

PRESS RELEASE

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New wiiw forecast for Central, East and Southeast Europe (CESEE) in 2018-2020: Riding the global growth wave

wiiw has published its new forecasts for 22 economies in CESEE out to 2020. The main conclusions of the report are as follows:

- Aggregate real GDP growth in CESEE is at its **strongest level for six years**, and in 2017 all economies in the region expanded for the first time in a decade.
- **External conditions are highly supportive** of growth in CESEE. All the big engines of the global economy – the US, China and the eurozone – are expanding strongly together for the first time since 2010. The **coordinated global upswing has further to run**, and we expect CESEE economies to continue to benefit in the coming years.
- **EU-CEE and Turkey** will grow strongly during our forecast period, while activity in the **Western Balkans** will pick up from recent years. The **CIS and Ukraine** will remain the regional laggards, but will continue to recover slowly.
- We do not think that any economy in the region is ‘**overheating**’, although there are growing risks in Romania and Turkey. We expect **inflation** to remain very subdued in most of CESEE during the forecast period. In parts of CESEE, large-scale **Ukrainian migration** is helping to relieve labour market tightness.
- **Wage increases** in most of CESEE have been strong, but are concentrated largely in the manufacturing sector, and have been more than offset by rising labour productivity and non-price competitiveness. **External competitiveness** is not in danger.
- Across the region, **investment will rise faster than headline real GDP growth in 2018-2020**, driven by low interest rates, high capacity utilisation, stronger confidence, EU funds and still low base effects.
- Most countries have seen their **export/GDP shares** rise in the past decade, which increases their ability to **take advantage of the current upswing**. Many are moving up the value chain.
- **Banking sectors** in CESEE are generally on a much stronger footing than a few years ago. However, the old pre-crisis, highly leveraged model reliant on foreign inflows is mostly a thing of the past, meaning that **credit growth will be relatively low** by historical standards in the coming years.
- **Downside risks** to regional growth emanating from **local and global factors** are significant. In particular, we are worried about a **trade war**, the **exit of major central banks from extraordinarily loose monetary policy**, pockets of high **corporate and government leverage**, east/west **EU splits**, the **undermining of institutional independence** in some countries, **geopolitical tensions**, the **Ukraine crisis**, and potential spill-overs from a renewed outbreak of **volatility in the eurozone**, or a **Chinese debt crisis**.

- **Convergence** with Western European income levels will proceed in the long term. However, there is a risk that specialisation in parts of the supply chain where little value is created will condemn the region to a permanent '**semi-periphery trap**'.

Commenting on the forecasts, Richard Grieveson, economist at wiiw and one of the report's authors, said:

'The global economy is in a sweet spot. This will continue to provide a big boost to economic activity across the CESEE region in the coming years.'

'High-frequency data suggest that we may be at or close to the peak in terms of headline growth rates, but this year looks like being among the best since the global financial crisis. Finally, after several false starts, a real recovery is under way across Europe, including in most of CESEE. It is not an overstatement to say that some countries in the region are experiencing a boom.'

'Regional differentiation remains an important theme. Economies in EU-CEE, Turkey and most of the Western Balkans are running pretty hot. In the CIS and Ukraine, although relative stability has returned, growth is still very disappointing and is likely to remain so: the region is beset by a severe lack of economic dynamism.'

'We don't think any country in the region is overheating at present, but both Romania and Turkey are worth keeping an eye on, and policy-makers will need to act prudently to prevent the emergence of potentially destabilising imbalances.'

'The risks to our upbeat forecast are numerous, and mostly to the downside. Our biggest concerns are a potential trade war and that global central banks do not exit safely from their ultra-loose monetary policies. Any spike in global interest rates would be dangerous for the numerous countries in CESEE with high private and/or public external debt.'

'Convergence with Western Europe will continue in the coming years. However, over the longer run, the region faces some big challenges, not least very negative demographic trends for most. We are also concerned that industrial specialisation patterns will condemn CESEE to a "semi-periphery trap".'

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OVERVIEW 2016-2017 AND OUTLOOK 2018-2020

| | | GDP | | | | | Consumer prices | | | | | Unemployment (LFS) | | | | | Current account | | | | |
|----|--------------------------------------|-------------------------------------|------|----------|------|------|--------------------------------|------|----------|------|------|---------------------------|------|----------|------|------|-----------------|-------|----------|-------|-------|
| | | real change in % against prev. year | | | | | change in % against prev. year | | | | | rate in %, annual average | | | | | in % of GDP | | | | |
| | | 2016 | 2017 | Forecast | | | 2016 | 2017 | Forecast | | | 2016 | 2017 | Forecast | | | 2016 | 2017 | Forecast | | |
| | | | | 2018 | 2019 | 2020 | | | 2018 | 2019 | 2020 | | | 2018 | 2019 | 2020 | | | 2018 | 2019 | 2020 |
| BG | Bulgaria | 3.9 | 3.8 | 3.6 | 3.5 | 3.4 | -1.3 | 1.2 | 2.5 | 3.0 | 3.0 | 7.6 | 6.2 | 6.0 | 5.5 | 5.0 | 5.3 | 4.0 | 2.4 | 1.7 | 1.3 |
| CZ | Czech Republic | 2.6 | 4.2 | 3.5 | 3.2 | 3.2 | 0.6 | 2.4 | 2.3 | 2.0 | 1.8 | 4.0 | 2.9 | 2.9 | 2.8 | 2.8 | 1.1 | 1.3 | 0.7 | 1.0 | 0.9 |
| EE | Estonia | 2.1 | 4.3 | 3.5 | 2.9 | 2.5 | 0.8 | 3.7 | 3.2 | 3.0 | 2.5 | 6.8 | 6.1 | 5.4 | 5.2 | 5.5 | 1.9 | 2.7 | 1.4 | 0.7 | 0.8 |
| HR | Croatia | 3.2 | 3.0 | 2.7 | 3.0 | 3.0 | -0.6 | 1.3 | 1.6 | 1.6 | 1.6 | 13.1 | 11.5 | 10.5 | 9.5 | 9.0 | 2.5 | 4.0 | 2.2 | 1.3 | 0.9 |
| HU | Hungary | 2.2 | 4.0 | 3.8 | 2.6 | 1.7 | 0.4 | 2.4 | 2.8 | 2.9 | 2.9 | 5.1 | 4.2 | 4.1 | 4.1 | 4.1 | 6.1 | 3.8 | 3.2 | 2.6 | 2.7 |
| LT | Lithuania | 2.3 | 3.9 | 3.2 | 2.6 | 2.2 | 0.7 | 3.7 | 3.0 | 2.7 | 2.5 | 7.9 | 7.2 | 6.5 | 6.0 | 5.8 | -1.1 | 0.9 | -2.0 | -2.4 | -2.2 |
| LV | Latvia | 2.1 | 4.5 | 3.8 | 3.3 | 2.7 | 0.1 | 2.9 | 3.0 | 3.0 | 2.5 | 9.6 | 9.0 | 8.2 | 7.5 | 7.2 | 1.4 | -0.7 | -1.4 | -2.3 | -2.6 |
| PL | Poland | 2.9 | 4.6 | 3.8 | 3.5 | 3.3 | -0.2 | 1.6 | 2.1 | 2.0 | 2.0 | 6.2 | 4.7 | 4.3 | 4.2 | 4.0 | -0.3 | 0.1 | 0.2 | 0.2 | 0.1 |
| RO | Romania | 4.8 | 6.9 | 4.7 | 3.8 | 4.2 | -1.1 | 1.1 | 3.5 | 3.0 | 3.0 | 5.9 | 5.0 | 4.8 | 4.6 | 4.6 | -2.1 | -3.5 | -3.4 | -3.2 | -3.0 |
| SI | Slovenia | 3.1 | 4.6 | 3.9 | 3.5 | 3.5 | -0.2 | 1.6 | 1.8 | 1.8 | 1.8 | 8.0 | 7.3 | 6.5 | 6.0 | 5.5 | 5.2 | 6.5 | 5.5 | 4.3 | 3.6 |
| SK | Slovakia | 3.3 | 3.4 | 3.8 | 4.2 | 3.3 | -0.5 | 1.4 | 2.0 | 1.8 | 2.2 | 9.7 | 8.2 | 7.7 | 7.2 | 6.8 | -1.5 | -1.2 | -0.6 | 0.3 | 0.5 |
| | <i>EU-CEE</i> ¹⁾²⁾ | 3.1 | 4.4 | 3.9 | 3.4 | 3.2 | -0.2 | 1.8 | 2.5 | 2.3 | 2.3 | 6.5 | 5.3 | 5.0 | 4.7 | 4.6 | 0.8 | 0.6 | 0.2 | 0.2 | 0.1 |
| | <i>EA-19</i> | 1.8 | 2.4 | 2.3 | 2.0 | | 0.2 | 1.5 | 1.5 | 1.6 | | 10.0 | 9.1 | 8.5 | 7.9 | | 3.6 | 3.5 | 3.0 | 2.9 | |
| | <i>EU-28</i> | 2.0 | 2.4 | 2.3 | 2.0 | | 0.3 | 1.7 | 1.9 | 1.8 | | 8.6 | 7.7 | 7.3 | 7.0 | | 2.0 | 2.2 | 1.8 | 1.8 | |
| AL | Albania | 3.4 | 3.9 | 4.1 | 4.0 | 3.9 | 1.3 | 2.0 | 2.8 | 3.0 | 3.0 | 15.2 | 14.0 | 13.0 | 12.5 | 12.0 | -7.6 | -8.6 | -7.9 | -7.5 | -7.5 |
| BA | Bosnia and Herzegovina | 3.1 | 3.0 | 3.4 | 3.3 | 3.3 | -1.1 | 1.2 | 1.6 | 1.9 | 1.9 | 25.4 | 20.5 | 19.4 | 18.8 | 18.3 | -5.1 | -4.6 | -4.6 | -4.6 | -4.5 |
| ME | Montenegro | 2.9 | 3.9 | 2.9 | 3.0 | 3.1 | 0.1 | 2.8 | 2.0 | 2.0 | 2.0 | 17.4 | 16.0 | 15.0 | 15.0 | 15.0 | -18.1 | -18.8 | -20.2 | -20.0 | -17.7 |
| MK | Macedonia | 2.9 | 0.5 | 3.4 | 3.4 | 3.2 | -0.2 | 1.4 | 1.5 | 2.0 | 2.0 | 23.7 | 23.0 | 23.0 | 23.0 | 22.0 | -2.7 | -0.2 | 0.0 | 0.1 | -1.0 |
| RS | Serbia | 2.8 | 1.9 | 2.8 | 2.8 | 2.8 | 1.1 | 3.0 | 3.0 | 3.0 | 4.0 | 15.3 | 15.0 | 13.0 | 13.0 | 12.0 | -3.1 | -4.9 | -5.4 | -6.1 | -6.2 |
| XK | Kosovo | 4.1 | 3.9 | 3.9 | 3.8 | 3.8 | 0.3 | 1.5 | 1.9 | 2.3 | 2.3 | 27.5 | 30.2 | 27.0 | 25.2 | 24.0 | -9.0 | -5.6 | -5.8 | -6.0 | -6.2 |
| | <i>WB</i> ¹⁾²⁾ | 3.1 | 2.5 | 3.3 | 3.2 | 3.2 | 0.5 | 2.2 | 2.4 | 2.6 | 3.0 | 18.7 | 17.7 | 16.2 | 15.8 | 15.0 | -5.2 | -5.5 | -5.7 | -6.0 | -6.0 |
| TR | Turkey | 3.2 | 6.5 | 4.5 | 4.1 | 3.9 | 7.7 | 11.1 | 9.8 | 7.2 | 6.8 | 10.9 | 11.0 | 10.5 | 10.2 | 10.0 | -3.8 | -5.5 | -5.5 | -5.6 | -5.9 |
| BY | Belarus ³⁾ | -2.5 | 2.4 | 2.8 | 3.1 | 3.1 | 11.8 | 6.0 | 6.0 | 7.0 | 7.0 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 | -3.5 | -2.3 | -3.4 | -3.3 | -3.4 |
| KZ | Kazakhstan | 1.1 | 3.8 | 3.0 | 3.0 | 3.0 | 14.6 | 7.4 | 6.0 | 6.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | -6.5 | -2.9 | -1.8 | -2.2 | -2.6 |
| RU | Russia | -0.2 | 1.5 | 1.8 | 1.6 | 1.6 | 7.1 | 3.6 | 4.0 | 4.0 | 4.0 | 5.5 | 5.2 | 5.4 | 5.2 | 5.2 | 2.0 | 2.5 | 3.4 | 3.0 | 2.4 |
| UA | Ukraine | 2.4 | 2.1 | 2.9 | 3.2 | 3.2 | 13.9 | 14.4 | 10.8 | 6.7 | 6.0 | 9.3 | 9.5 | 9.2 | 8.9 | 8.7 | -3.7 | -3.7 | -3.5 | -3.8 | -5.4 |
| | <i>CIS + Ukraine</i> ¹⁾²⁾ | 0.1 | 2.1 | 2.0 | 1.9 | 1.9 | 8.6 | 5.0 | 4.8 | 4.5 | 4.4 | 5.9 | 5.7 | 5.8 | 5.6 | 5.6 | 0.7 | 1.6 | 2.4 | 2.0 | 1.5 |
| | <i>V-4</i> ¹⁾²⁾ | 2.8 | 3.9 | 3.8 | 3.4 | 3.1 | 0.0 | 1.9 | 2.2 | 2.1 | 2.1 | 5.6 | 4.4 | 4.1 | 4.0 | 3.9 | 0.8 | 0.7 | 0.6 | 0.7 | 0.7 |
| | <i>BALT-3</i> ¹⁾²⁾ | 2.2 | 4.2 | 3.4 | 2.9 | 2.4 | 0.6 | 3.5 | 3.0 | 2.9 | 2.5 | 8.2 | 7.5 | 6.8 | 6.2 | 6.2 | 0.4 | 0.9 | -1.0 | -1.6 | -1.6 |
| | <i>SEE-9</i> ¹⁾²⁾ | 4.1 | 4.9 | 4.0 | 3.5 | 3.7 | -0.7 | 1.4 | 2.9 | 2.7 | 2.9 | 11.2 | 10.1 | 9.3 | 9.0 | 8.6 | -1.1 | -1.9 | -2.4 | -2.6 | -2.6 |
| | <i>NON-EU-11</i> ¹⁾²⁾ | 1.1 | 3.5 | 2.8 | 2.6 | 2.6 | 8.0 | 6.8 | 6.3 | 5.3 | 5.1 | 7.6 | 7.5 | 7.3 | 7.2 | 7.1 | -1.0 | -0.8 | -0.2 | -0.6 | -1.1 |
| | <i>CESEE-22</i> ¹⁾²⁾ | 1.7 | 3.7 | 3.1 | 2.9 | 2.8 | 5.6 | 5.3 | 5.2 | 4.4 | 4.3 | 7.3 | 7.0 | 6.8 | 6.6 | 6.5 | -0.4 | -0.3 | -0.1 | -0.3 | -0.7 |

1) iwiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Unemployment rate by registration.

Source: iwiw, Eurostat. Forecasts by iwiw (February 2018) and European Commission for EU and Euro area (Wintert Report, February 2018: GDP and CPI; Autumn Report, November 2017: unemployment rate and current account).