4.2. BUSINESS CYCLE MONITOR: OVERHEATING CONCERN ABATE

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› Our headline business cycle index indicates that the CESEE region overall is not overheating (see Figure 26), particularly if one compares current levels to those of the pre-crisis period (when the economy certainly was overheating). Moreover, the headline indices are overall slightly lower than when we ran the index at the beginning of the year.

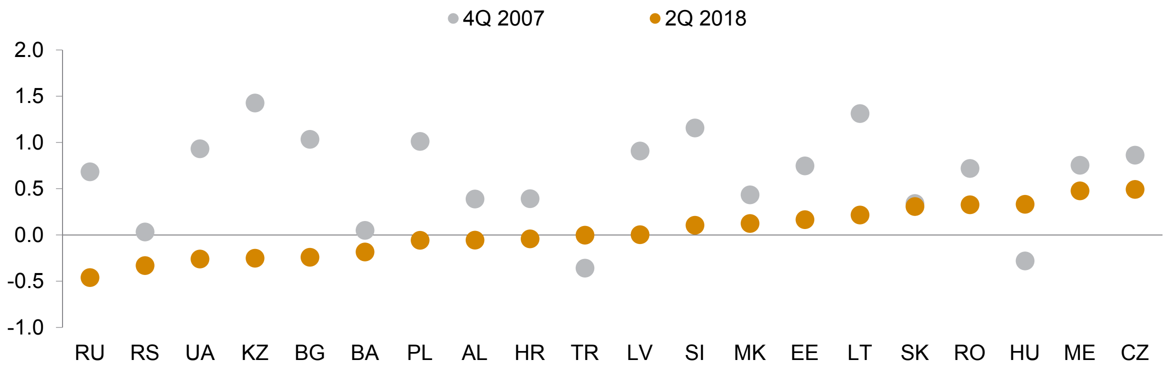
› However, there are some signs of potential overheating in particular indicators. Relative to the historical average, this is most clear in tight labour markets, higher external debt, elevated property prices, and negative real interest rates (see Table 7 and Figure 27).

› Some underheating is also visible, notably in fiscal and current account balances, and more generally in the CIS + Ukraine region.

› Based on current levels relative to regional peers (Table 8), it is no surprise to see that many indicators point to overheating in Turkey (this will now change as the economy goes into recession). Other things which jump out from the data are very negative real interest rates in the Baltics, and property prices in several EU Member States. Outside Turkey, it seems that the biggest risk for potentially destabilising imbalances to emerge is in EU-CEE.

› In some countries tending towards overheating, monetary and/or fiscal policy could be inappropriate and should be tightened. However, the continued relative absence of inflation indicates that there are fewer risks for policy-makers of staying on the loose side,[20] and the current upswing in most of the region appears still to have significant room to run.

Figure 26 / Business cycle index



Note: Number of standard deviations from historical mean, average of 11 indicators. Indicators are those in Table 7.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

20 For a longer discussion of the relative absence of inflation in the region at a time of high growth and low unemployment, see the main CESEE overview section of this report.

Table 7 / Number of standard deviations from historical mean, 2Q 2018

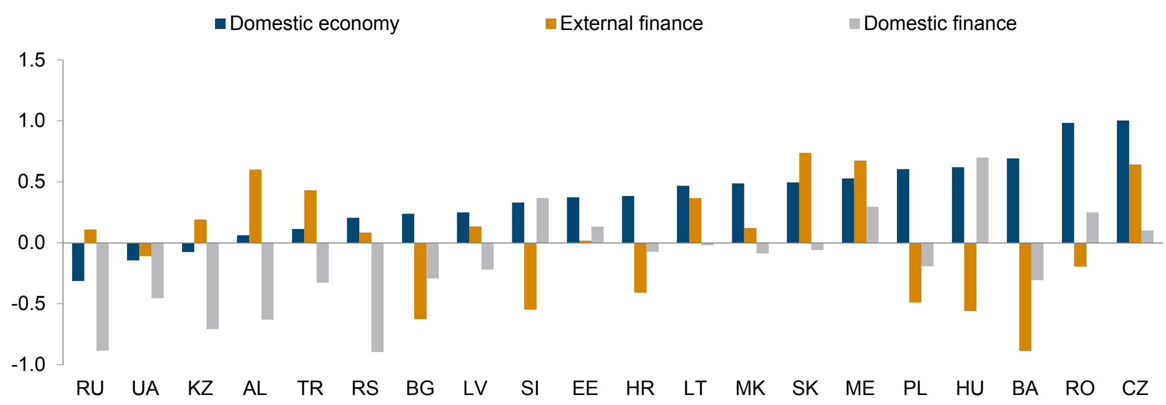
	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemploy-ment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
BG	-0.02	1.35	-0.62	-1.19	0.41	-1.10	-0.17	-0.50	-0.72	-0.34	0.27
CZ	0.42	2.52	0.06	-1.19	0.99	2.13	0.88	-0.52	0.39	-1.72	1.48
EE	0.00	1.09	0.04	-1.04	1.41	-0.32	1.26	-0.59	-0.62	0.76	-0.14
HR	0.26	1.43	-0.53	-1.34	0.21	-0.09	1.01	-0.49	-0.69	-2.57	2.37
HU	0.83	1.73	-0.71	-0.98	-0.20	-0.49	2.11	0.11	0.72	-0.41	0.96
LT	-0.08	1.11	0.37	-1.06	1.23	0.93	1.29	-0.41	-0.60	-0.67	0.29
LV	0.13	0.94	-0.33	-0.93	0.84	0.49	0.63	-0.63	-0.89	-0.46	0.26
PL	0.81	1.53	-0.52	-1.69	-0.53	0.75	0.99	-0.77	-0.89	-2.01	1.72
RO	0.58	2.96	-0.59	-0.58	-0.04	0.04	1.11	-0.51	-0.64	0.08	1.21
SI	0.75	0.80	-0.57	-1.91	0.00	0.27	1.44	-0.21	0.04	-1.28	1.85
SK	-0.11	1.96	-0.36	-0.73	0.76	2.19	1.15	-0.22	-0.23	-1.27	0.26
AL	-0.18	1.07	-0.70	-1.07	1.63	1.23	1.62	-0.85	-1.76	-1.54	
BA	-0.05	2.46	-0.34	-1.19	-1.49	0.01	0.73	-0.25	-0.38	-1.33	
ME	0.59	1.31	-0.32	-0.02	1.01	1.04	1.40	-0.39	-0.29	0.46	
MK	-0.58	2.22	-0.18	-1.15	-0.16	1.67	0.80	-0.77	-0.73	-0.07	0.33
RS	0.11	1.09	-0.59	-0.44	0.84	-0.14	-0.18	-0.94	-0.93	-1.41	-1.03
TR	0.59	0.03	-0.28	0.98	-1.70	2.01	0.70	-0.71	-0.51	-0.22	-0.88
KZ	-0.70	1.01	-0.53	0.25	-1.04	1.36	-1.47	-0.75	-1.53	0.92	
RU	-0.52	1.34	-1.76	0.72	0.06	-0.45	-1.44	-1.03	-1.34	0.29	-0.90
UA	0.05	-0.56	0.08	0.28	-1.44	0.83	-0.33	-0.74	-1.04	0.29	

overheating > 1 SD above historical average

underheating > 1 SD below historical average

Notes: CPI: consumer price index, CA: current account, RER: real exchange rate (EUR) CPI deflated; a value of more than 100 means appreciation, under 100 – depreciation; RIR: real interest rate CPI deflated.
Data for unemployment, current account, real interest rate, fiscal balance are inverted (as for these indicators lower values would indicate overheating). Historical mean calculated for 4Q 2000 to 2Q 2018. Calculations are based on four-quarter trailing averages.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; Bank for International Settlements.

Figure 27 / Sub-components of the business cycle index, 2Q 2018



Note: Number of standard deviations from historical mean, average of indicators in each sub-component. Indicators are those in Table 7.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Table 8 / Over-/underheating in relation to regional peers, 2Q 2018 (4-q trailing average)

	Domestic economy			External finance			Domestic finance					
	Real GDP	Unemploy-ment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
	%	%	% yoy	% of GDP	2015 = 100	% of GDP	%	% yoy	% yoy	% of GDP	% yoy
BG	3.6	5.7	1.6	4.2	98.0	62.8	-1.6	4.2	8.6	0.6	8.0
CZ	4.0	2.5	2.2	0.6	107.5	85.2	-1.5	6.2	8.8	1.1	9.0
EE	3.9	5.6	3.7	2.2	103.2	80.4	-3.5	0.9	7.4	-0.9	5.9
HR	2.7	9.5	1.5	1.9	100.8	79.9	1.5	0.8	3.6	1.2	6.1
HU	4.5	3.9	2.4	2.5	100.7	83.5	-1.5	5.9	12.5	-3.6	8.8
LT	3.8	6.6	3.5	0.8	103.0	80.4	-3.4	5.1	7.3	-0.6	7.7
LV	4.8	8.1	2.5	1.3	101.3	131.9	-2.4	-5.0	3.4	-0.9	9.2
PL	5.0	4.3	1.3	0.0	98.0	65.7	0.2	4.3	5.8	-0.8	5.0
RO	5.9	4.6	2.9	-3.4	95.3	50.0	-0.8	6.3	12.1	-3.3	5.8
SI	4.7	5.8	1.6	7.5	99.5	98.3	-1.6	2.4	7.2	0.4	11.2
SK	3.7	7.4	2.2	-1.8	99.4	106.0	-2.2	10.3	6.4	-1.0	8.0
AL	4.0	13.0	1.9	-6.5	107.8	66.2	-0.7	-0.1	0.2	-2.0	
BA	2.9	20.0	1.1	-4.6	97.8	25.9	-1.1	7.2	9.6	2.7	
ME	4.5	15.6	3.4	-20.5	102.0	51.2	2.6	7.4	12.3	-5.0	
MK	1.1	21.7	1.7	-0.1	99.2	76.6	1.4	5.3	7.2	-2.1	3.6
RS	3.6	13.6	2.3	-5.4	103.9	62.8	1.0	2.4	5.1	0.9	-1.5
TR	7.8	10.3	11.5	-6.6	80.3	55.8	-0.9	19.8	18.2	-2.4	10.8
KZ	4.1	4.9	6.9	-1.9	74.4	97.3	2.7	1.4	1.2	-2.5	
RU	1.6	5.0	2.7	3.7	104.1	32.0	4.9	4.9	7.4	0.2	-2.1
UA	2.9	9.2	13.8	-2.0	102.4	92.8	1.3	3.6	8.7	-2.3	

potential overheating/instability relative to regional peers

underheating/stability relative to regional peers

Notes: CPI: consumer price index, CA: current account, RER: real exchange rate (EUR) CPI deflated; a value of more than 100 means appreciation, under 100 – depreciation; RIR: real interest rate CPI deflated.
For all indicators higher values indicate overheating, except unemployment, current account, real interest rate and fiscal balance.
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.