

Webinar, May 6th 2020

New wiiw forecast for Central, East and Southeast Europe, 2020-2021

Looking for Shelter from the Storm

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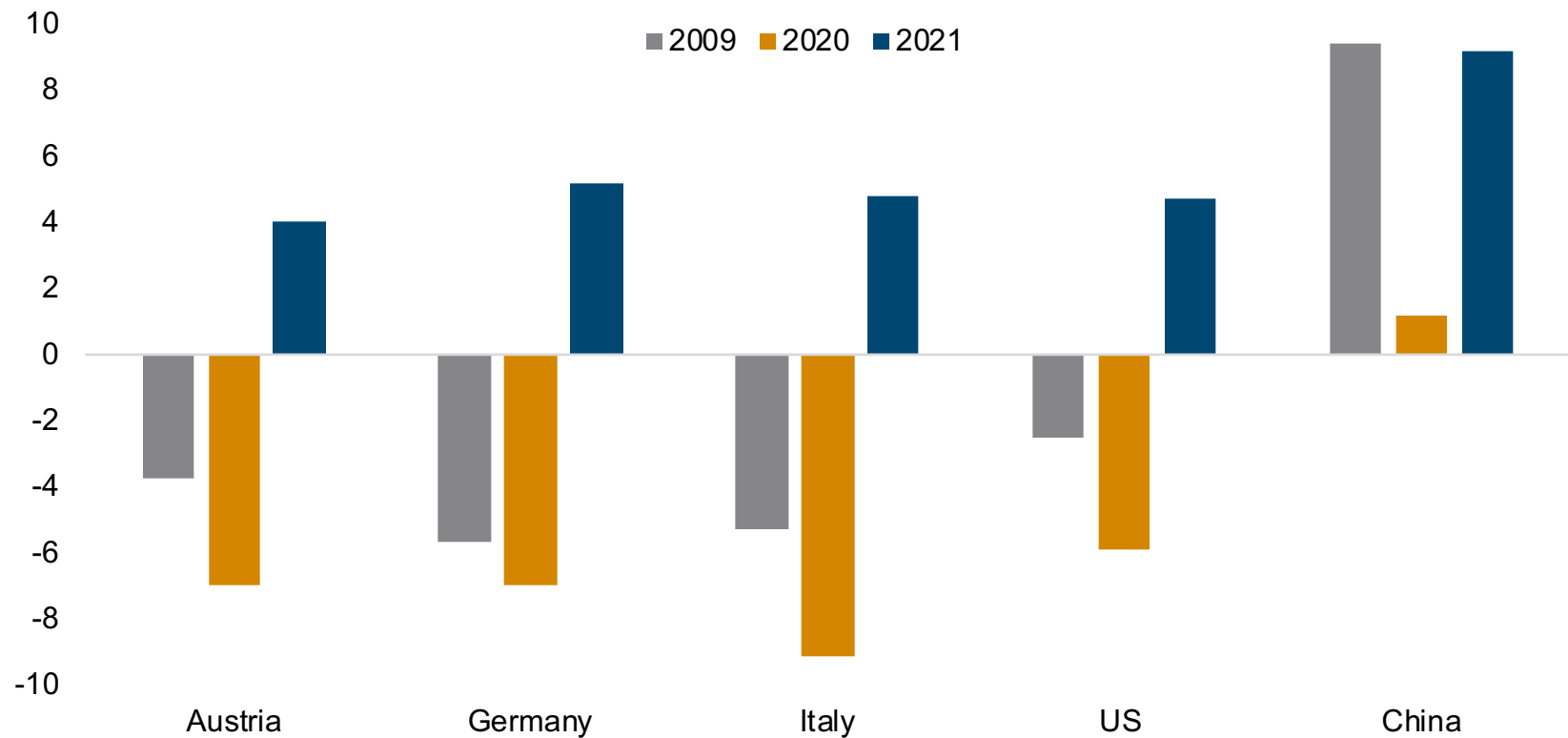
Overview

1. Global overview and assumptions
2. New wiiw forecasts for Eastern Europe
3. Tracking COVID-19 cases and deaths in Eastern Europe
4. Initial economic impact
5. Areas of resilience and vulnerability
6. How this crisis will change Eastern Europe in the medium and long term

1. Global overview: Worst crisis since the 1930s

Global overview: Worst crisis since the 1930s

Real GDP growth, %



2. New wiiw forecasts for CESEE

New wiiw real GDP forecasts and revisions

		Forecast, %			Revisions, pp		
		2019	2020	2021	2019	2020	2021
EU-CEE11	BG	3.4	-6.3	1.7	↓ -0.1	↓ -9.1	↓ -0.6
	CZ	2.6	-4.8	2.5	↑ 0.2	↓ -7.0	↑ 0.1
	EE	4.3	-7.0	4.0	↑ 0.4	↓ -9.7	↑ 1.4
	HR	2.9	-11.0	4.0	↓ -0.1	↓ -13.7	↑ 1.3
	HU	4.9	-5.5	2.0	→ 0.0	↓ -8.8	↓ -0.6
	LT	3.9	-6.5	4.3	→ 0.0	↓ -9.3	↑ 1.7
	LV	2.2	-8.0	4.5	→ 0.0	↓ -10.0	↑ 2.2
	PL	4.1	-4.0	3.0	↑ 0.1	↓ -7.6	↓ -0.3
	RO	4.1	-7.0	3.0	→ 0.0	↓ -10.2	↑ 0.2
	SI	2.4	-9.5	4.0	↓ -0.2	↓ -12.1	↑ 1.3
	SK	2.3	-9.0	4.6	→ 0.0	↓ -11.0	↑ 2.2
WB6	AL	2.2	-5.0	3.8	↓ -0.4	↓ -8.2	↑ 0.4
	BA	2.6	-5.0	3.0	↓ -0.1	↓ -7.5	↑ 0.2
	ME	3.6	-8.0	5.0	↑ 0.3	↓ -10.8	↑ 2.1
	MK	3.6	-5.0	4.0	↑ 0.2	↓ -8.3	↑ 0.7
	RS	4.2	-4.0	4.0	↑ 0.2	↓ -7.7	↑ 0.5
	XK	4.2	-4.4	4.0	↑ 0.1	↓ -8.7	↓ -0.2
Turkey	TR	0.9	-6.0	5.5	↑ 0.4	↓ -9.9	↑ 1.4
CIS4+UA	BY	1.2	-5.3	-0.7	→ 0.0	↓ -6.3	↓ -2.0
	KZ	4.5	-3.0	2.0	→ 0.0	↓ -6.7	↓ -1.8
	MD	3.6	-3.0	3.0	↓ -1.0	↓ -7.0	↓ -1.0
	RU	1.3	-7.0	1.5	→ 0.0	↓ -9.1	↓ -0.8
	UA	3.2	-6.0	2.5	↓ -0.1	↓ -9.6	↓ -1.7

Note: Current forecast and revisions relative to the wiiw Spring forecast 2020. Colour scale variation from the minimum (red) to the maximum (green). Source: wiiw forecast.

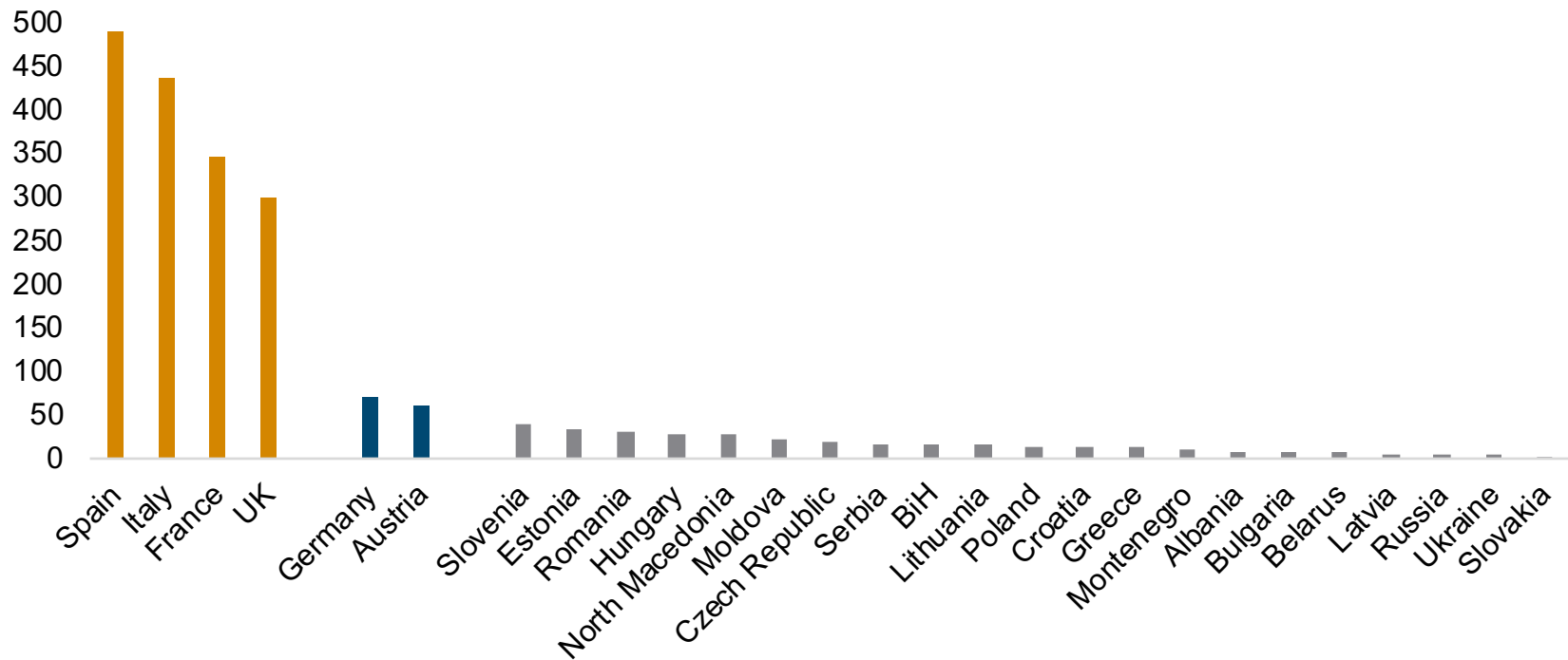
New forecasts: main messages

- Most countries facing **worst recessions since early 1990s**.
- **Biggest 2020 declines**: Croatia, Montenegro, Slovenia, Slovakia, Latvia – major dependence on trade/tourism is a liability this year.
- **Smallest 2020 declines**: Poland, Serbia, Kosovo, Moldova, Kazakhstan – bigger fiscal resources, less trade dependence, agriculture.
- Major declines for **Russia** and **Turkey**, but latter will bounce back much more quickly than former.

3. Tracking cases and deaths in CESEE

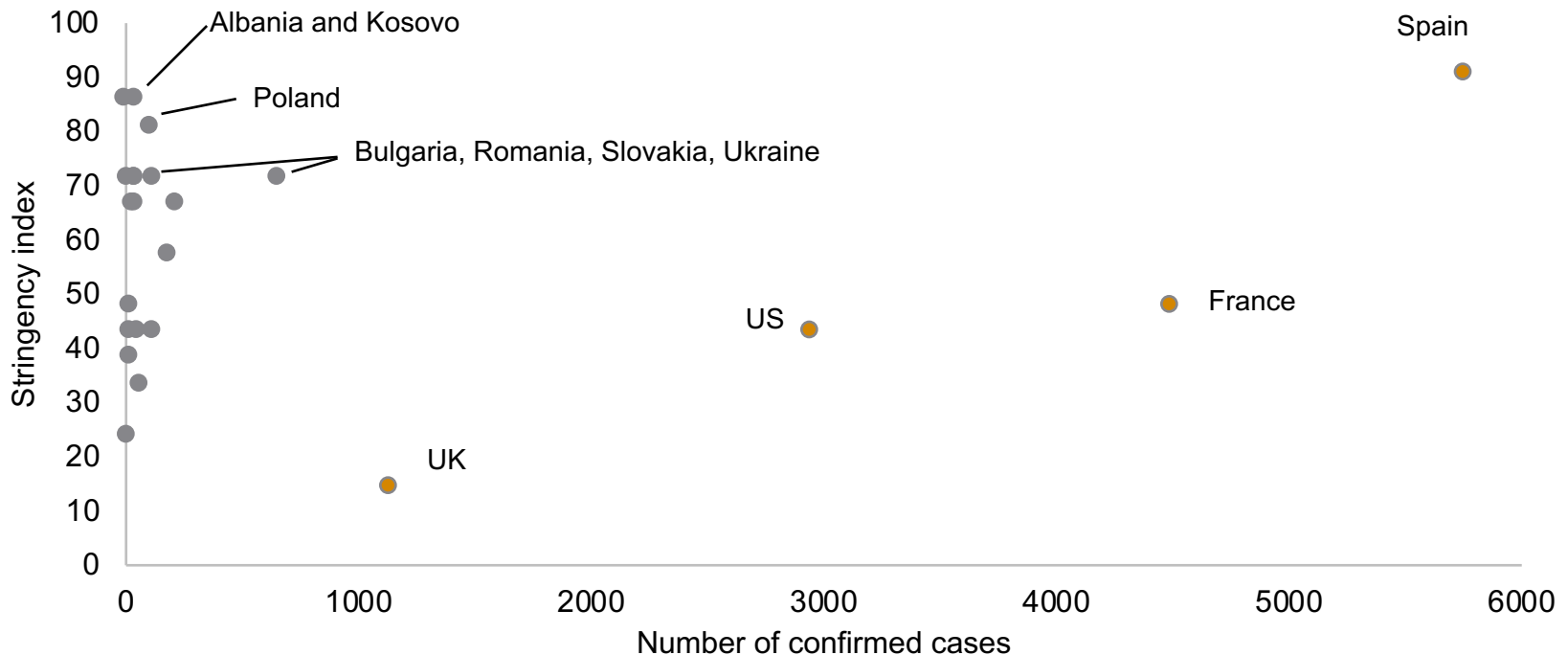
Death rate in Eastern Europe has been dramatically lower than Western Europe

Deaths per 1m population



Eastern European countries imposed major restrictions at a much lower level of confirmed cases

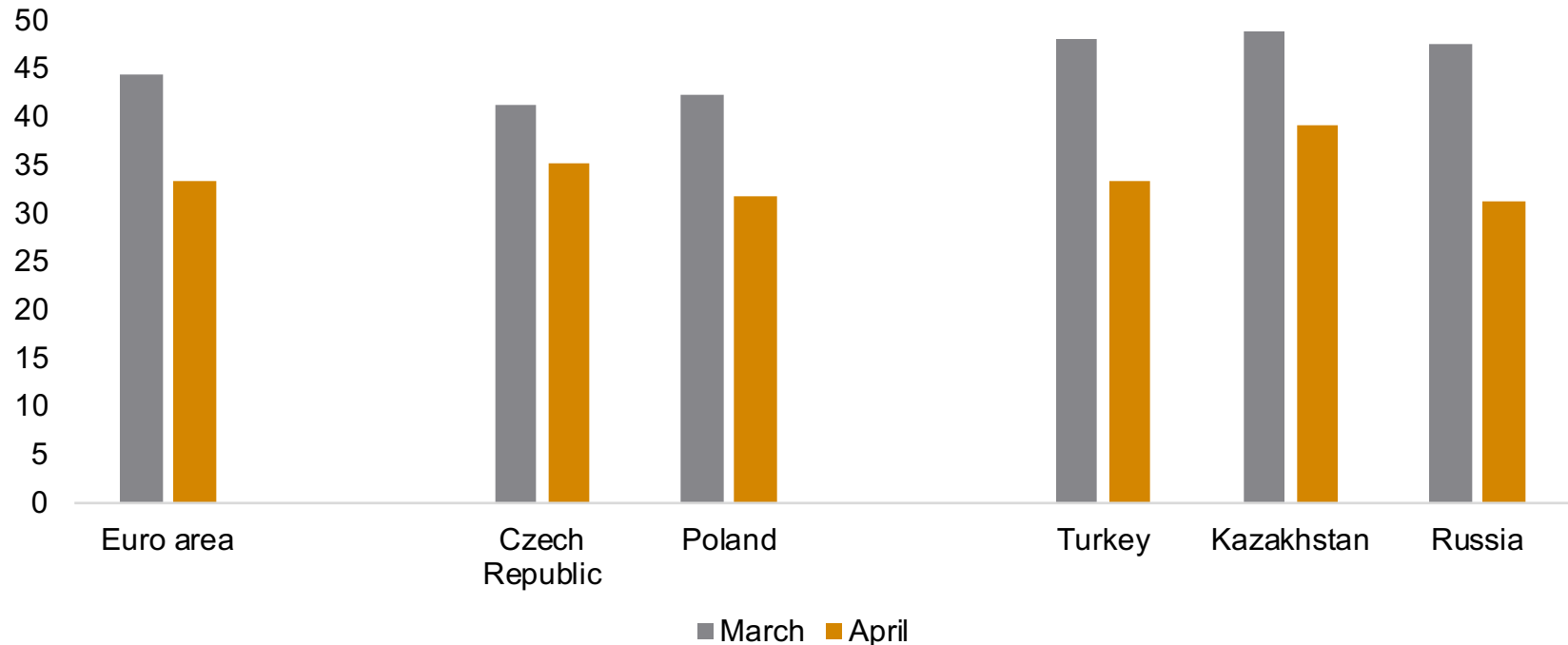
Stringency index and number of confirmed cases, March 15th 2020



4. Initial impact

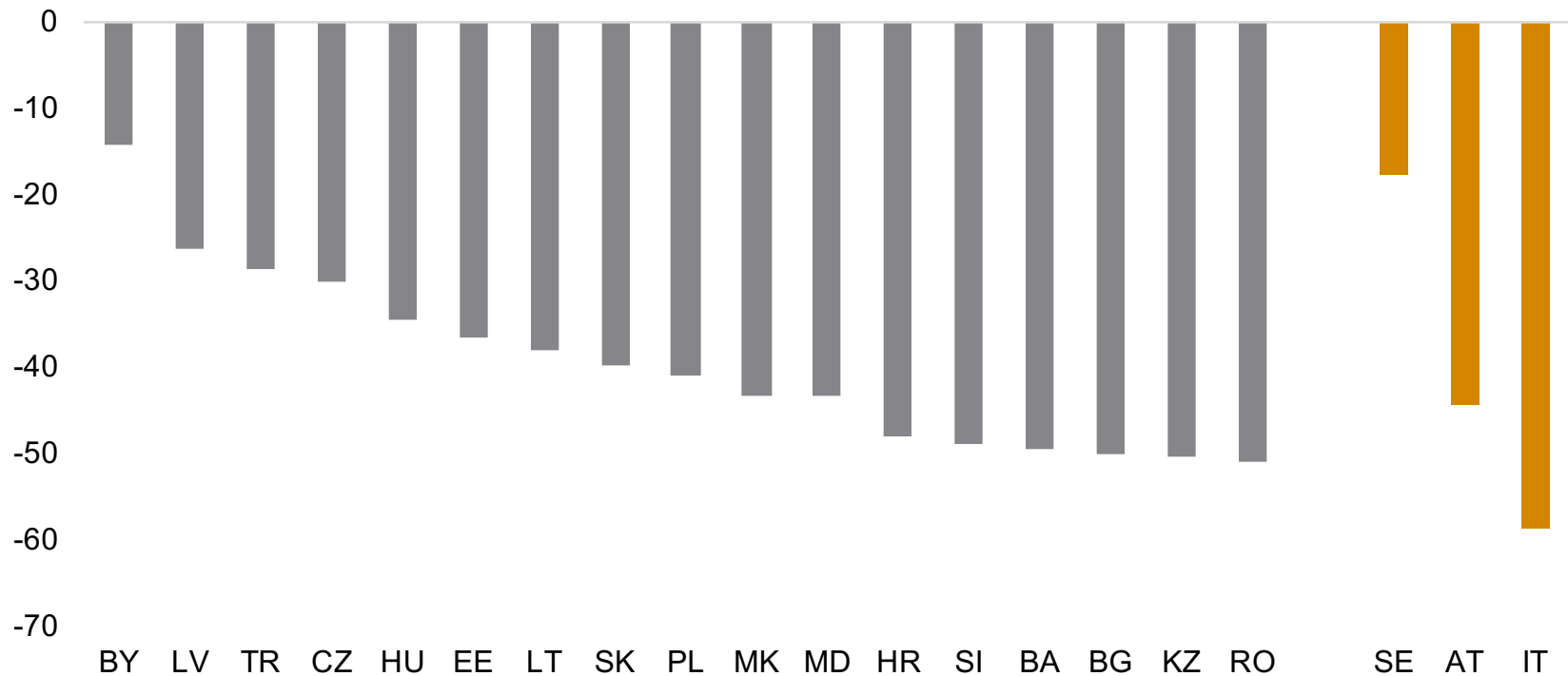
Manufacturing PMIs at or close to all-time lows across Europe in April

Manufacturing purchasing managers' indices (PMIs); 50 = no change



Lockdowns have had severe impact on normal economic life

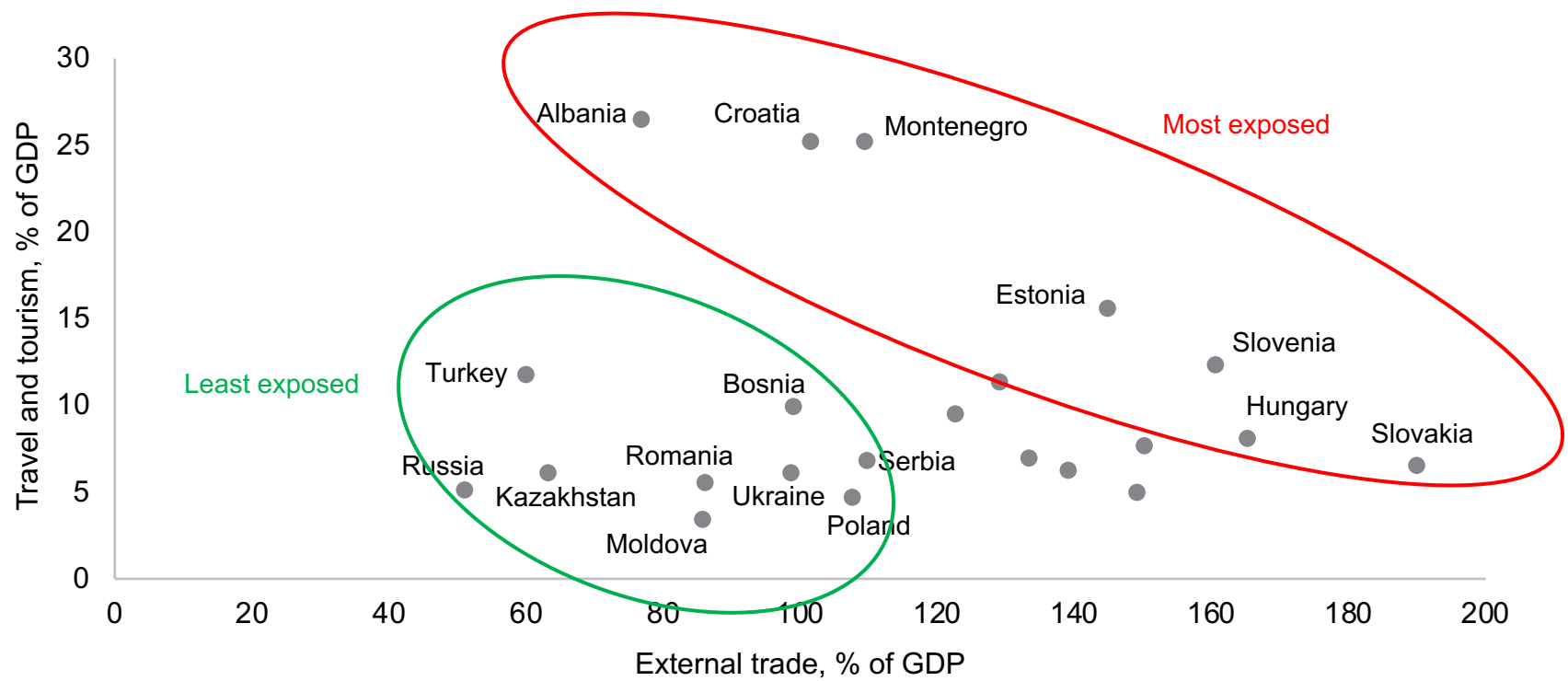
Google mobility data, change versus baseline (%), mid-April



5. Factors of resilience and vulnerability

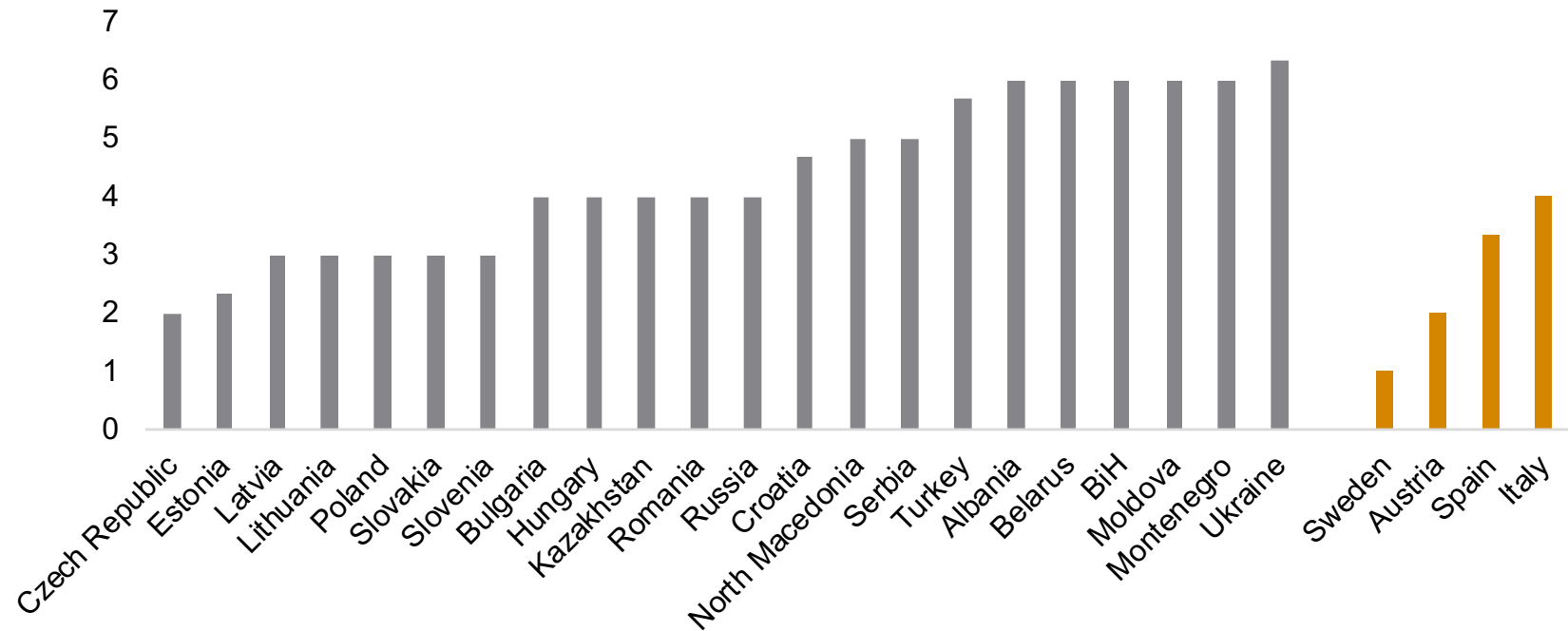
5.a. Trade and tourism dependence leaves some countries particularly exposed to initial fallout

Exposure to external trade, tourism and travel services



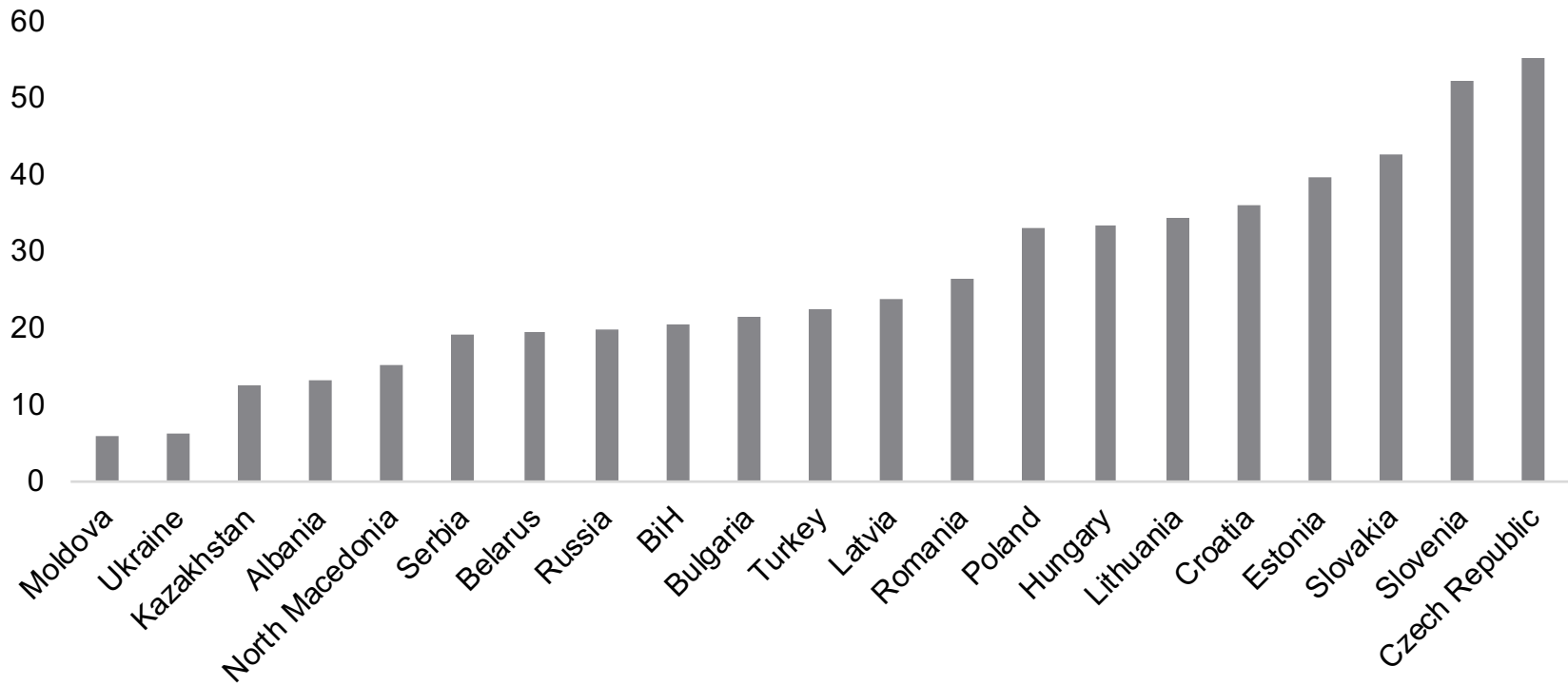
5.b. Fiscal space to react and room to recover differs widely across the region

Average credit rating; 1 (prime) to 7 (substantial risks)



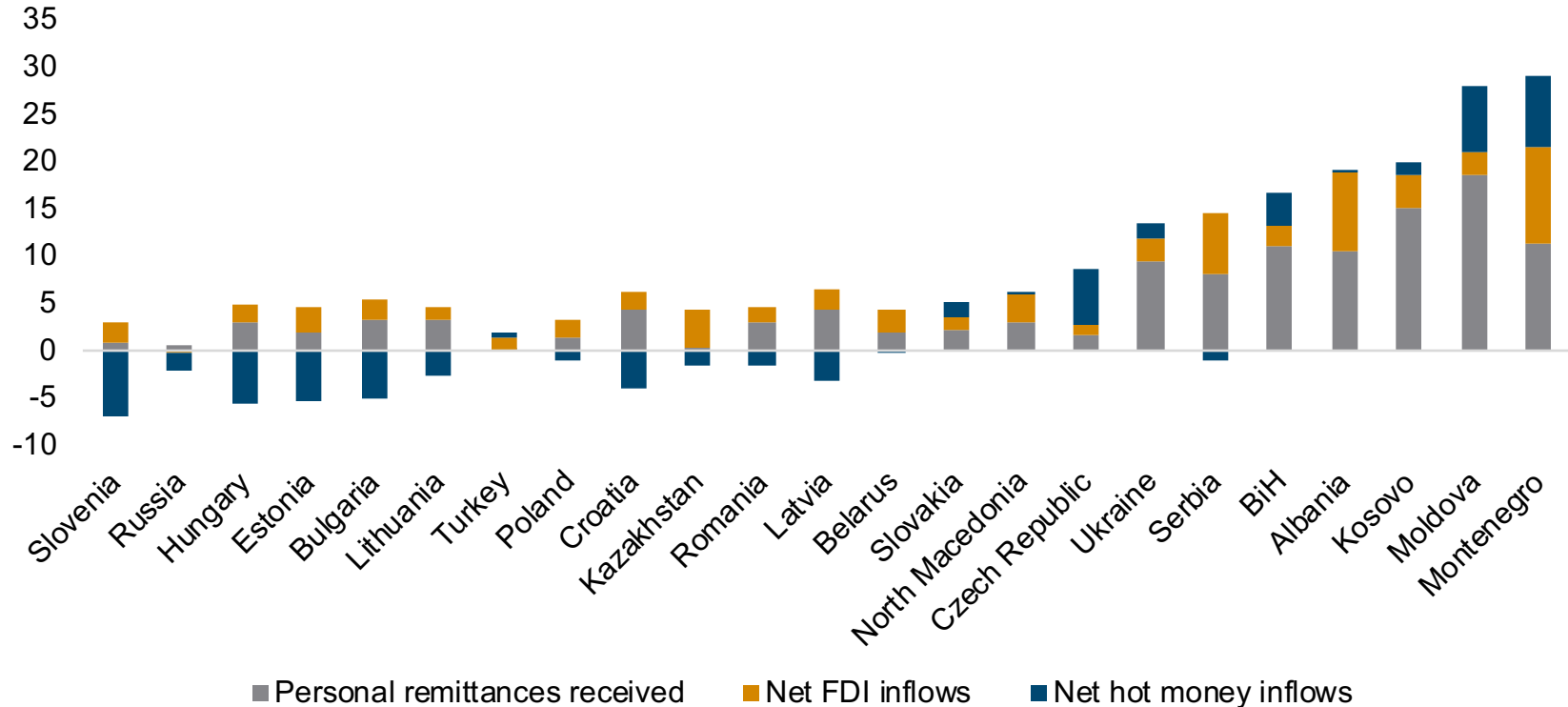
5.c. Weak healthcare capacity required lockdowns at lower level of infections and could influence recovery

Public healthcare spending per capita, PPP, Austria = 100



5.d. Reliance on capital flows a major area of exposure for much of Western Balkans, Moldova and Ukraine

Selected capital inflows, % of GDP, average of last five available years



6. First thoughts on the medium and long-term implications

The next decade in Eastern Europe

1. Consumer caution could outlast acute phase of crisis.
2. Interest rates and inflation lower for longer.
3. Higher (and maybe more progressive) taxes.
4. A bigger role for the state in economic life.
5. Opportunities from near-shoring, services out-sourcing and digitalisation.
6. After a pause, labour shortages and automation will return.
7. Ever greater gulf *within* Eastern Europe.
8. China's economic role in the region will remain important.

Conclusions

- Worst year for global economy since 1930s.
- Many CESEE countries face worst recession since early 1990s.
- Short-term: those with major trade and tourism exposure will suffer most.
- But advantages for those with better healthcare and bigger fiscal capacity.
- Many will face difficulties with sharp reduction in capital flows, and are going to need outside help.
- Longer-term: A lot of things are going to change.
 - Negative: Consumer caution, higher debt, non-EU falling further behind.
 - Positive: Near-shoring, outsourcing of services, digitalisation, further automation.

Thank you for your attention!

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Country codes

AL	Albania	KZ	Kazakhstan	RS	Serbia
BY	Belarus	LT	Lithuania	RU	Russia
BA	Bosnia and Herzegovina	LV	Latvia	SI	Slovenia
BG	Bulgaria	MD	Moldova	SK	Slovakia
CZ	Czech Republic	ME	Montenegro	TR	Turkey
EE	Estonia	MK	North Macedonia	UA	Ukraine
HR	Croatia	PL	Poland	XK	Kosovo
HU	Hungary	RO	Romania		

CESEE23 Central, East and Southeast Europe

CIS4+UA Commonwealth of Independent States-4 and Ukraine

EA19 Euro area

EU-CEE11 European Union – Central and Eastern Europe

WB6 Western Balkans

Extra slides

Negative scenario

- Second/third wave
- Delayed vaccine
- Limits on US response after election
- Greater international tensions
- Bad policy decisions in major economies
- Social unrest in systemically important country/countries
- Food shortages and sharp increase in prices
- New euro area crisis centred on Italy