4.2. BUSINESS CYCLE MONITOR: STILL WATCHING LABOUR MARKETS AND PROPERTY PRICES

by Alexandra Bykova

› Our headline business cycle index is broadly unchanged for all countries from the Autumn. It suggests no major signals for overheating or underheating in the region in the Q4 2018, especially when compared with the immediate pre-crisis period (see Figure 4.4).

› At the country level, small positive and negative deviations from Q2 2018 values were roughly balanced. Due to the bad economic performance in Q4 2018 the headline score for Turkey fell by 0.3 points (also taking it 0.3 points below it historic average). This was the largest decrease in headline score among CESEE countries. The Czech Republic headline score fell by 0.2 points, the second biggest drop in the region. As a result, the Czech Republic's headline index score is now the fifth highest in CESEE, having been top in Q2 2018. The country with the highest overall index ranking is now Slovakia. The largest increase (0.2 points) was in Serbia. However, this is still below its historical mean.

› Two new countries have been included into the business cycle monitor: Kosovo and Belarus. Kosovo's headline index score is slightly above its historical average. Meanwhile, Belarus is 0.6 points below its historical average, and has the lowest overall score in the region, dragged down by domestic finance under-heating on the back of a large fiscal surplus.

› Signs of potential overheating persist for the same set of indicators as in the previous report. Labour market overheating has increased, and now all countries except Turkey and Ukraine experience it. The property prices indicator is also sending signals of overheating, especially for Croatia and Slovenia, where the growth rates are more than two times the standard deviation from historical averages (see Table 4.4 and Figure 4.5).

› Some under-heating is visible in fiscal balances and current accounts as was the case in the Autumn. These indicators, together with moderate inflation, low private credit and broad money growth below historical averages, reinforce our expectation that regional economic growth is slowing.

› Cross-country comparisons for current levels (Table 4.5) suggest several sources of potential risk. These include double-digit property price growth in Slovenia and Turkey. Negative real interest rates in the Baltics, Bulgaria and Slovakia persist. In Albania and the Czech Republic the RER index (2015=100) shows the highest appreciation in the region. The Visegrád countries show the highest GDP growth and fastest decline in the unemployment rate. However, this is combined with low inflation, mitigating overheating risks.

Table 4.4 / Number of standard deviations from historical mean, 4Q 2018

	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemployment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
BG	-0.24	1.41	-0.35	-1.20	0.45	-1.15	0.26	-0.42	-0.65	-0.48	0.19
CZ	0.06	2.42	-0.07	-1.20	0.96	1.80	0.26	-0.49	-0.17	-1.72	1.21
EE	-0.01	1.08	-0.06	-0.87	1.43	-0.41	1.11	-0.49	-0.44	0.22	-0.13
HR	0.24	1.60	-0.46	-1.50	0.25	-0.24	1.02	-0.38	-0.22	-1.90	2.13
HU	0.96	1.71	-0.51	-0.72	-0.46	-0.57	2.21	0.34	0.91	-1.01	1.05
LT	-0.13	1.13	0.01	-1.05	1.19	0.84	0.89	-0.37	-0.38	-0.95	0.26
LV	0.14	1.12	-0.30	-0.68	0.87	0.26	0.65	-0.63	-0.43	-0.48	0.28
PL	0.86	1.54	-0.59	-1.28	-0.71	0.66	0.90	-0.61	-0.45	-1.46	1.87
RO	0.05	2.95	-0.47	-0.24	-0.01	-0.10	1.38	-0.48	-0.70	-0.07	1.11
SI	0.67	1.04	-0.45	-1.77	-0.08	0.13	1.66	-0.22	0.06	-1.36	2.04
SK	0.03	2.06	-0.25	-0.50	0.75	2.24	1.29	-0.27	-0.21	-1.25	0.24
AL	-0.12	1.55	-0.56	-1.09	2.22	1.07	1.66	-0.91	-1.75	-1.63	
BA	-0.05	2.55	-0.18	-1.16	-1.70	1.36	0.92	-0.32	-0.37	-1.29	
ME	0.37	1.44	-0.43	-0.34	0.88	1.32	1.13	-0.35	-0.38	-0.10	
MK	-0.31	2.19	-0.29	-0.94	-0.41	1.76	0.80	-0.63	-0.40	-0.09	0.04
RS	0.14	1.32	-0.60	-0.43	0.86	-0.15	-0.18	-0.72	-0.76	-1.10	-0.12
XK	-0.01	1.37	-0.24	-0.76	0.31	0.59	1.18	-0.48	-0.48	-0.33	
TR	-0.54	-0.42	0.02	-0.36	-2.42	2.41	0.39	-0.84	-0.32	0.04	-1.02
BY	-0.41	1.43	-0.71	-0.90	-1.35	0.94	-0.59	-1.26	-0.95	-2.05	
KZ	-0.68	1.00	-0.77	-0.39	-1.10	1.27	-1.35	-0.77	-1.51	-0.09	
RU	-0.33	1.42	-1.61	-0.12	-0.20	-0.81	-1.16	-0.67	-1.10	-0.42	-0.68
UA	0.11	-0.25	-0.19	0.56	-1.26	0.69	-1.13	-0.56	-1.00	0.08	

overheating ▮ underheating ▬
> 1 SD above historical average   > 1 SD below historical average

Note: 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 - 4Q 2018. Calculations are based on four-quarter trailing averages.
Source: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Figure 4.4 / Business Cycle Index
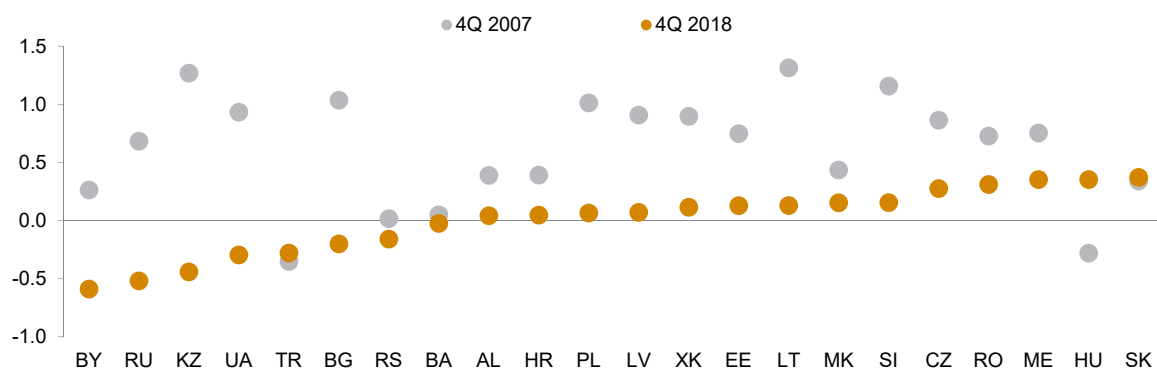
Note: Number of standard deviations from historical mean, average of 11 indicators. Indicators are those in Table 4.4.
Source: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Table 4.5 / Over-/under-heating in relation to regional peers, 4Q 2018 (4-q trailing average)

	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemployment	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	3.0	5.2	2.6	4.6	98.6	61.6	-2.6	5.8	9.1	1.0	7.0
CZ	3.0	2.2	2.0	0.7	107.7	81.7	-0.7	6.3	6.0	1.4	8.1
EE	3.9	5.5	3.4	1.2	104.0	78.3	-3.3	3.1	9.0	0.0	6.0
HR	2.7	8.8	1.6	2.7	101.0	76.9	1.4	1.7	7.8	0.3	6.6
HU	4.9	3.7	2.9	1.3	99.0	80.9	-1.9	8.5	13.6	-2.0	9.7
LT	3.5	6.4	2.5	0.9	103.1	79.4	-2.5	5.8	9.2	0.3	7.3
LV	4.8	7.4	2.6	-0.5	101.7	124.0	-2.5	-5.3	9.0	-0.8	9.6
PL	5.1	3.8	1.2	-0.7	97.0	64.7	0.3	5.7	7.5	-1.5	6.2
RO	4.2	4.2	4.1	-4.6	95.7	47.6	-1.6	6.8	10.9	-2.9	5.7
SI	4.5	5.4	1.9	7.4	99.5	94.1	-1.9	2.2	7.4	0.8	14.0
SK	4.1	6.5	2.5	-2.5	99.6	110.6	-2.5	9.8	6.5	-0.9	7.7
AL	4.1	12.1	2.0	-6.4	111.1	63.8	-0.9	-2.3	-0.3	-1.7	
BA	2.9	18.4	1.4	-4.5	96.9	32.8	-1.4	6.5	9.7	2.8	
ME	4.0	14.8	2.6	-17.2	100.8	56.0	3.2	8.8	9.5	-2.9	
MK	1.9	21.0	1.5	-0.8	98.9	79.5	1.3	6.7	10.3	-2.0	1.9
RS	4.2	12.6	2.0	-5.2	104.5	60.6	1.1	5.7	8.5	0.2	9.5
XK	3.9	29.0	1.1	-6.5	99.0	31.3	5.5	11.1	6.0	0.5	
TR	3.0	10.9	16.2	-3.5	71.8	59.9	1.9	17.7	21.0	-3.3	10.3
BY	3.0	4.8	4.9	-2.0	87.3	63.4	5.0	11.1	10.8	4.1	
KZ	4.1	4.9	6.2	0.3	73.4	96.7	2.8	0.1	0.8	-1.1	
RU	2.3	4.8	3.0	6.9	99.9	29.3	4.3	10.8	10.3	3.2	1.7
UA	3.3	8.8	11.0	-3.6	104.6	88.8	5.9	8.3	8.9	-1.9	

potential overheating/instability relative to regional peers   underheating/stability relative to regional peers

Note: CPI: consumer price index, CA: current account, RER: real exchange rate (EUR) CPI deflated; values more than 100 means appreciation and vice versa; RIR: real interest rate CPI deflated.
For all indicators higher values indicate overheating, except unemployment, current account, real interest rate, and fiscal balance.
Source: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

Figure 4.5 / Sub-components of the Business Cycle Index, 4Q 2018
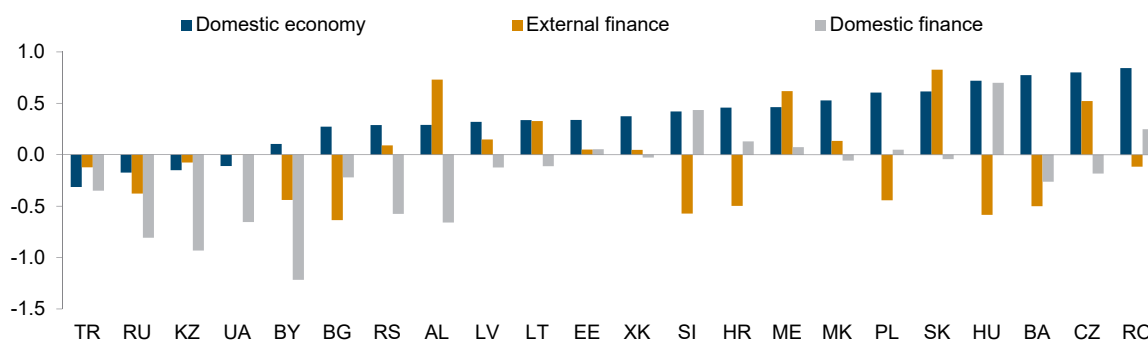
Note: Number of standard deviations from historical mean, average of indicators in each sub-component. Indicators are those in Table 4.4.
Source: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.