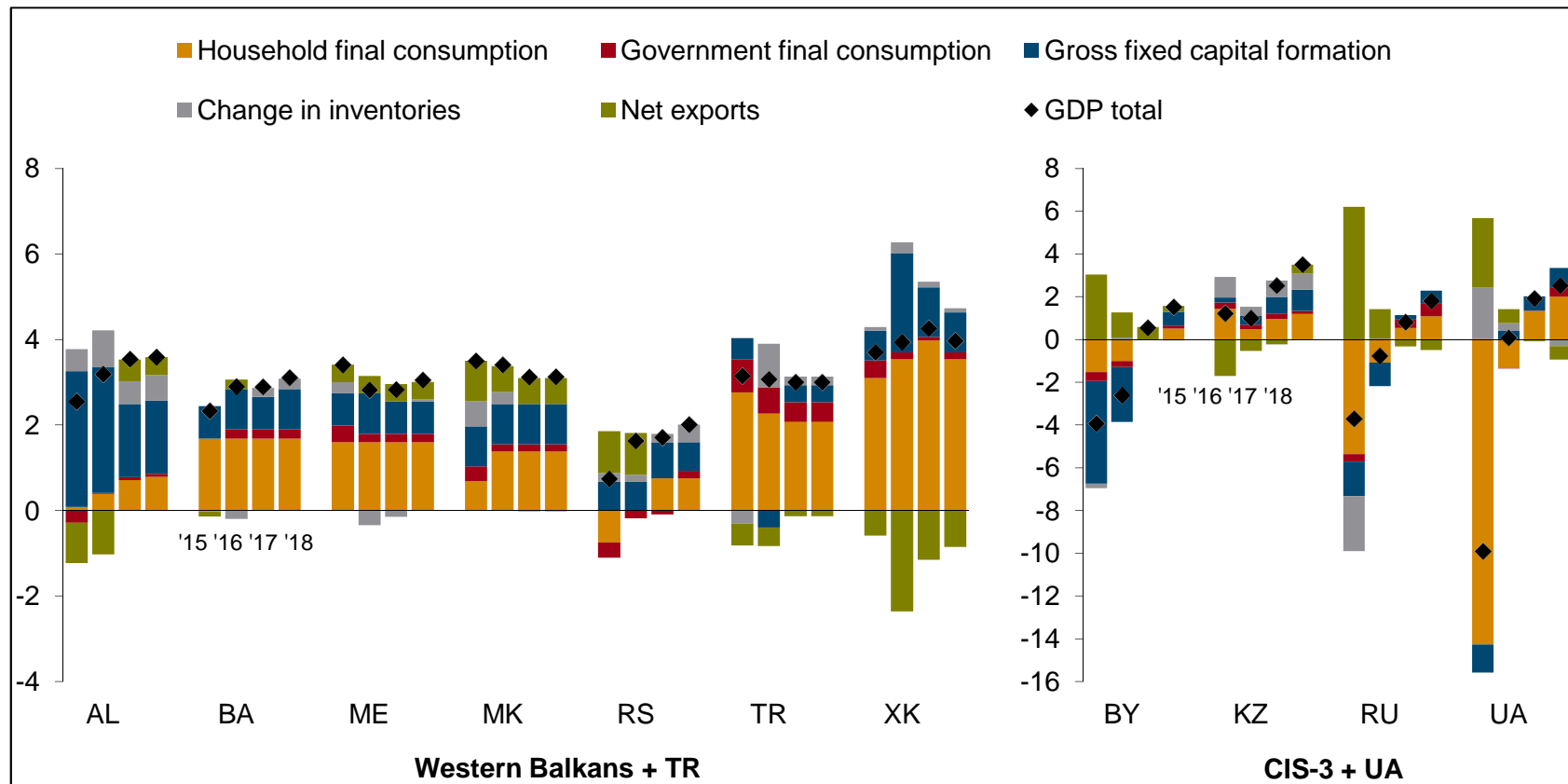
GDP growth in 2015-2018 and contribution of individual demand components in the EU-CEE, in percentage points



Source: wiiw Annual Database incorporating national and Eurostat statistics; own calculations.
Forecasts by wiiw.

Westerns Balkans similar to EU-CEE; austerity in CIS+UA

GDP growth in 2015-2018 and contribution of individual demand components in the WB, Turkey, CIS-3 and Ukraine, in percentage points

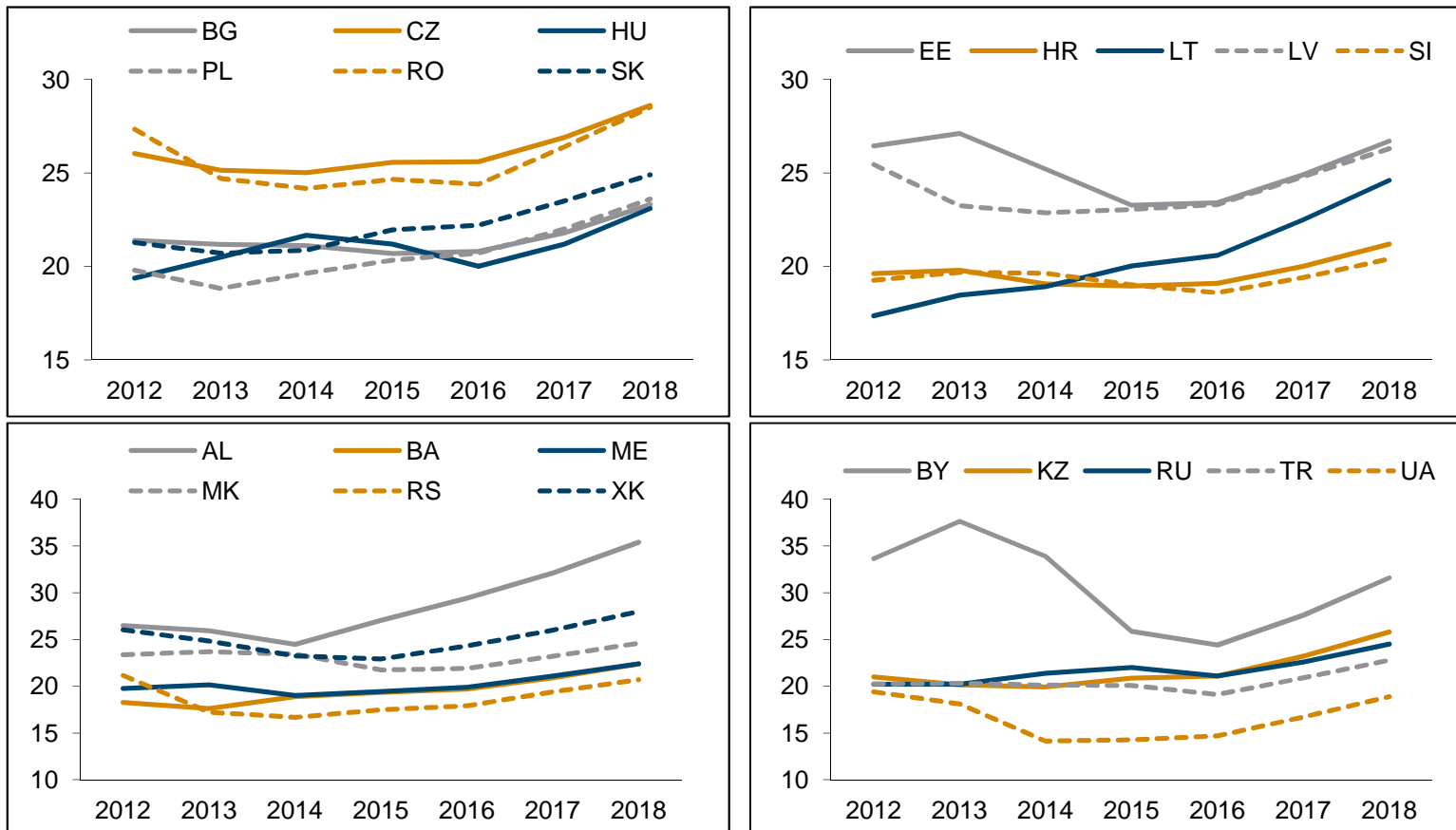


Source: wiiw Annual Database incorporating national and Eurostat statistics; own calculations.

Forecasts by wiiw.

Investment revival after temporary decline

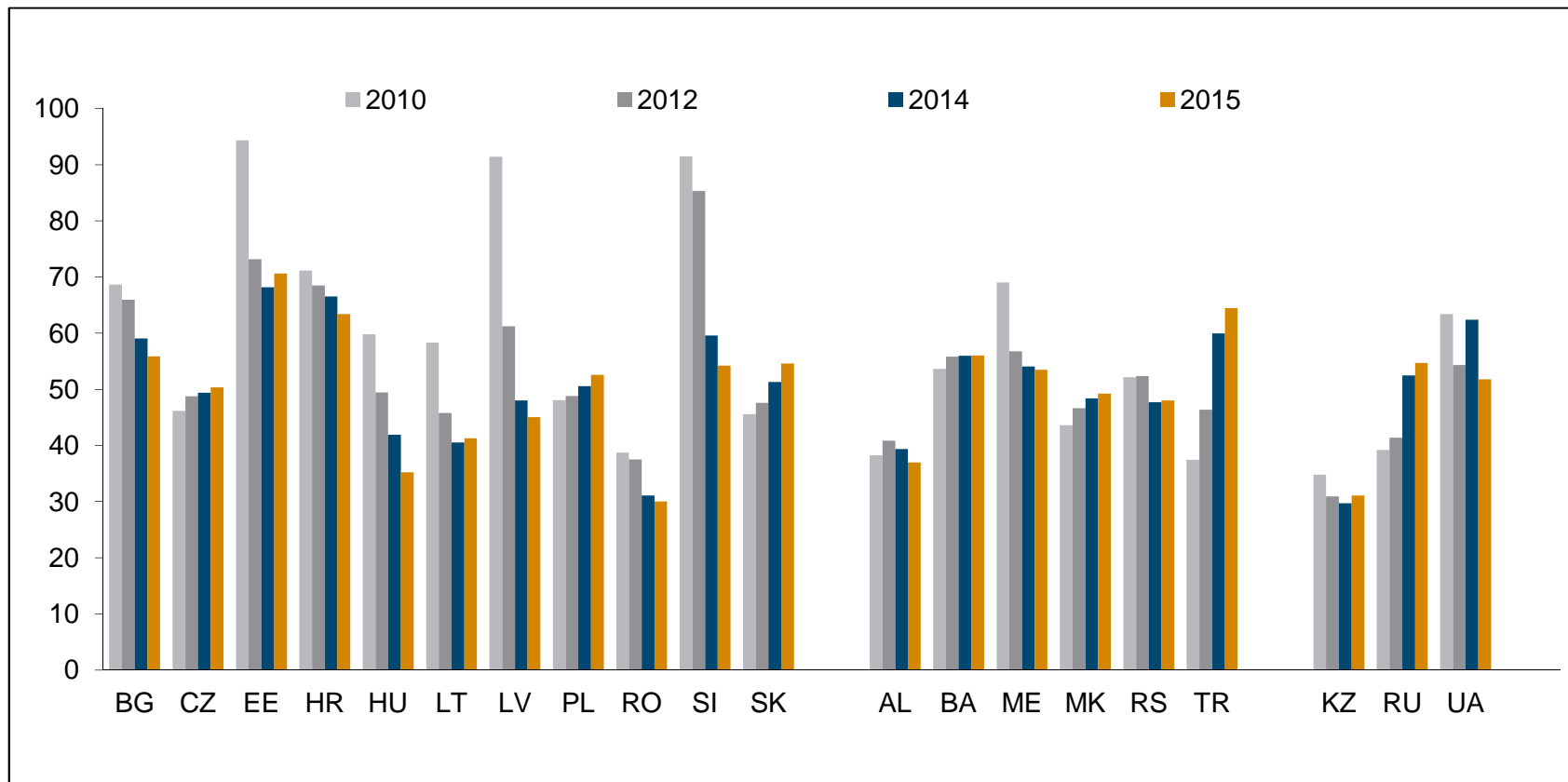
Gross fixed capital formation in % of GDP



Source: wiiw Annual Database incorporating national and Eurostat statistics; wiiw forecasts.

Conditions for private investment start improving: bank loans from deleveraging to recovery; less non-performing loans; slightly more greenfield FDI; higher profits

Stock of private bank loans, % GDP, 2010-2015

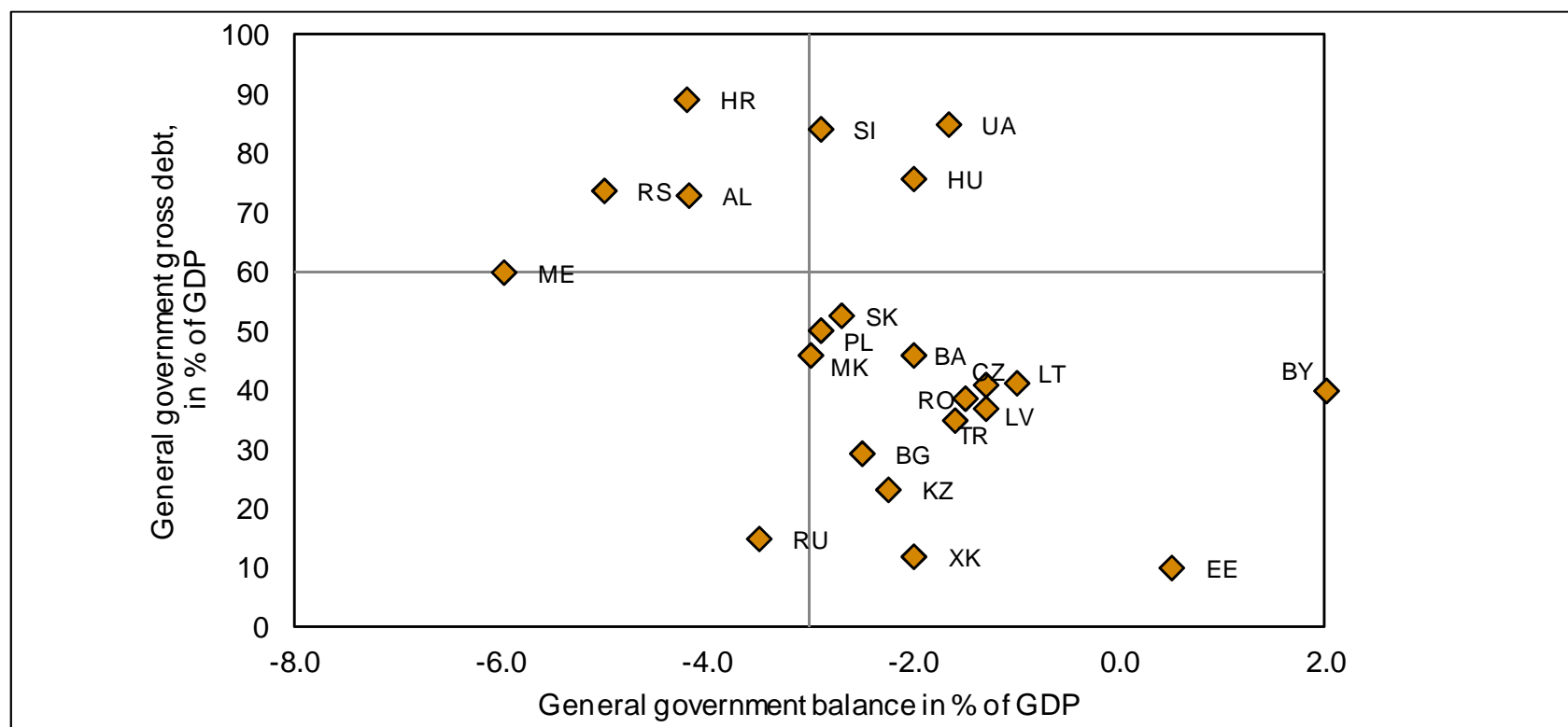


Note: Private bank loans comprise loans of non-financial corporations and households taken from banking statistics.

Source: National Bank statistics, wiiw own calculations.

Conditions for public investment: fiscal space dependent on debt level ...

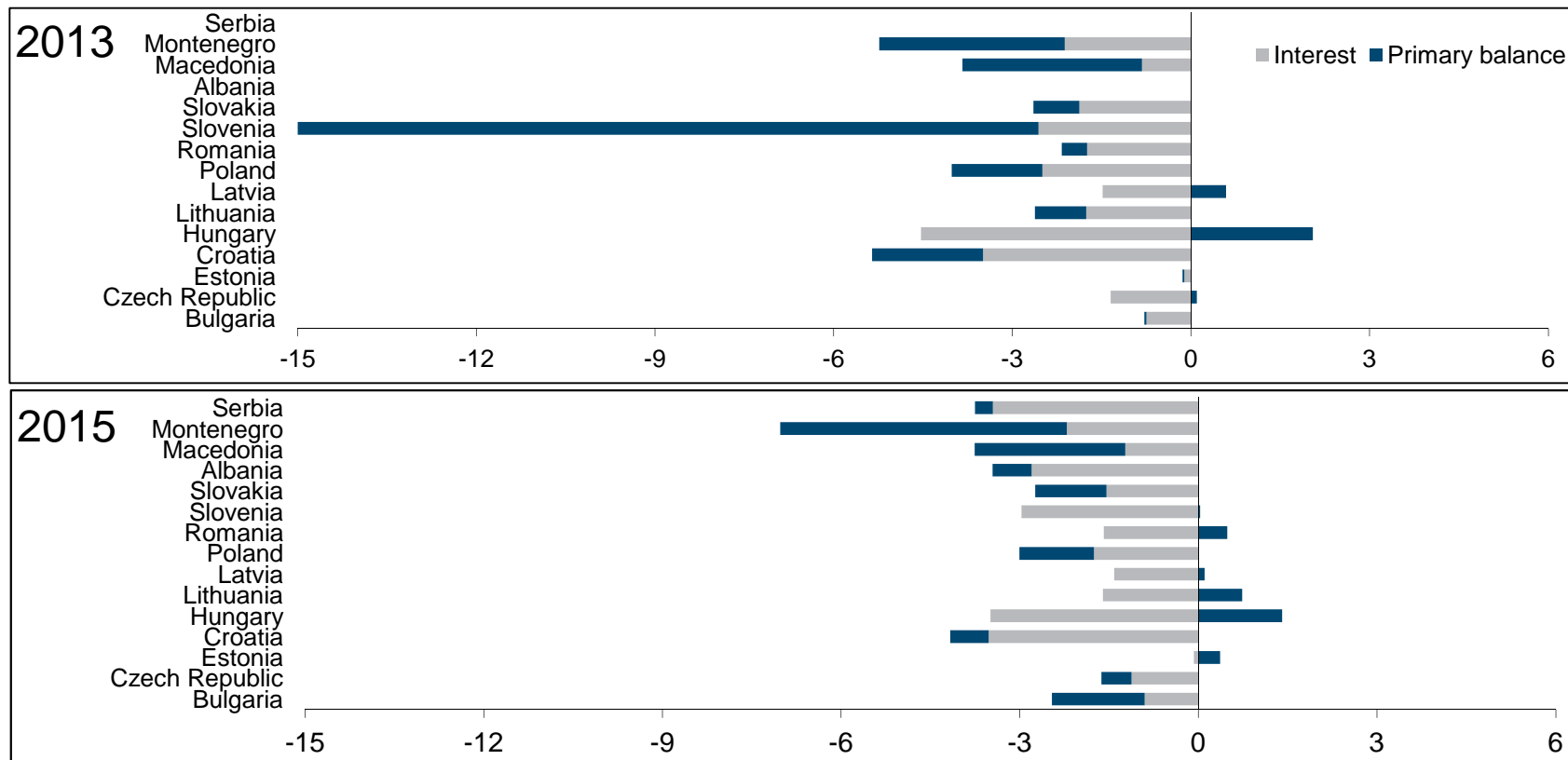
Fiscal stance of the CESEE countries, 2015



Note: Axes denote the limits included in the EU Excessive Deficit Procedure: for debt 60% of GDP, for deficits 3% of GDP.
Source: wiiw Annual Database incorporating national and Eurostat statistics.

... but not all make use of it

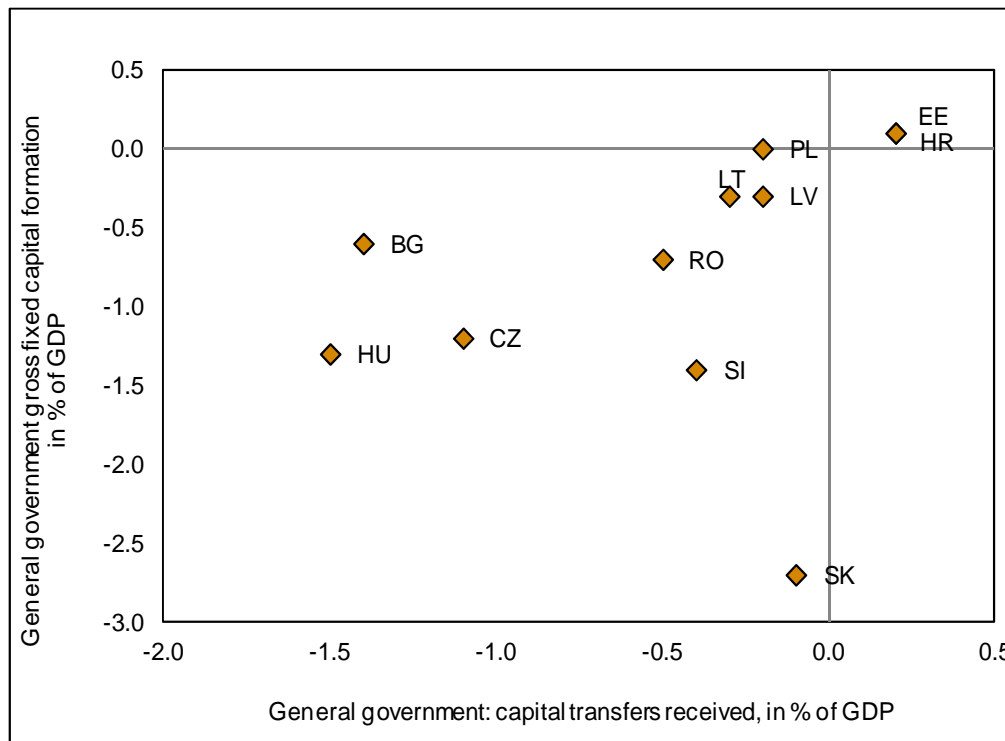
General government net lending (+) or net borrowing (-), in % of GDP, 2013 and 2015



Public investments temporarily curtailed due to decline in EU transfers in 2016; recovery expected

General government investments and capital transfers received in % of GDP, change 2016/2015

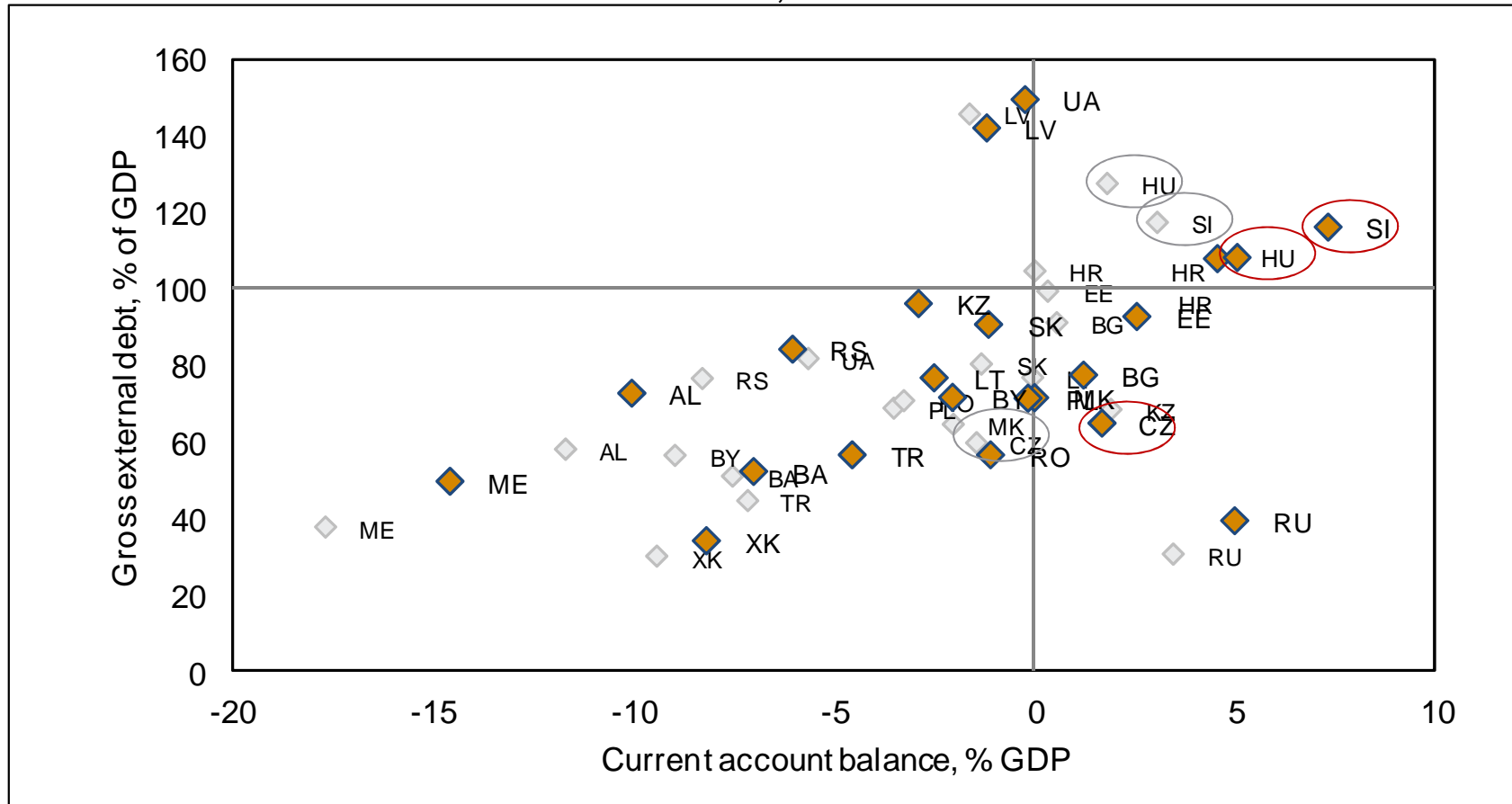
Average net financial position of the EU-CEE-10 in 2007-2014 and wiiw forecast, in % of GDP



Period	per cent of GDP
2007-2008	1.3
2009-2011	2.5
2012-2014	3.2
2015 estimated	up to 6
2016-2017 forecast	1.0 – 2.5
EFSI loans forecast 2016-2017	0.5 – 1.5

Current account deficit shrank / surplus increased in high-debt EU-CEE;
deficits shrank but debt increased in WB

Current account balance versus external debt, 2010-2015

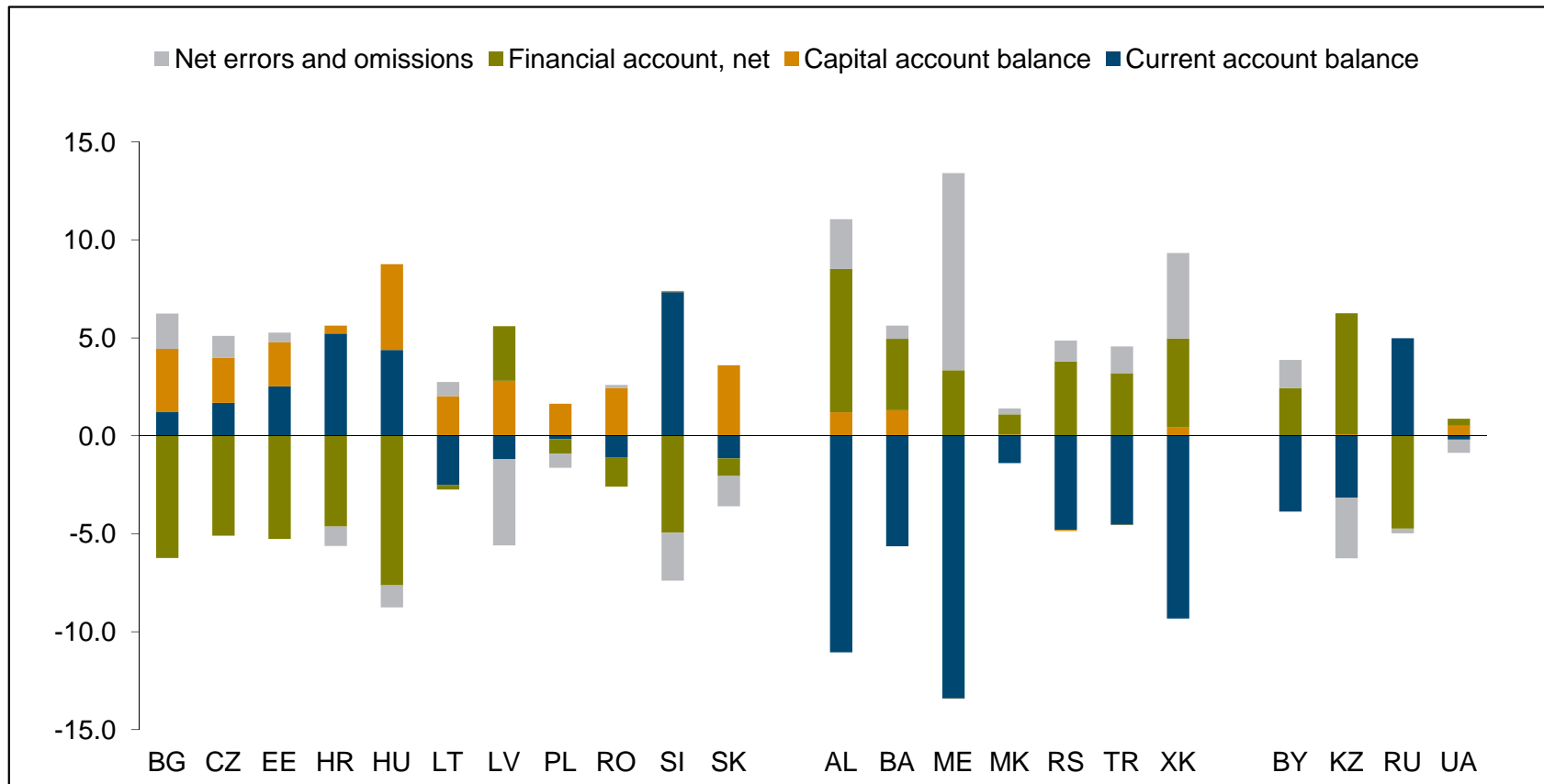


Note: Orange dots: 2015. Grey dots: average 2010-2014.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

Mainly positive current and capital accounts in EU-CEE; negative current accounts in WB

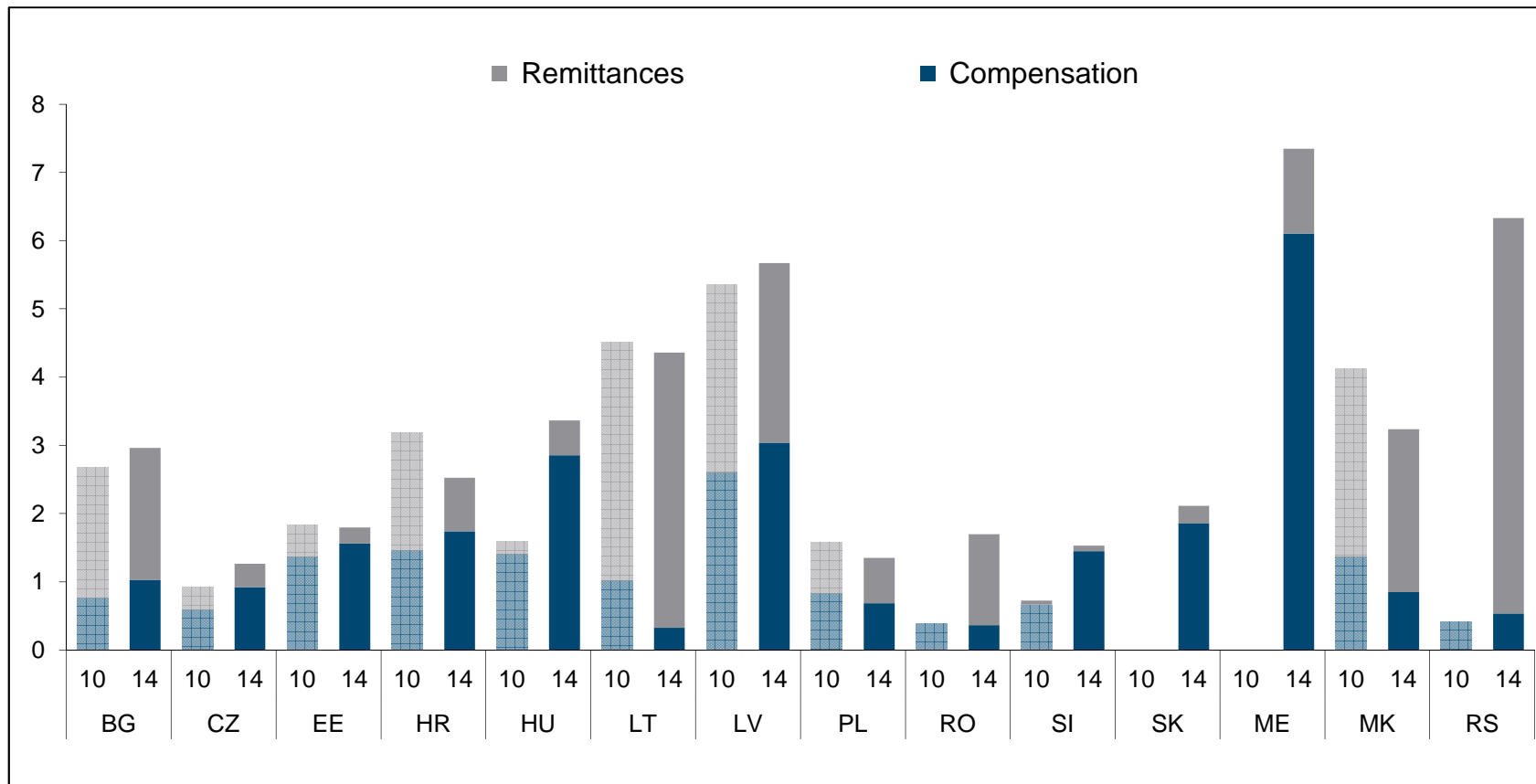
BOP components in % of GDP, 2015



Source: wiiw Annual Database incorporating national and Eurostat statistics.

Increasing private transfers in the wake of emigration

Primary income, compensation of employees, credit in % of GDP
and secondary income, remittances, credit, in % of GDP, 2010 and 2014

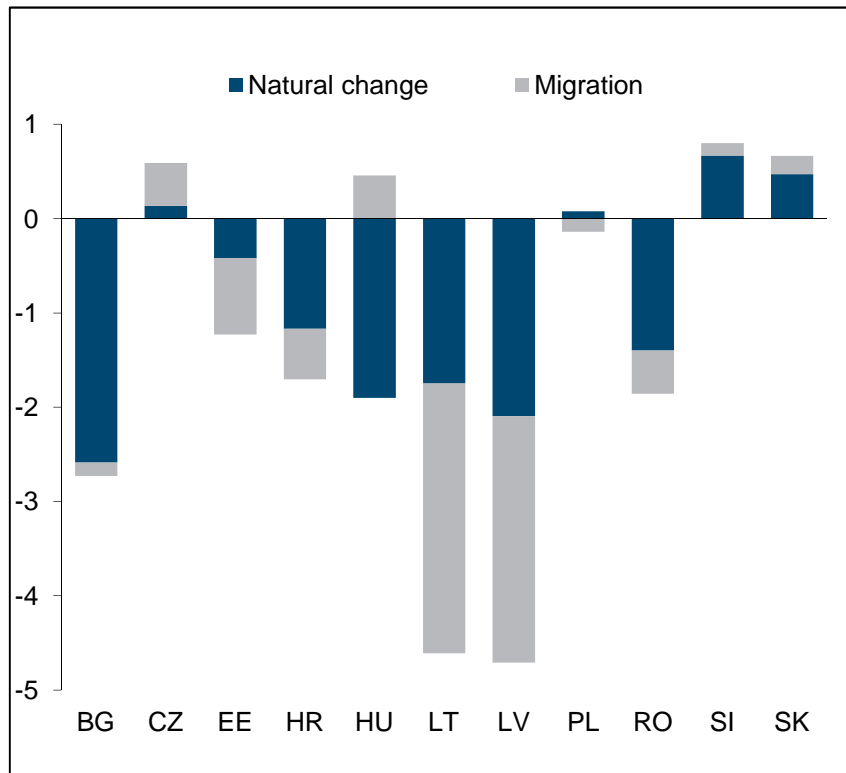


Remark: No data for 2010 compensation in SK and ME, for 2010 remittances in RO, SK, ME, RS.

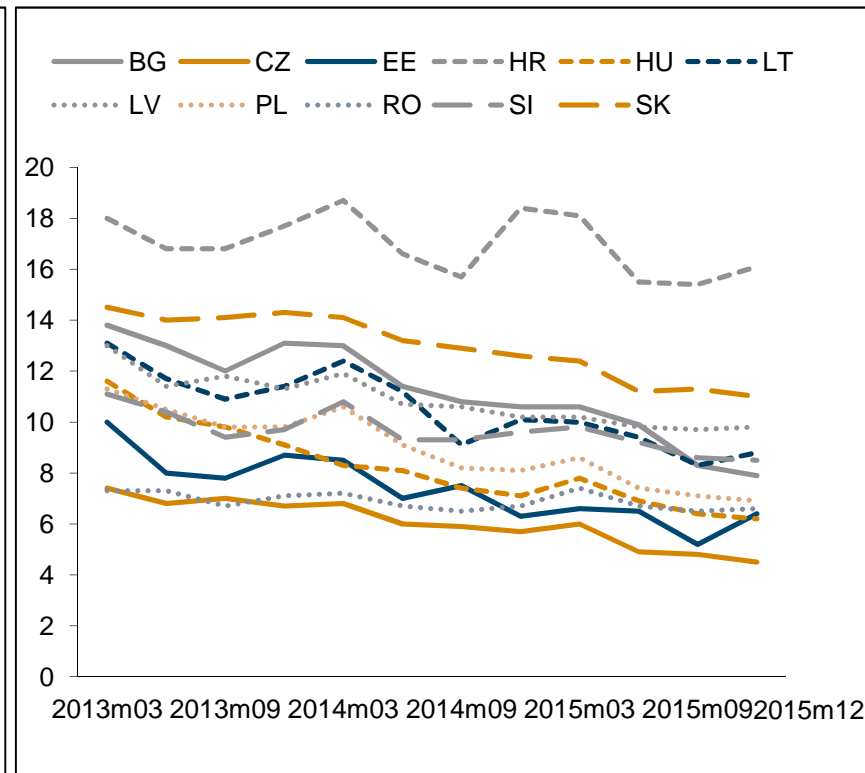
Source: Eurostat.

Demography and emigration lead to labour shortages in EU-CEE

Cumulative net migration and natural population change, 2011-2014, in % of 2010 population



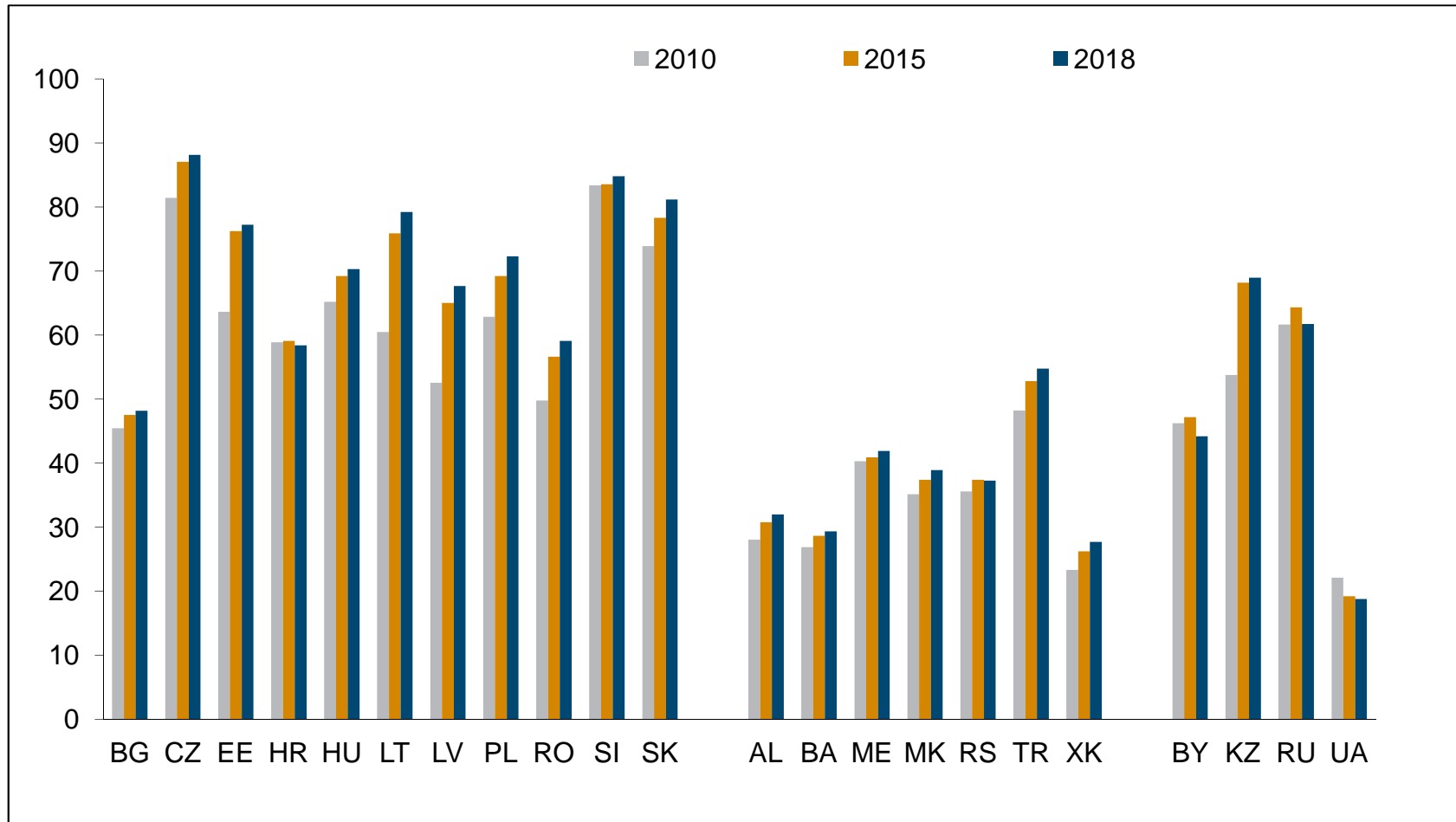
Unemployment rates decline in response to economic recovery



Source: wiiw Annual Database incorporating national and Eurostat statistics.

Catching up at 1-2 pp p.a. except HR, RS, BY, RU, UA

GDP per capita, at PPS, EU-28 average = 100



Source: wiiw Annual Database incorporating national and Eurostat statistics.

Main messages

- GDP growth in 2015 was either peak or trough
- 2016-2018 GDP in EU-CEE, Western Balkans and Turkey +3% p.a.
- In CIS+UA anaemic growth returns in 2017
 - dependent on oil price and structural reforms
- Household consumption the main growth driver but investments will recover
- Conditions of private investments improve in EU-CEE
- Temporary decline in EU transfers in 2016; Juncker Plan no substitute
- Demography and emigration lead to labour shortages in EU-CEE
- More risks ahead if global economic growth falters; China, EU stumble; commodity prices fluctuate



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Thank you for your attention

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Country codes (in alphabetic order) and abbreviations

AL	Albania	ME	Montenegro
BA	Bosnia and Herzegovina	MK	Macedonia
BG	Bulgaria	PL	Poland
BY	Belarus	RO	Romania
CZ	Czech Republic	RS	Serbia
EE	Estonia	RU	Russia
HR	Croatia	SI	Slovenia
HU	Hungary	SK	Slovakia
KZ	Kazakhstan	TR	Turkey
LT	Lithuania	UA	Ukraine
LV	Latvia	XK	Kosovo

EFSI	European Fund for Strategic Investments
CESEE	Central, East and Southeast Europe
CIS	Commonwealth of Independent States
EU-CEE	European Union – Central and Eastern Europe
