

Press conference, 12 November 2015

New wiiw forecast for Central, East and Southeast Europe, 2015-2017

## **Mixed Prospects: Consumption leads fragile recovery in the CESEE core — CIS stumbles**

Amat Adarov and  
Mario Holzner

## Growth forecast revised upwards for most CESEE countries

Real GDP growth forecast and revisions relative to wiiw Spring 2015 Forecast

		Forecast, %			Revisions, pp		
		2015	2016	2017	2015	2016	2017
NMS-11	BG	2.3	2.6	3.0	↑ 0.8	↑ 0.7	↑ 0.7
	HR	0.7	1.2	1.6	↑ 0.4	↑ 0.1	↑ 0.1
	CZ	3.9	2.4	2.3	↑ 1.6	→ 0.0	↓ -0.1
	EE	1.9	2.6	2.8	↓ -0.1	↑ 0.1	↓ -0.3
	HU	2.9	2.1	2.0	↑ 0.6	↑ 0.1	→ 0.0
	LV	2.4	3.0	3.0	↑ 0.3	↑ 0.2	↑ 0.2
	LT	1.6	3.0	3.4	↓ -0.4	↑ 0.1	↑ 0.2
	PL	3.5	3.3	3.3	→ 0.0	↑ 0.1	↑ 0.1
	RO	3.4	3.7	2.7	↑ 0.9	↑ 0.6	↓ -0.3
	SK	3.2	3.0	2.9	↑ 0.7	↑ 0.3	↓ -0.1
	SI	2.7	2.2	2.3	↑ 1.0	↑ 0.4	↑ 0.3
Candidate countries	AL	2.6	3.2	3.6	↑ 0.6	↑ 1.0	↑ 1.2
	MK	3.4	2.7	3.1	↓ -0.1	↓ -0.2	↑ 0.5
	ME	2.4	2.6	2.8	↑ 0.1	→ 0.0	↓ -0.1
	RS	0.1	0.9	1.4	↑ 0.6	↓ -0.1	→ 0.0
	TR	3.0	3.1	3.1	↓ -0.3	↓ -0.4	↓ -0.4
Potential candidate countries	BA	1.8	2.3	2.4	↑ 0.2	↑ 0.2	→ 0.0
	XK	4.3	3.5	4.1	↑ 0.7	↑ 0.6	↑ 0.3
CIS+UA	BY	-3.8	0.0	1.4	↓ -1.8	↓ -1.3	↓ -0.6
	KZ	1.5	2.5	3.5	↓ -0.5	↓ -1.0	↓ -1.0
	RU	-3.7	1.0	1.4	↑ 0.2	↓ -0.9	↓ -0.6
	UA	-11.5	0.0	1.8	↓ -6.5	→ 0.0	→ 0.0

Source: wiiw forecast

## While CE & RO continue robust recovery...

Real GDP growth forecast and revisions relative to wiiw Spring 2015 Forecast

		Forecast, %			Revisions, pp		
		2015	2016	2017	2015	2016	2017
NMS-11	BG	2.3	2.6	3.0	↑ 0.8	↑ 0.7	↑ 0.7
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	PL	3.5	3.3	3.3	→ 0.0	↑ 0.1	↑ 0.1
	RO	3.4	3.7	2.7	↑ 0.9	↑ 0.6	↓ -0.3
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	MK	3.4	2.7	3.1	↓ -0.1	↓ -0.2	↑ 0.5
	ME	2.4	2.6	2.8	↑ 0.1	→ 0.0	↓ -0.1
	RS	0.1	0.9	1.4	↑ 0.6	↓ -0.1	→ 0.0
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	UA	-11.5	0.0	1.8	↓ -6.5	→ 0.0	→ 0.0

Source: wiiw forecast

## ... the CIS and UA slip into recession or decelerate

Real GDP growth forecast and revisions relative to wiiw Spring 2015 Forecast

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	UA	-11.5	0.0	1.8	↓ -6.5	→ 0.0	→ 0.0

Source: wiiw forecast

## Baltics: on track despite negative spillovers from RU SEE: growth dynamics pick up

Real GDP growth forecast and revisions relative to wiiw Spring 2015 Forecast

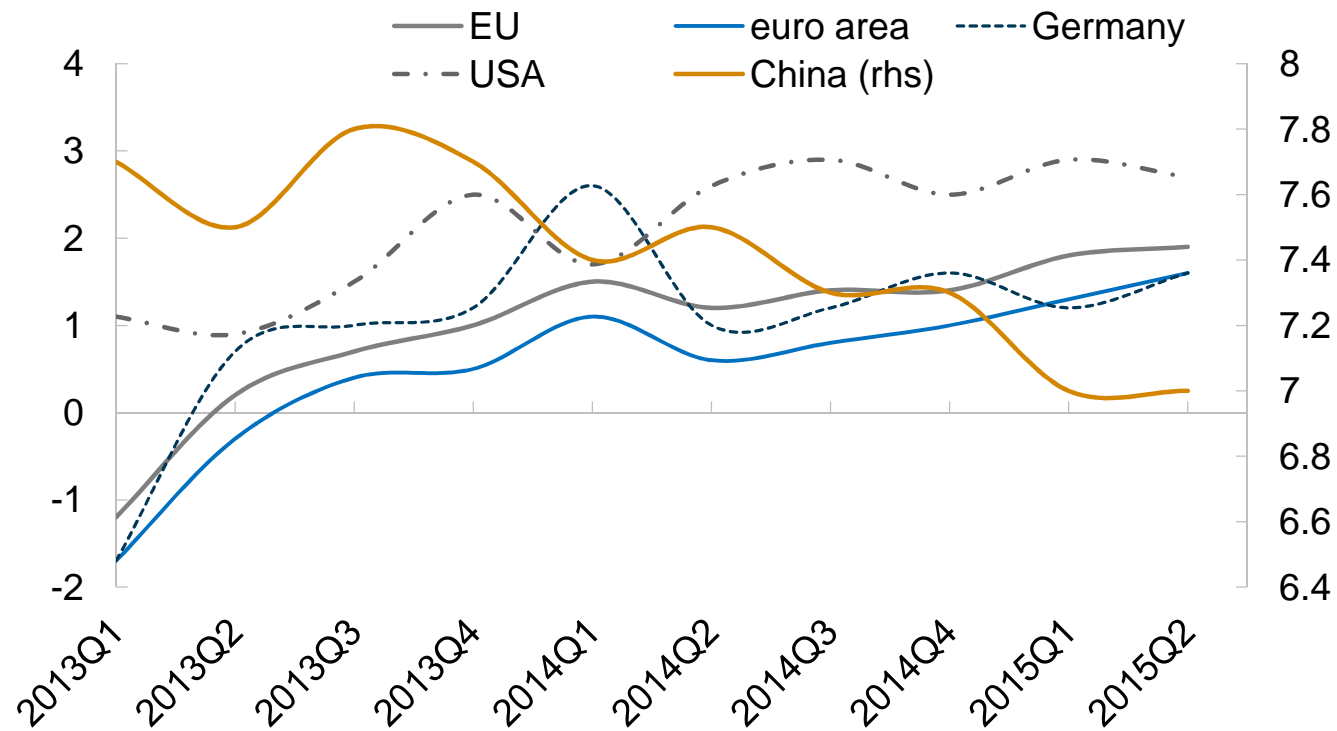
		Forecast, %			Revisions, pp		
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	UA	-11.5	0.0	1.8	↓ -6.5	→ 0.0	→ 0.0

Source: wiiw forecast

## External conditions:

Advanced economies recovering, emerging markets slowing down...

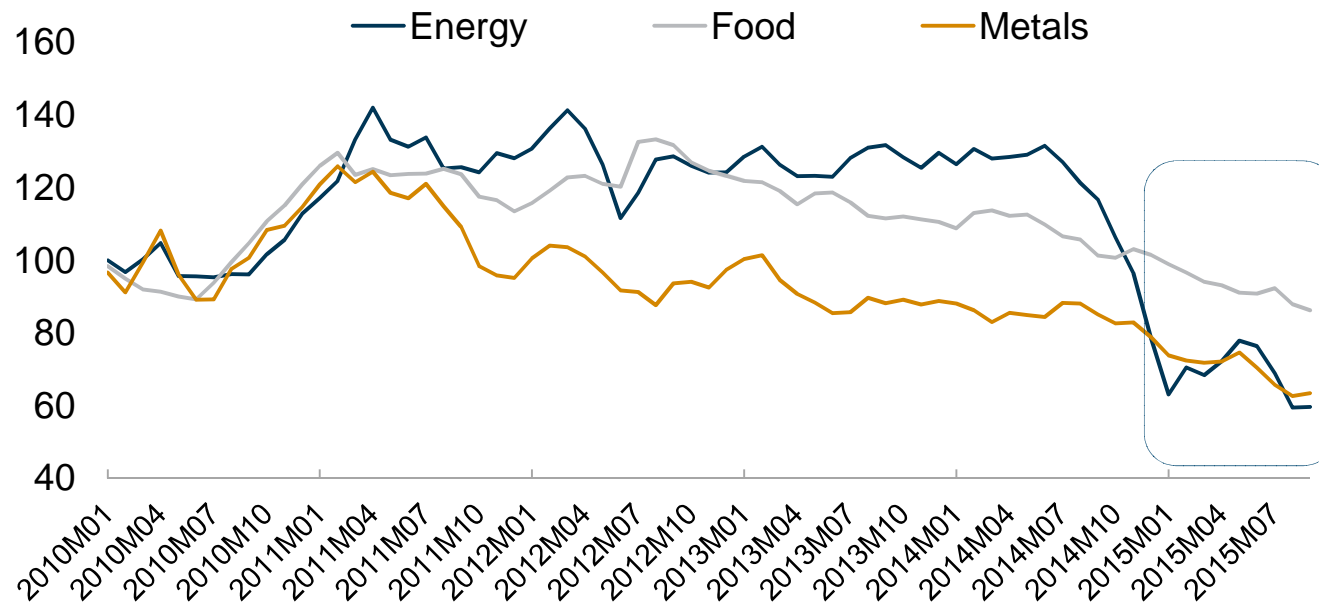
Real GDP growth rates of selected economies, yoy, %



Source: World Bank

... commodity prices weakening

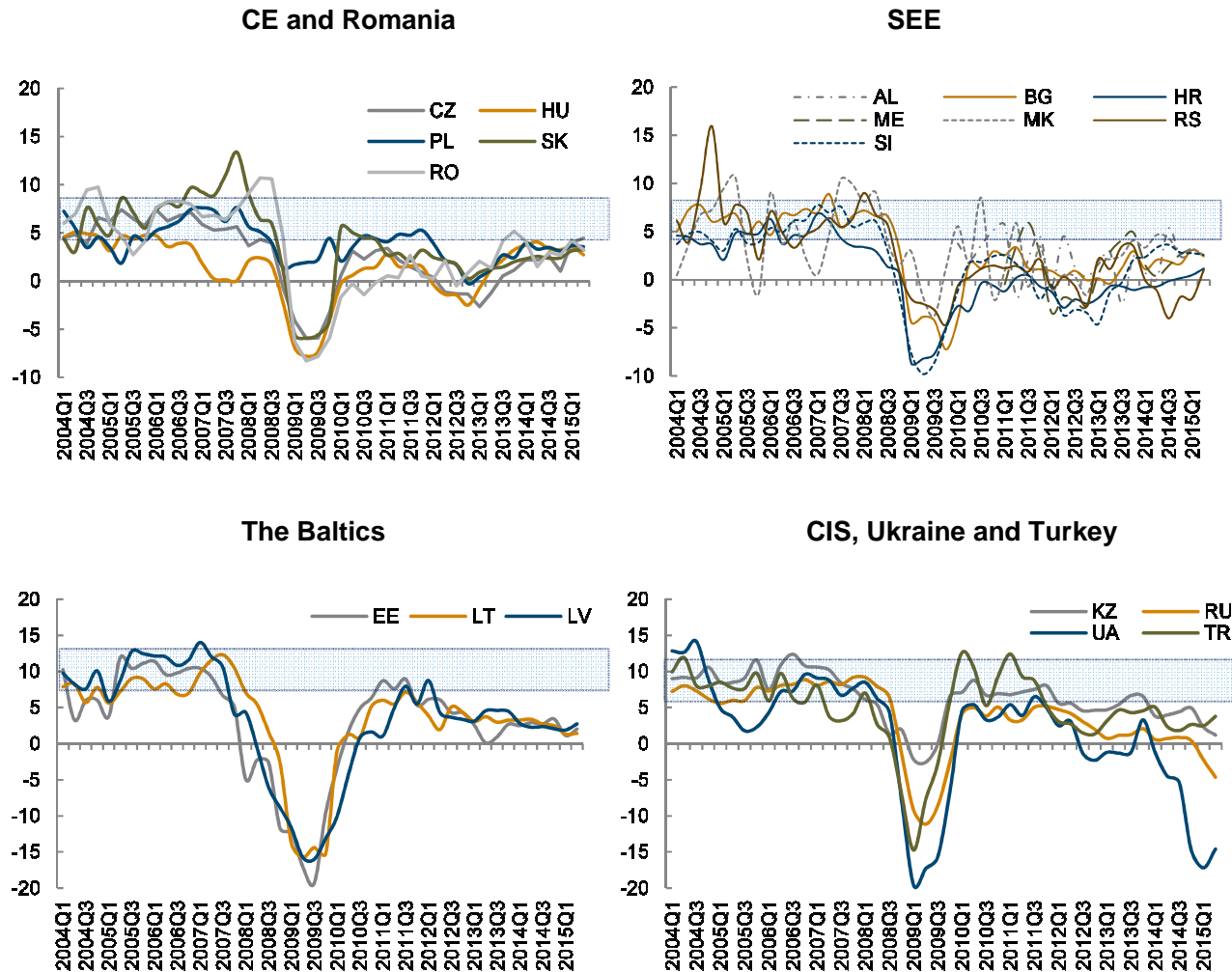
World Bank's commodity price indices; 2010=100



Source: World Bank

# Protracted recovery after double-dip recession

Quarterly real GDP growth, yoy

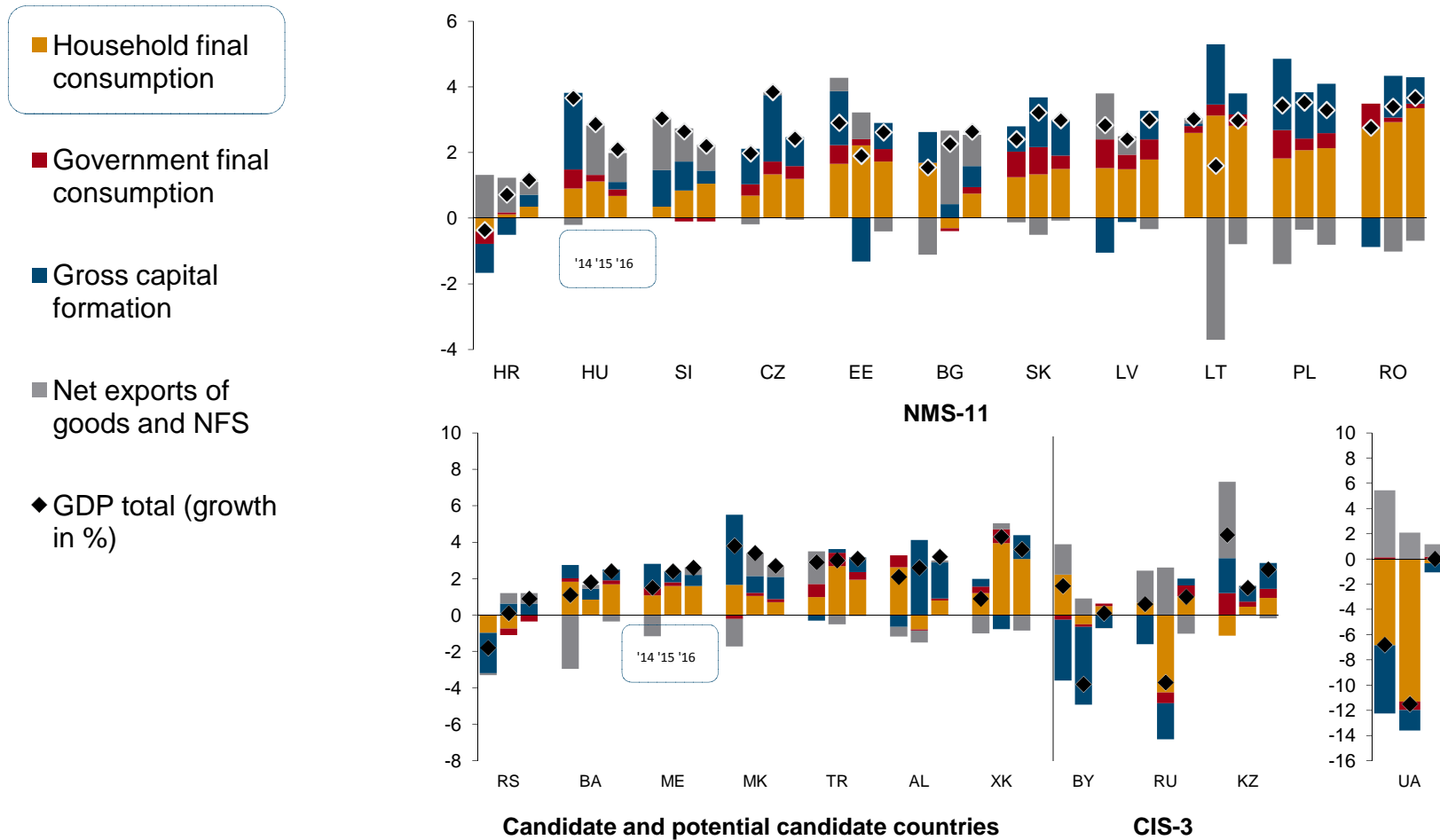


Source: National statistics and Eurostat



# Household consumption main growth engine in most CESEE

Real GDP growth and contributions, 2014-2016

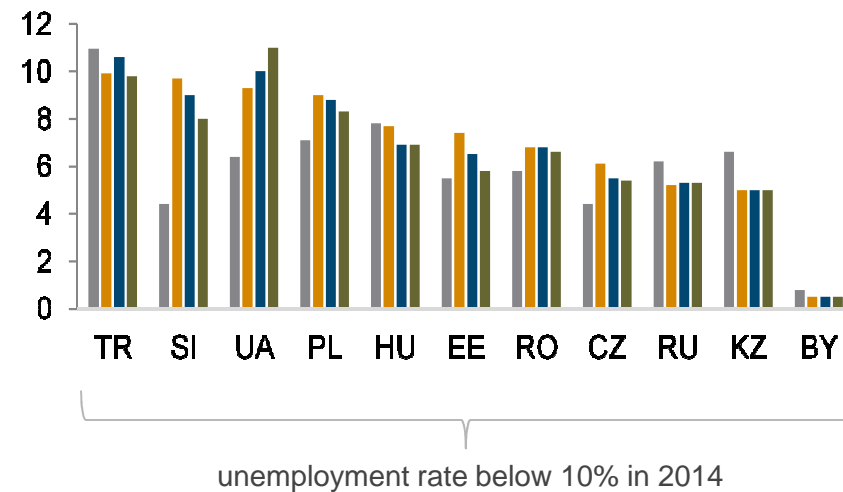


Source: wiiw Annual Database and forecast

# Consumption-led growth associated with receding unemployment...

## LFS Unemployment rate, selected years 2008-2017

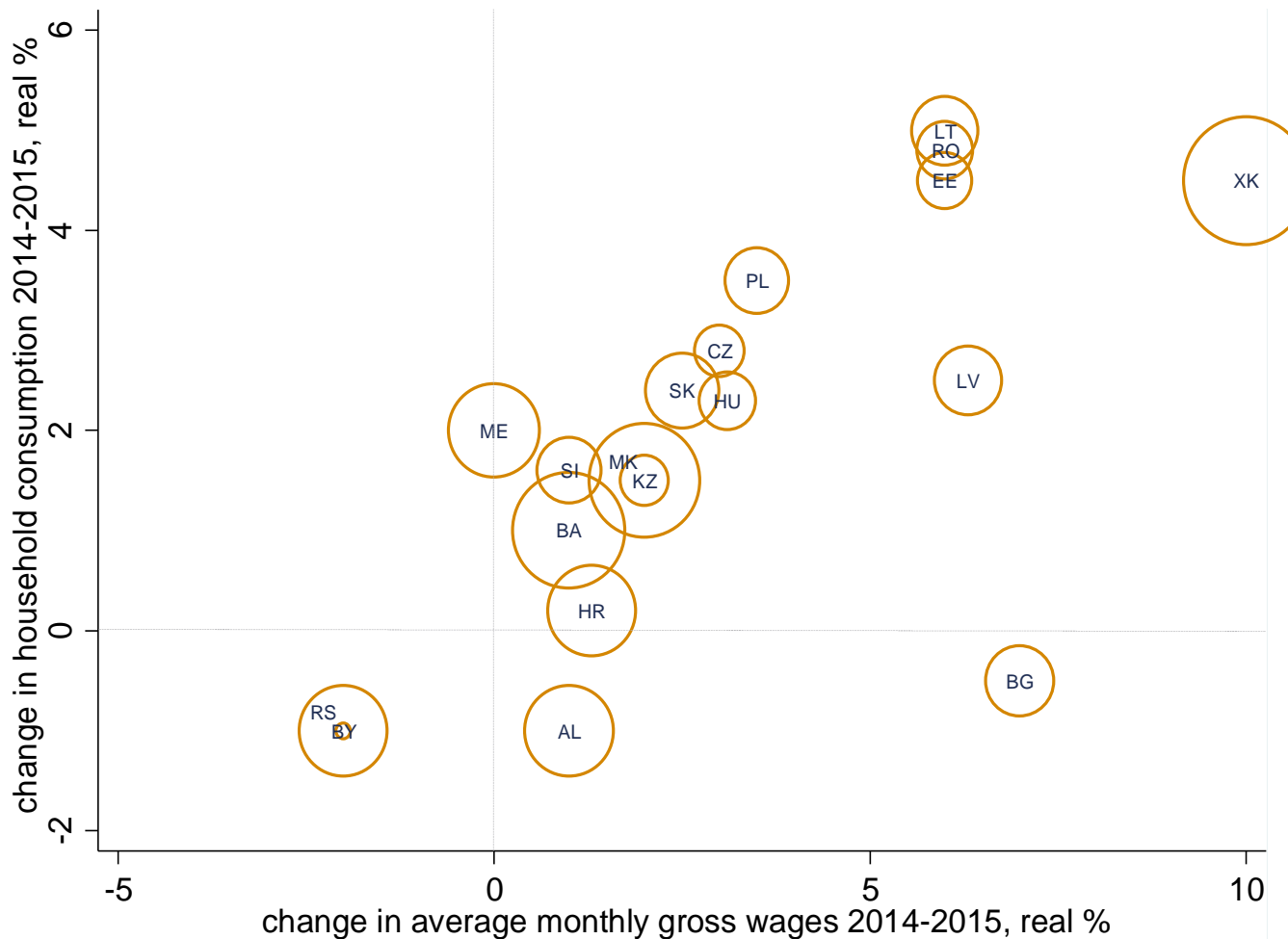
Note: Registered unemployment for Belarus



Source: wiiw Annual Database and forecast

## ... and rising real wages

Household consumption and real wages, 2014-2015

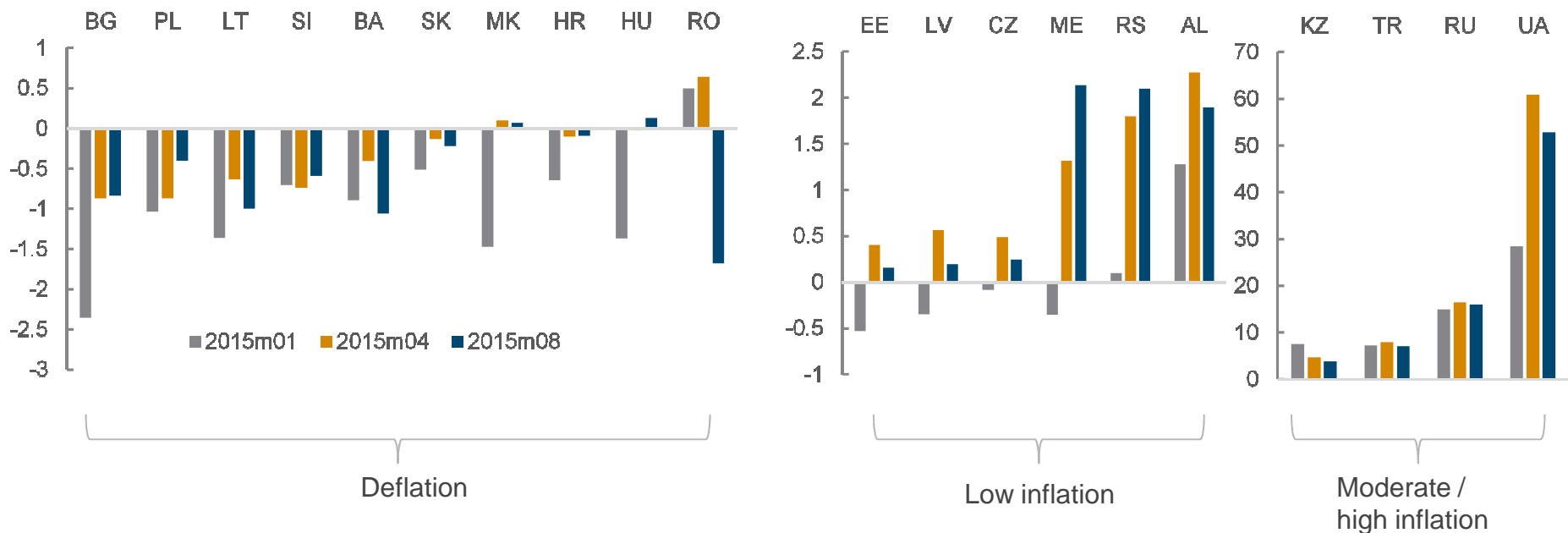


*Note:* Dropping RU and UA. Bubble size corresponds to unemployment rate in 2015, ranging from the highest (XK=34%) to the lowest (BY=0.5%)

bolstered by weak inflation (deflation) in most CESEE...

with the exception of CIS, UA, TR, where inflation spiked...

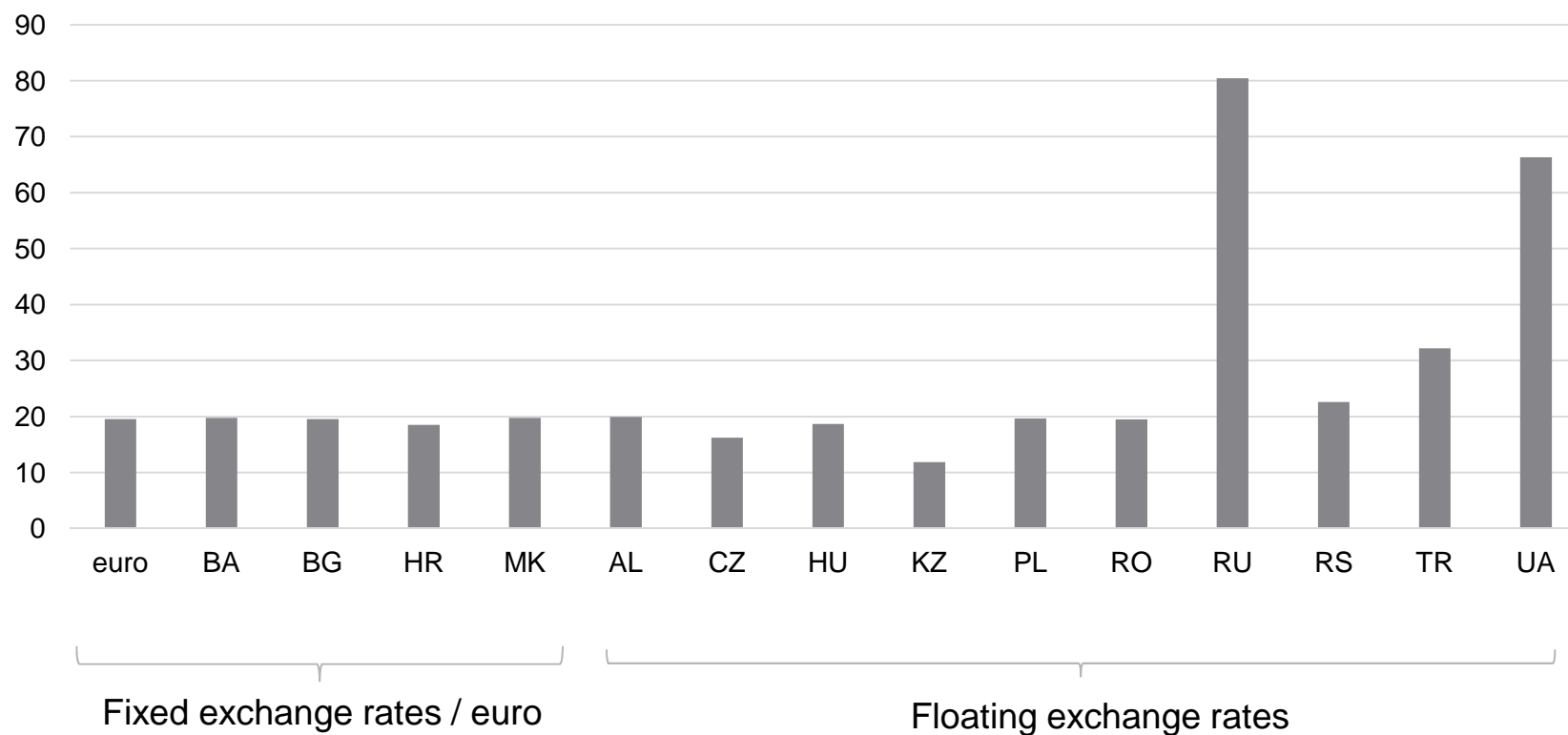
CPI inflation, yoy, 2015



Source: wiiw Monthly Database

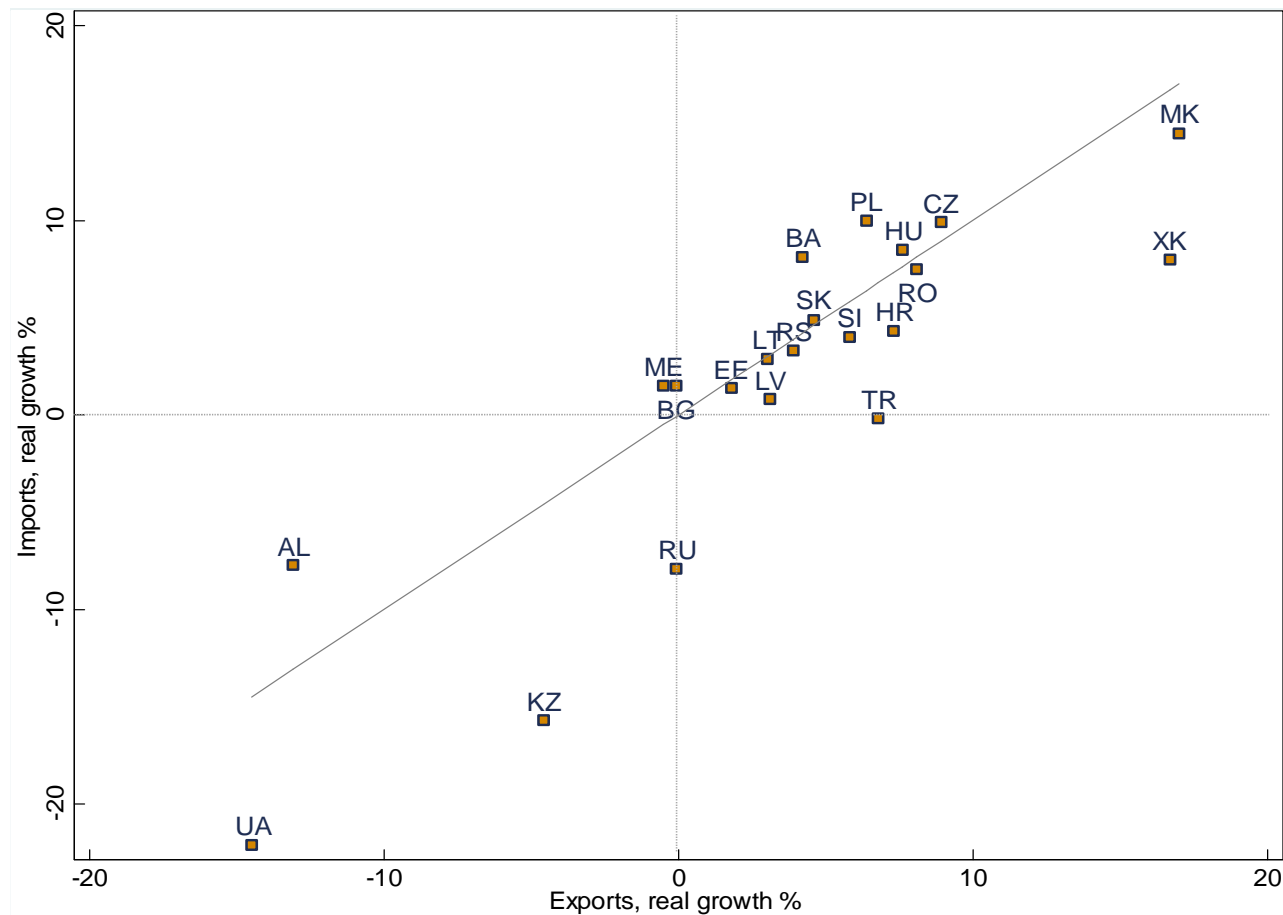
...as a result of sharp devaluations (CIS, UA, TR)

Change in nominal exchange rate (national currency / \$), August 2015 yoy, %



Weak currencies support exports,  
yet, rising imports render net exports less significant

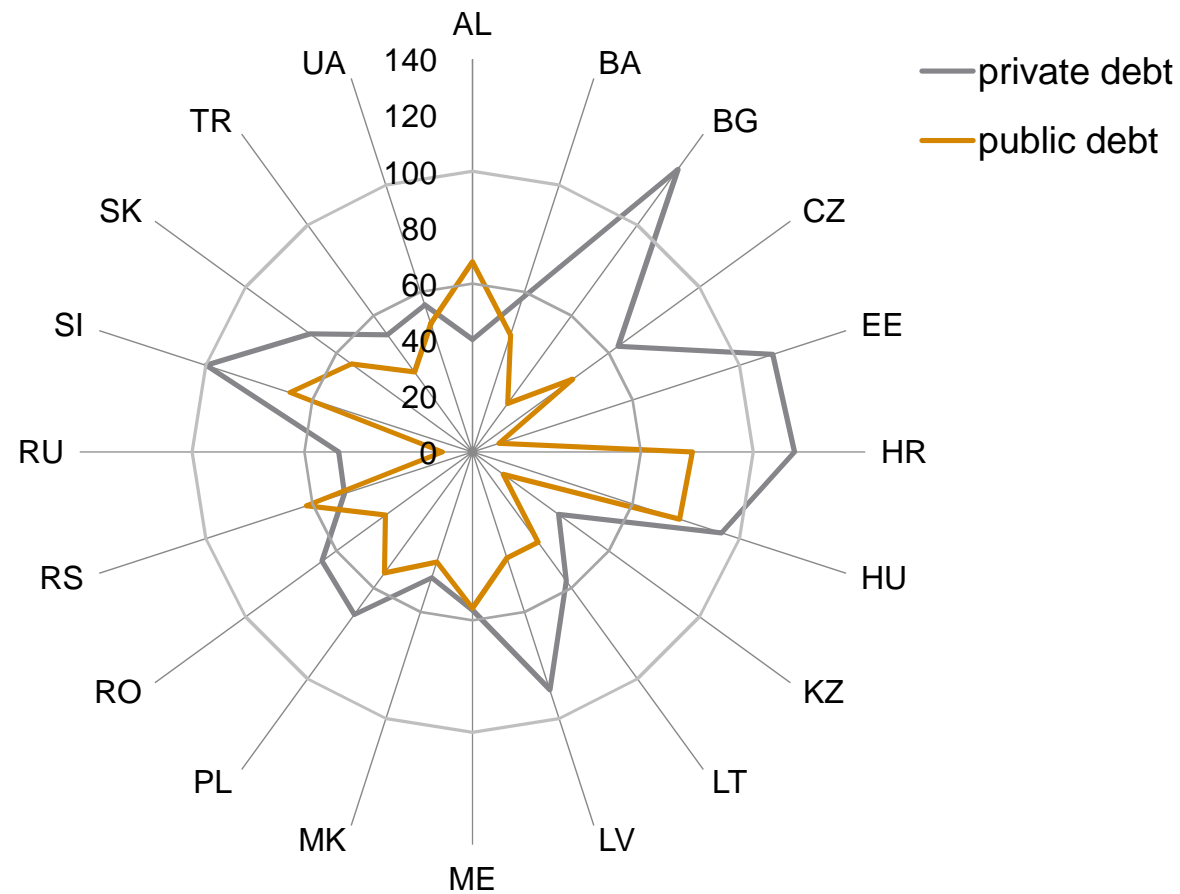
Change in exports vs change in imports in 2014, real % yoy



Source: wiiw forecast

# Private investment lagging, constrained by high debt and NPLs

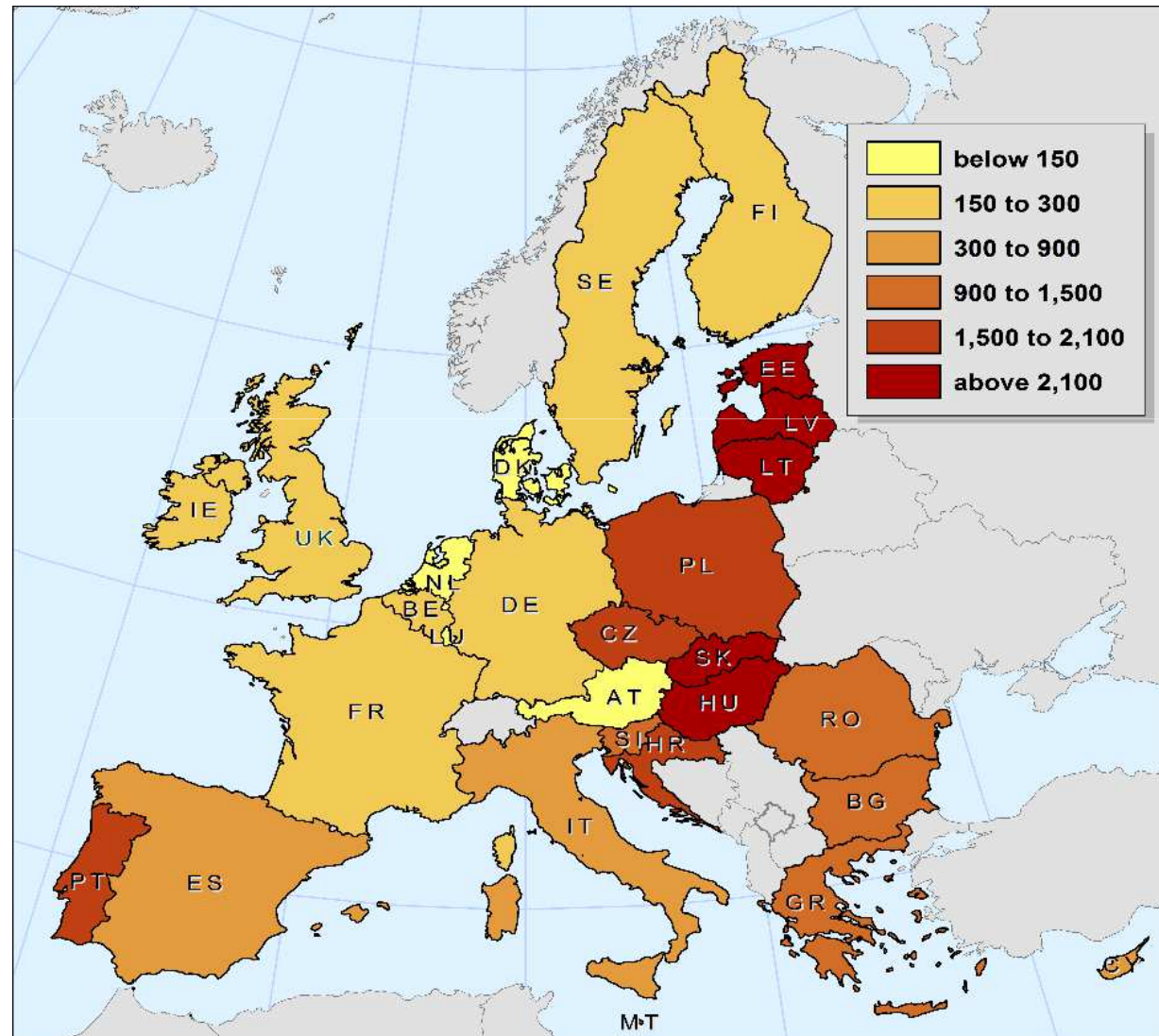
Private and public debt, 2014, % GDP



Source: Annual Database and estimates

## EU funds expected to alleviate investment needs...

Allocation of EU funds under 2014-2020 Multiannual Financial Framework, EUR per capita



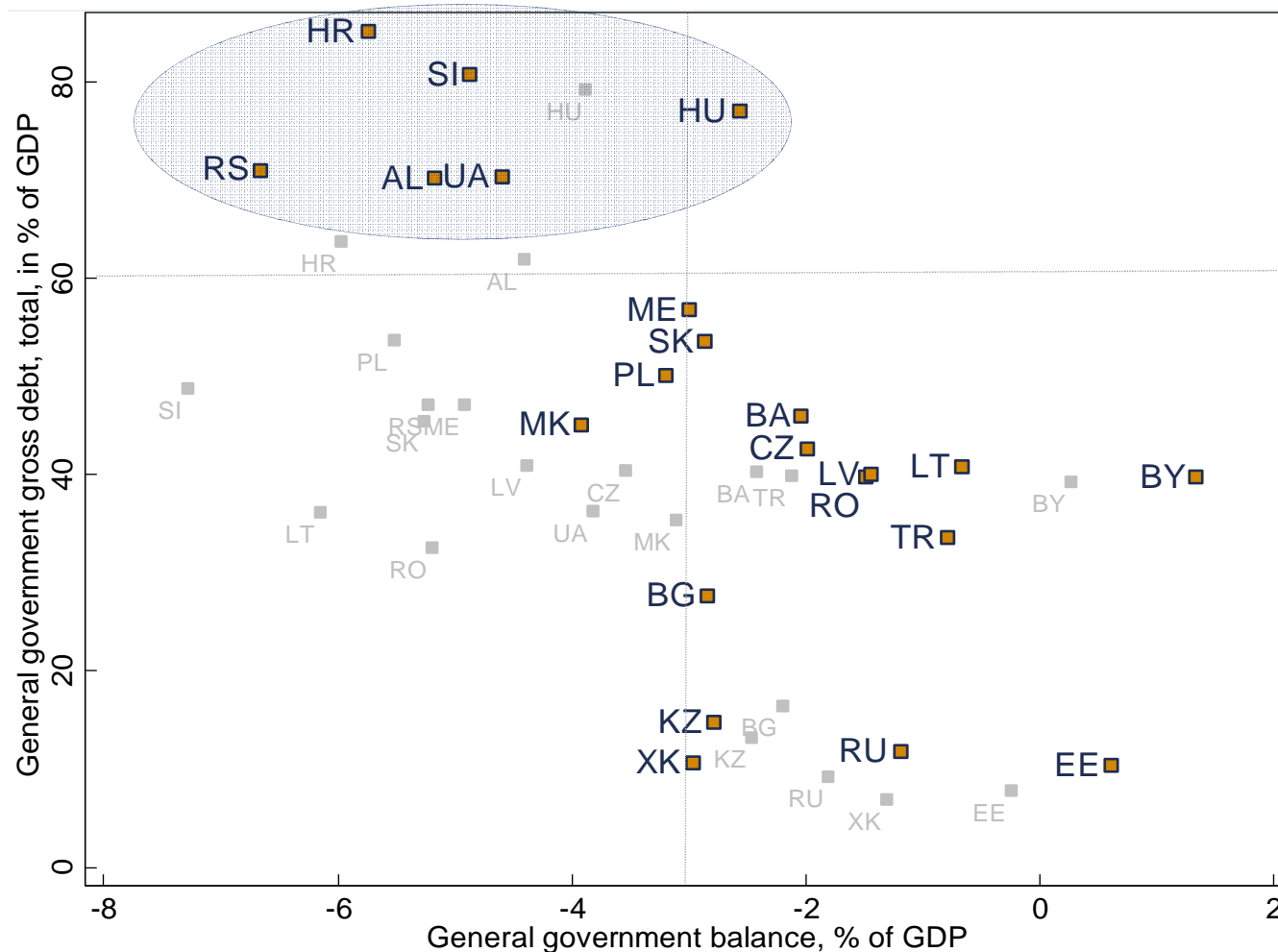
Source: wiiw calculations based on European Commission's data



# ...while public investment depends on fiscal space

## Fiscal stance in CESEE

Note: orange dots: 2014, grey dots: average 2009-2013. Lines correspond to the Maastricht criteria.

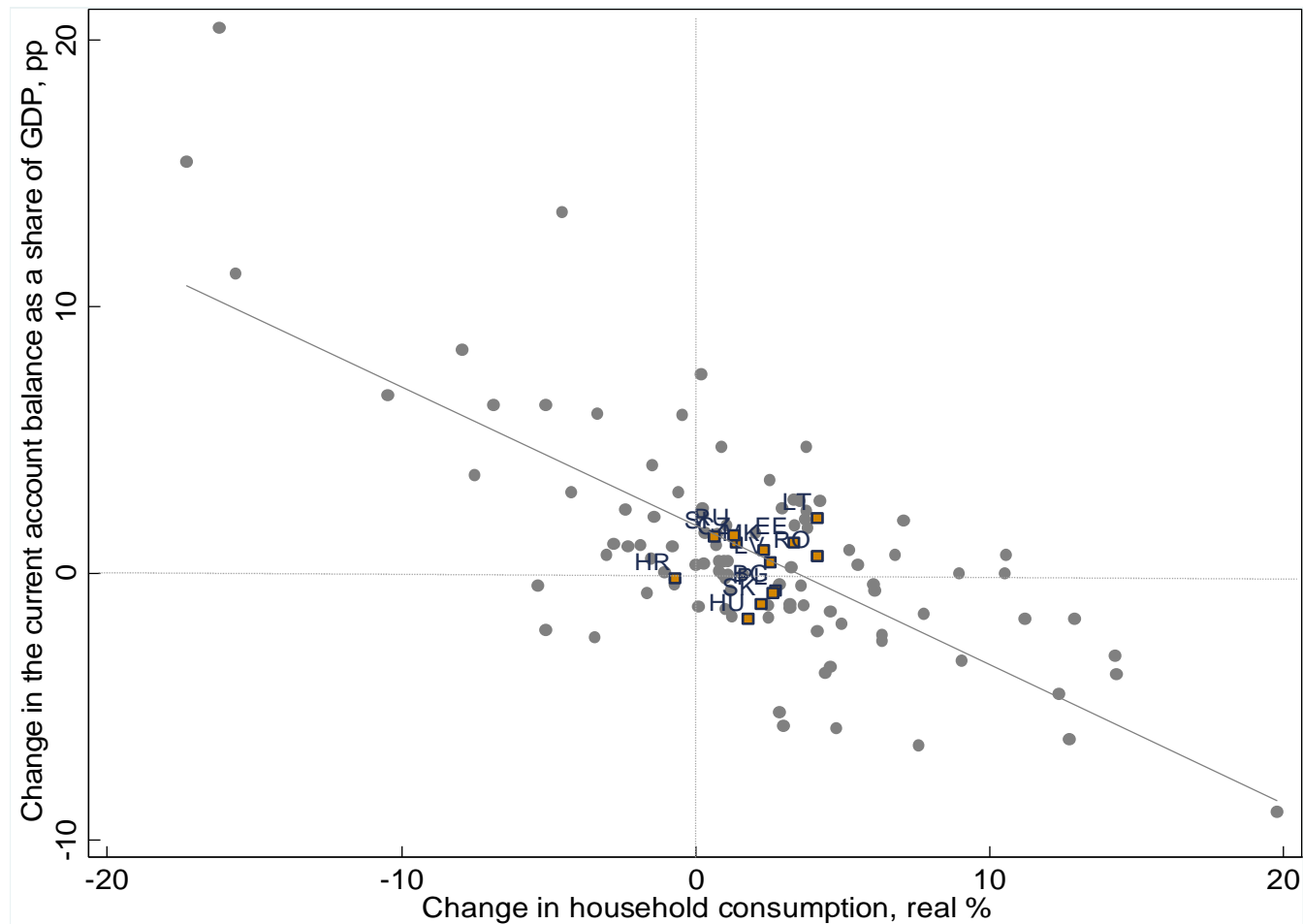


Source: wiiw Annual Database

# Rising consumption risks deteriorating current account...

Household consumption vs current account

Note: each dot represents a CESEE country; orange dots: 2014; grey dots: 2005-2013

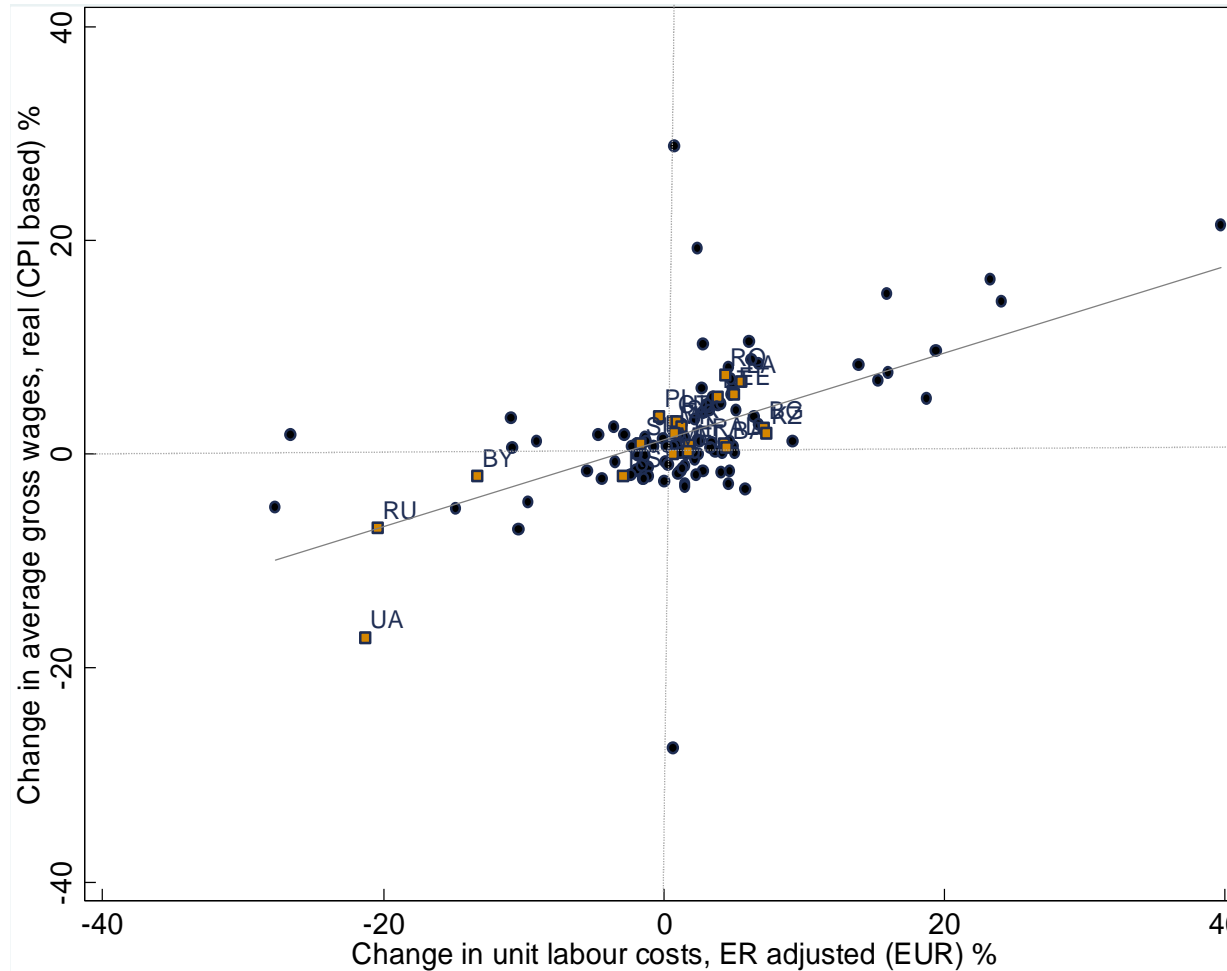


Source: wiiw Annual Database

# ... and increasing wages may erode competitiveness (unless associated with productivity gains)

Change in real wages vs change in unit labour costs, 2010-2015

Note: each dot represents a CESEE country; orange dots: 2015; grey dots: 2010-2014

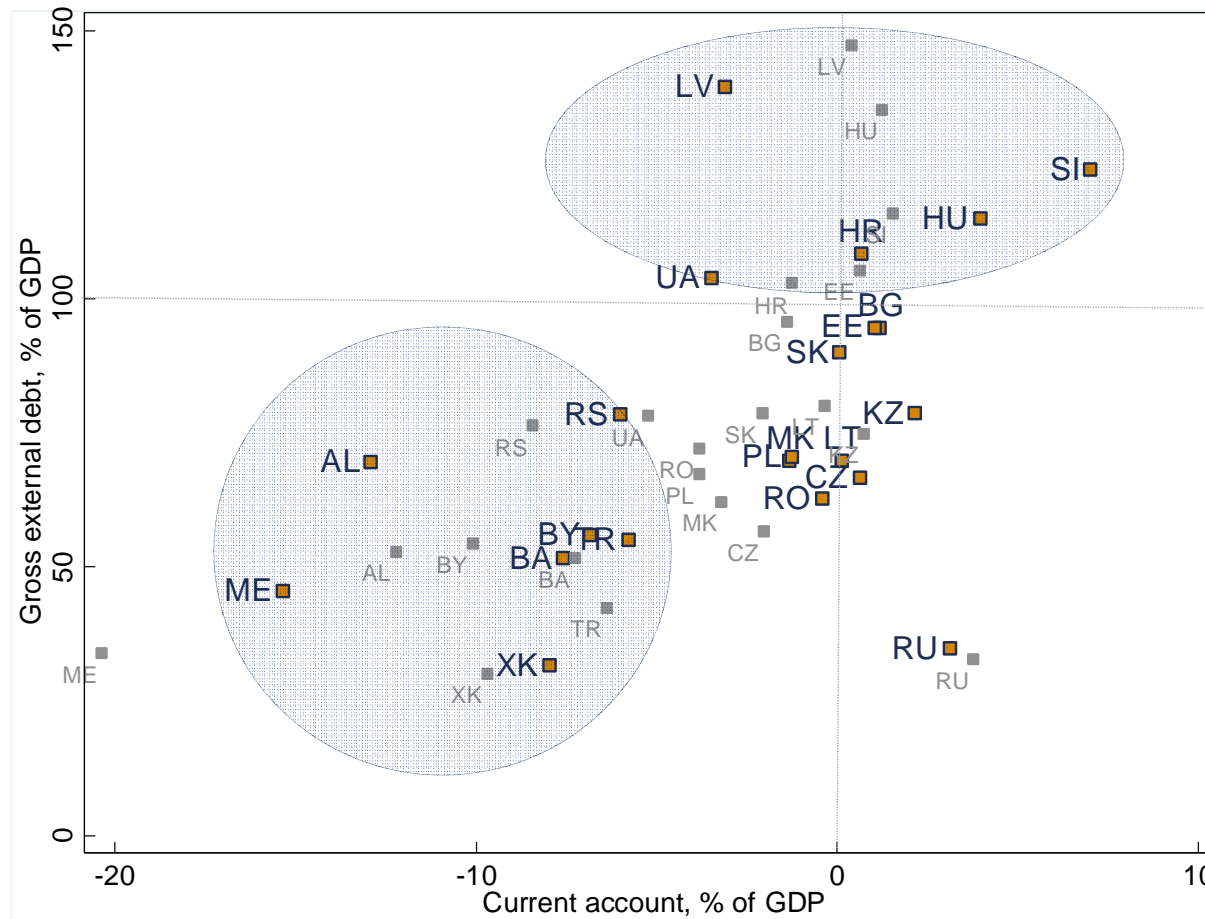


Source: wiiw Annual Database

...of particular concern for countries with external imbalances

### Current account vs gross external debt

Note: orange dots: 2014; grey dots: 2009-2013

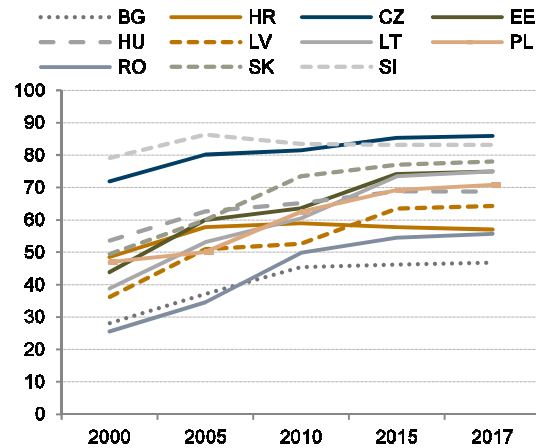


Source: wiiw Annual Database

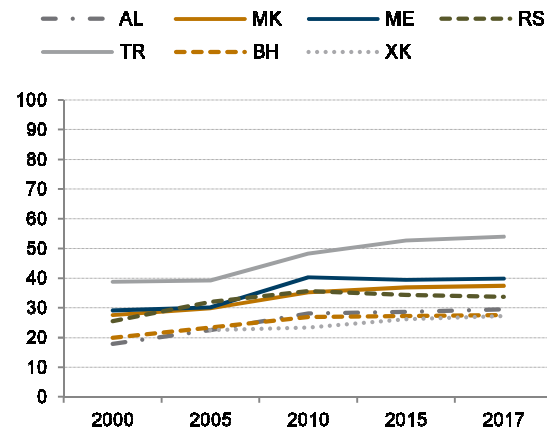
# ...and important in light of stalling income convergence

GDP per capita at current PPPs (EUR), EU average = 100

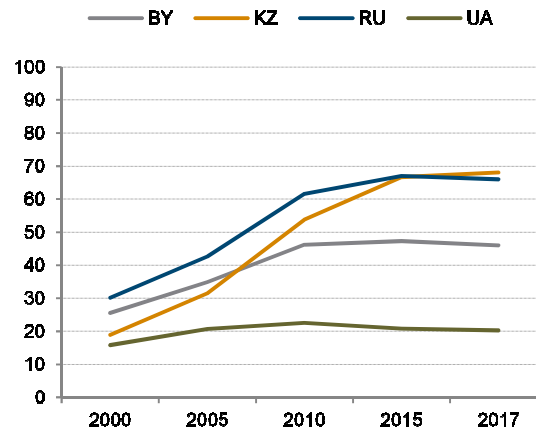
NMS



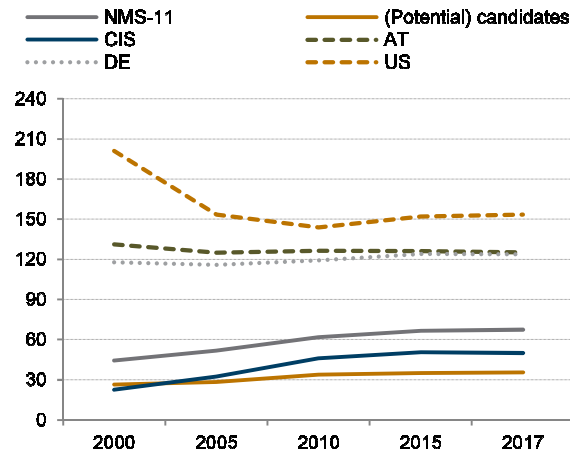
Candidate and potential candidate countries



CIS+UA



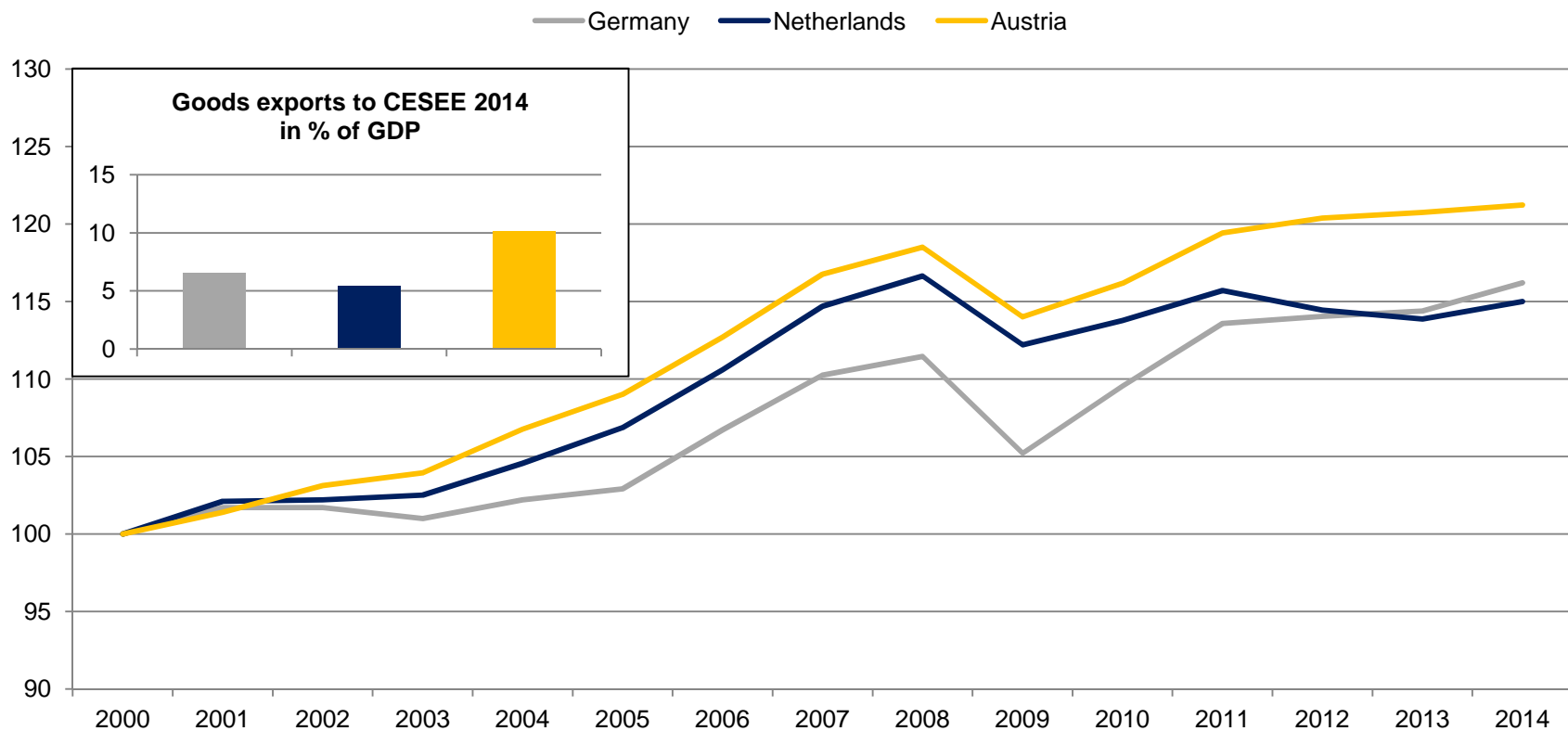
CESEE subgroups and selected advanced economies



Source: wiiw Annual Database, wiiw forecast, Eurostat, European Commission

# Stronger trade links with CESEE do not seem to harm Austrian growth dynamics in the longer run

GDP index, 2000=100



## External risks may jeopardise recovery in the CESEE

- Geopolitical tensions: Russia/Ukraine, the Middle East
- Slowdown in China and other emerging markets
- Normalisation of monetary policy in the USA
- Subdued oil prices (asymmetric effects for CIS vs other CESEE)
- Refugee crisis in Europe
- Recession and import-substitution in Russia
- Volkswagen scandal

## Summary

- Economic outlook of CESEE is improving, forecast revised upwards
- Forecast growth (dropping CIS & UA): +3% in 2015
- Sub-regional growth trends are diverging:
  - CE continues robust recovery (2-4% per annum)
  - CIS face poor prospects unless oil price recovers (RU, BY: -4%)
  - Baltics despite negative spillovers from RU still on track (1.5-3%)
  - SEE improving growth trends (RS, HR <1%, others: 2-4%)
  - UA: deeper recession (-11.5%) might be bottoming out
- Household consumption – key growth driver
- Private investment still lagging, EU funding is important
- External environment is moderately supportive, downside risks persist





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**Thank you for your attention!**

Amat Adarov and  
Mario Holzner

[adarov@wiiw.ac.at](mailto:adarov@wiiw.ac.at)  
[holzner@wiiw.ac.at](mailto:holzner@wiiw.ac.at)

## Country codes (in alphabetic order)

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AL	Albania	ME	Montenegro
BA	Bosnia and Herzegovina	MK	Macedonia
BG	Bulgaria	PL	Poland
BY	Belarus	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
CE	Central Europe		
CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
NMS	New Member States		
SEE	Southeast Europe		

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