

wiiw Spring Seminar, 12 April 2018

New wiiw 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?



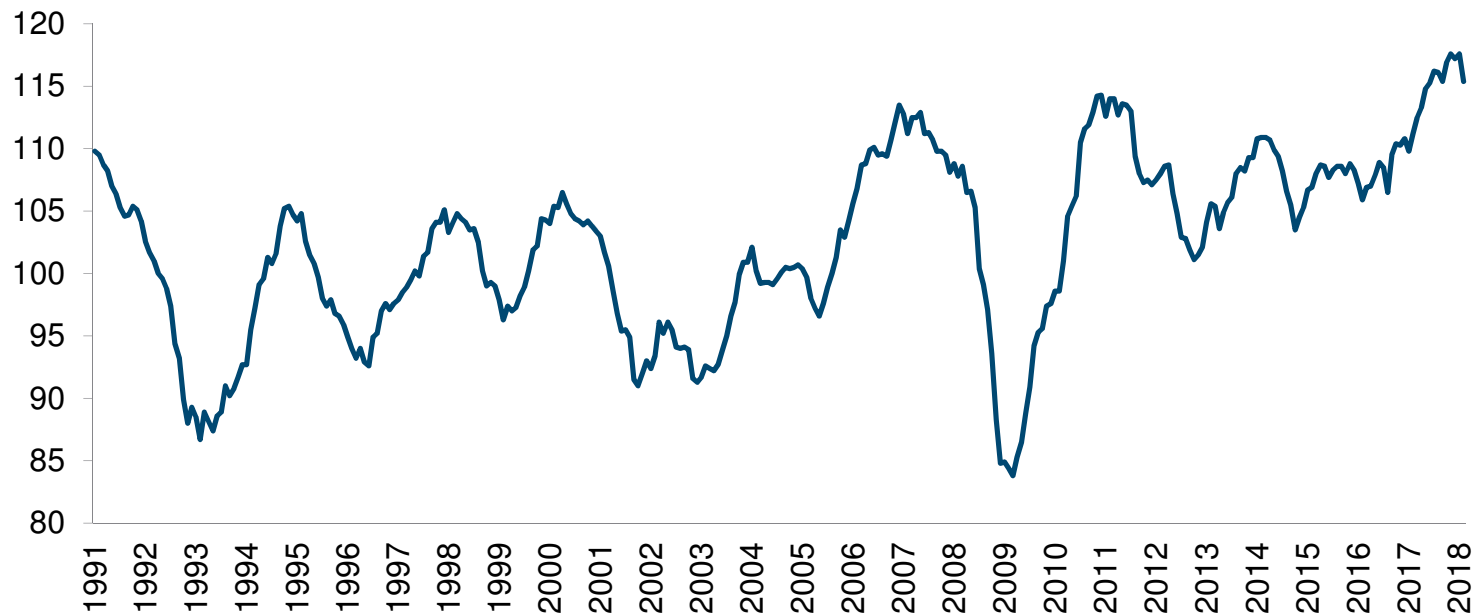
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CESEE: Stock-Taking and Outlook 30 Years of Change – 45 Years of wiiw

## 1. Global backdrop, new forecasts

## Global conditions: best coordinated upswing for almost a decade

German Ifo business climate index, 2005=100

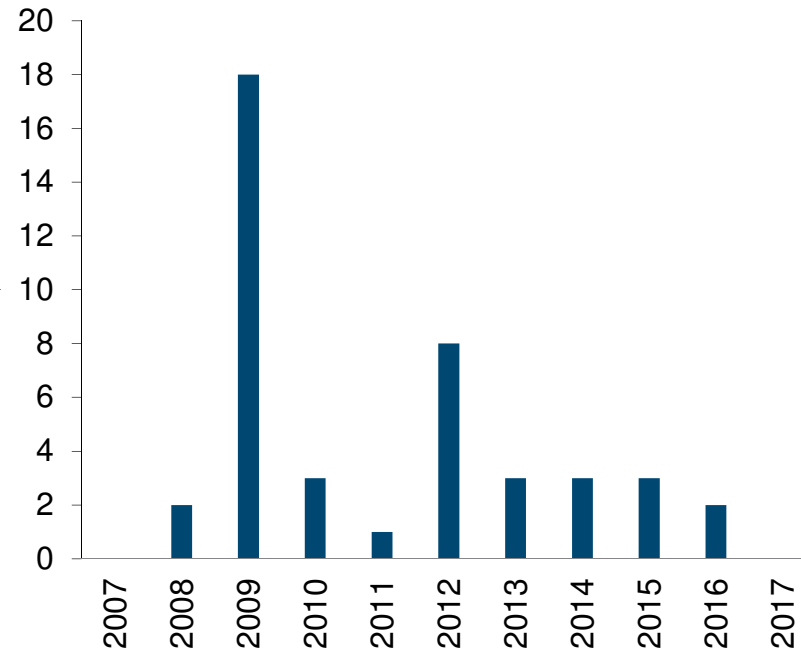


# CESEE: 2017 the best year since 2011, first time all 22 economies grew since 2007

CESEE-22 real GDP growth, %

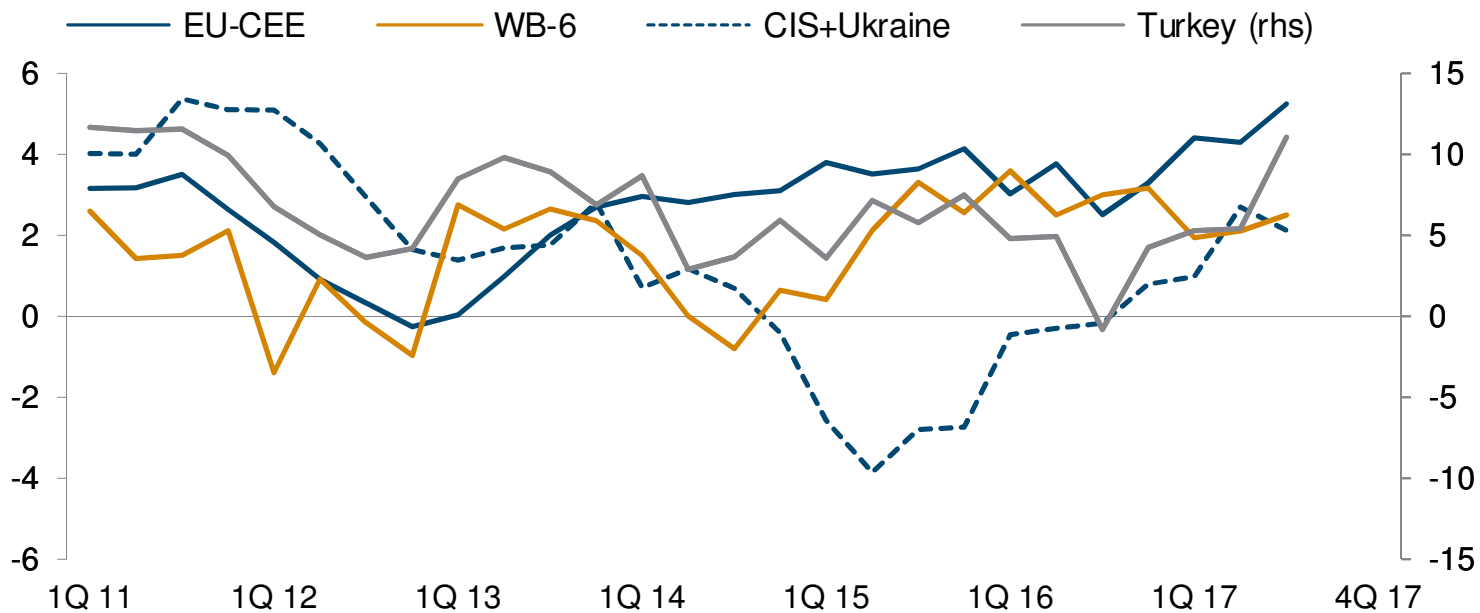


Countries recording negative growth



## 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
Turkey	TR	↑ 1.1	↑ 0.6	↑ 0.2
CIS +UA	BY	↑ 0.4	↑ 0.5	↑ 0.5
	KZ	↑ 0.8	→ 0.0	↓ -0.5
	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.





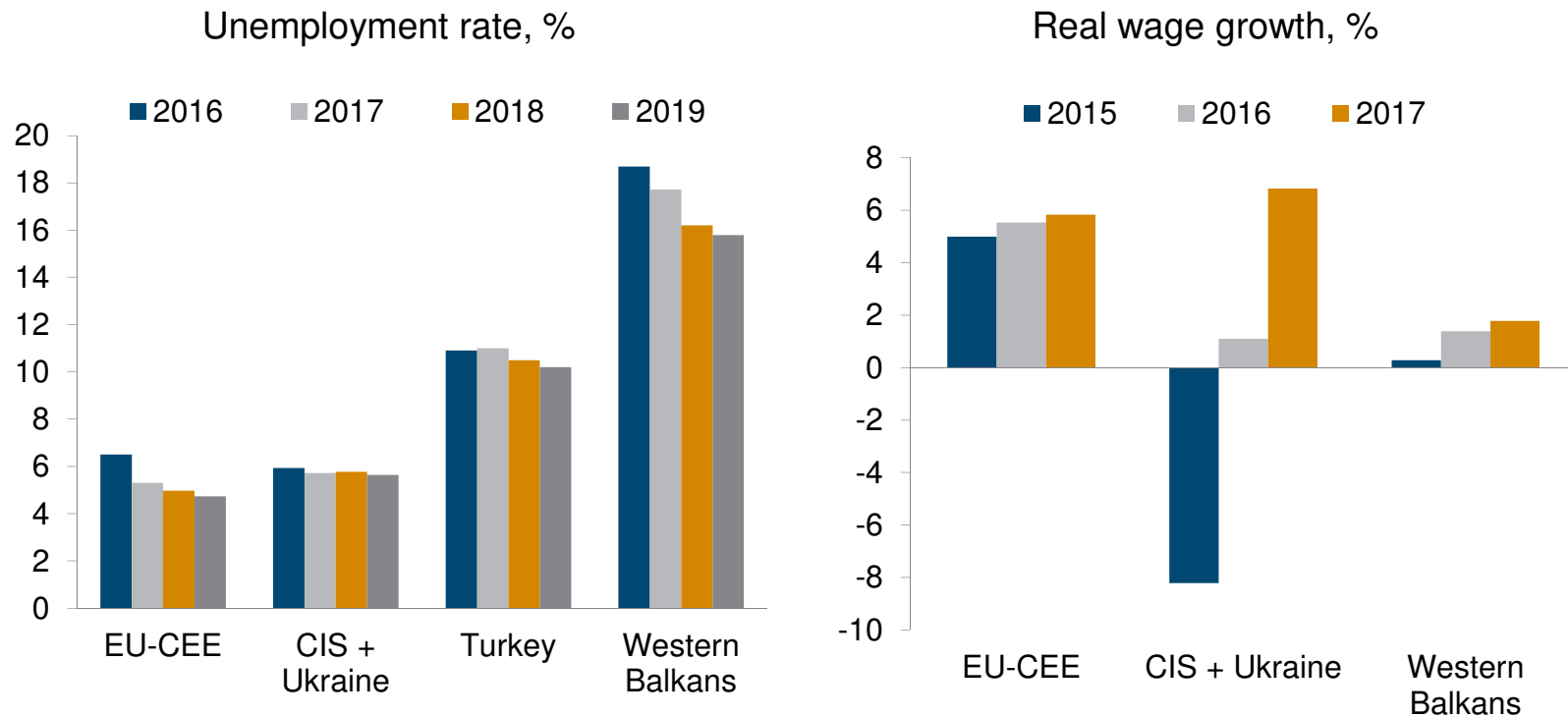
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## 2. Drivers of growth

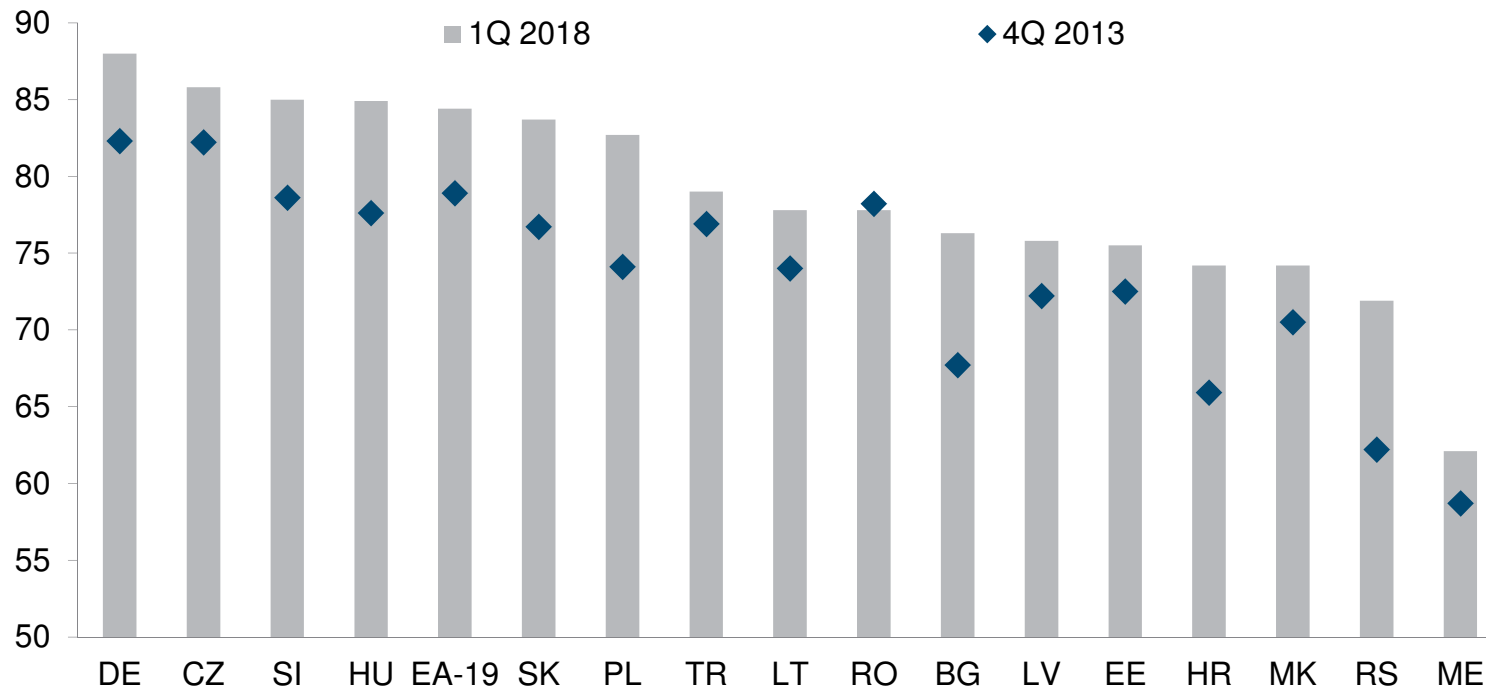
## Drivers of growth (I): Positive outlook for consumption



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

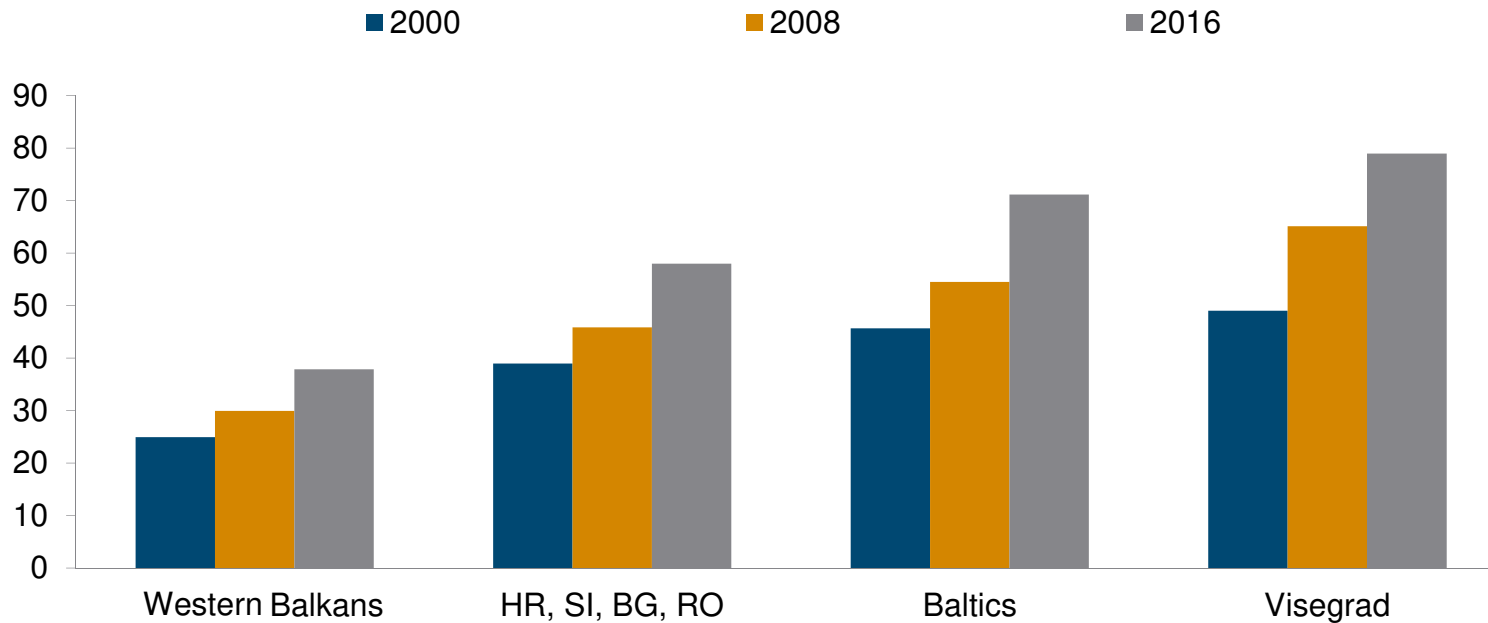
## Drivers of growth (II): Investment will grow faster than GDP in most places during the forecast period

Capacity utilisation, %, seasonally adjusted data



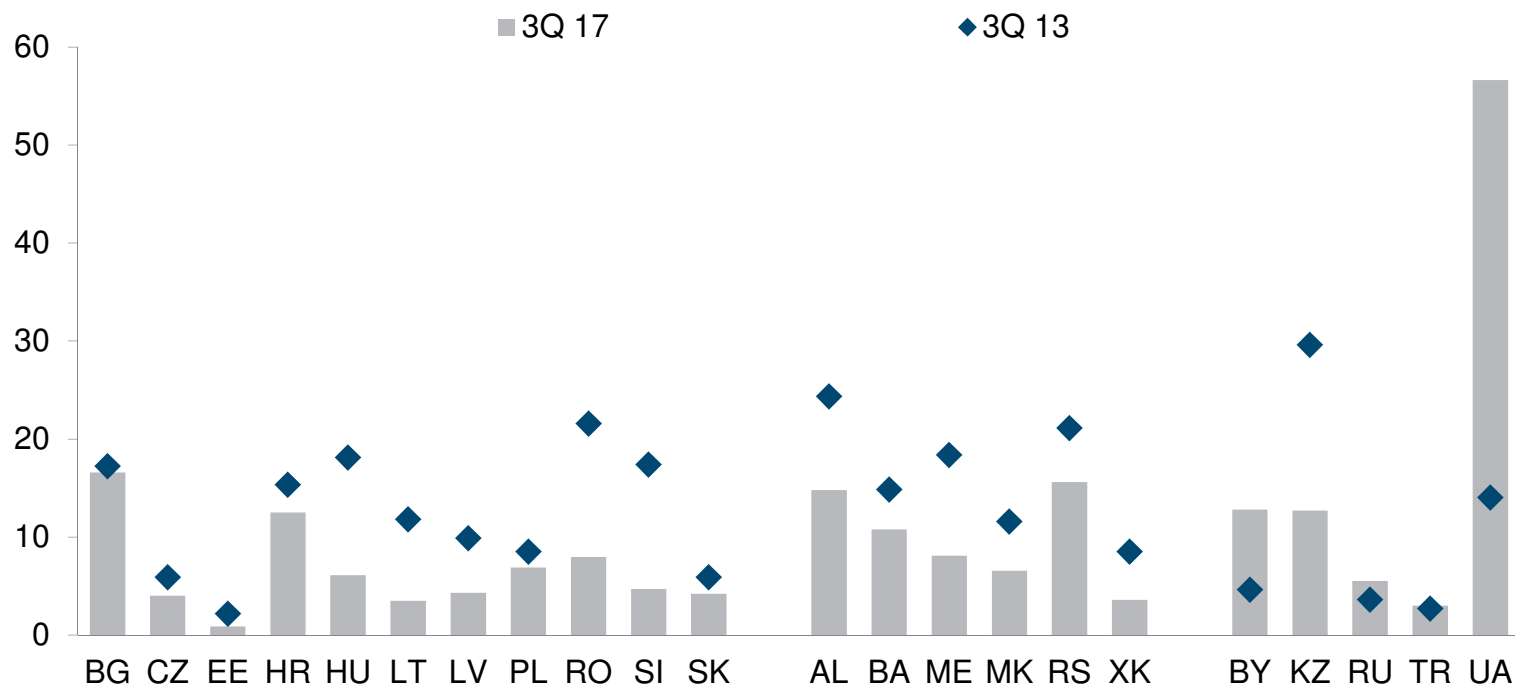
## Drivers of growth (III): Higher export share and sound external competitiveness

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





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### 3. Is CESEE overheating?



## THE WALL STREET JOURNAL.

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

Bloomberg  
Markets

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



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.



*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**.*

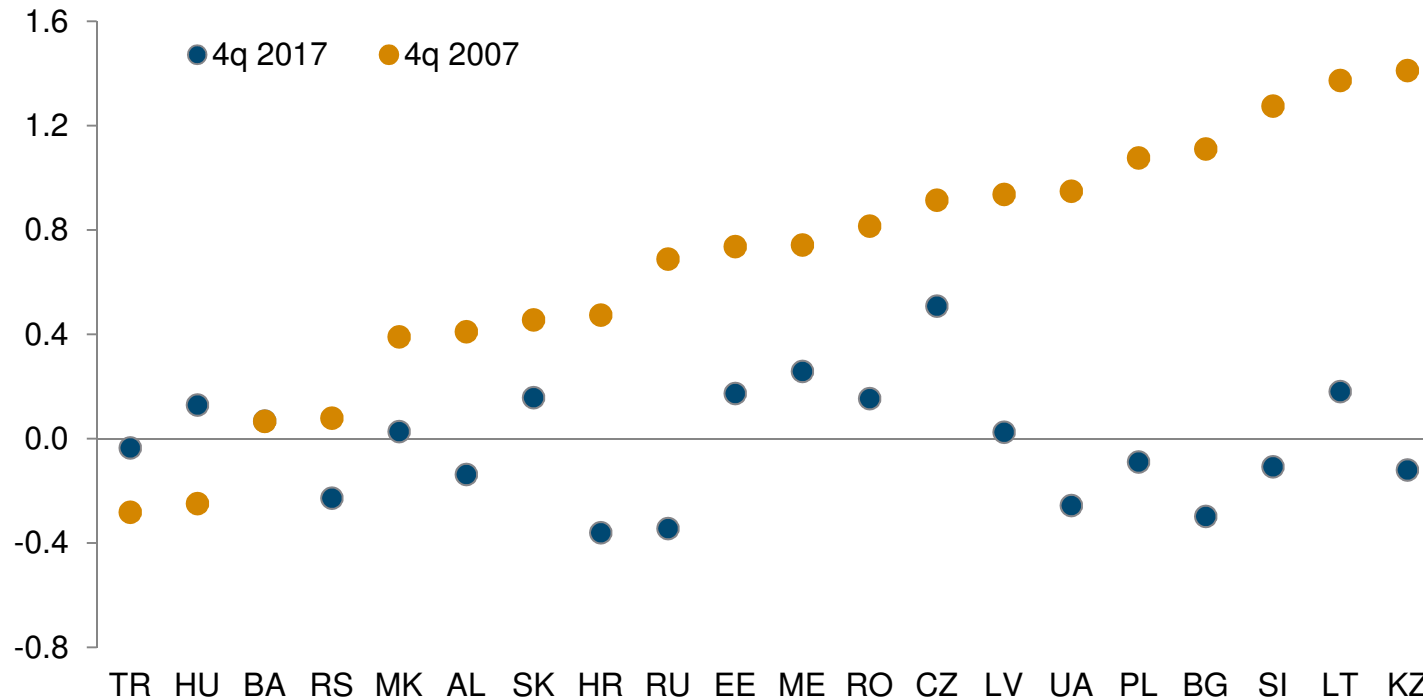
## FINANCIAL TIMES

Central Europe grows at fastest rate in 9 years

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

# CESEE is not overheating, but pockets of risk exist

wiiw Overheating index, standard deviations from historical average



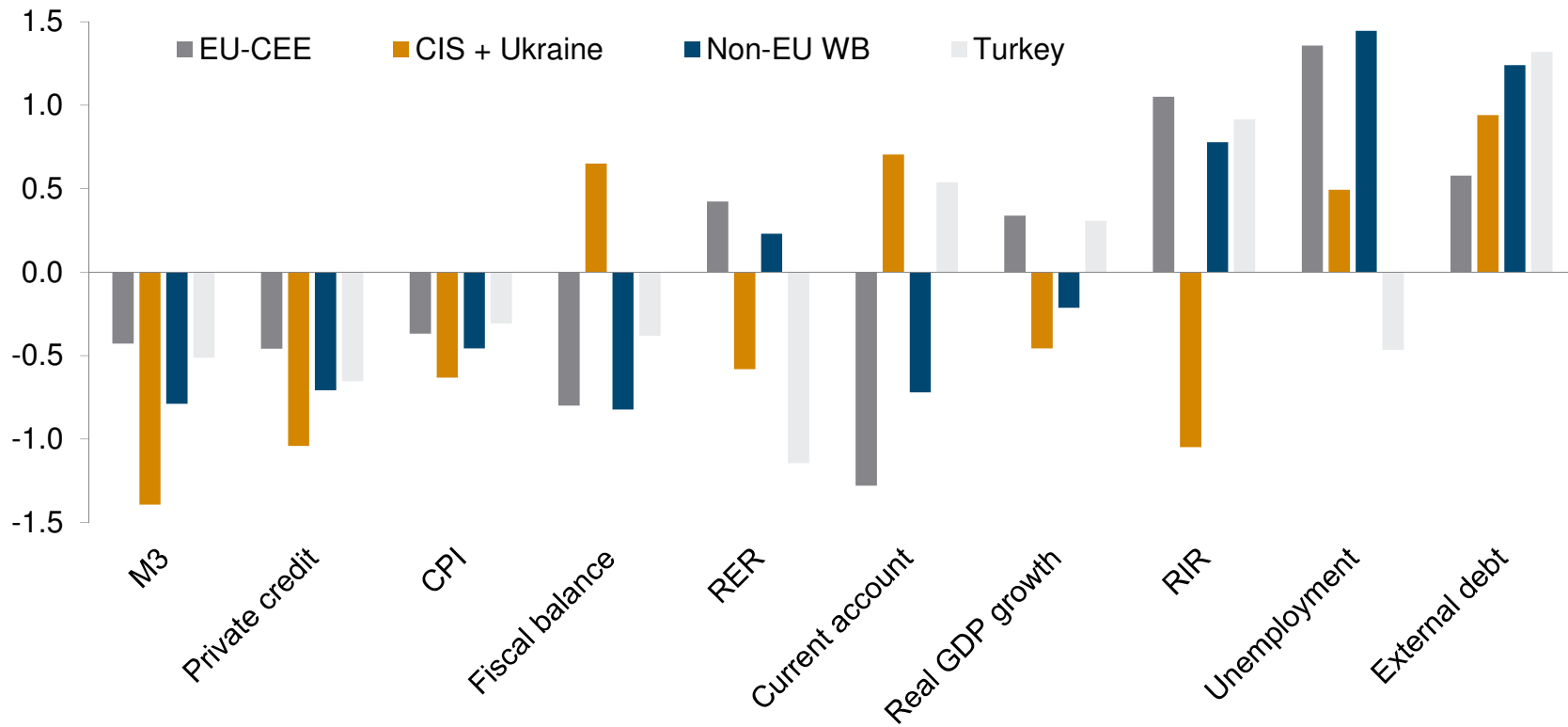
Note: Values represent average of 11 indicators. Historical average for Q4 2007 value = 2000-2007, for Q4 2017 value = 2000-2017.

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



# Overheating clearest in labour markets and external debt

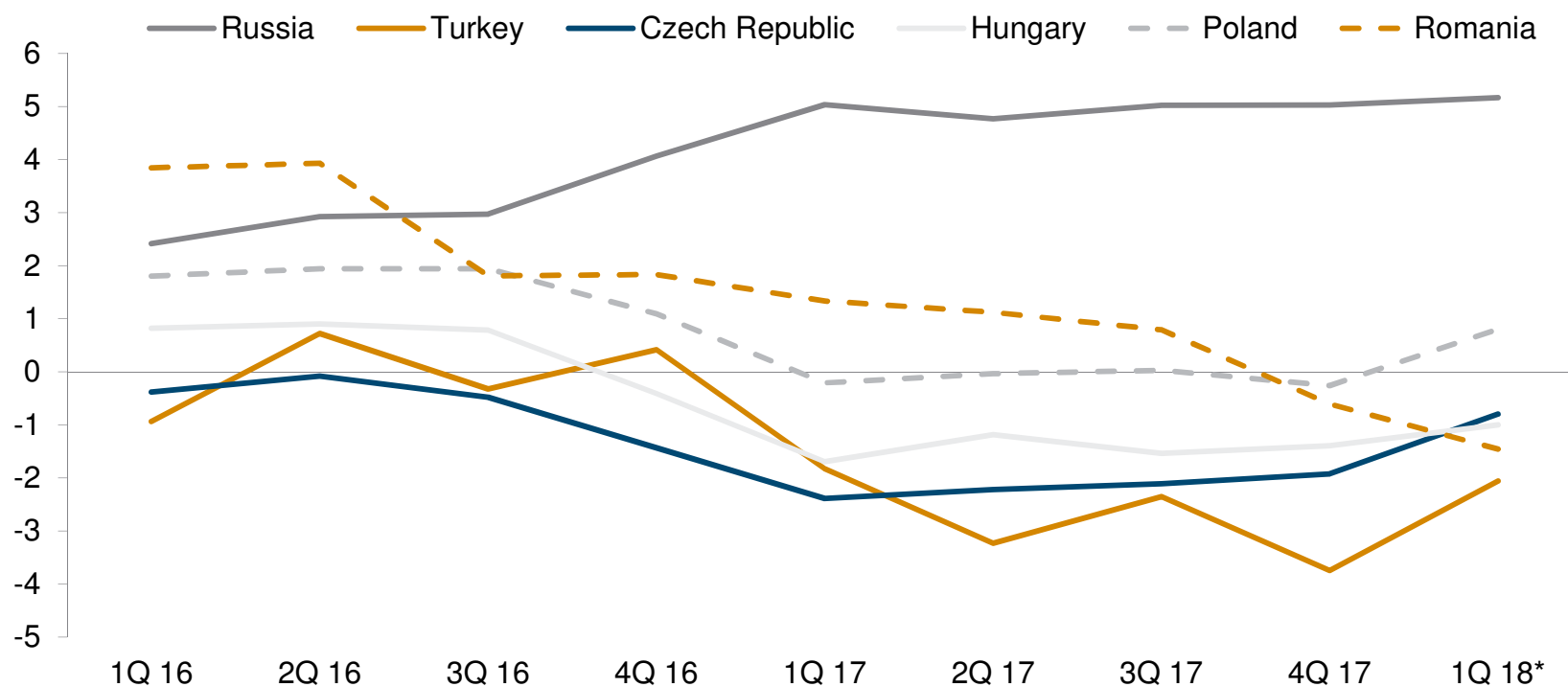
wiiw Overheating index, standard deviations from historical average



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

## Monetary policy loose, except in Russia

Real interest rate, CPI adjusted, %

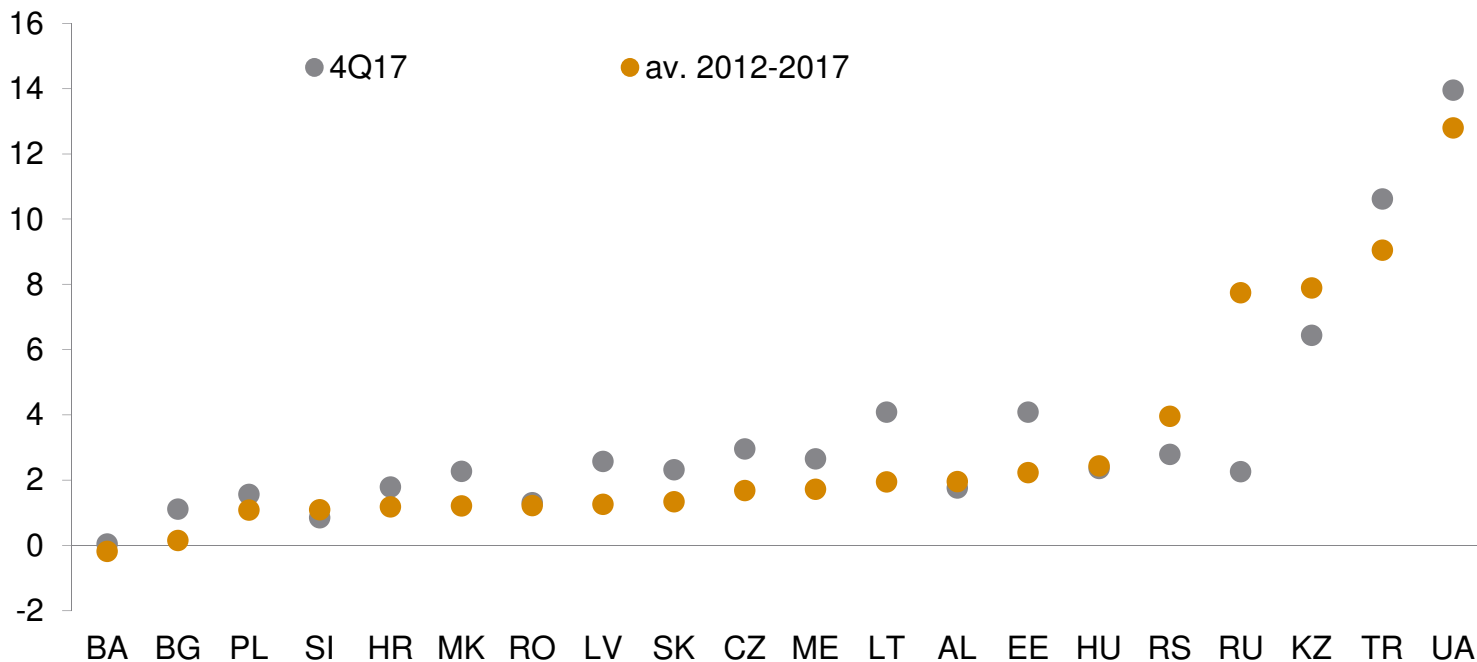


Source: National statistics offices and central banks, wiiw Monthly Database.

\* 1Q 18 data as of February.

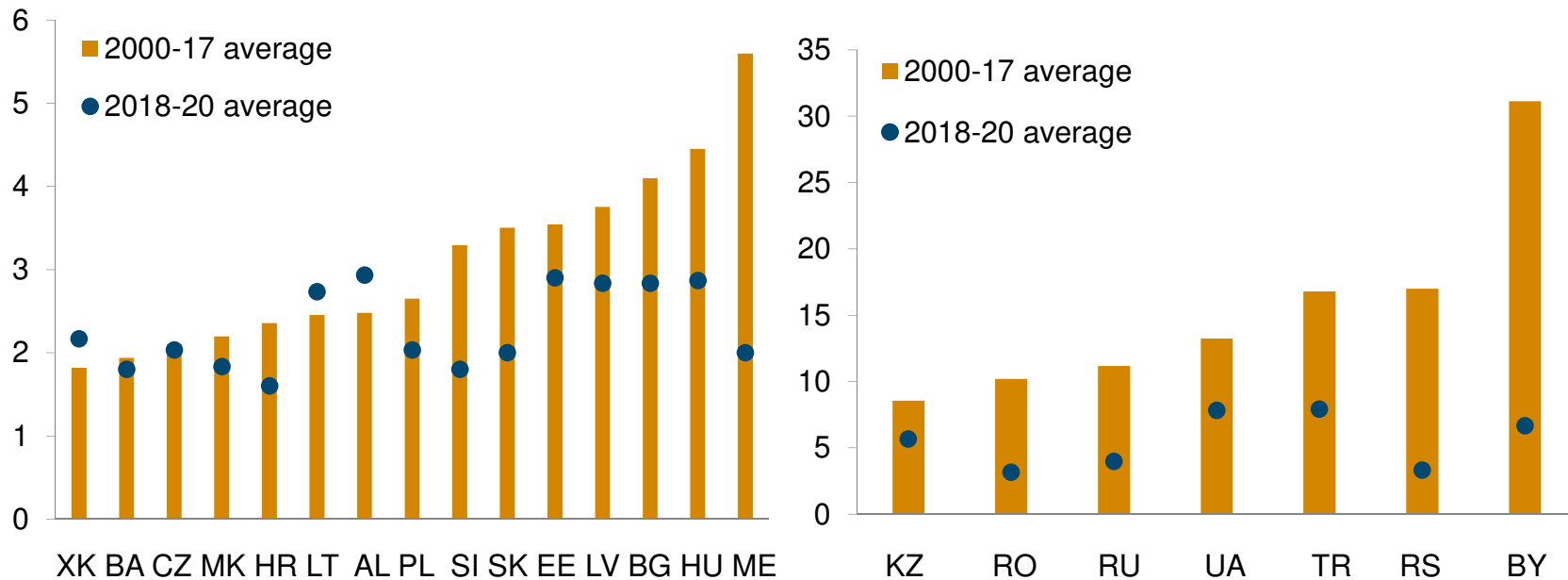
# Core inflation is (slowly) picking up in most places ...

Consumer price inflation excluding energy, % change year on year



# Inflation will remain at historically low levels ('goldilocks' conditions)

Consumer price inflation, % per year



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



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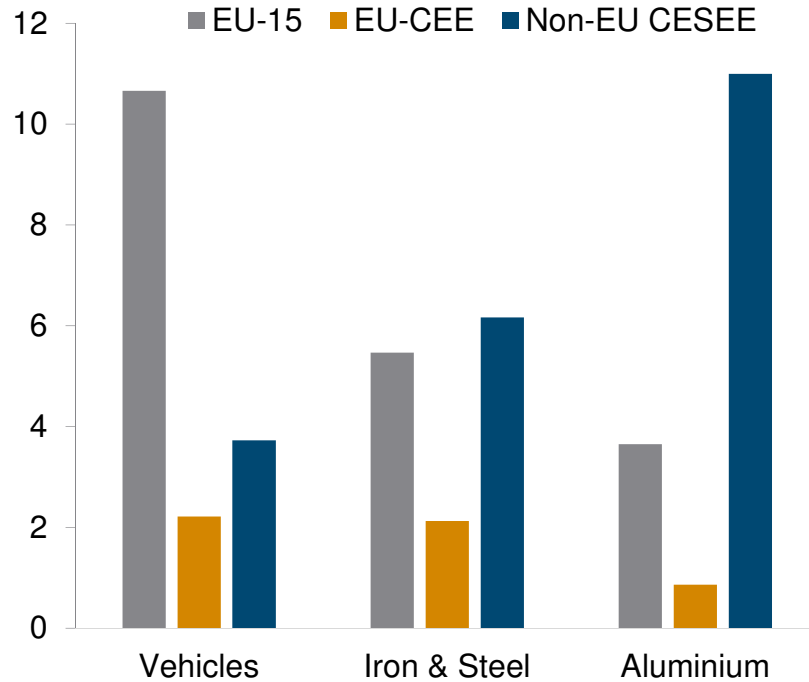
## 4. What are the risks to growth?

## As growth has risen, so have the risks

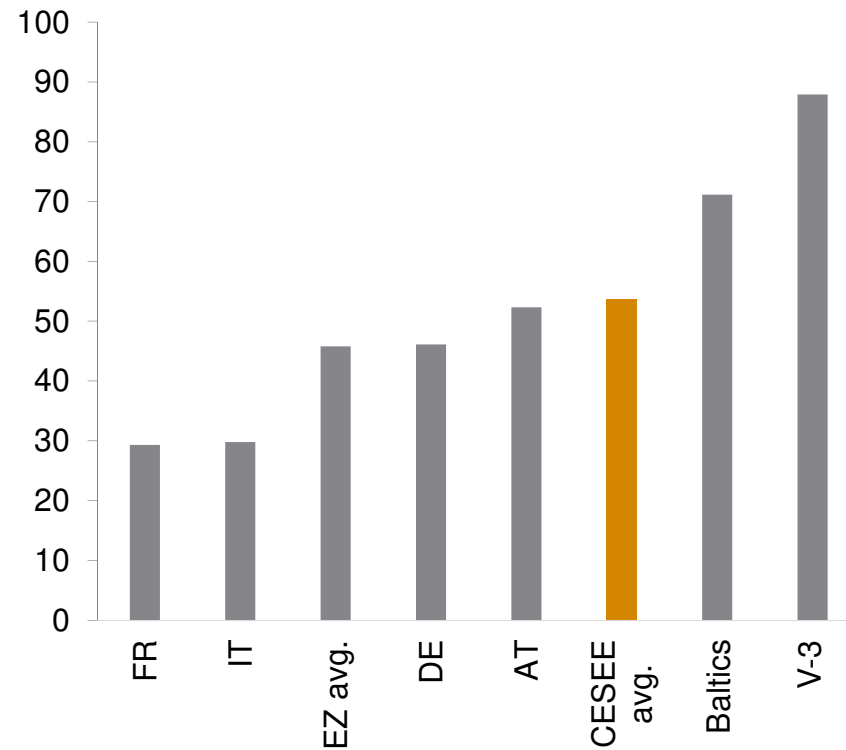
	Higher risk	Lower risk
Higher/near-term impact	<ul style="list-style-type: none"> <li>• Global trade war</li> </ul>	<ul style="list-style-type: none"> <li>• End ultra-loose global monetary policy</li> <li>• Bursting of financial bubbles</li> <li>• Ukraine crisis</li> <li>• Eurozone break-up</li> </ul>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

# The region would be badly affected by a global trade war

Exports to US as share of total, %



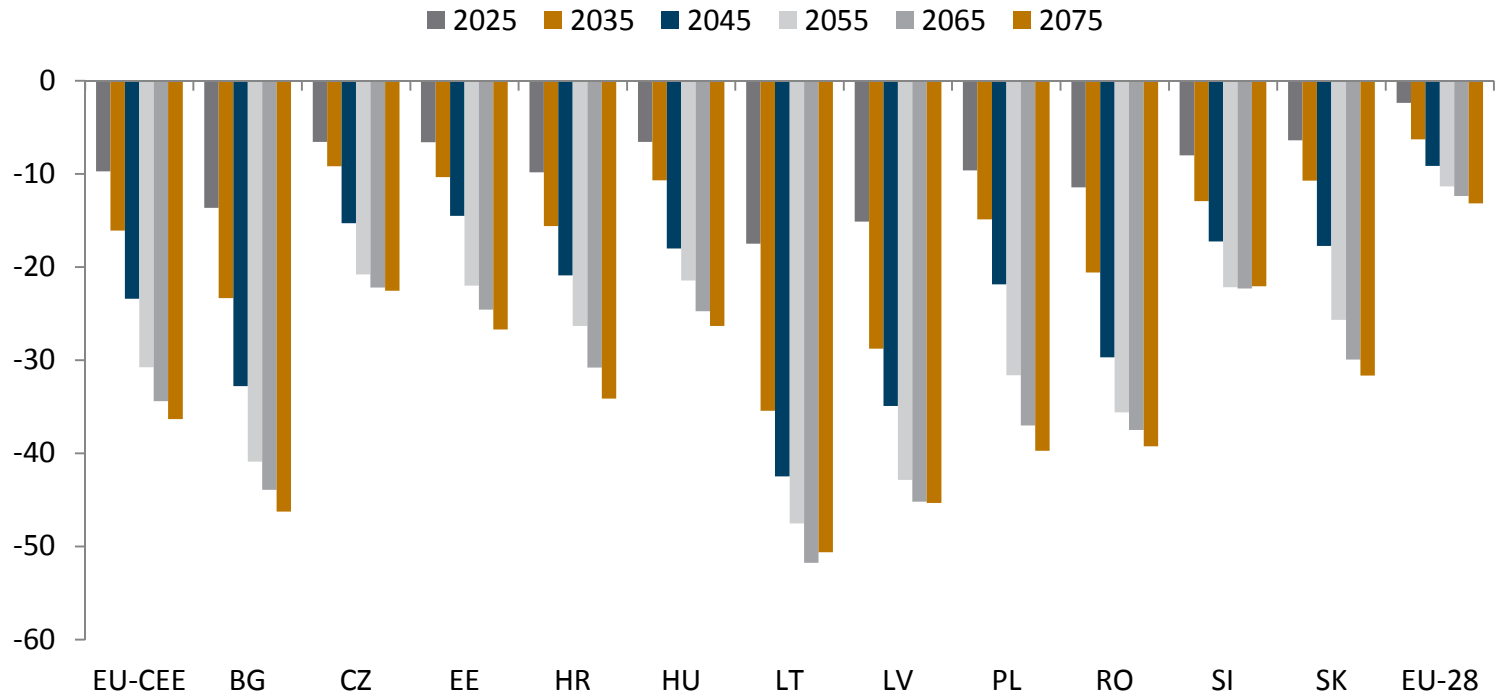
Exports, % of GDP, 2016



Source: wiiw Annual Database, Eurostat. Note: V-3 = Czech Republic, Hungary, Slovakia.

# 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.



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## Country codes

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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		