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The Vienna Institute for
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wiiw Spring Seminar, 30 March 2017

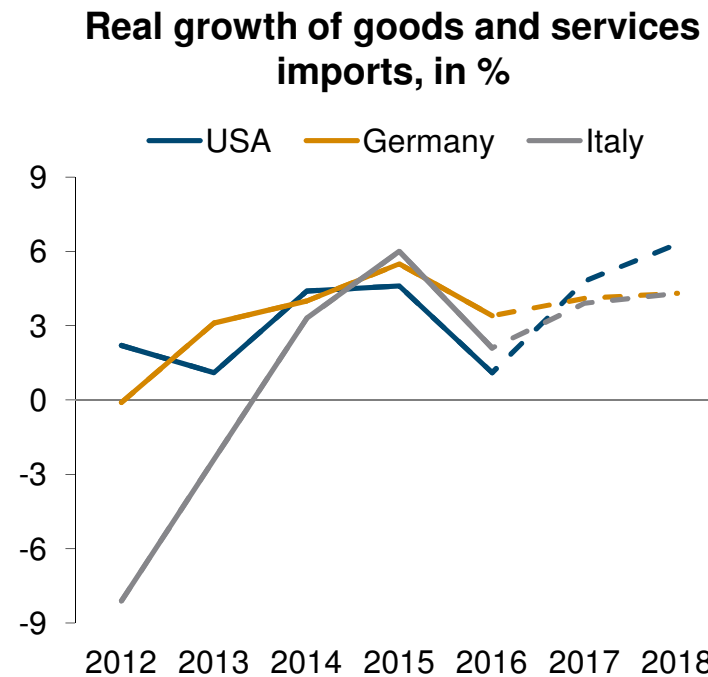
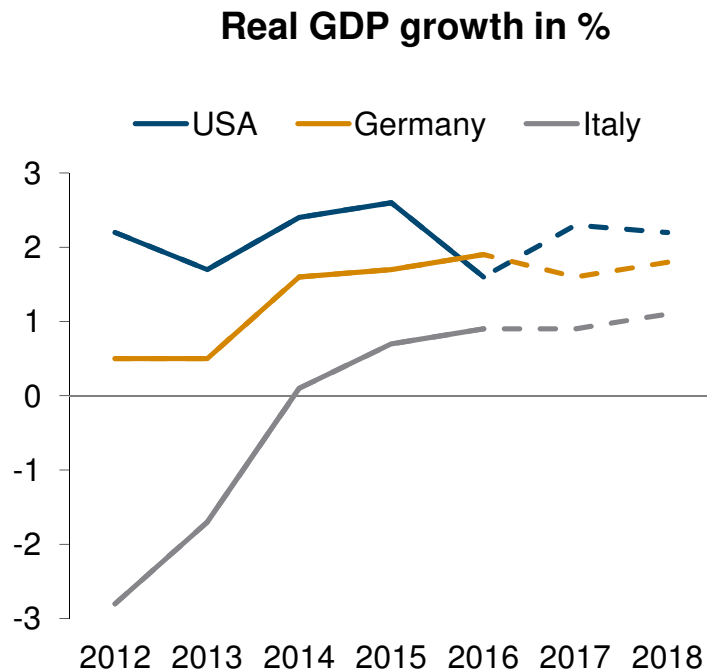
Economic Prospects for CESEE

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Positive international environment: Euro area growth forecast 1.7% (2017-2018)

International GDP and import trends

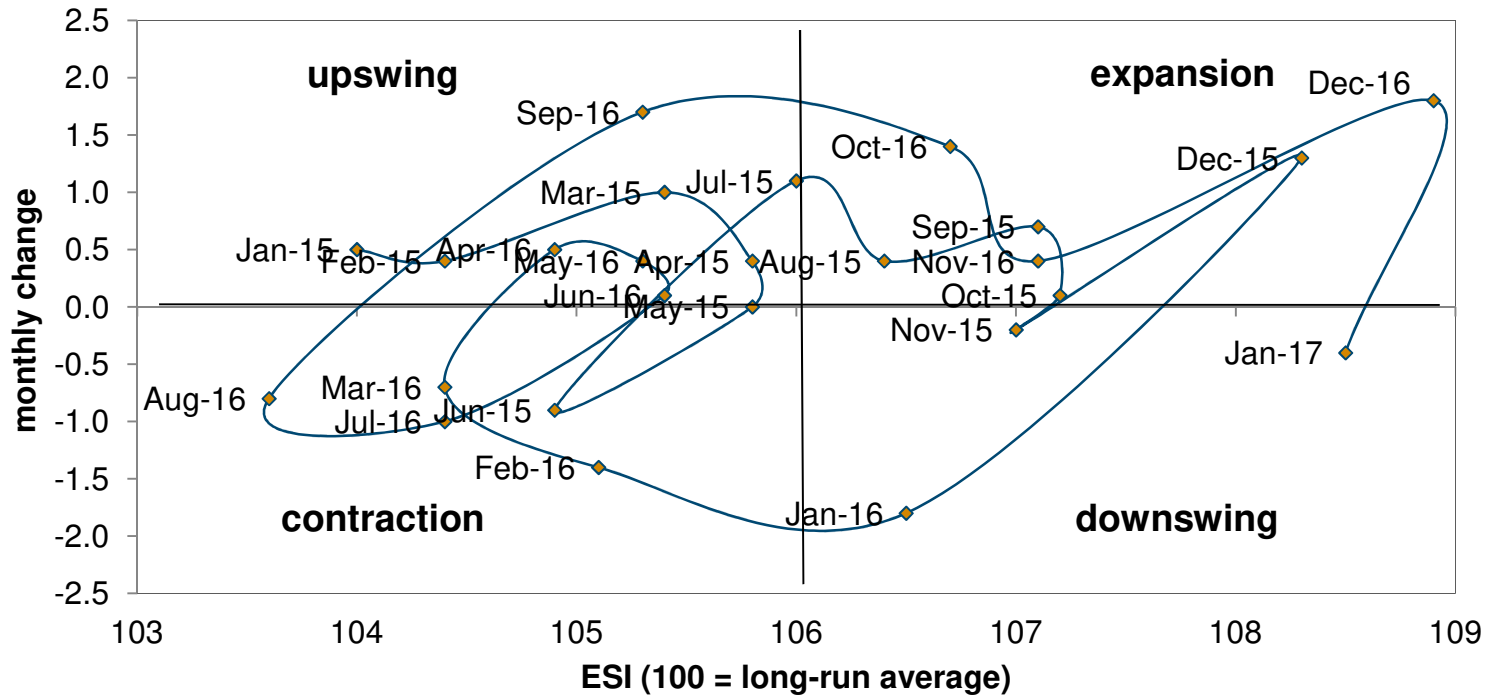


Note: Dashed lines are forecasts.

Source: EC Autumn Forecast 2016 and Winter Forecast 2017.

Economic agents' mood is good: EU sentiment indicator above long-term average

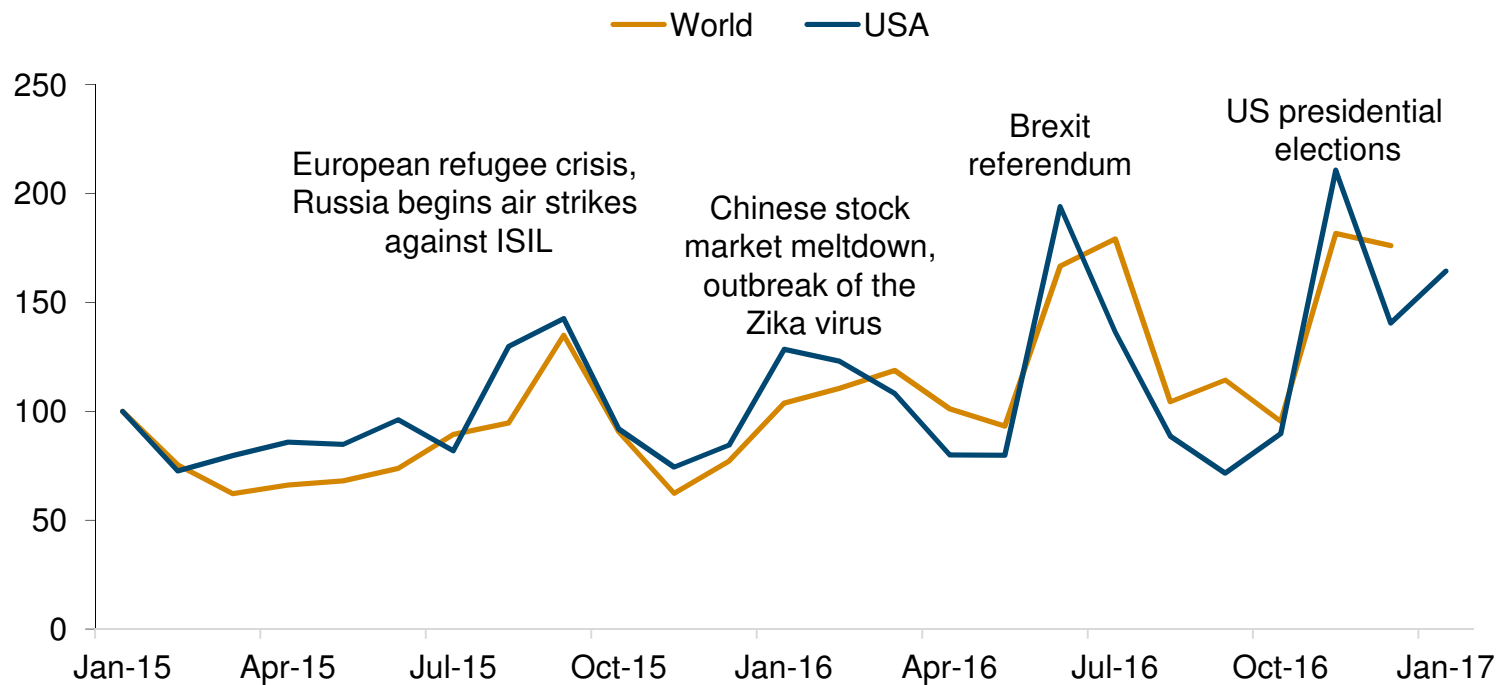
EU Economic Sentiment Indicator tracer



Source: Eurostat.

... but heightened uncertainties following Brexit, Trump

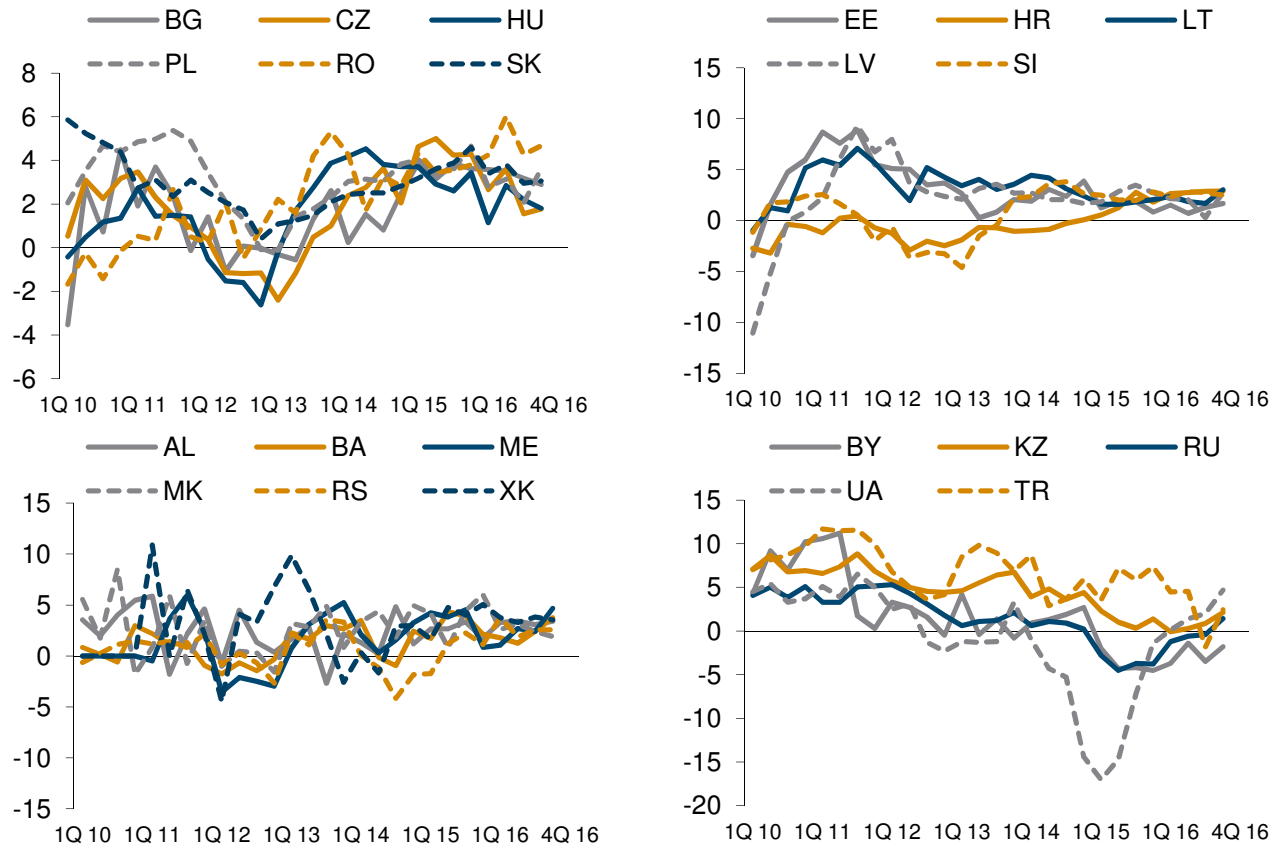
News-based Economic Policy Uncertainty Index



Source: Economic Policy Uncertainty.

Growth stabilised in positive territory: except in Belarus (Turkey)

Quarterly real GDP growth, change in % against preceding year



CESEE GDP growth forecasts of around 3%: with a slightly upward trend

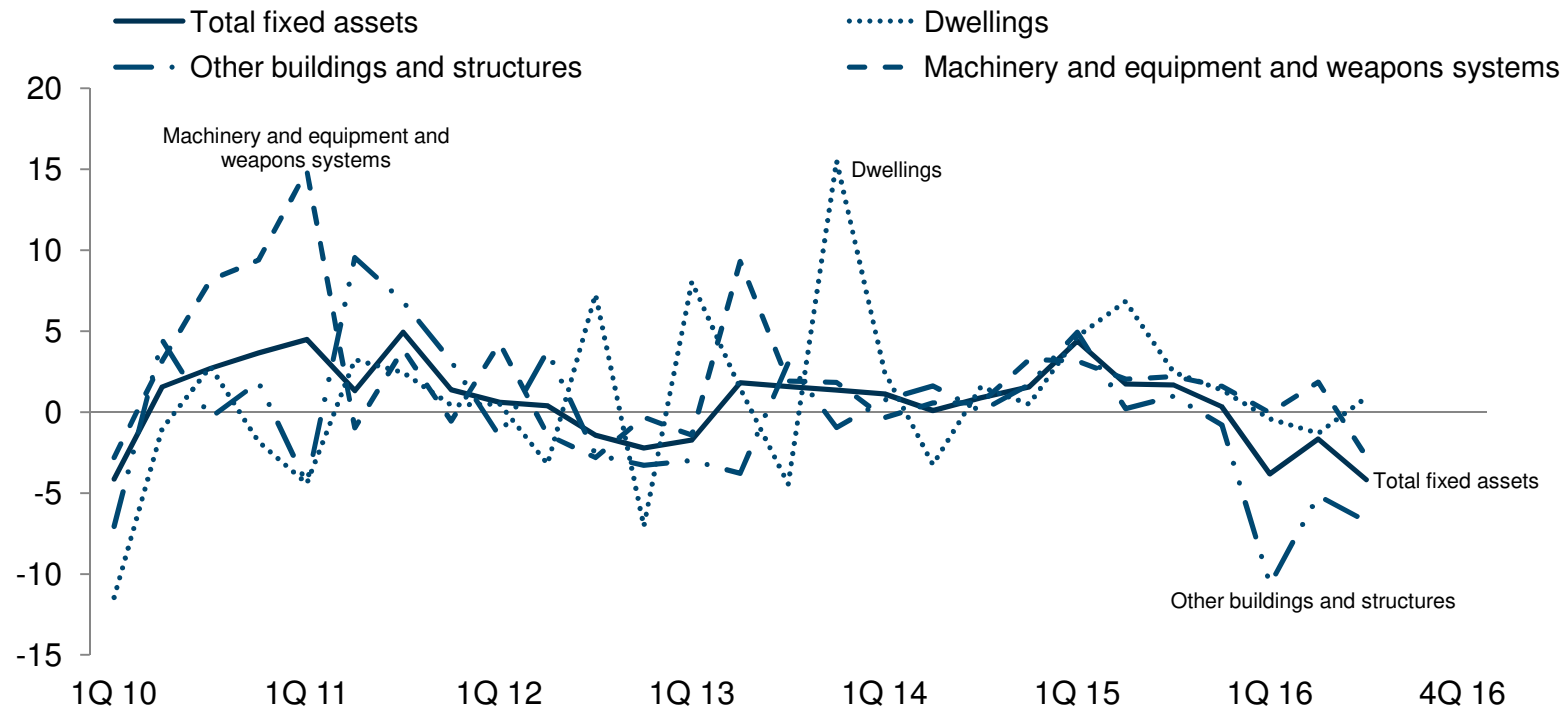
Real GDP growth forecast and revisions

		Forecast, %				Revisions, pp		
		2016	2017	2018	2019	2016	2017	2018
EU-CEE	BG	3.4	2.9	3.1	3.3	↑ 0.4	↓ -0.1	→ 0.0
	HR	2.8	2.8	2.9	3.0	↑ 0.3	↑ 0.1	↑ 0.1
	CZ	2.3	2.4	2.6	2.3	↑ 0.1	→ 0.0	→ 0.0
	EE	1.3	2.2	2.3	2.4	↓ -0.3	→ 0.0	→ 0.0
	HU	2.0	3.3	3.4	3.1	→ 0.0	↑ 0.7	↑ 0.5
	LV	1.8	2.5	2.7	2.8	↓ -0.6	↓ -0.1	↓ -0.2
	LT	2.2	2.7	2.8	3.1	↓ -0.1	↑ 0.1	↓ -0.2
	PL	2.8	2.9	3.0	3.1	↓ -0.4	↓ -0.6	↓ -0.3
	RO	4.8	4.0	4.0	4.0	↑ 0.1	↑ 0.5	↑ 0.2
	SK	3.3	3.1	3.6	3.9	↑ 0.1	→ 0.0	↑ 0.2
SI	2.6	2.9	2.9	3.0	↑ 0.2	↑ 0.3	→ 0.0	
WB	AL	3.2	3.5	3.9	4.0	↑ 0.2	↑ 0.2	↑ 0.3
	BA	2.3	2.8	3.0	3.1	↓ -0.8	↓ -0.5	↓ -0.5
	XK	3.6	3.9	3.8	3.7	↑ 1.0	↑ 0.9	↑ 0.6
	MK	2.5	3.1	3.3	3.0	→ 0.0	→ 0.0	→ 0.0
	ME	2.7	3.1	2.9	3.3	→ 0.0	→ 0.0	→ 0.0
	RS	2.7	2.8	3.0	3.3	↑ 0.5	↑ 0.3	↑ 0.5
Turkey	TR	1.9	2.1	2.6	3.1	↓ -1.4	↓ -0.9	↓ -0.1
CIS +UA	BY	-2.6	0.5	1.6	2.2	↑ 0.2	↑ 1.4	→ 0.0
	KZ	1.0	2.0	3.0	3.0	↑ 0.6	→ 0.0	→ 0.0
	RU	-0.2	1.7	1.7	2.0	↑ 0.6	↑ 0.9	↓ -0.1
	UA	2.0	2.5	3.0	3.0	↑ 1.2	↑ 0.6	↑ 0.6

Note: Current forecast and revisions relative to the wiiw autumn forecast 2016. Colour scale reflects variation from the minimum (red) to the maximum (green) values. Source: wiiw forecast.

After the 2016 investment slump due to EU transfer cycle: EU-CEE can expect investment recovery

Gross fixed capital formation (GFCF) by asset types in EU-CEE
real change in % against preceding year, seasonally and calendar adjusted

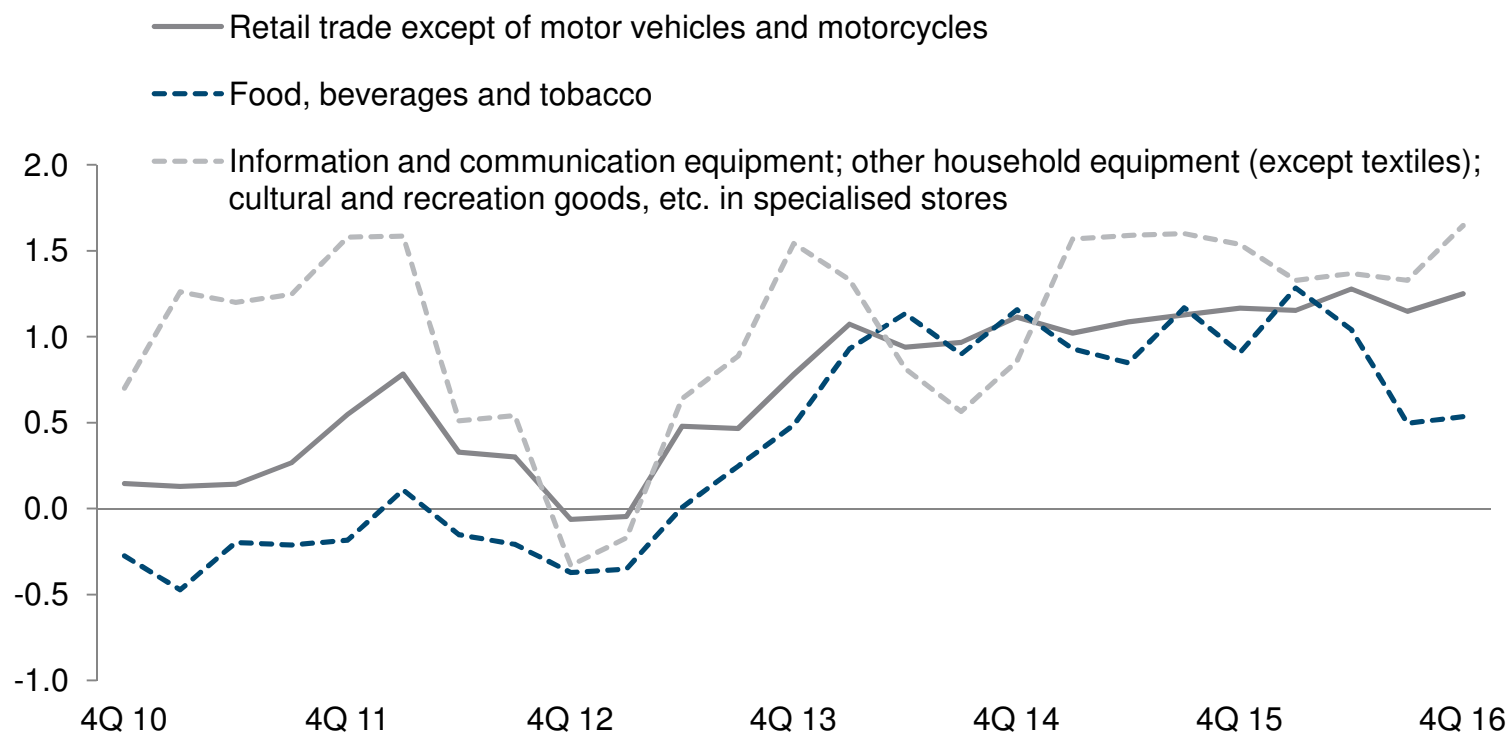


Note: Arithmetic average over 8 EU-CEE countries: BG, CZ, EE, LV, LT, PL, SK, SI.

Source: Eurostat.

EU-CEE: lasting consumption growth expected

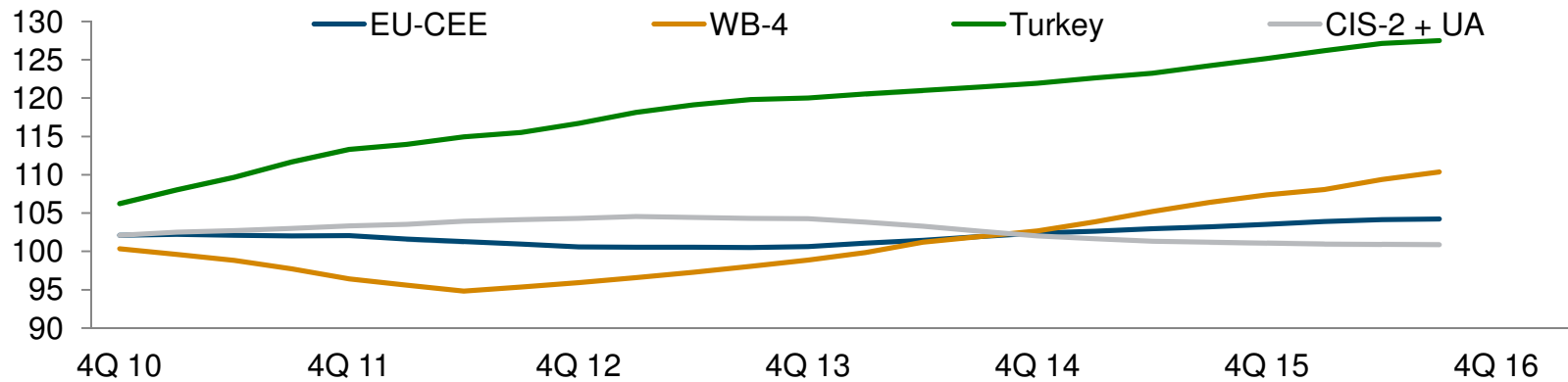
Retail trade turnover in EU-CEE, real change in % against preceding year, seasonally and calendar adjusted data, 4 quarters moving average



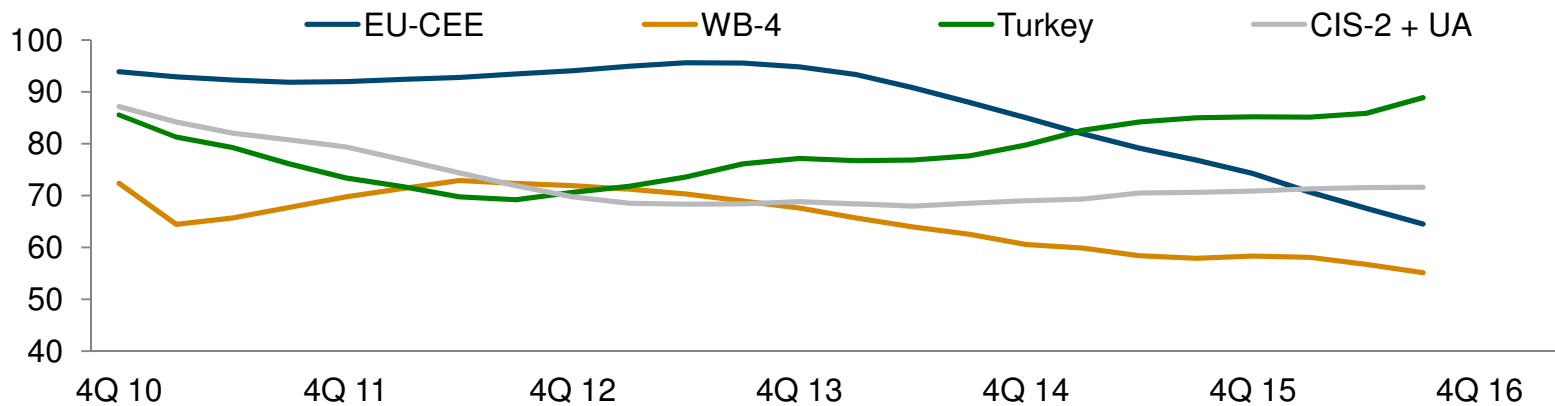
Note: Arithmetic average over countries - for the information and household equipment sub-group only data for 7 countries (BG, CZ, EE, HU, LT, PL, RO) were available. Source: Eurostat.

Labour markets improving: especially in Western Balkans

Employed persons, th. average, LFS, based on 1Q 2010 = 100, 4 quarters moving average



Unemployed persons, th. average, LFS, based on 1Q 2010 = 100, 4 quarters moving average

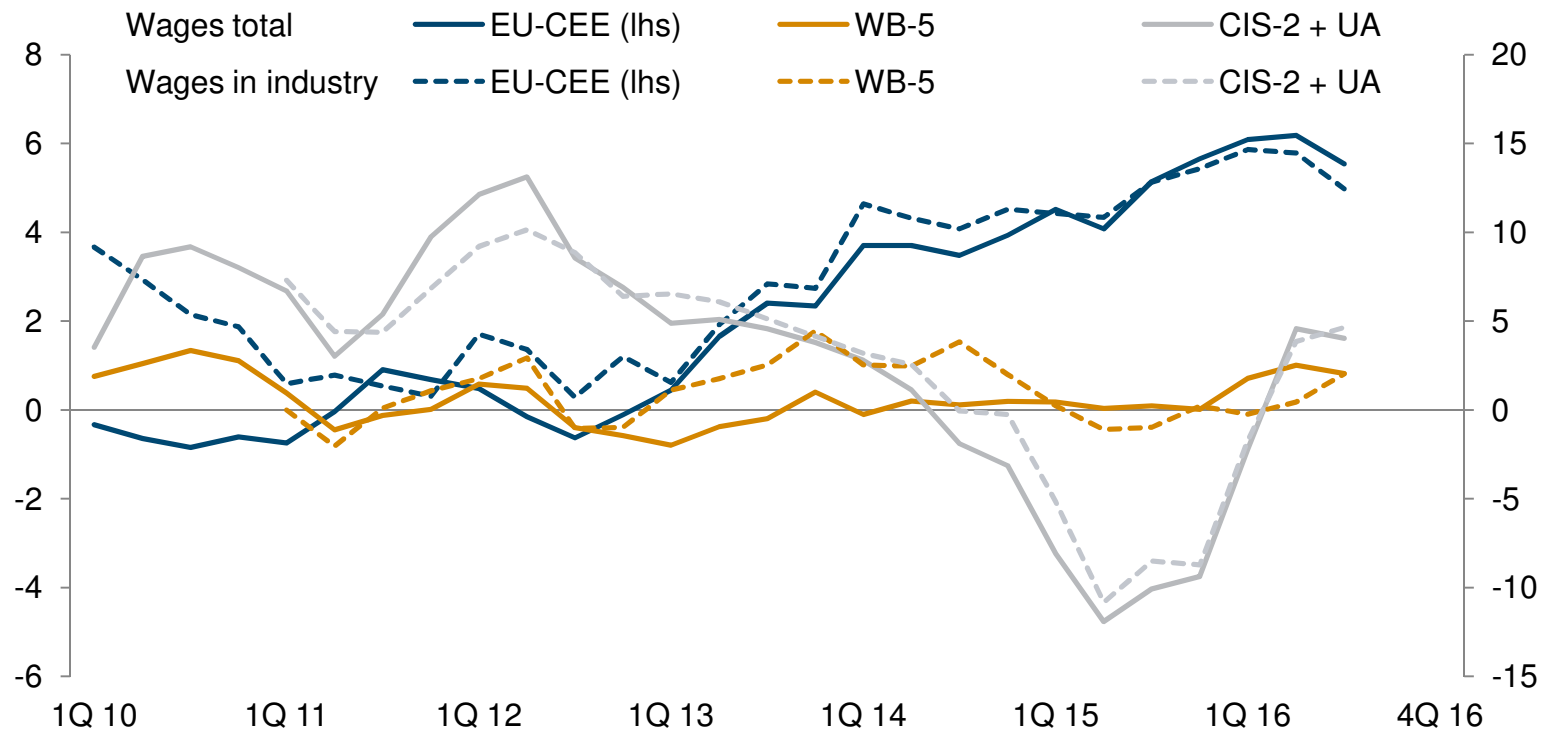


Note: WB-4 comprises data for BA (employees registered), MK, ME, RS. CIS-2 includes RU and KZ.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Tightening labour markets conducive to wage increases

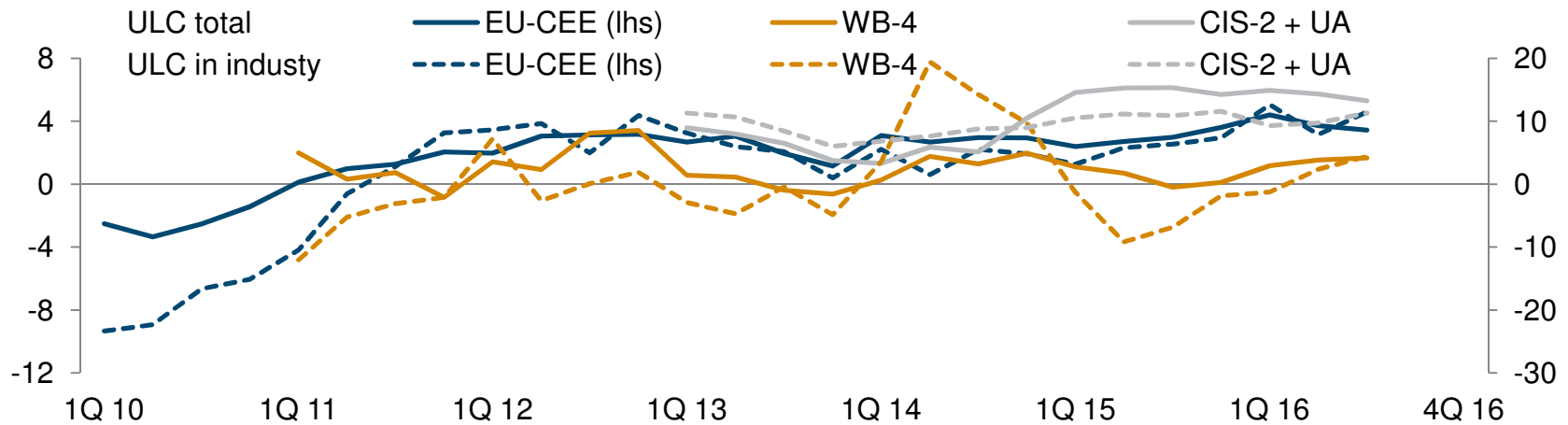
Average monthly gross wages total and in industry,
real change in % against preceding year



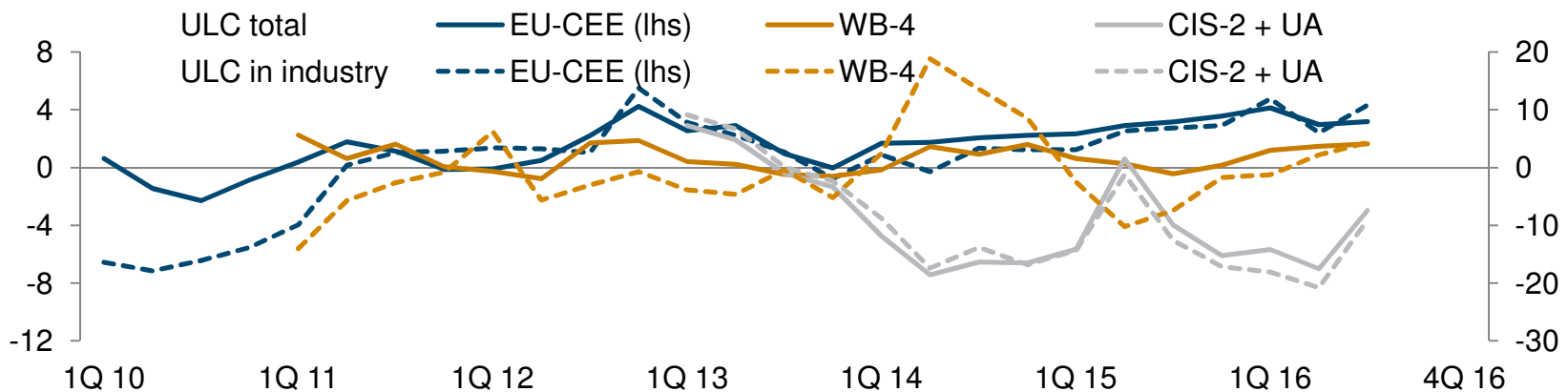
Note: Arithmetic average over country groups. WB-5 comprises data for AL, BA, MK, ME, RS. CIS-2 includes RU and KZ.
Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Devaluations reduce ULCs only in CIS+UA

ULC total and in industry, change in % against preceding year



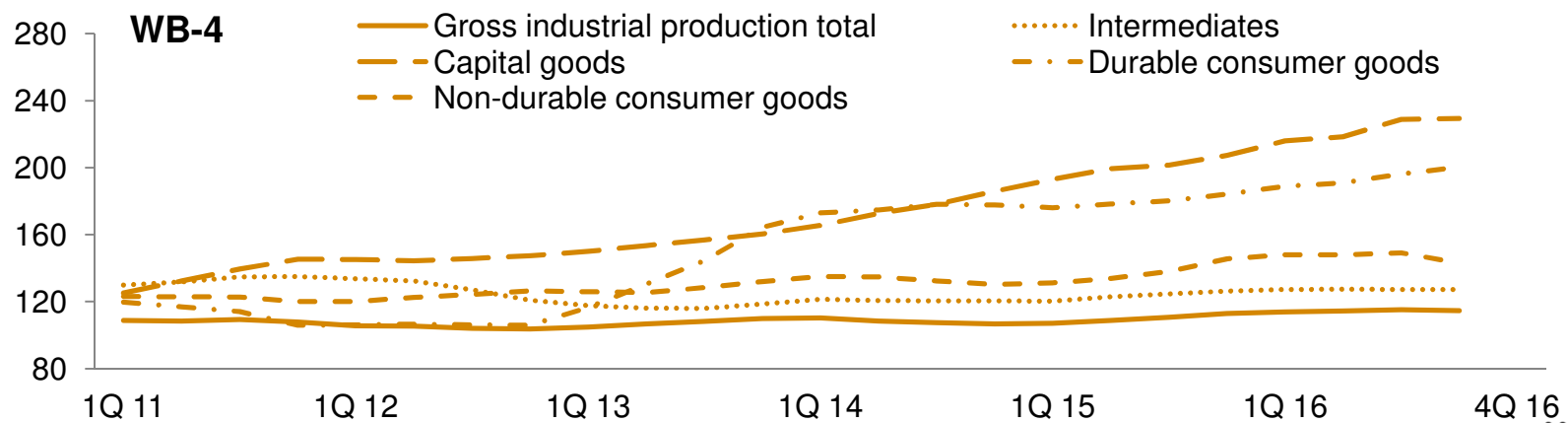
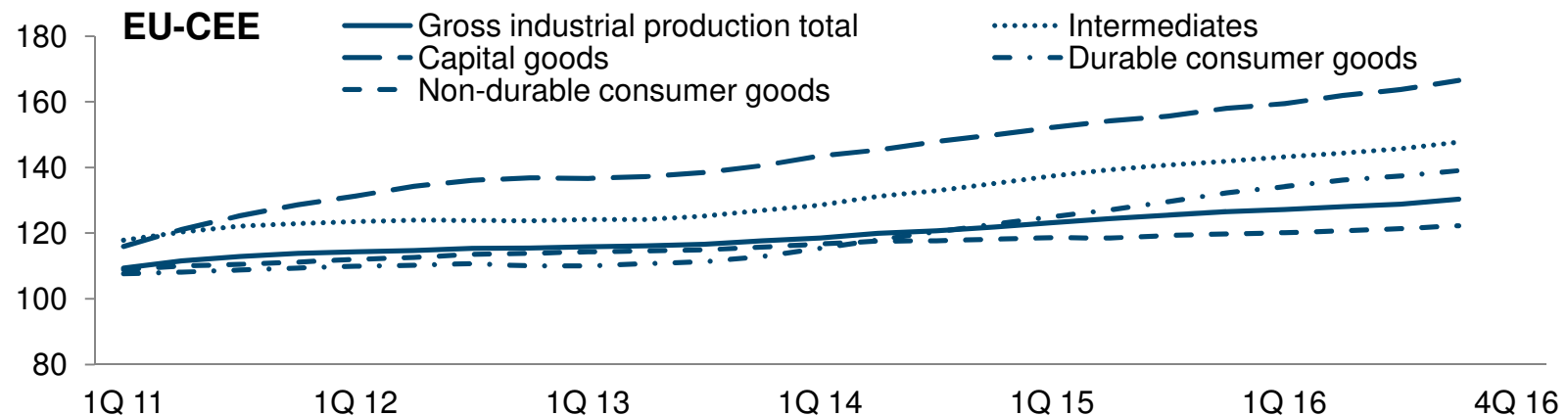
ULC total and in industry ER adjusted, change in % against preceding year



Note: Arithmetic average over country groups. CIS-2 includes RU and KZ. WB-4 comprises data for AL, MK, ME, RS. Unit labour costs are defined as average gross wages per employee relative to labour productivity (ER adjusted: average gross wages in EUR). Source: wiiw Databases incorporating national and Eurostat statistics.

... but improvement in industry structure, reindustrialisation (especially in Visegrád economies)

Industrial production, index 1Q 2010 = 100, calendar adjusted but not seasonally adjusted data, 4 quarters moving average

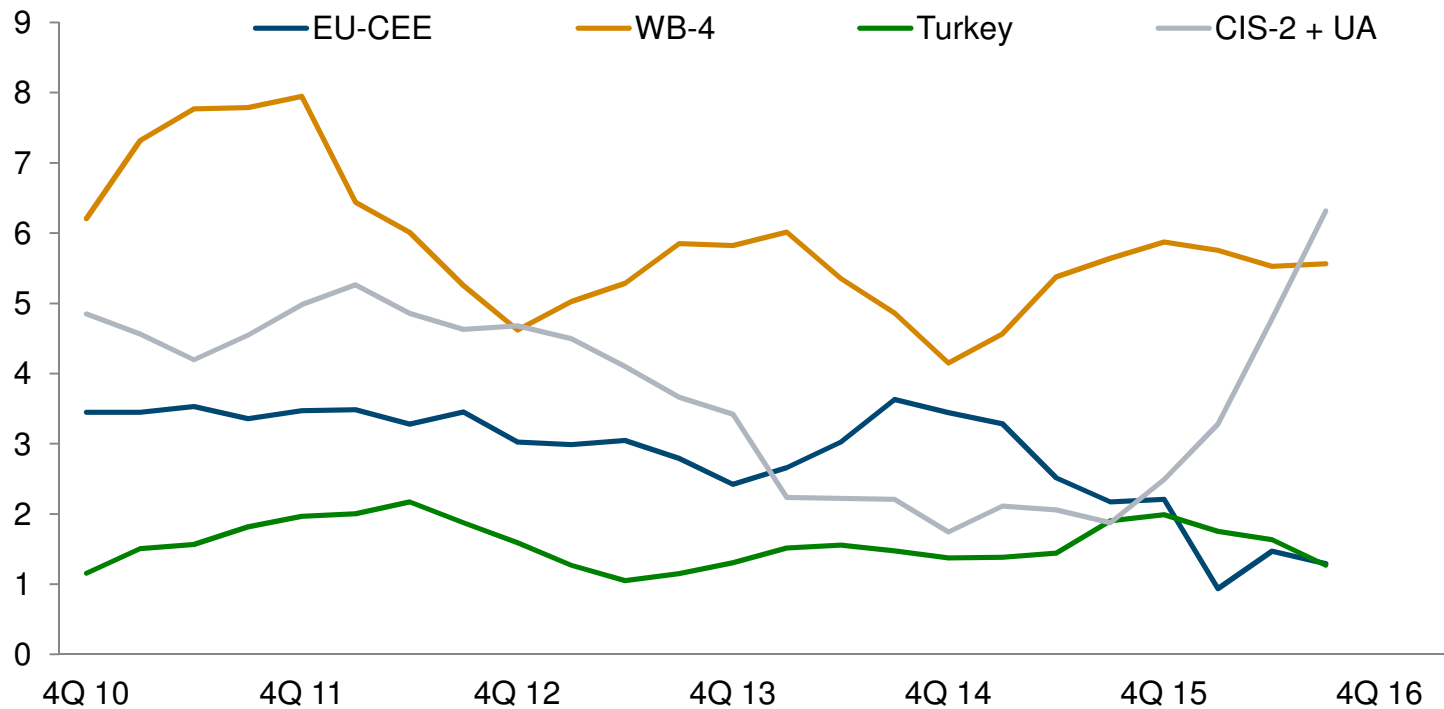


Note: Arithmetic average over country groups. WB-4 comprises data for BA, MK, ME, RS.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Promising longer-term FDI trend for Western Balkans; SK & RO expect substantial automotive FDI

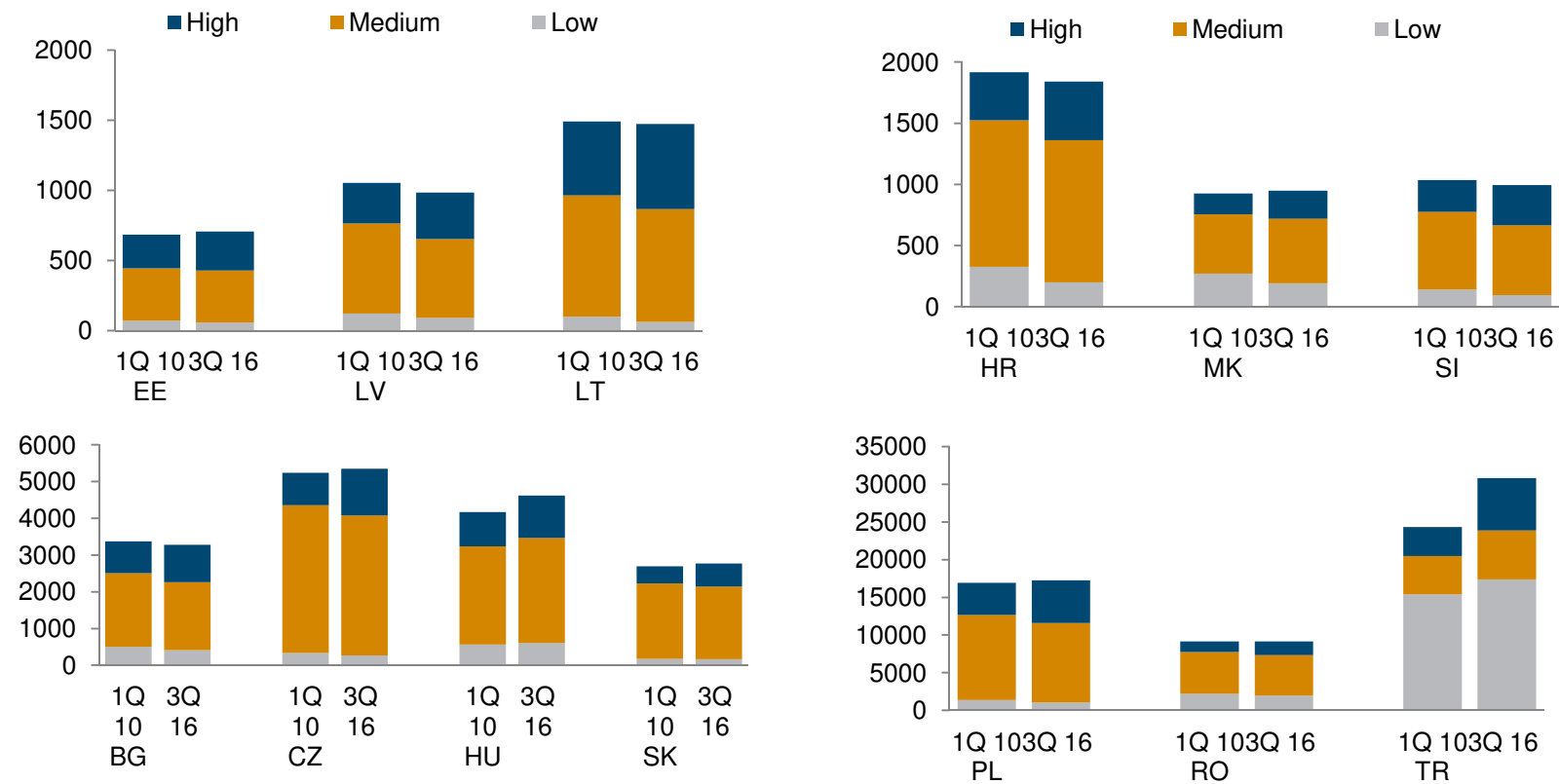
FDI flows (BOP, liabilities) in % of GDP, 4 quarters moving average



Note: Arithmetic average over country groups. WB-4 comprises data for AL, MK, RS, XK. CIS-2 includes RU and KZ.
Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Stagnant labour force but improved education structure: competitiveness fostered

Labour force by education, thousand persons



Note: Definition of education (ISCED). Low: less than primary, primary and lower secondary education. Medium: upper secondary and post-secondary non-tertiary education. High: tertiary education. Source: Eurostat.

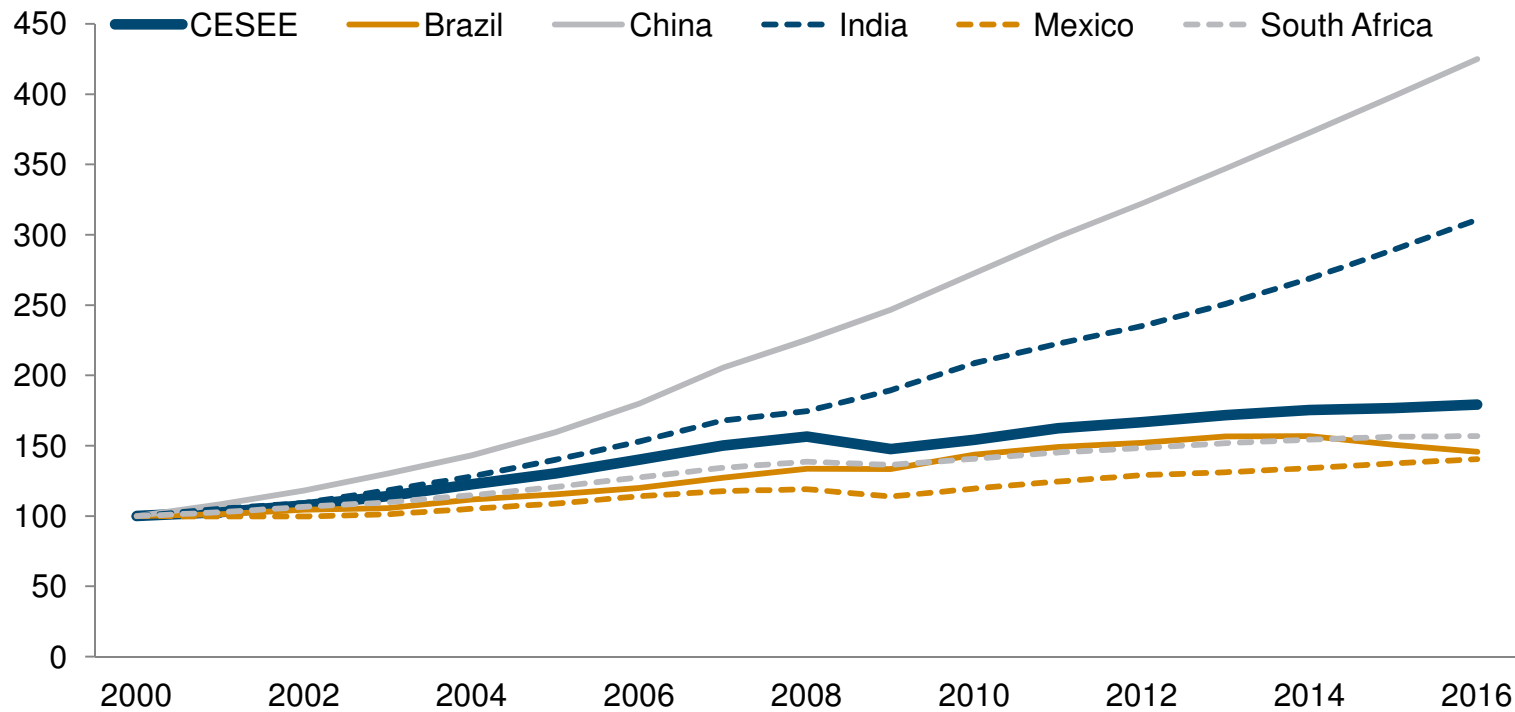
GDP GROWTH FORECAST 2017-2019

	2017	2018	2019
Romania	4.0	4.0	4.0
Kosovo	3.9	3.8	3.7
Albania	3.5	3.9	4.0
Hungary	3.3	3.4	3.1
Slovakia	3.1	3.6	3.9
Macedonia	3.1	3.3	3.0
Montenegro	3.1	2.9	3.3
Bulgaria	2.9	3.1	3.3
Poland	2.9	3.0	3.1
Slovenia	2.9	2.9	3.0
Croatia	2.8	2.9	3.0

	2017	2018	2019
Bosnia and Herzegovina	2.8	3.0	3.1
Serbia	2.8	3.0	3.3
Lithuania	2.7	2.8	3.1
Latvia	2.5	2.7	2.8
Ukraine	2.5	3.0	3.0
Czech Republic	2.4	2.6	2.3
Estonia	2.2	2.3	2.4
Turkey	2.1	2.6	3.1
Kazakhstan	2.0	3.0	3.0
Russia	1.7	1.7	2.0
Belarus	0.5	1.6	2.2

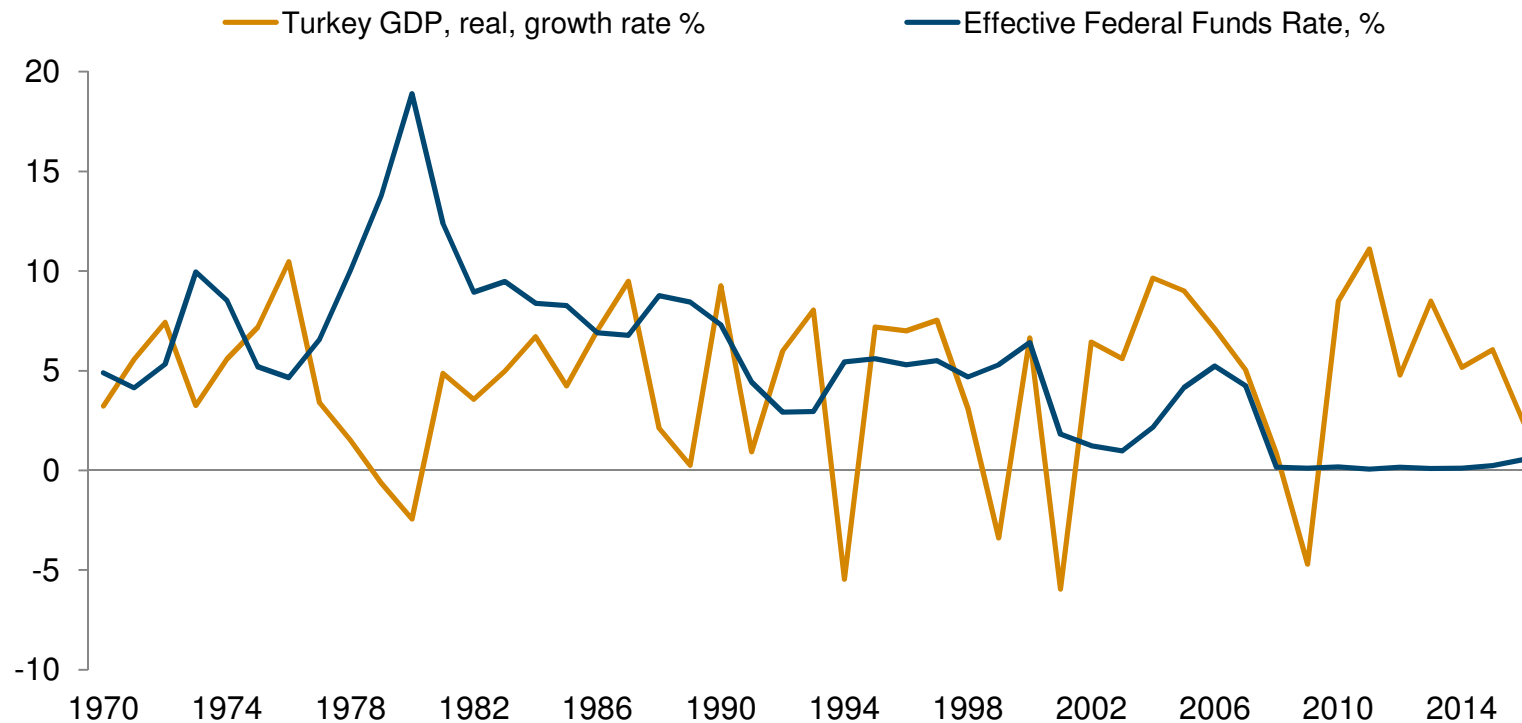
Longer-term CESEE growth in comparison to other emerging markets

Real GDP, Index 2000 = 100



Source: OECD (2016), Economic Outlook, No. 100, November; wiiw Annual Database incorporating national and Eurostat statistics.

Turkish economy prone to aftershocks of a hike in the Fed rate



An optimistic overall economic outlook: amid major global political uncertainties

- Cautious upturn in CESEE, surpassing 3% GDP growth by 2019
- ... driven by consumption and increasing investment in a largely supportive international economic environment
- competitiveness not endangered despite the rise in ULCs
- EU-CEE uncertainties: authoritarian tendencies, anti-EU populism, Brexit & transfers & migration, Trump & NATO & protectionism
- Western Balkans uncertainties: stability of 'EU carrot' and 'US stick' questioned - an opportunity for Russia and Turkey?
- CIS+UA uncertainties: oil price and geopolitical factors (Donbas)
- However, from a currently optimistic perspective, CESEE back on a convergence track, growth differential of 1.2 pp against euro area

Country codes

AL	Albania	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
ME	Montenegro		
CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
EU-CEE	European Union – Central and Eastern Europe		
WB	Western Balkans		



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