Press conference, 29 June 2017

Economic Convergence despite Political Uncertainty

Economic Analysis and Outlook for Central, East and Southeast Europe and its Economic Relations with Austria

Julia Grübler
Growth projections for the CESEE region were for the most part revised upwards, to 2.4% in the aggregate for the year 2017.

EU members in Central and Eastern Europe

- EU-CEE: 3.5
  - Bulgaria (BG): 3.5
  - Croatia (HR): 2.7
  - Czech Republic (CZ): 2.7
  - Estonia (EE): 2.3
  - Hungary (HU): 4.0
  - Latvia (LV): 2.9
  - Lithuania (LT): 3.0
  - Poland (PL): 3.3
  - Romania (RO): 4.8
  - Slovakia (SK): 3.3
  - Slovenia (SI): 3.5

- Visegrád (V-4): 3.3

Source: wiiw forecast (June 2017).
Growth projections for the CESEE region were for the most part revised upwards, to 2.4% in the aggregate for the year 2017.

Western Balkan

- **WB** 2.9
  - Albania (AL) 3.9
  - Bosnia and Herzegovina (BA) 3.2
  - Kosovo (XK) 3.7
  - Macedonia (MK) 2.6
  - Montenegro (ME) 2.5
  - Serbia (RS) 2.5

- **CIS & Ukraine** 1.5
  - Kazakhstan (KZ) 2.5
  - Russia (RU) 1.3
  - Belarus (BY) 1.4
  - Ukraine (UA) 2.0

- **Turkey** TR 2.8

Source: wiiw forecast (June 2017).
Economic confidence indicators for the EU show highest scores since the onset of the global economic crisis

Economic sentiment indicator, 2000-2017

Note: Index of 100 shows the long-term average of EU-28.
Source: Eurostat: Economic sentiment indicator.
The economic recovery in the euro area boosts exports of the CESEE region

Exports of goods (nominal, euro-based), 2012-2017
Change against previous year in %, 3-month moving average

Source: wiiw Monthly Database incorporating national and Eurostat statistics.
The relatively low oil price is beneficial for private consumption in energy importing countries.

The assumption underlying the wiiw summer forecast report is a relatively stable oil price at around 50-55 US dollar.

Higher contributions of EU-cofinanced investments to GDP growth are expected already for this year.

Operating budgetary balance in % GDP, 2011-2015

Positive wage developments are backing household consumption in the EU-CEE

GDP growth in 2016 and 2017 in %
and contribution of individual demand components in percentage points.

Note: Ranking by growth rates for the year 2017.
Source: wiiw Annual Database incorporating national and Eurostat statistics; wiiw forecast (June 2017).
Negative effects of political turmoil materialise in Western Balkans and Ukraine; not (yet) in Turkey

GDP growth in 2016 and 2017 in %
and contribution of individual demand components in percentage points

Note: Ranking by growth rates for the year 2017.
Source: wiwi Annual Database incorporating national and Eurostat statistics; wiwi forecast (June 2017).
A trade reorientation towards the East is set to continue; however, trade with Germany is still dominant

Austrian trade in goods, 2005 and 2016, top 10, shares in % (ranking 2016)

Source: COMEXT Eurostat.
Austria continues to be one of the main investors in CESEE

Austrian foreign direct investments, 2016
Top 10, shares in %

Source: OeNB.
Visegrád countries form the core of investment activity ...

Number of greenfield projects in CESEE with Austria as investor, 2015 and 2016 (ranking 2016)

... and engagement of Austrian banks

Foreign claims of Austrian banks and non-performing loans, 2016
Germany and top 14 CESEE, shares in %

Sources: Foreign claims: BIZ (RBI for Kosovo in 2016).
Unemployment rates for Austrians and CESEE nationals decreased, but vary by country of origin

Share of unemployed people and unemployment rate in Austria by nationality, 2016

Germany and top 10 CESEE (ranking by population)

Note: Serbia and Montenegro are taken together and include former Yugoslavia. The unemployment rate is defined as unemployed in % of the labour force.

Sources: BALI, Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection, wiw calculations.
Neighbourhood accounts for lion’s share of wages paid - in addition Western Balkans and Turkey important for remittances

Compensations of employees and migrant workers' remittances according to the balance of payments by partner countries, 2016, top 8, shares in %

Source: OeNB.
CESEE on wage convergence track...

Gross monthly wages and wage increase in relation to Austria

Source: wiiw Database, Eurostat.
... but lagging behind in productivity growth

Wage and productivity growth in relation to Austria, 2007-2016

Sources: wiiw Database, AMECO, Eurostat.
Political developments together with Brexit represent the greatest sources of uncertainty in the medium term.

Preference for ‘having a strong leader who does not have to bother with parliament and elections’, in % of the interviewed persons by age groups.

Sources: World Values Survey (Survey 6: 2010-2014); SORA for Austria (2017).
In the short term, positive effects are prevailing over potential negative effects of political turmoil.

### Real GDP growth forecast and revisions

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Note: Current 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 (June 2017).
Thank you for your attention!

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