

Press conference, 17 March 2016

New wiiw forecast for Central, East and Southeast Europe, 2016-2018

**Growth stabilises:
investment a major driver, except in countries plagued
by recession**

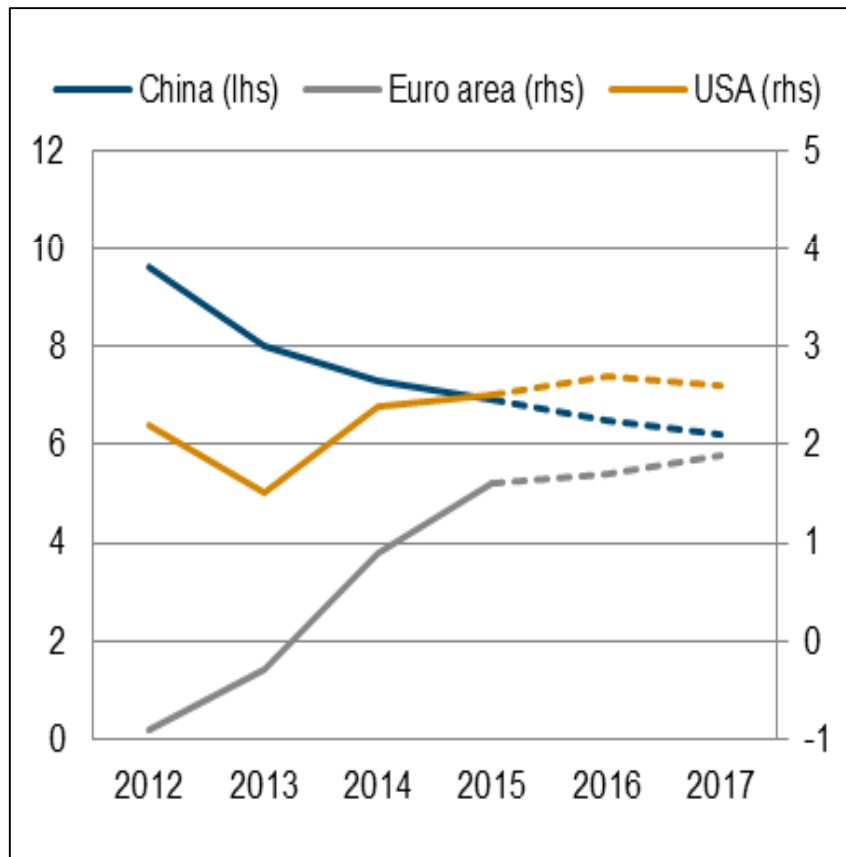
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Main questions after a year of consumption revival/decline:

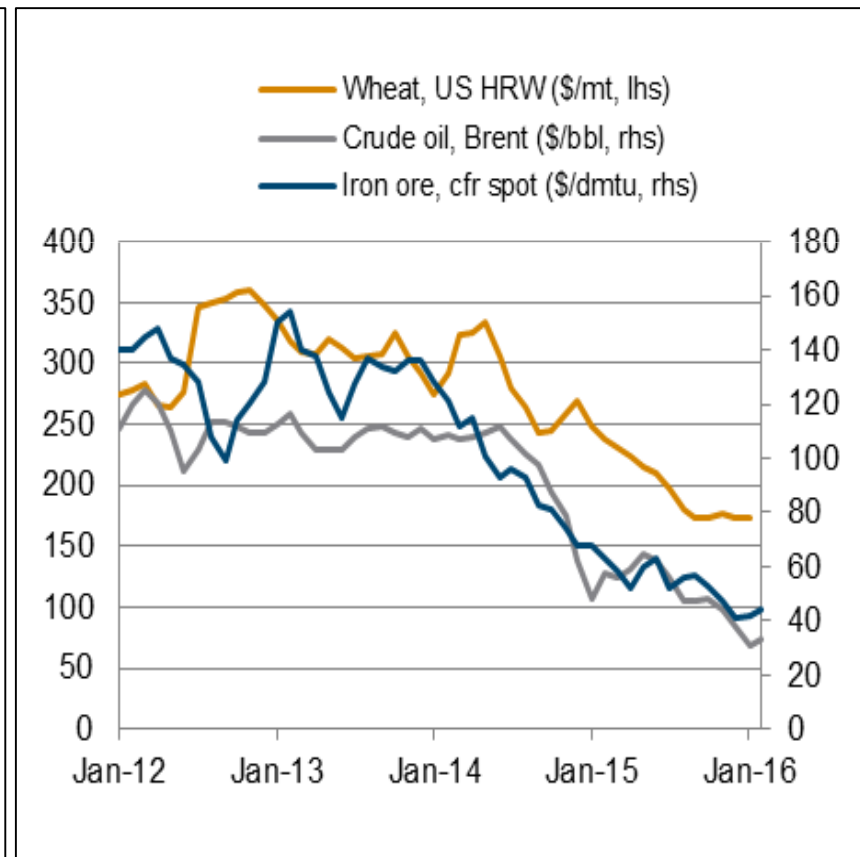
- Will investments contribute more to future growth?
 - Can Russia and UA overcome the depression?
-
- 2015 GDP growth
 - higher than expected in the EU-CEE and WB – reached peak
 - lower in the CIS-3 and UA – bottoming out
 - Future growth factors for EU-CEE and WB based on stability achieved :
 - household 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

More risks ahead if global economic growth falters

Real GDP growth in %



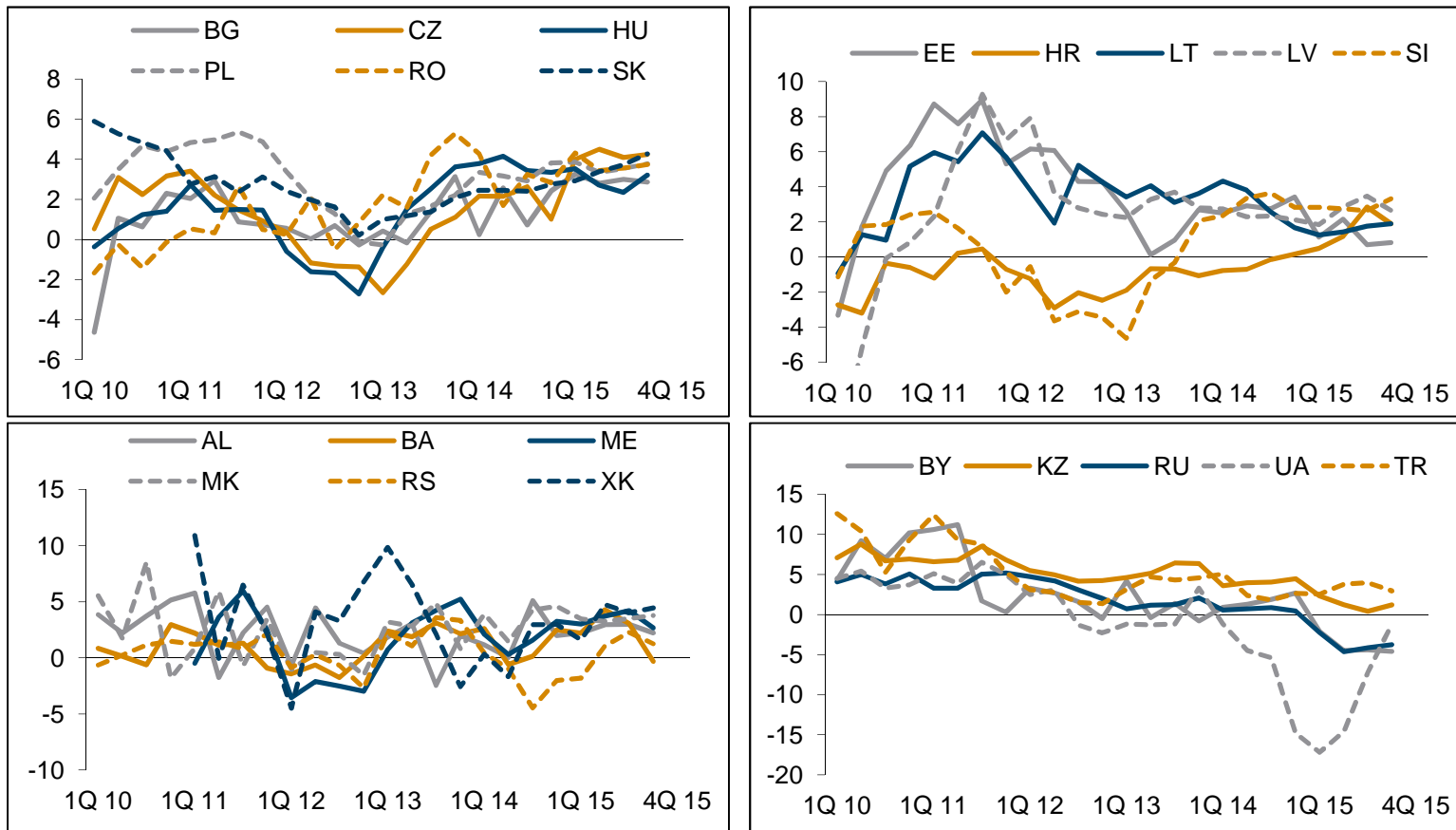
Commodity prices



Source: EC Winter Forecast 2016. World Bank Commodity Price Data (The Pink Sheet).

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

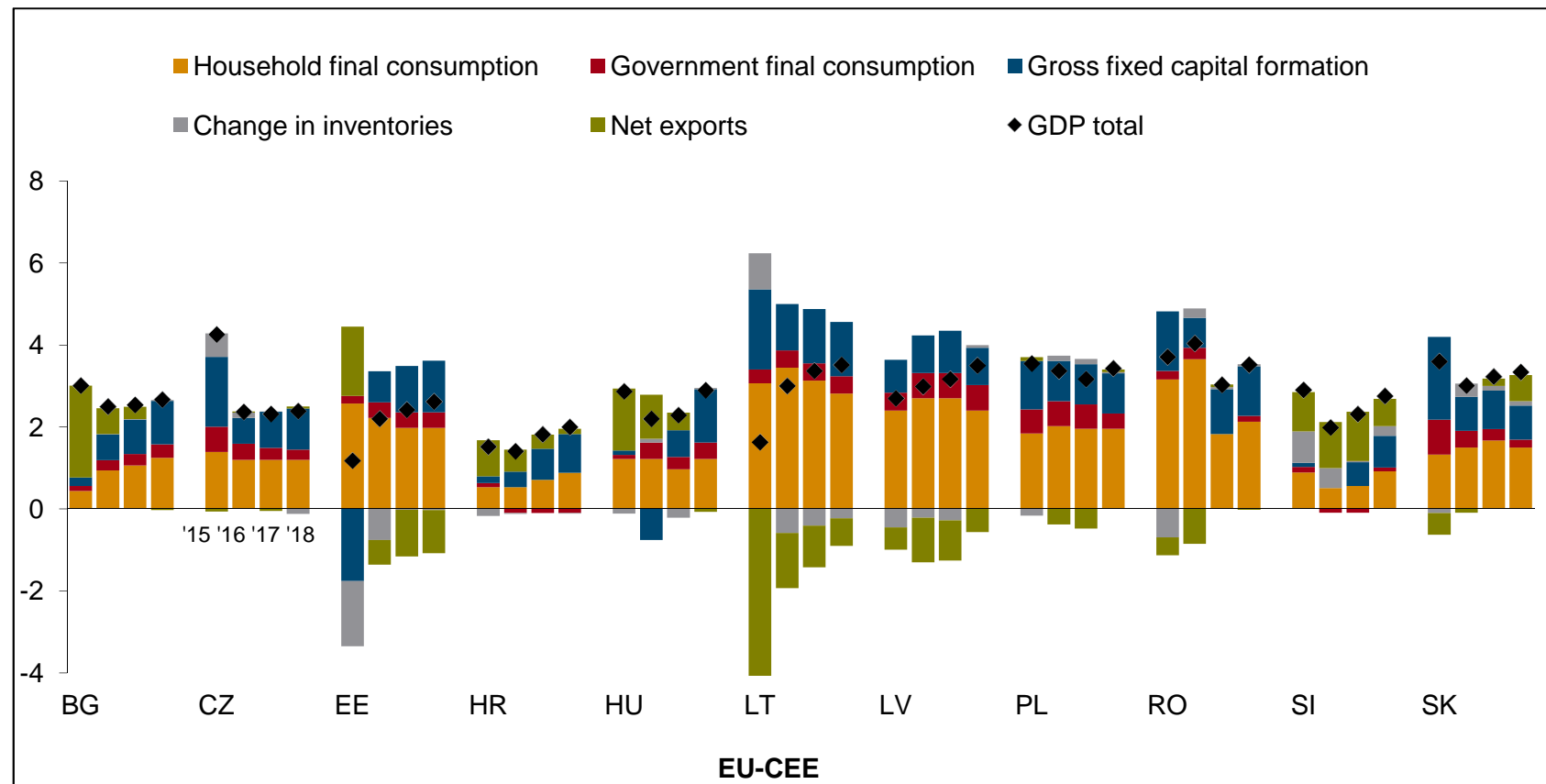
		Forecast, %				Revisions, pp		
		2015	2016	2017	2018	2015	2016	2017
EU-CEE	BG	3.0	2.5	2.5	2.7	↑ 0.7	↓ -0.1	↓ -0.5
	HR	1.5	1.4	1.8	2.0	↑ 0.8	↑ 0.2	↑ 0.2
	CZ	4.3	2.4	2.3	2.4	↑ 0.4	→ 0.0	→ 0.0
	EE	1.2	2.2	2.4	2.6	↓ -0.7	↓ -0.4	↓ -0.4
	HU	2.9	2.2	2.3	2.9	→ 0.0	↑ 0.1	↑ 0.3
	LV	2.7	3.0	3.2	3.5	↑ 0.3	→ 0.0	↑ 0.2
	LT	1.6	3.0	3.4	3.5	→ 0.0	→ 0.0	→ 0.0
	PL	3.6	3.4	3.2	3.4	↑ 0.1	↑ 0.1	↓ -0.1
	RO	3.7	4.0	3.0	3.5	↑ 0.3	↑ 0.3	↑ 0.3
	SK	3.6	3.0	3.2	3.3	↑ 0.4	→ 0.0	↑ 0.3
	SI	2.9	2.0	2.3	2.8	↑ 0.2	↓ -0.2	→ 0.0
Western Balkans	AL	2.6	3.2	3.5	3.6	→ 0.0	→ 0.0	↓ -0.1
	BA	2.3	2.9	2.9	3.1	↑ 0.5	↑ 0.6	↑ 0.5
	XK	3.7	3.9	4.3	4.0	↓ -0.6	↑ 0.4	↑ 0.2
	MK	3.5	3.4	3.1	3.1	↑ 0.1	↑ 0.7	→ 0.0
	ME	3.4	2.8	2.8	3.1	↑ 1.0	↑ 0.2	→ 0.0
	RS	0.7	1.6	1.7	2.0	↑ 0.6	↑ 0.7	↑ 0.3
Turkey	TR	3.3	3.2	3.1	3.0	↑ 0.3	↑ 0.1	→ 0.0
CIS-3	BY	-3.9	-2.6	0.5	1.5	↓ -0.1	↓ -2.6	↓ -0.9
	KZ	1.2	1.0	2.5	3.5	↓ -0.3	↓ -1.5	↓ -1.0
	RU	-3.7	-0.8	0.8	1.8	→ 0.0	↓ -1.8	↓ -0.6
Ukraine	UA	-10.5	0.0	1.9	2.5	↑ 1.0	→ 0.0	↑ 0.1

Note: Current forecast and revisions relative to the wiiw Autumn 2015 Forecast Report. Colour scale reflects variation from the minimum (red) to the maximum (green) values.

Source: wiiw forecast.

Main growth drivers: household consumption and investment

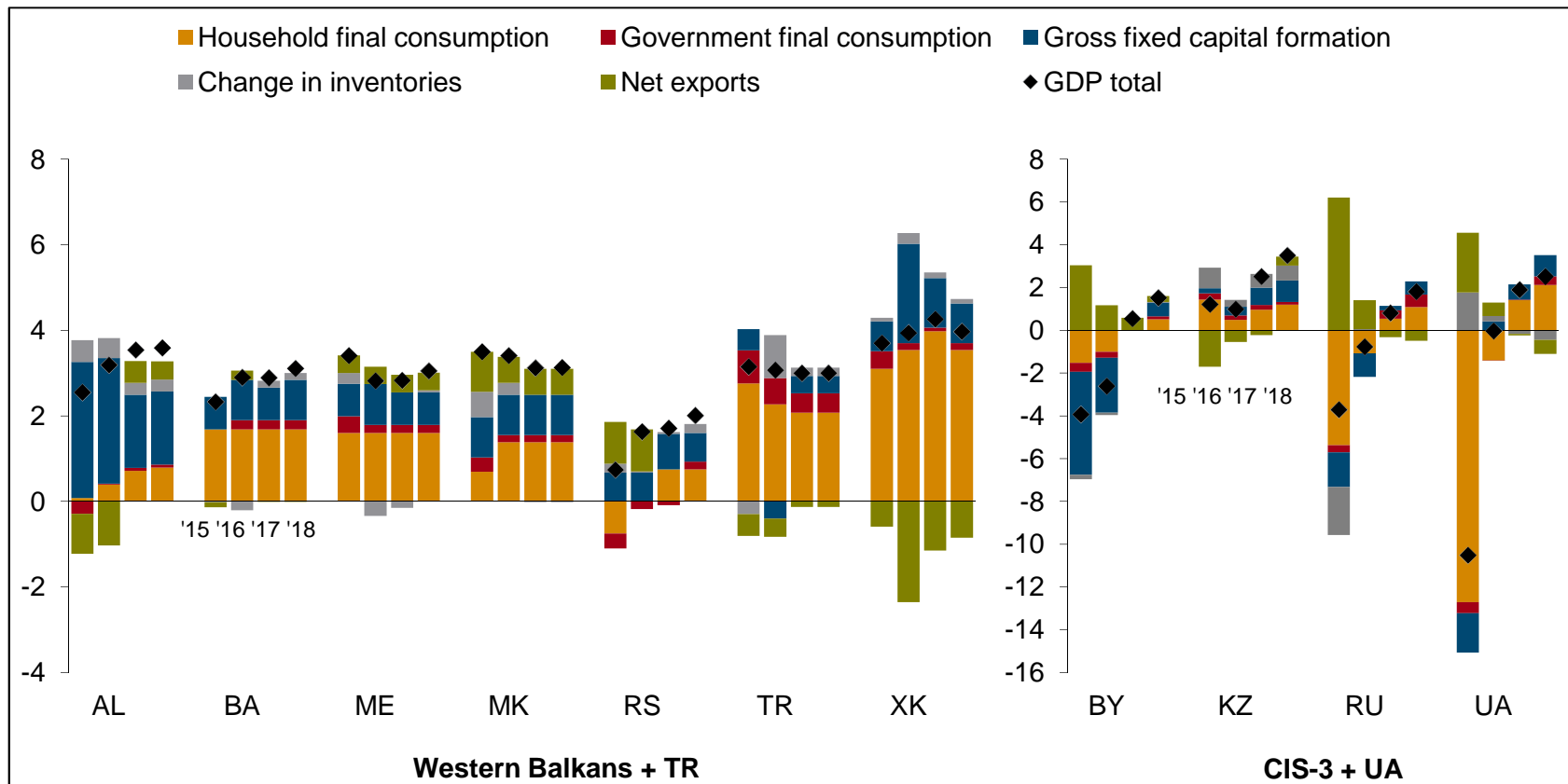
GDP growth in 2015-2018 and contribution of individual demand components in the EU-CEE, in percentage points



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

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

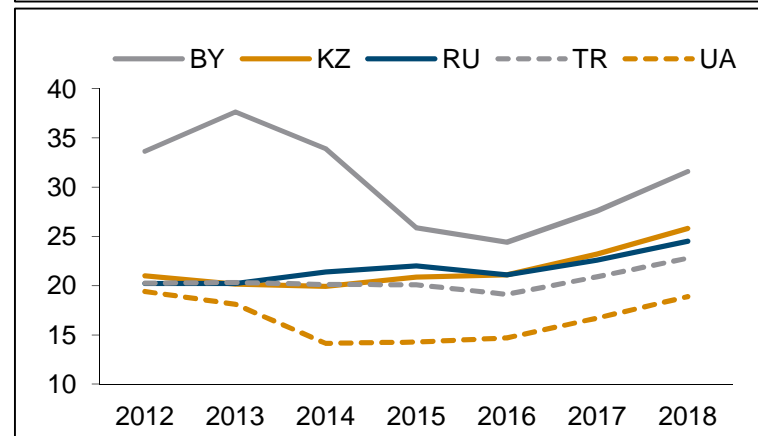
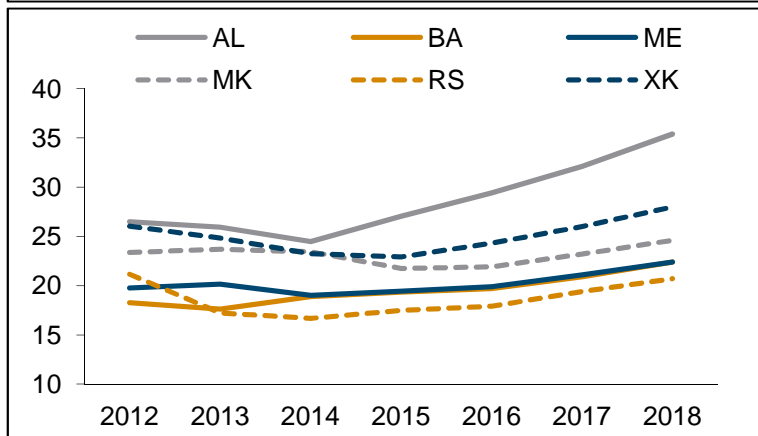
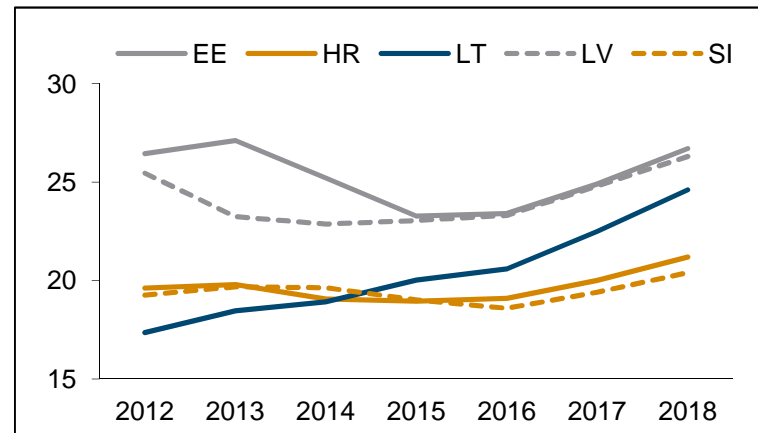
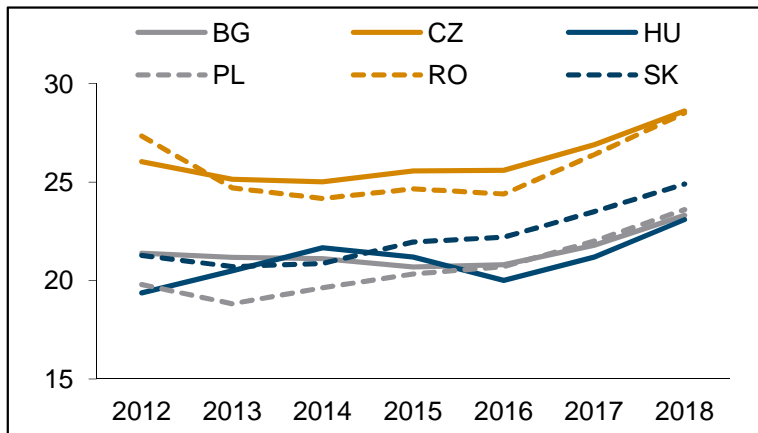
GDP growth in 2015-2018 and contribution of individual demand components in the WB, Turkey, CIS-3 and Ukraine, in percentage points



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

Investment revival after temporary decline

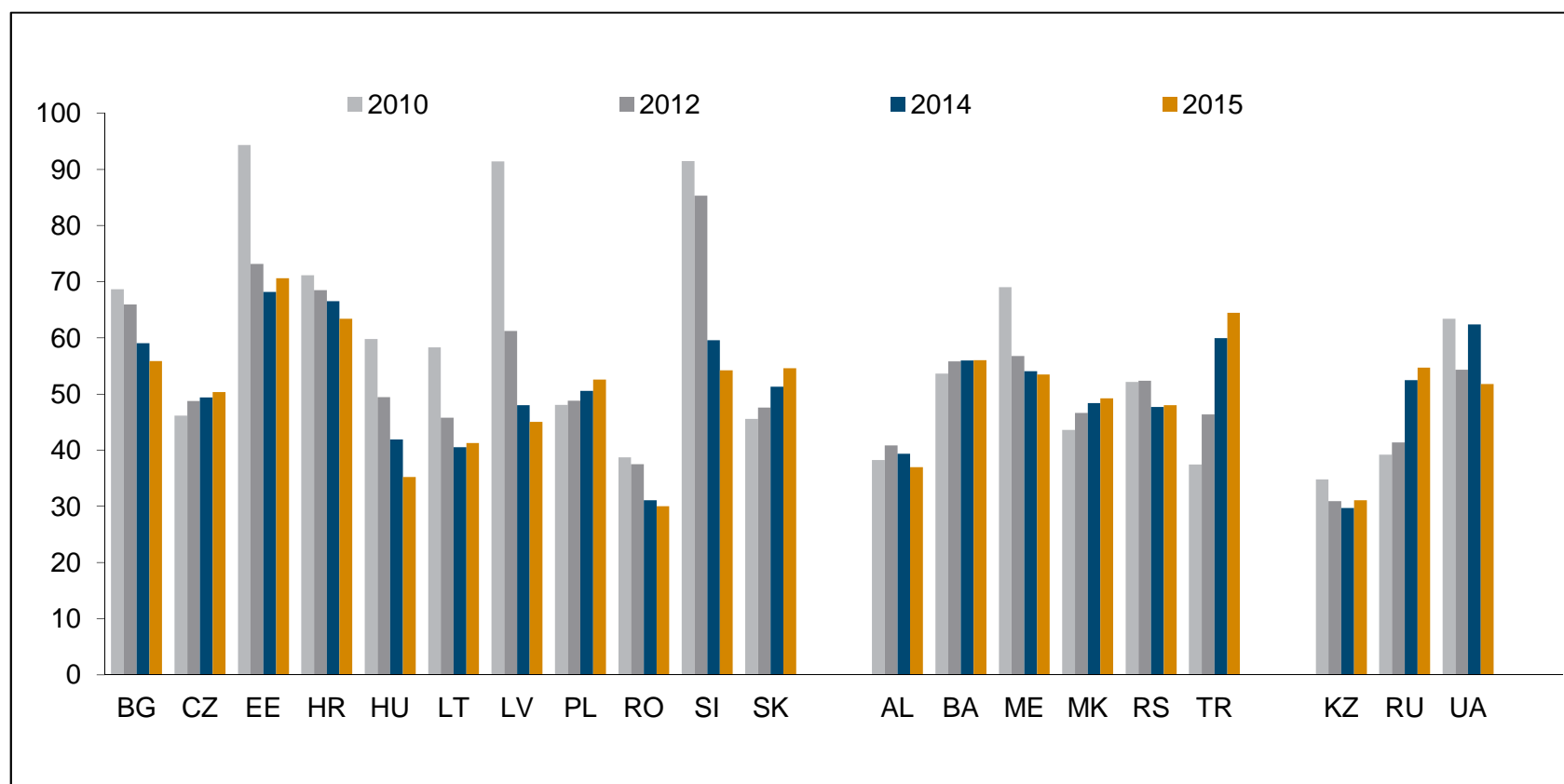
Gross fixed capital formation in % of GDP



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

Conditions for private investment started improving (1): bank loans from deleveraging to recovery

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

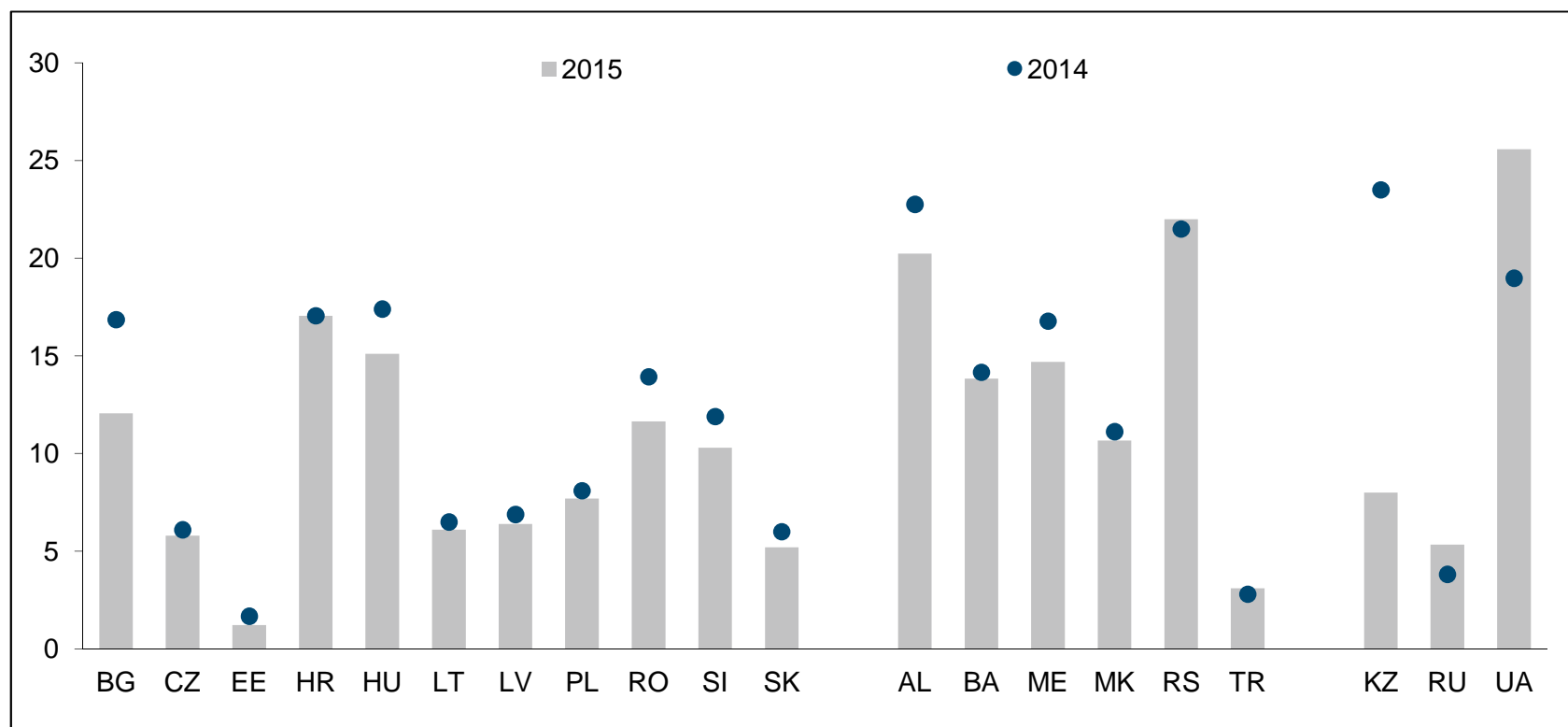


Note: Private bank loans comprise loans of non-financial corporations and households taken from banking statistics.

Source: National Bank statistics, wiiw own calculations.

Conditions for private investment started improving (2): shrinking non-performing loans rate

Bank non-performing loans, % of total loans

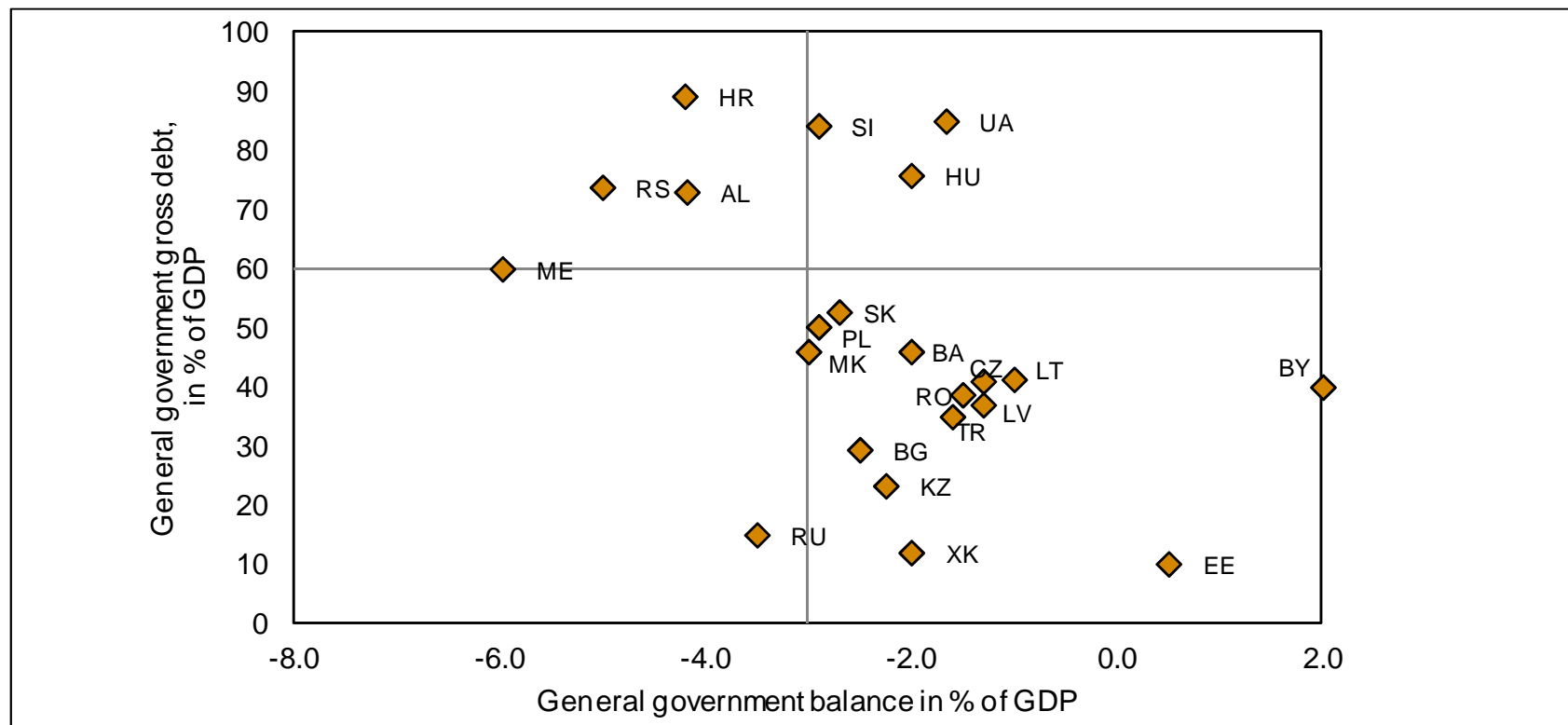


Note: Loans more than 90 days overdue. EE, LT - loans that are more than 60 days overdue. RU - Russian Accounting Standards: debt service overdue, not fully comparable with other countries.

Source: National Bank statistics, wiiw own calculations.

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

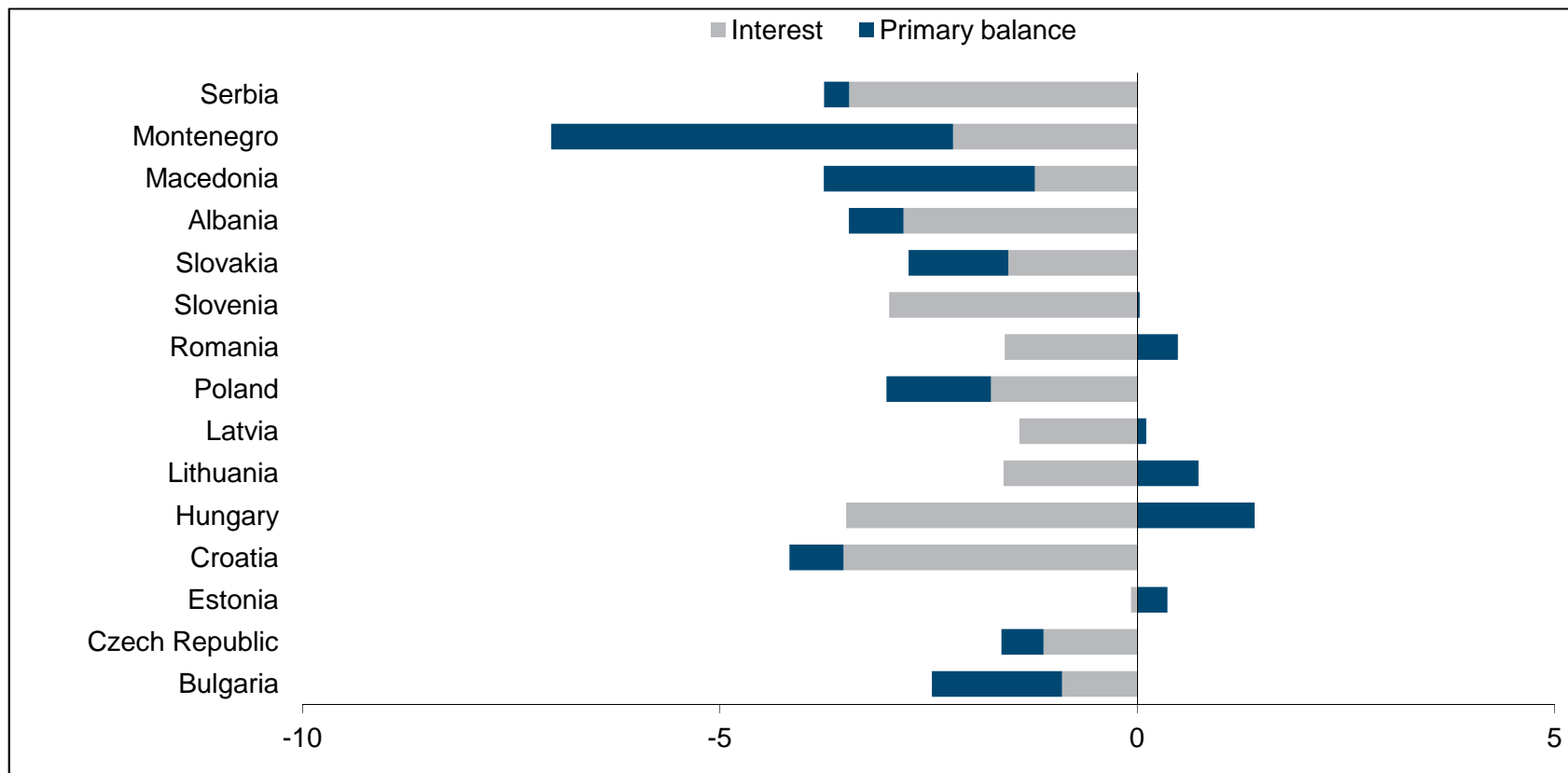
Fiscal stance of the CESEE countries, 2015



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

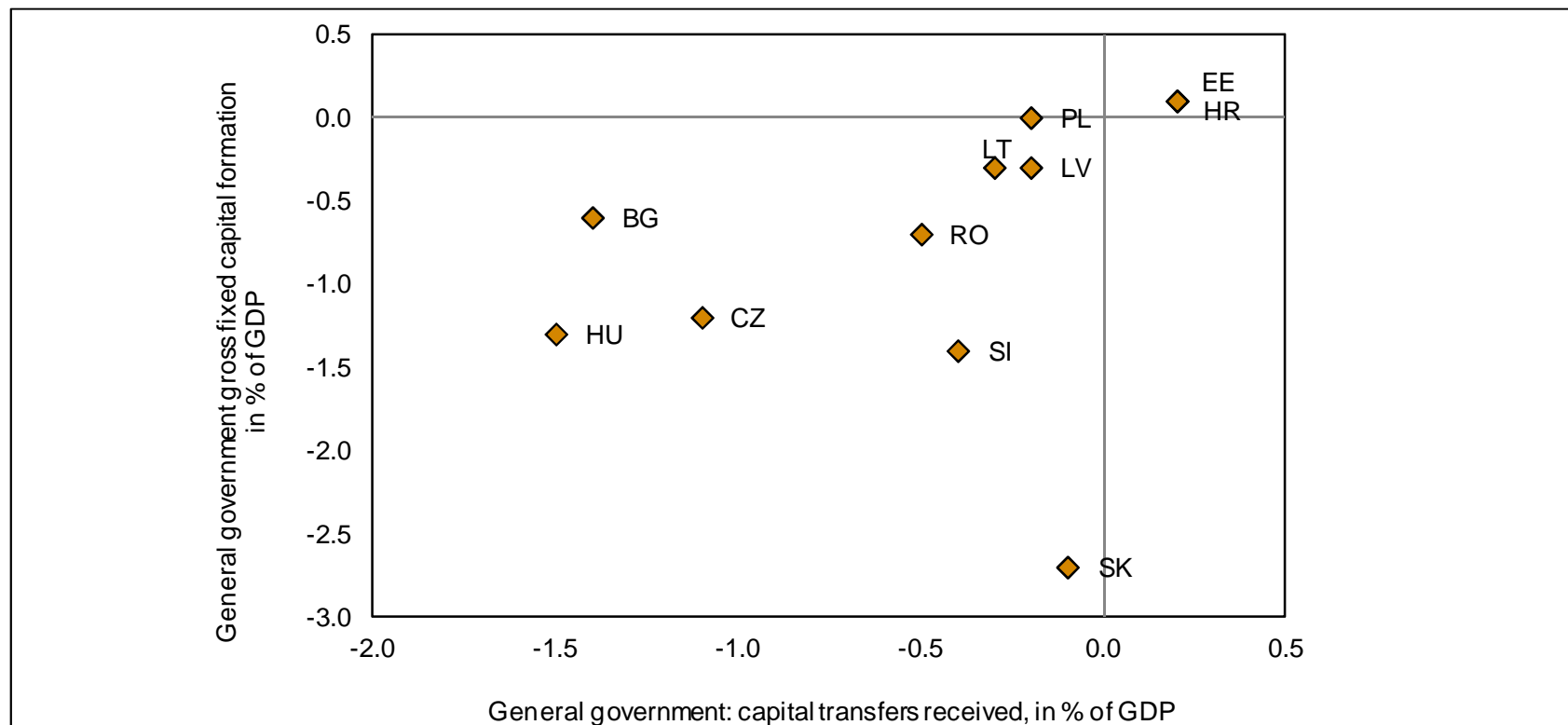
General government net lending (+) or net borrowing (-), in % of GDP, 2015



Source: AMECO.

Public investments temporarily curtailed due to less EU transfers in 2016

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



Temporary decline in EU transfers in 2016; Juncker Plan no substitute

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

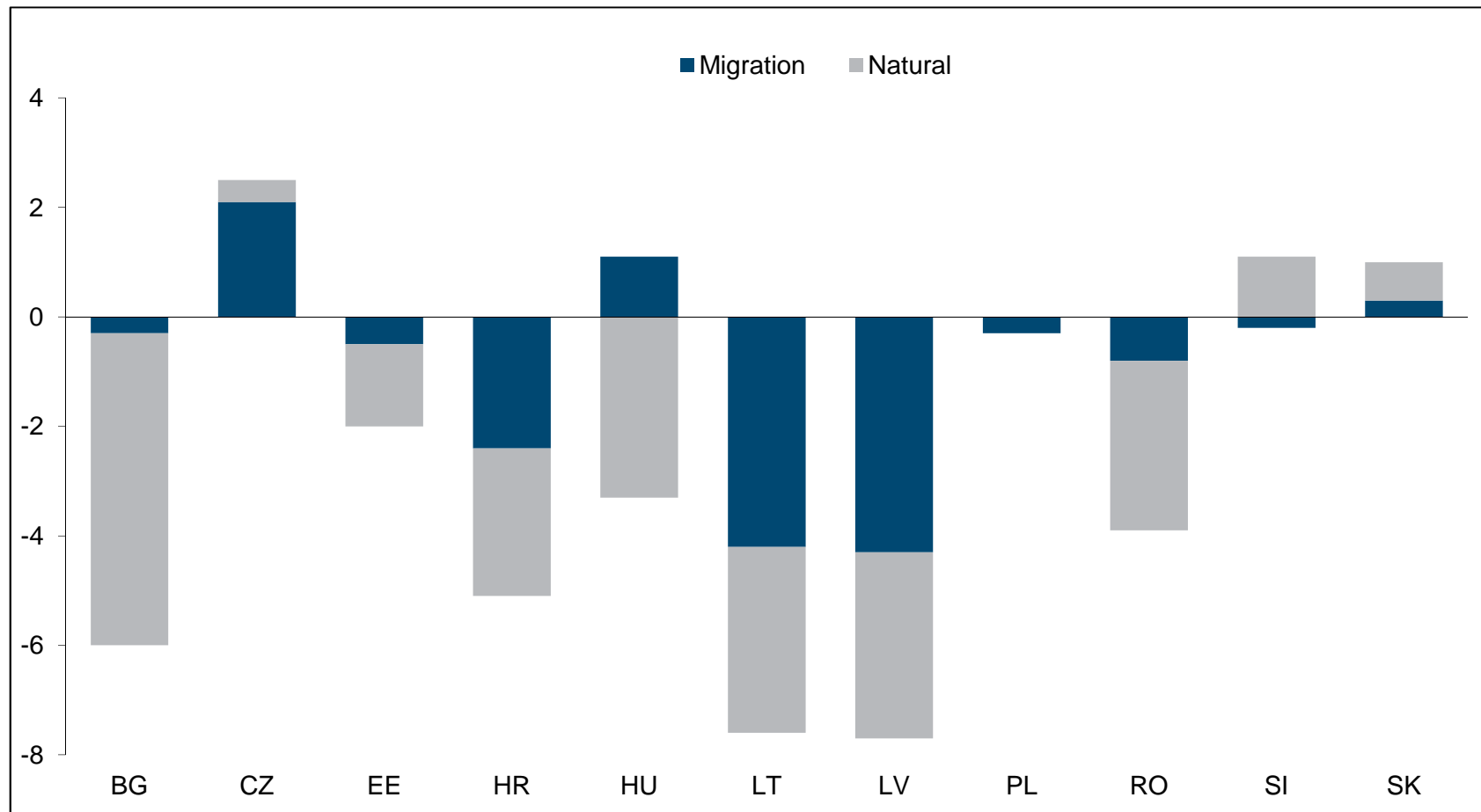
Period	per cent of GDP
2007-2008	1.3
2009-2011	2.5
2012-2014	3.2
2015	up to 6
2016-2017 forecast	1.0 – 2.5
EFSI loans forecast 2016-2017	0.5 – 1.5

Note: Net financial position is defined as the operating budgetary balance calculated by the European Commission. The EU-CEE-10 aggregate does not include Croatia.

Source: European Commission, wiiw forecast.

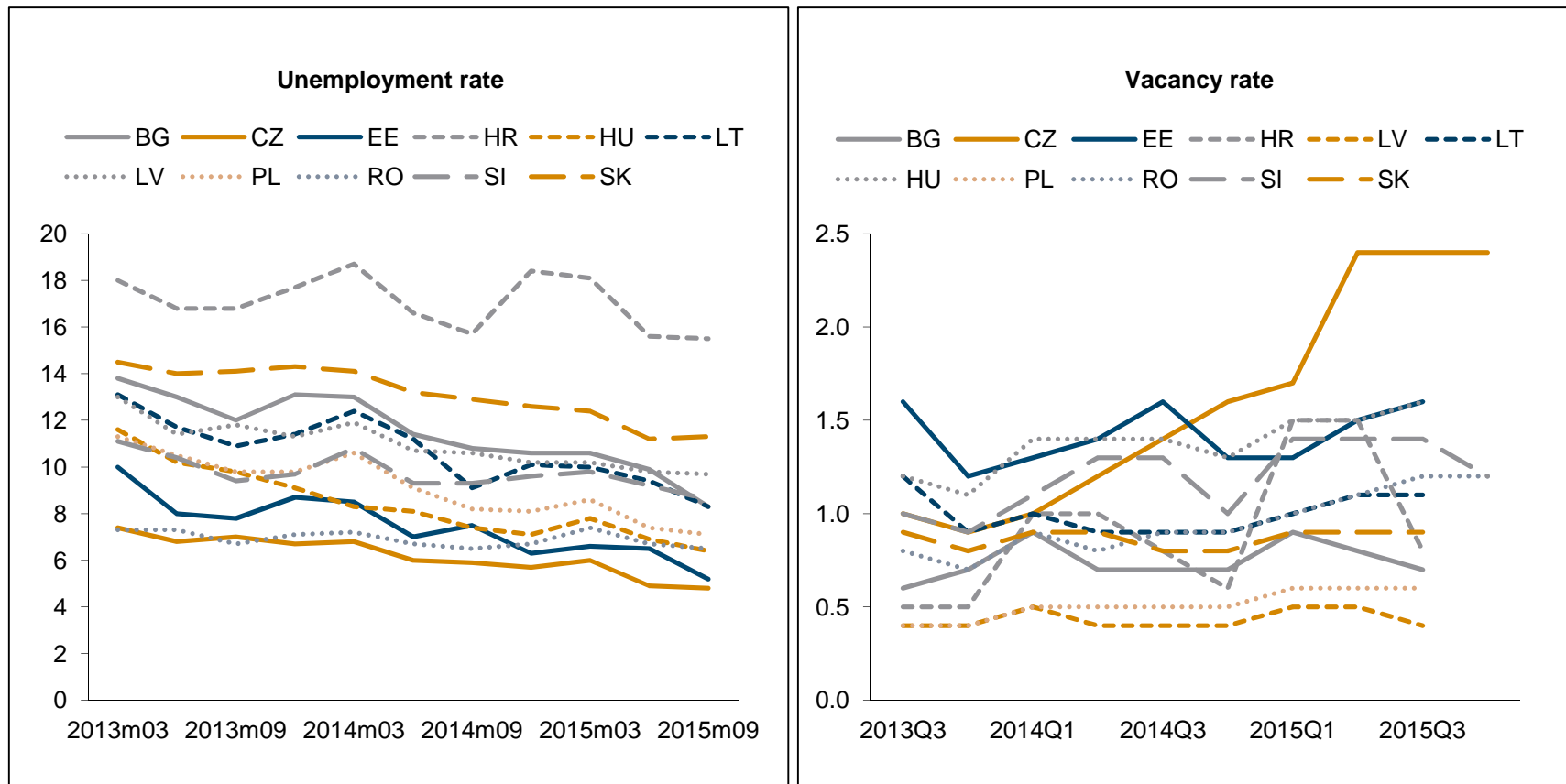
Demography and emigration lead to labour shortages in EU-CEE

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



Demography and emigration lead to labour shortages in EU-CEE

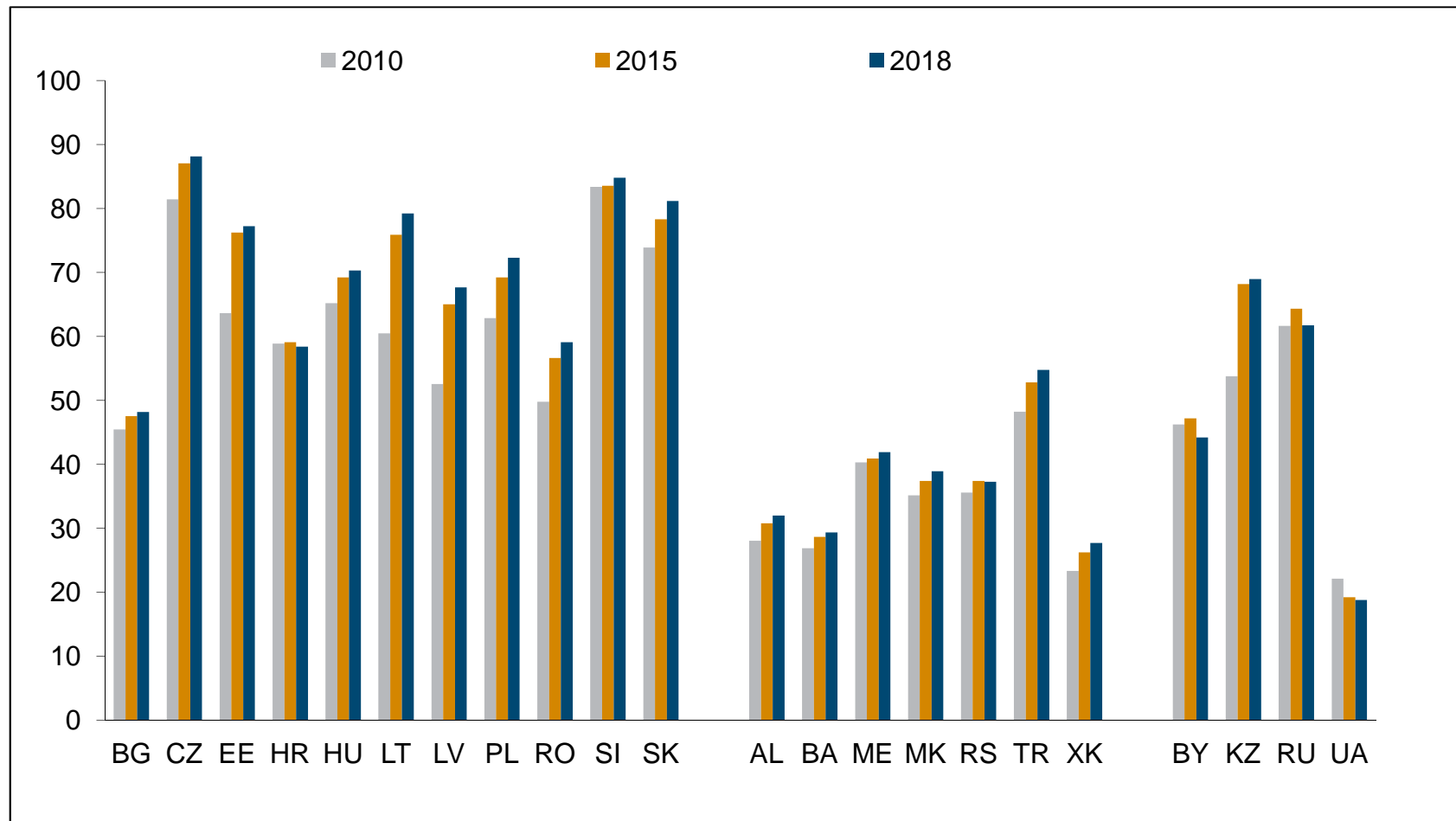
Unemployment rates decline and vacancy rates increase in response to economic recovery



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
 - dependent on oil price and structural reforms
- Household consumption the main growth driver but investments will recover
- Temporary decline in EU transfers in 2016; Juncker Plan no substitute
- Conditions of private investments improve in EU-CEE
- 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
