

Press conference, 9 November 2017

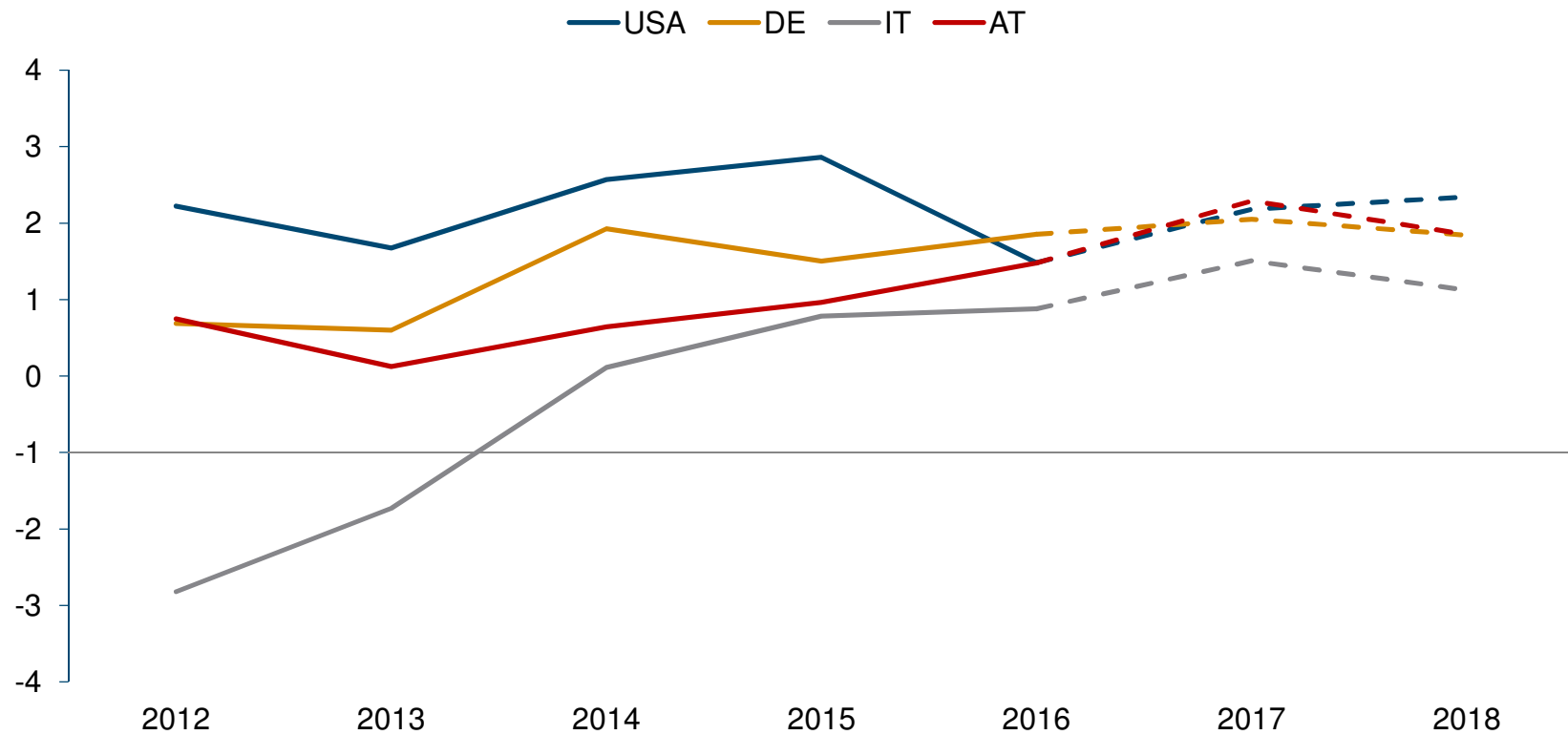
New wiiw forecast for Central, East and Southeast Europe, 2017-2019

CESEE Region Back on Track to Convergence

Peter Havlik

The global outlook has improved and the economic recovery is gaining strength in Europe as well ...

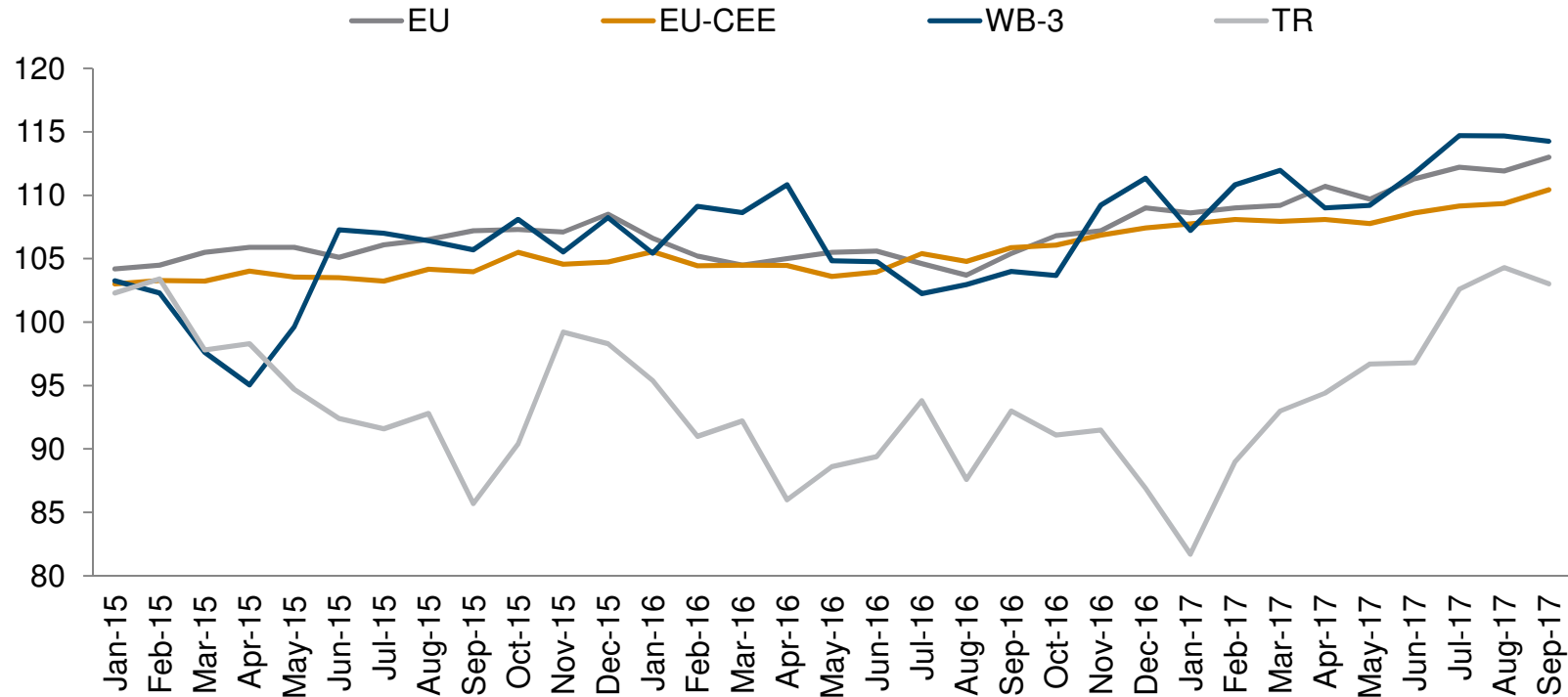
International GDP, real growth in %



Note: Dashed lines are forecasts.
Source: WEO (IMF), October 2017.

Both economic developments and investors' sentiments are apparently decoupled from politics ...

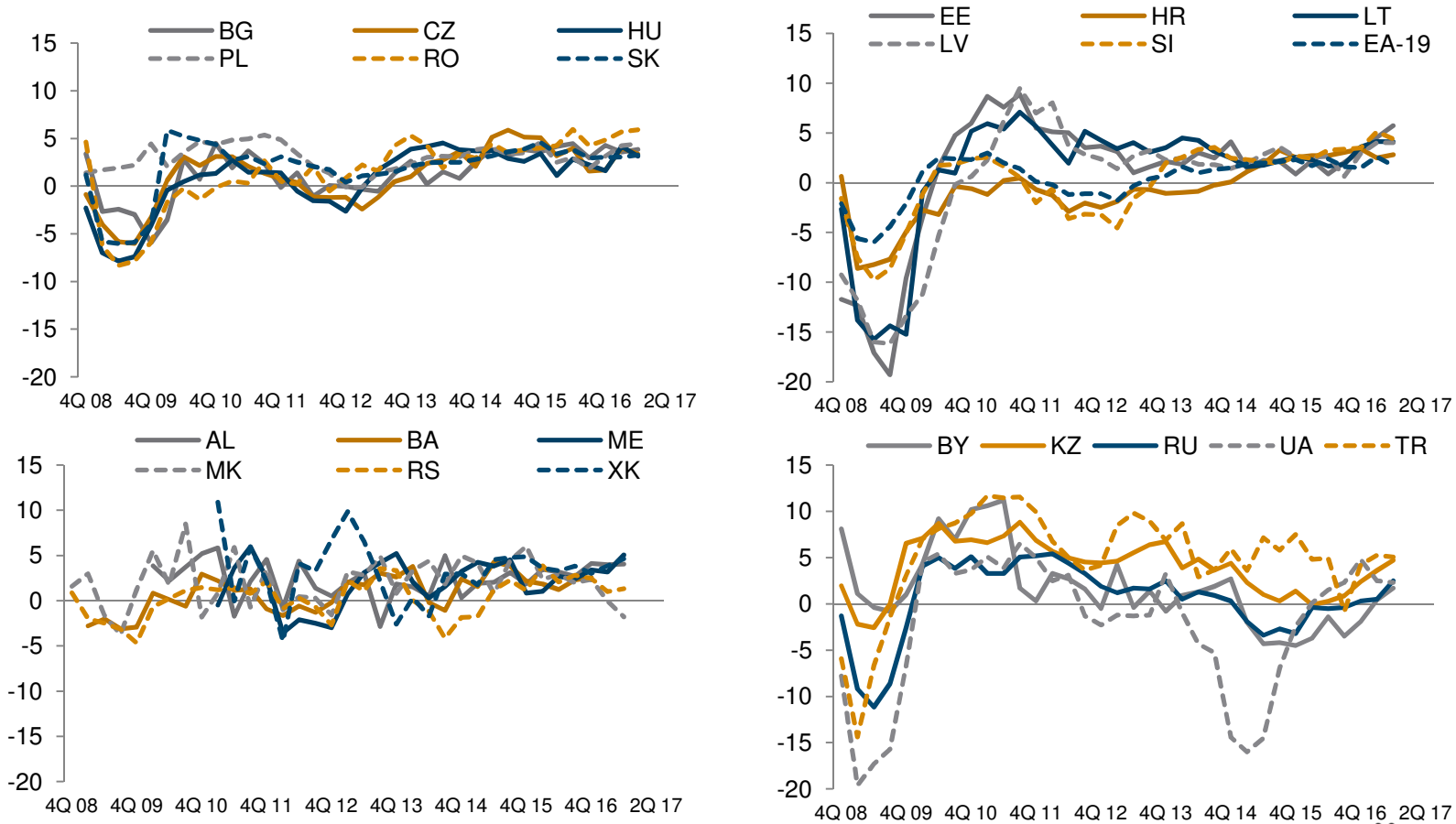
Economic Sentiment Indicator (100 = long-run average)



Note: WB-3 comprises MK, ME and RS.
Source: Yahoo! Finance, Eurostat.

EU-CEE enjoy robust growth, Western Balkans and Turkey uneven; recovery in the CIS and Ukraine is weaker

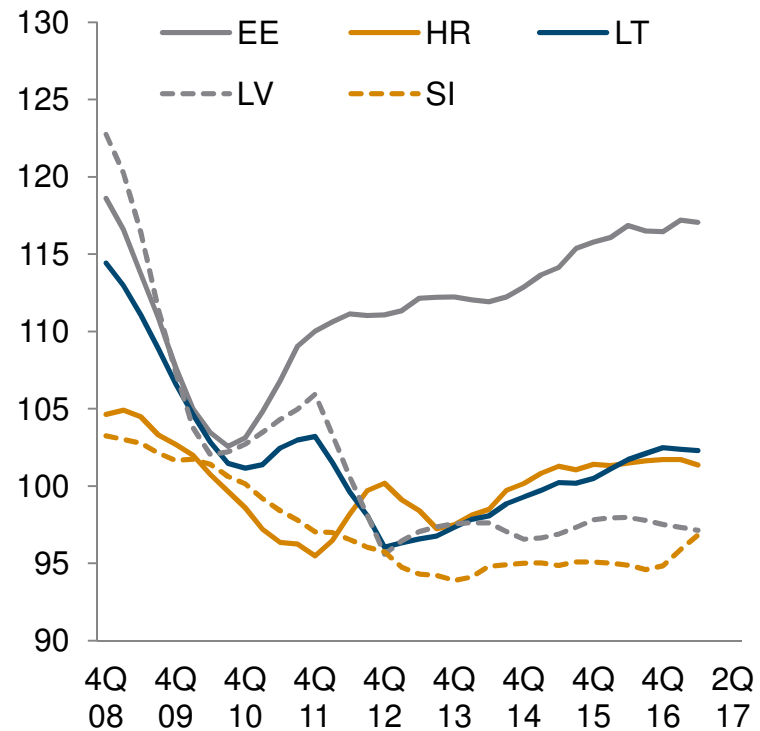
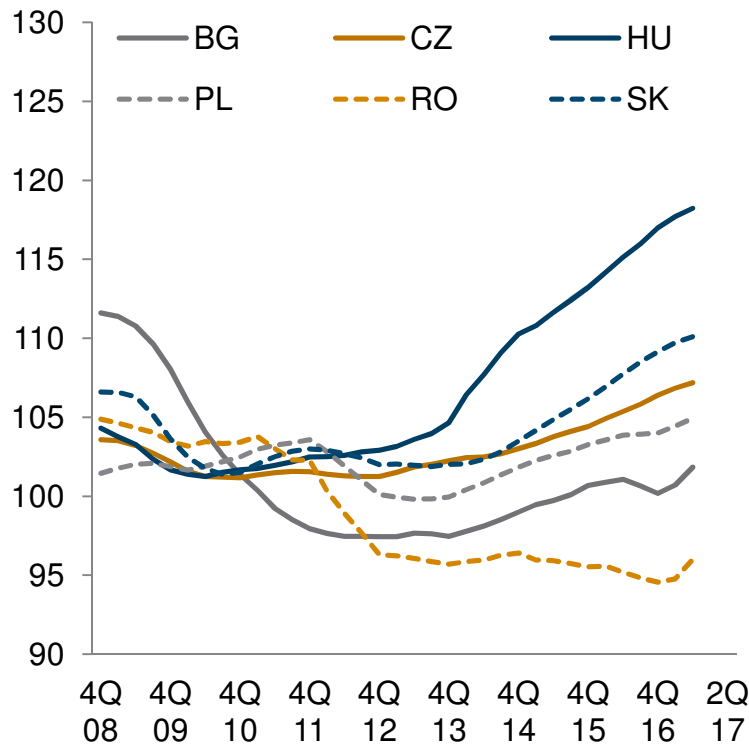
Quarterly real GDP growth, change in % against preceding year



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Rising employment in most EU-CEE (also in Western Balkans), but not in LV, HR, RU, KZ and UA ...

Employed persons, LFS, thousand, based on 1Q 2010 = 100, 4 quarters moving averages

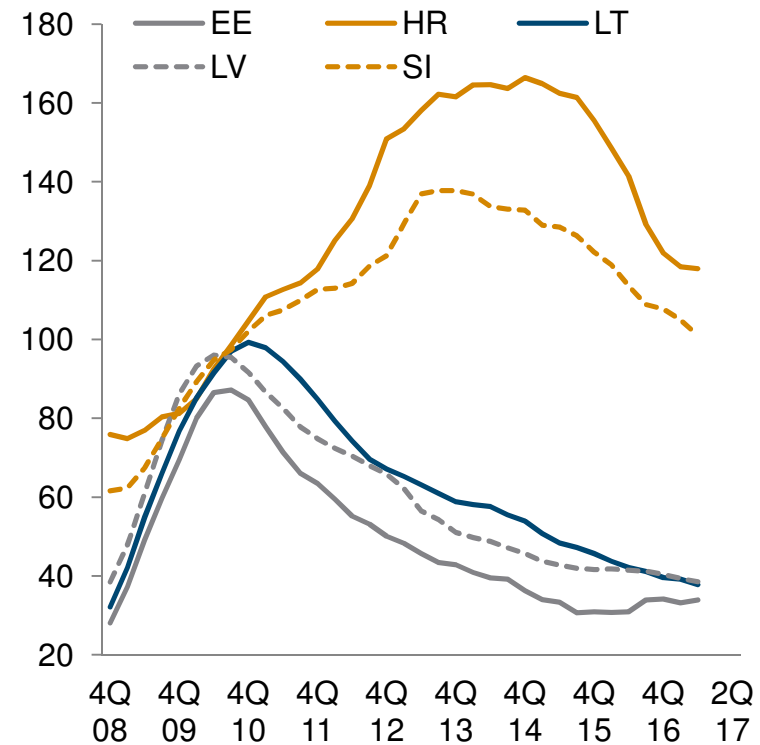
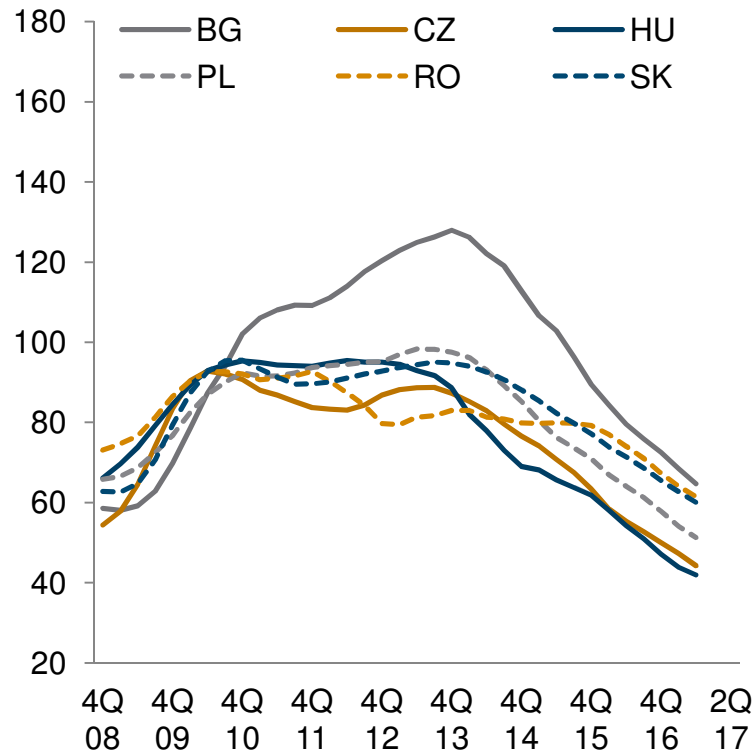


Note: BA: employees registered.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

... mirrored by declining unemployment (but rates differ!)

Unemployed persons, LFS, thousand, based on 1Q 2010 = 100, 4 quarters moving averages

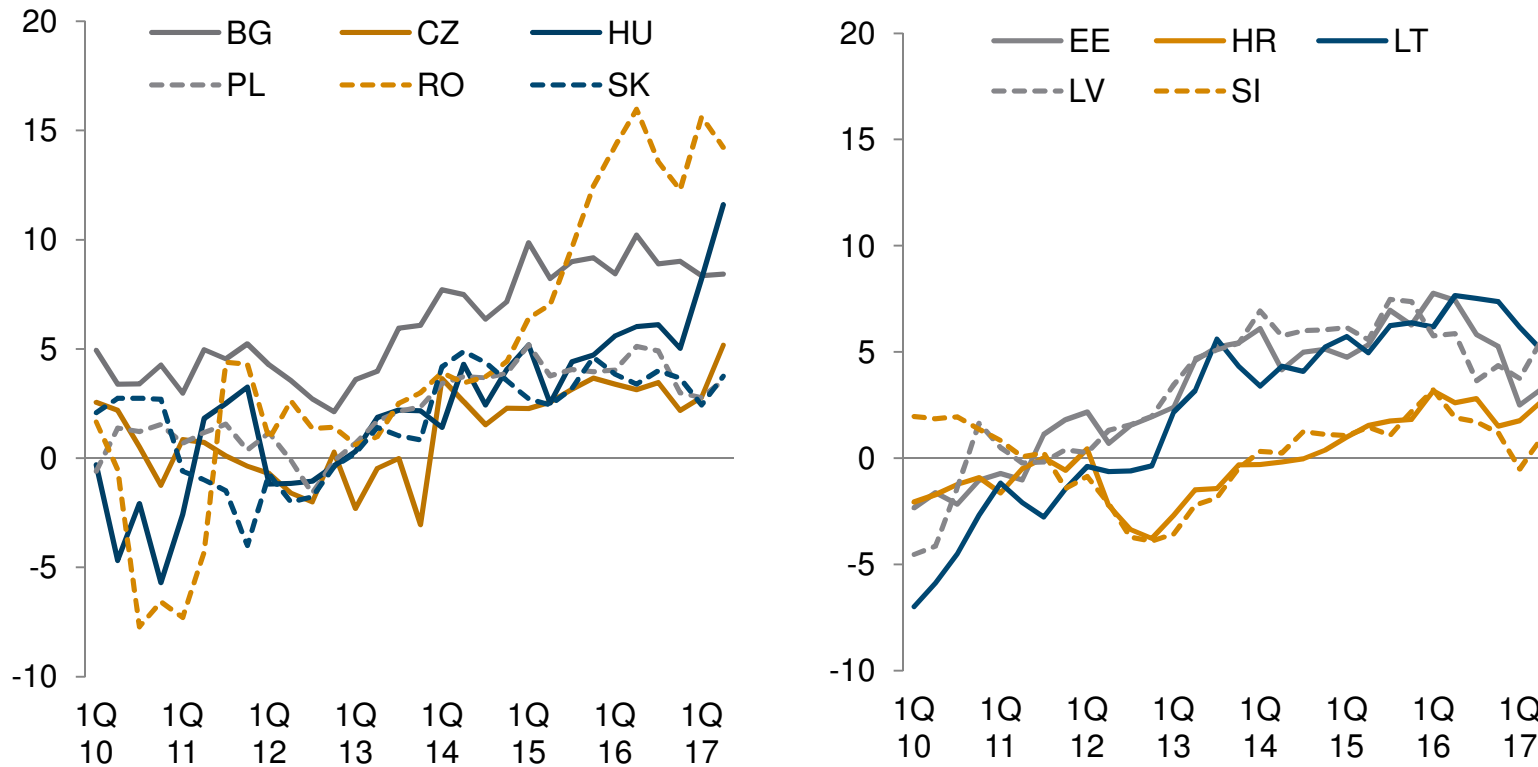


Note: BA: unemployed registered.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

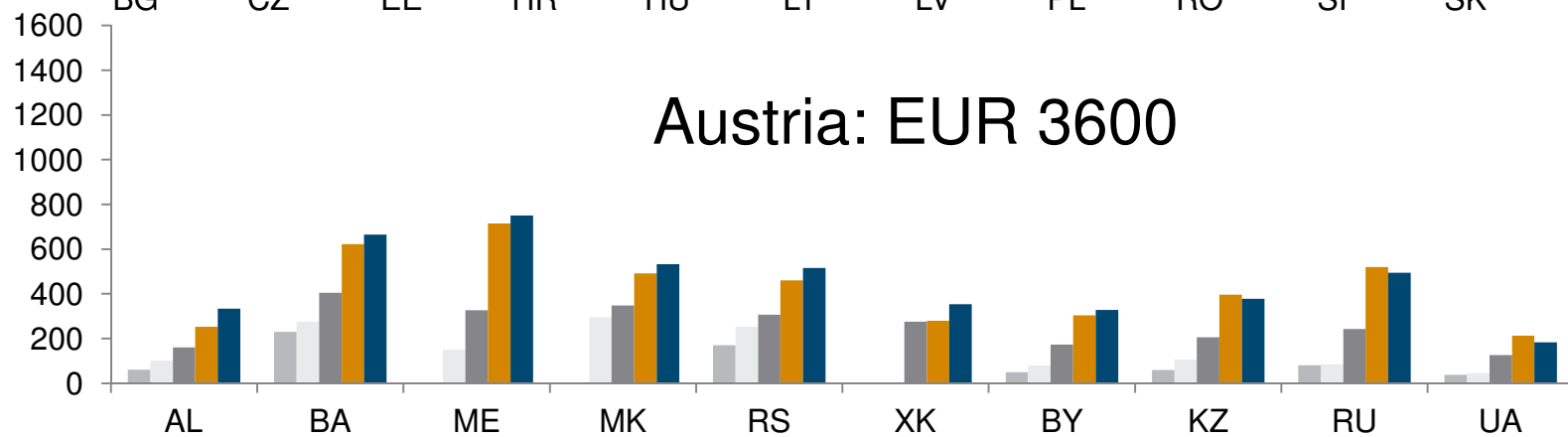
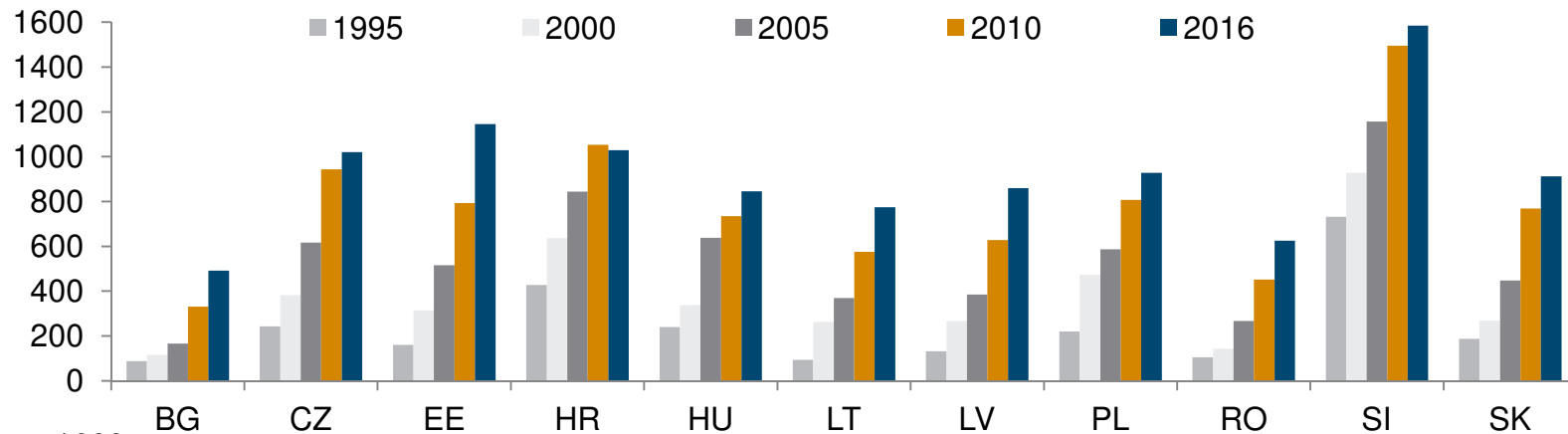
Labour shortages hand in hand with rising wages ...

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



EU-CEE gross wages range from EUR 500 (BG) to EUR 1600 (SI) in 2016

Average monthly gross wages, EUR (ER)

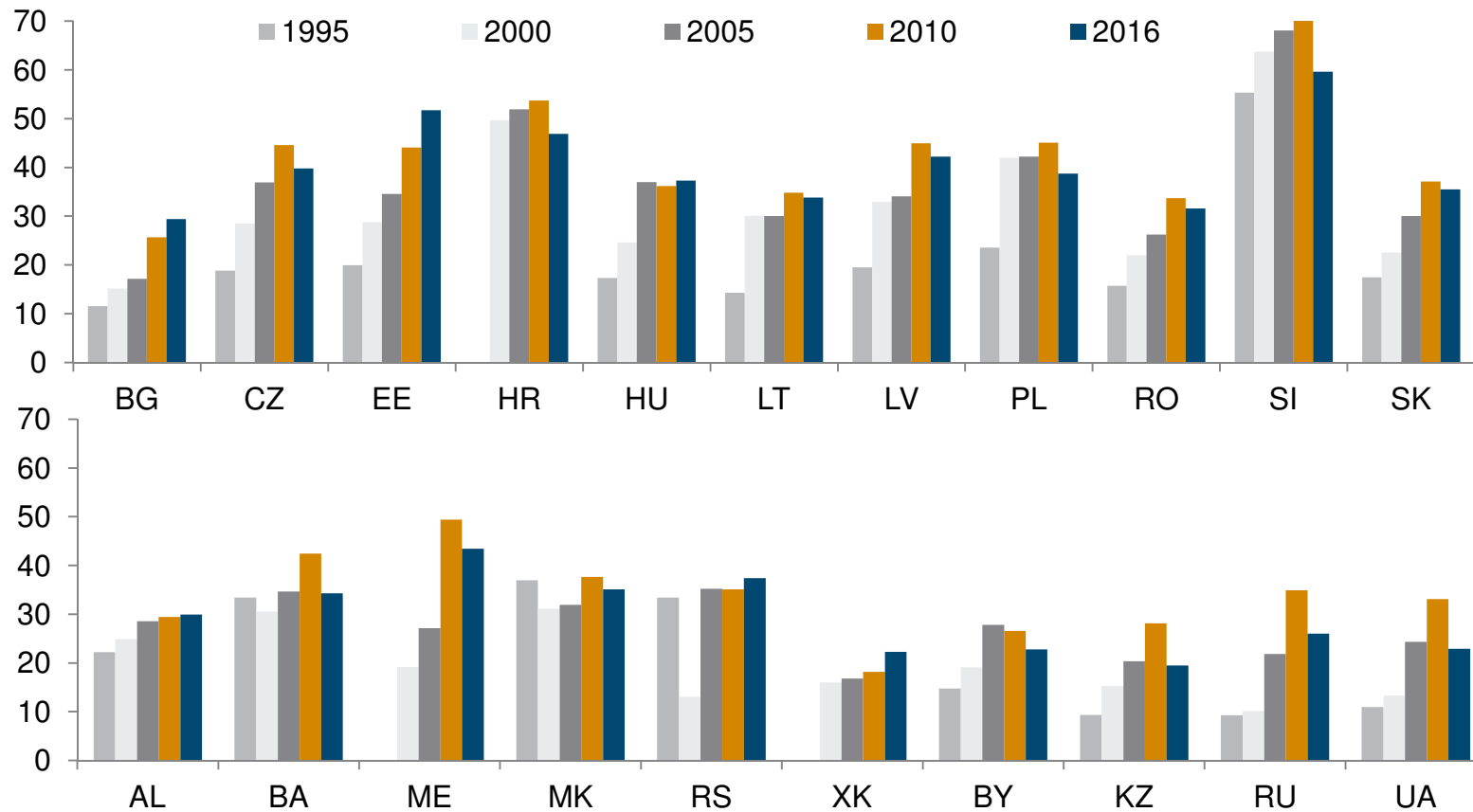


Note: Data 1995: Bosnia and Herzegovina 1996, Serbia 1999.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

ULC levels mostly dropped between 2010 and 2016 and competitiveness improved (except BG, HU, EE, AL, RS, XK)

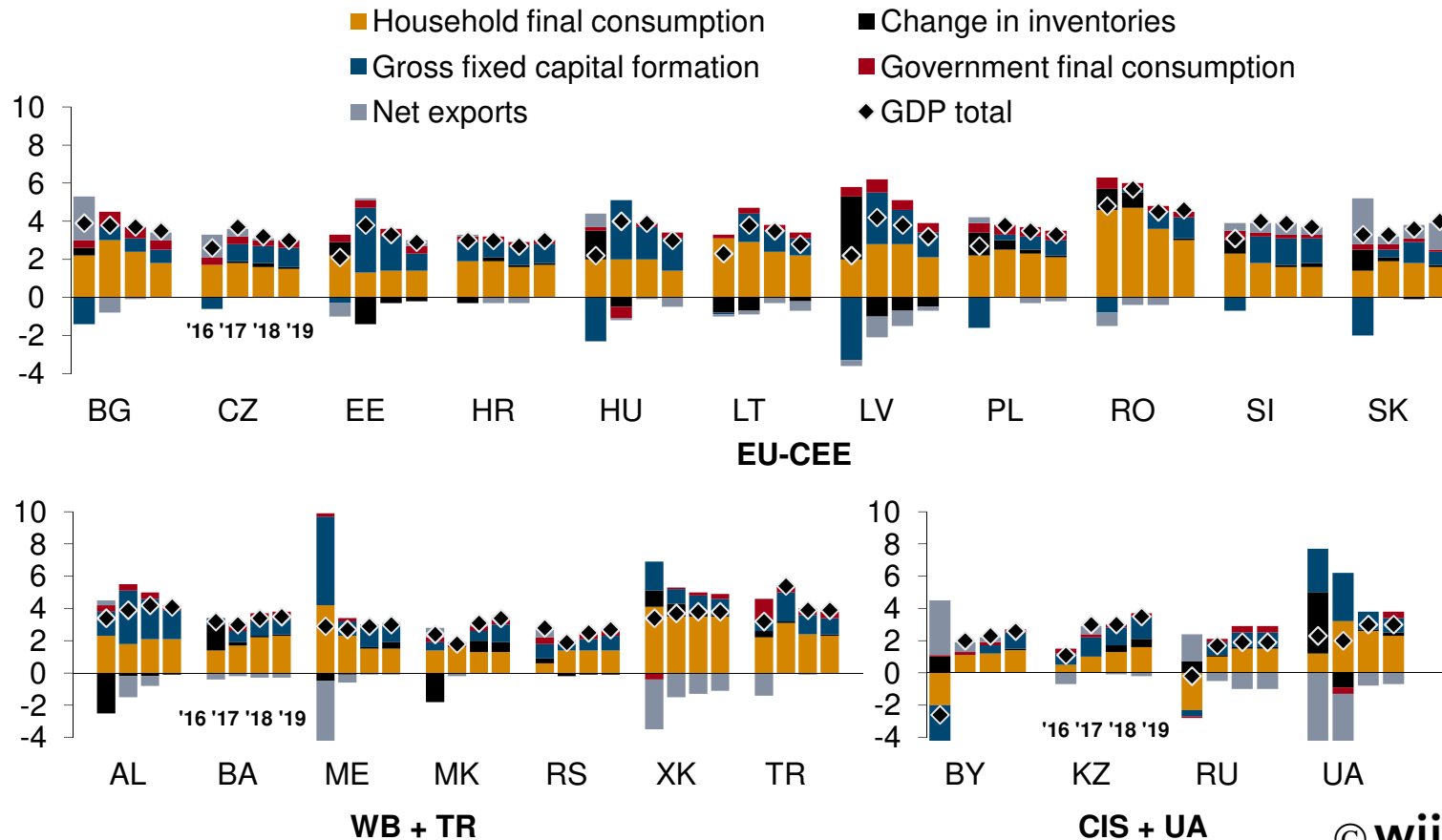
Unit labour costs in comparison, PPP adjusted, Austria = 100



Note: Data 1995: Romania and Macedonia 1996, Bosnia and Herzegovina and Serbia 1999. Data 2000: Kosovo 2004. © wiiw
 Source: wiiw Annual Database incorporating national and Eurostat statistics.

Main GDP growth driver is household consumption, gradually aided by investments and also net exports ...

GDP growth in 2016-2019 (in %) and contribution of individual demand components in percentage points



Source: wiiw Annual Database incorporating national and Eurostat statistics.

Growth forecasts revised mostly upwards ...

Real GDP growth forecast and revisions

		Forecast, %			Revisions, pp		
		2017	2018	2019	2017	2018	2019
EU-CEE	BG	3.8	3.7	3.5	↑ 0.9	↑ 0.6	↑ 0.2
	CZ	3.7	3.2	3.0	↑ 1.3	↑ 0.6	↑ 0.7
	EE	3.8	3.3	2.9	↑ 1.6	↑ 1.0	↑ 0.5
	HR	3.0	2.7	3.0	↑ 0.2	↓ -0.2	→ 0.0
	HU	4.0	3.9	3.0	↑ 0.7	↑ 0.5	↓ -0.1
	LT	3.8	3.5	2.8	↑ 1.1	↑ 0.7	↓ -0.3
	LV	4.2	3.8	3.2	↑ 1.7	↑ 1.1	↑ 0.4
	PL	3.8	3.5	3.3	↑ 0.9	↑ 0.5	↑ 0.2
	RO	5.7	4.5	4.6	↑ 1.7	↑ 0.5	↑ 0.6
	SI	4.0	3.9	3.7	↑ 1.1	↑ 1.0	↑ 0.7
	SK	3.3	3.6	4.0	↑ 0.2	→ 0.0	↑ 0.1
WB	AL	3.9	4.2	4.1	↑ 0.4	↑ 0.3	↑ 0.1
	BA	3.0	3.4	3.5	↑ 0.2	↑ 0.4	↑ 0.4
	ME	2.7	2.9	3.0	↓ -0.4	→ 0.0	↓ -0.3
	MK	1.8	3.1	3.4	↓ -1.3	↓ -0.2	↑ 0.4
	RS	1.9	2.5	2.7	↓ -0.9	↓ -0.5	↓ -0.6
	XK	3.7	3.8	3.8	↓ -0.2	→ 0.0	↑ 0.1
Turkey	TR	5.4	3.9	3.9	↑ 3.3	↑ 1.3	↑ 0.8
CIS +UA	BY	2.0	2.3	2.6	↑ 1.5	↑ 0.7	↑ 0.4
	KZ	3.0	3.0	3.5	↑ 1.0	→ 0.0	↑ 0.5
	RU	1.7	1.9	1.9	→ 0.0	↑ 0.2	↓ -0.1
	UA	2.0	3.0	3.0	↓ -0.5	→ 0.0	→ 0.0

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

GDP grows at three speeds: EU-CEE, Western Balkans, CIS

	2017	2018	2019
RO Romania	5.7	4.5	4.6
TR Turkey	5.4	3.9	3.9
LV Latvia	4.2	3.8	3.2
HU Hungary	4.0	3.9	3.0
SI Slovenia	4.0	3.9	3.7
AL Albania	3.9	4.2	4.1
BG Bulgaria	3.8	3.7	3.5
EE Estonia	3.8	3.3	2.9
LT Lithuania	3.8	3.5	2.8
PL Poland	3.8	3.5	3.3
CZ Czech Republic	3.7	3.2	3.0

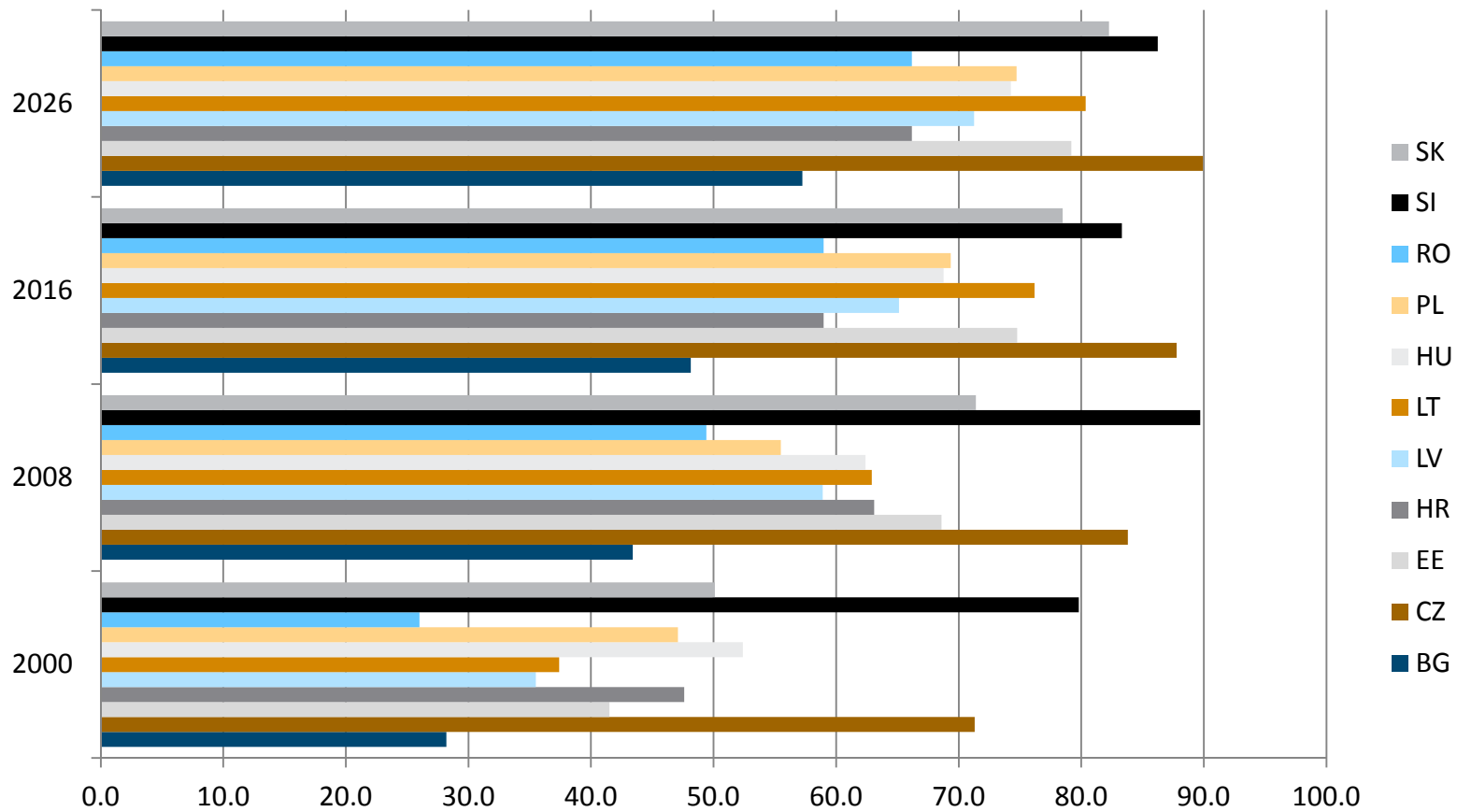
	2017	2018	2019
XK Kosovo	3.7	3.8	3.8
SK Slovakia	3.3	3.6	4.0
HR Croatia	3.0	2.7	3.0
BA Bosnia & Herzegovina	3.0	3.4	3.5
KZ Kazakhstan	3.0	3.0	3.5
ME Montenegro	2.7	2.9	3.0
BY Belarus	2.0	2.3	2.6
UA Ukraine	2.0	3.0	3.0
RS Serbia	1.9	2.5	2.7
MK Macedonia	1.8	3.1	3.4
RU Russia	1.7	1.9	1.9

A New Normal ? CESEE region back on track to convergence

- The EU-CEE region is catching up again
- Economic convergence has resumed at a somewhat greater speed than expected in spring
- The catching-up process will continue at least in the medium run
- Convergence is not expected to resume in Russia
- Meagre growth in Russia will adversely affect the growth prospects of its CIS partners
- Economic growth seems to be largely unaffected by geopolitical challenges and political instability

Special section I

Back on track to convergence, but it is a long-term process: GDP per capita at PPP (EU-28 = 100)



Special section II

The euro will survive and attract new members ...

Euro accession is in the interests of Croatia and Bulgaria

Euro accession is potentially advantageous for Hungary and Poland

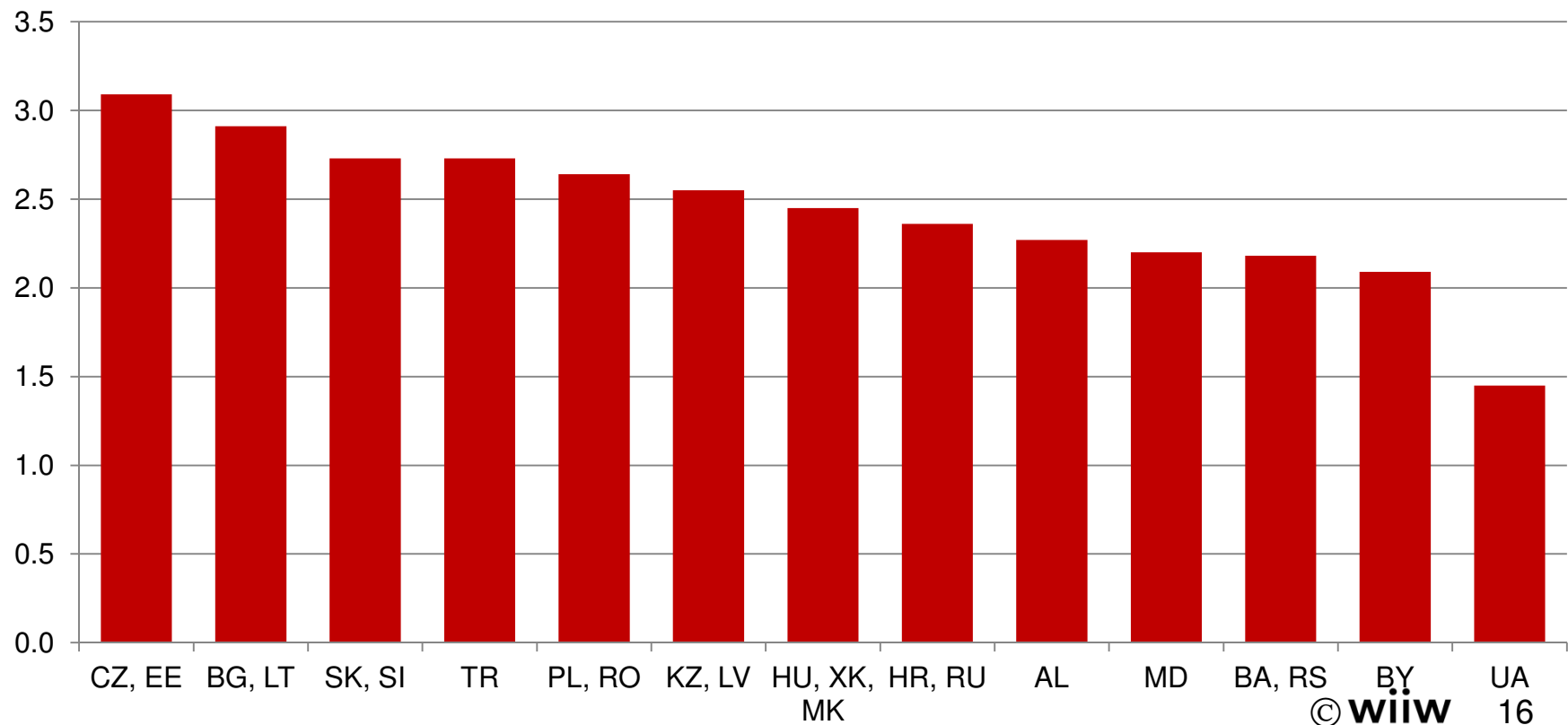
The case is less clear cut for the Czech Republic and Romania

But: in neither case would accession to the eurozone be harmful

Special section III

Many CESEE sovereigns are vulnerable to a sharp rise in debt yields ...

Sovereign risk rating, average score (less is worse)



Special section III

Many CESEE sovereigns are vulnerable to a sharp rise in debt yields ...

In some cases they are in a worse position than 10 years ago

Bond markets could panic, leading to funding difficulties for countries with heavy debt loads

Ukraine stands out as particularly vulnerable from a sovereign risk perspective

Belarus and many countries in the Western Balkans are also in a weak position

Thank you for your attention!

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Country codes

AL	Albania	ME	Montenegro
BY	Belarus	MK	Macedonia
BA	Bosnia and Herzegovina	PL	Poland
BG	Bulgaria	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
CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
EU-CEE	European Union – Central and Eastern Europe		
WB	Western Balkans		