

wiiw Spring Seminar 2014

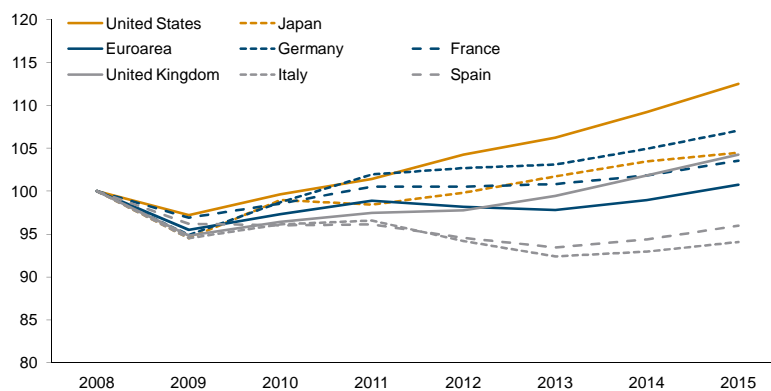
27 March 2014

Economic Situation in CESEE:
New Signs of Investment-led Growth

Mario Holzner

External environment improving

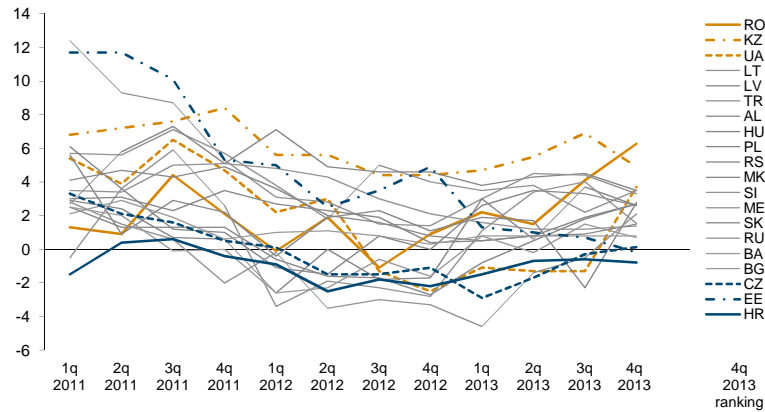
World Economic Outlook Projections, Development of GDP, 2008 = 100



Source: Forecasts by European Commission for EU and euro area (Winter Report, February 2014).
For US and JP: IMF, World Economic Outlook, January 2014.

CESEE GDP growth weak but on the rise

Development of quarterly GDP, real change in % against preceding year

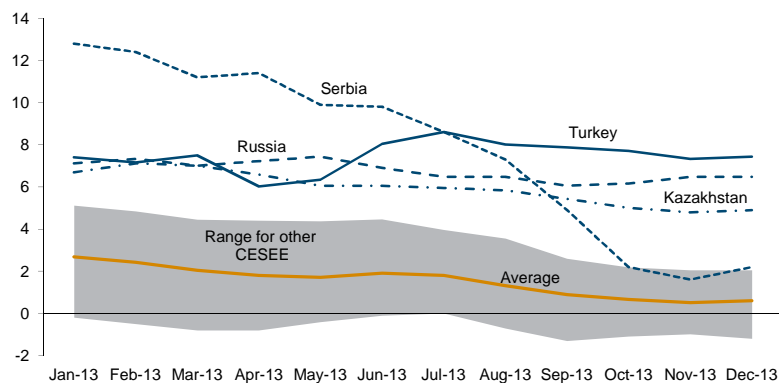


Remark: Highlighted lines represent top 3 and bottom 3 countries referring to growth of 4th quarter 2013.

Source: National and Eurostat statistics.

Deflationary pressures have built up

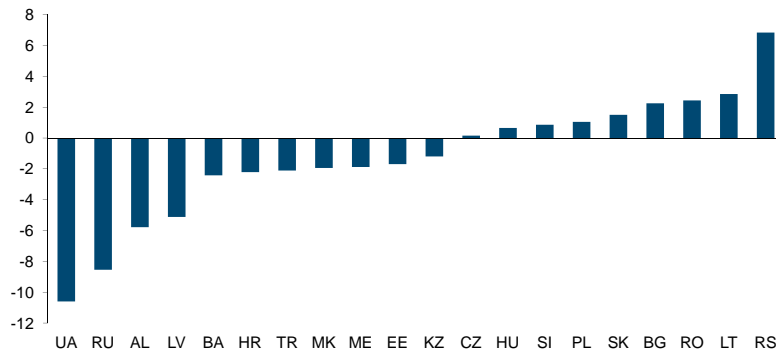
Consumer prices, change in % against preceding year



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Weak domestic demand reflected in import developments

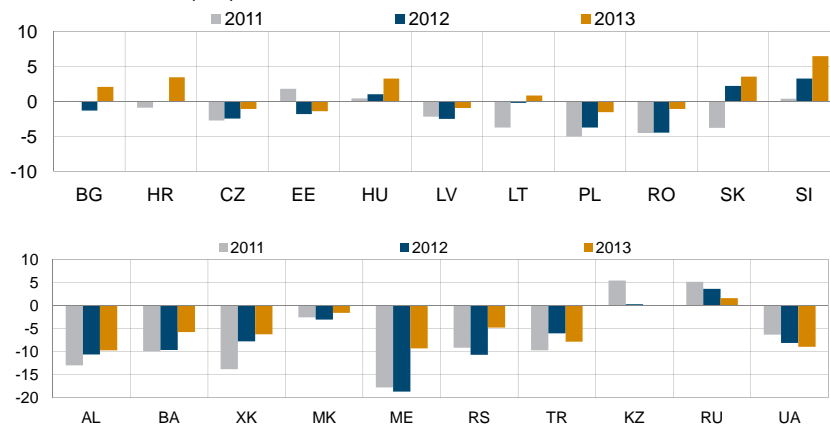
Imports of goods, change in % against preceding year, 2H2013 vs. 2H2012, current EUR



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Major current account adjustments

Current account (net), in % of GDP

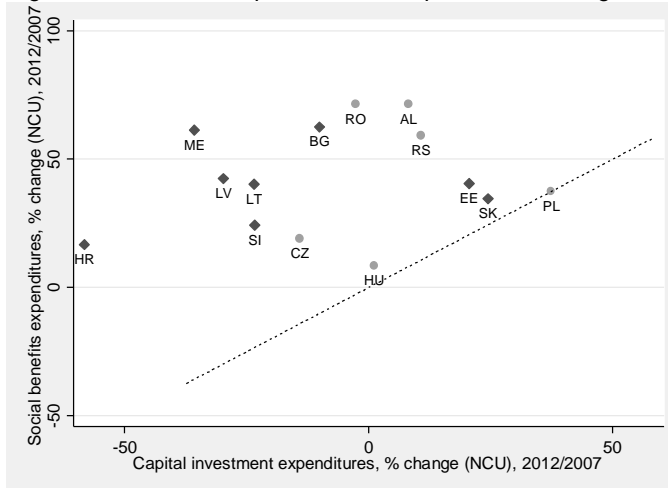


Remark: HR, CZ, HU, SK, AL, BA, XK, MK, ME, RS: 2013 data for 3 quarters. BA, KZ and RU: already reporting according to IMF BOP Manual 6th edition.

Source: wiiw Databases incorporating national statistics and Eurostat.

Fiscal austerity mainly in public capital investment

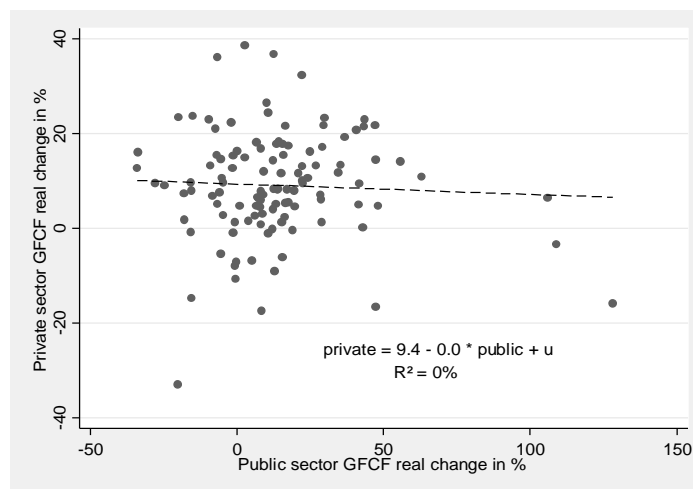
General government social expenditure vs. capital investment growth



Note: Diamonds represent countries with fixed exchange rate regimes as opposed to flexible ones.
Source: wiiw Annual database incorporating national and Eurostat statistics, own calculation.

Before the crisis: public and private investment unrelated

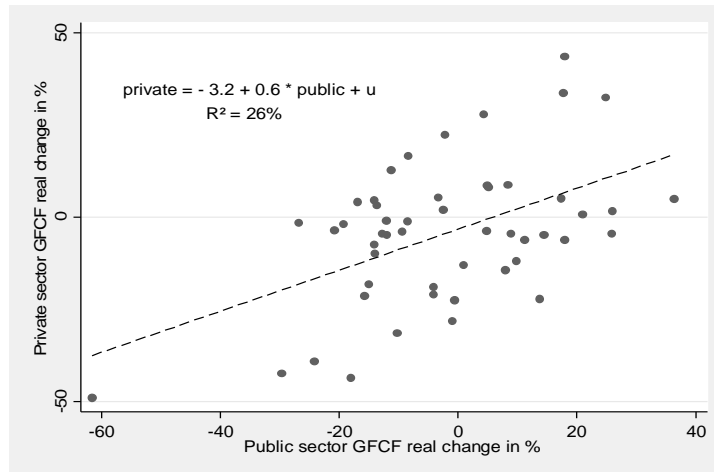
Public and private GFCF growth in 15 CESEE countries (2000-2008)



Source: National and Eurostat statistics, own calculations.

During crisis: public investment can kick-start private

Public and private GFCF growth in 15 CESEE countries (2009-2012)



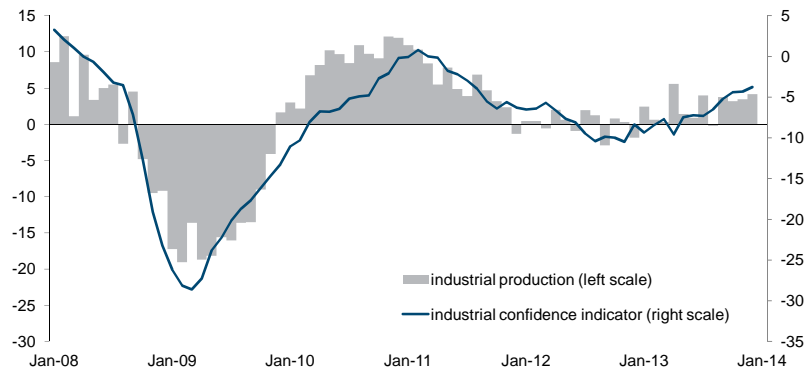
Source: National and Eurostat statistics, own calculation.

(Public) Investment leads the way out of the slump

- Motorways, thermal and nuclear power plant projects in the pipeline
- Intensive use of the remaining disbursement period 2014-2015 of the EU MFF 2007-2013 & national co-financing
- More public capital investment has the potential to spur subsequent private investment
- Improving growth prospects in the euro area are likely to encourage CESEE export industries' investment activity

Confidence in the economy on the rise

CESEE gross industrial production change in % against preceding year / industrial confidence indicator in pp.

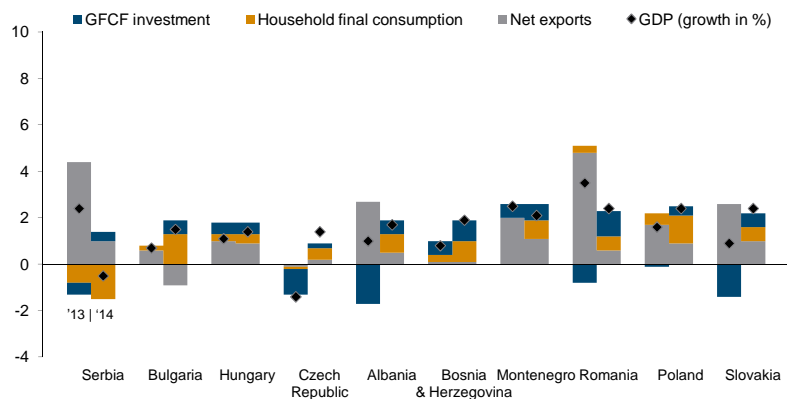


Remark: Average over available countries.

Source: wiiw Monthly Database incorporating national and Eurostat statistics for industrial production. Eurostat and national statistics for industrial confidence. © wiiw

Investment to spur 2014 GDP growth in most of core CESEE

GDP growth in 2013 & 2014 in % and contribution of individual demand components in percentage points, flat household consumption countries

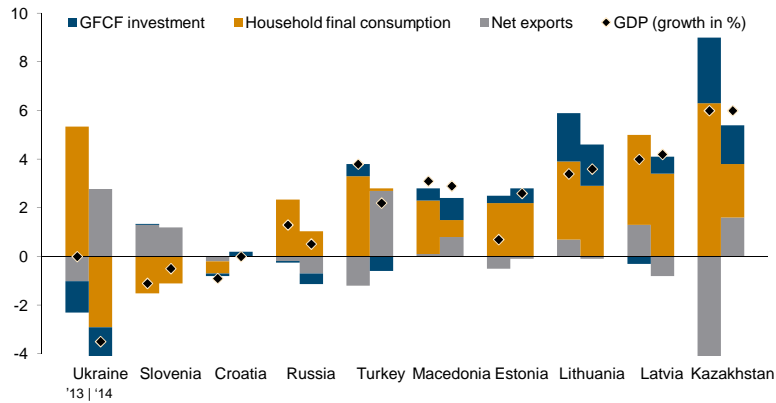


Remark: Ordered by 2014 growth rates.

Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

Growth drivers partly different in crisis and peripheral CESEE

GDP growth in 2013 & 2014 in % and contribution of individual demand components in percentage points, dynamic household consumption countries

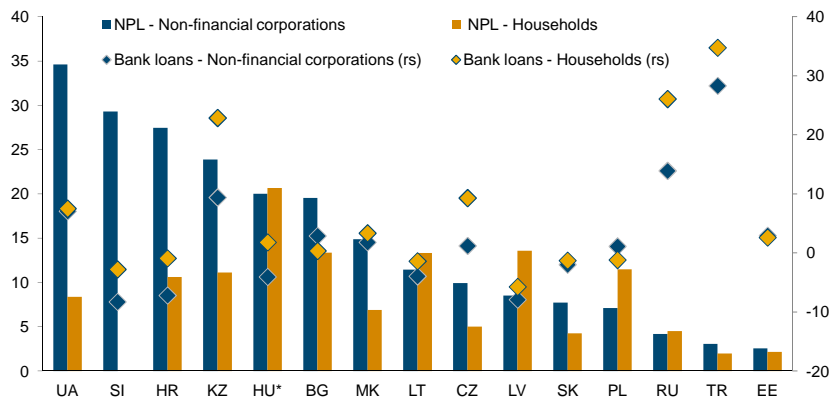


Remark: Ordered by 2014 growth rates.

Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

Financing is a problem where NPLs are high

Non-performing loans in % of total loans (Sept. 2013) and stock of loans to the non-financial sector, change in % against preceding year (avg. Dec. 2012 – Nov. 2013)

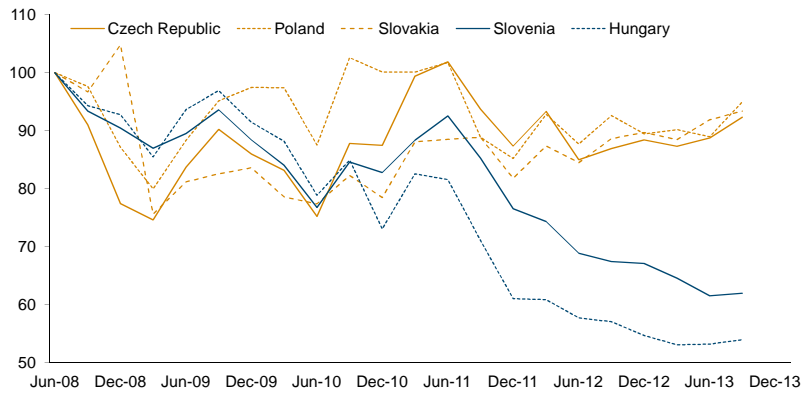


*Non-performing loans data for Hungary are for June 2013.

Source: National Bank and Eurostat statistics, wiiw own calculations.

Selective deleveraging continues

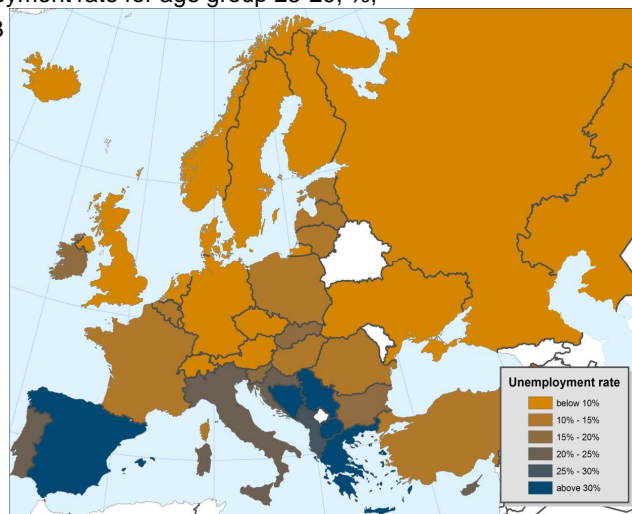
Indices of foreign bank claims of Western European banks to CEE on ultimate risk basis, June 2008 = 100



Source: BIS.

Boost in investment essential to reduce unemployment

Youth unemployment rate for age group 25-29, %, avg. 1-3q 2013



Source: wiiw calculation incorporating national and Eurostat statistics.

Summary

- Upward reversal of public investment has potential to spur private
- Motorways, thermal and nuclear power plant projects in the pipeline
- Intensive use of remaining disbursement period 2014-2015 of EU MFF
- euro area growth likely to encourage export industries' investments
- CESEE GDP to pick up speed and grow on average 2-3% 2014-2016

GDP growth, current wiiw forecast for 2014-2016

	2014	2015	2016
Kazakhstan	6.0	6.5	5.5
Kosovo	5.0	4.0	4.0
Latvia	4.2	4.1	3.9
Lithuania	3.6	3.8	4.0
Macedonia	3.0	3.0	3.0
Estonia	2.6	3.0	3.2
Poland	2.4	3.2	3.1
Romania	2.4	2.7	3.0
Slovakia	2.4	3.0	3.2
Turkey	2.2	3.5	4.5
Montenegro	2.1	2.9	3.0

	2014	2015	2016
Bosnia and Herzegovina	1.9	3.0	3.0
Albania	1.7	1.5	1.0
Bulgaria	1.5	2.3	2.7
Czech Republic	1.4	2.4	3.0
Hungary	1.4	2.1	2.0
Russia	0.5	1.4	2.5
Croatia	0.0	1.0	1.5
Slovenia	-0.5	0.5	1.4
Serbia	-0.5	1.0	1.9
Ukraine	-3.5	0.9	1.9

Possible Ukraine-Russia conflict effects

- Conflict limited to Crimea annexation: likely scenario, limited UA/RU trade and investment disruptions, little effects on CESEE, except maybe on 'south stream' countries (BG, RS, HU), extensive EU trade and financial sanctions against Russia unlikely
- Conflict widening to Eastern Ukraine (in extremis: war scenario): much stronger UA/RU trade and investment disruptions, substantial effects on CESEE in terms of energy supply and prices, trade, investment, interest rates
- Long-term effects: further energy diversification in CESEE, further EU integration boost (e.g. PL & euro)

Thank you for your attention!