

October 20th 2021

Webinar

wiiw Autumn Forecast for CESEE: Recovery beating expectations

Richard Grieveson, Deputy Director

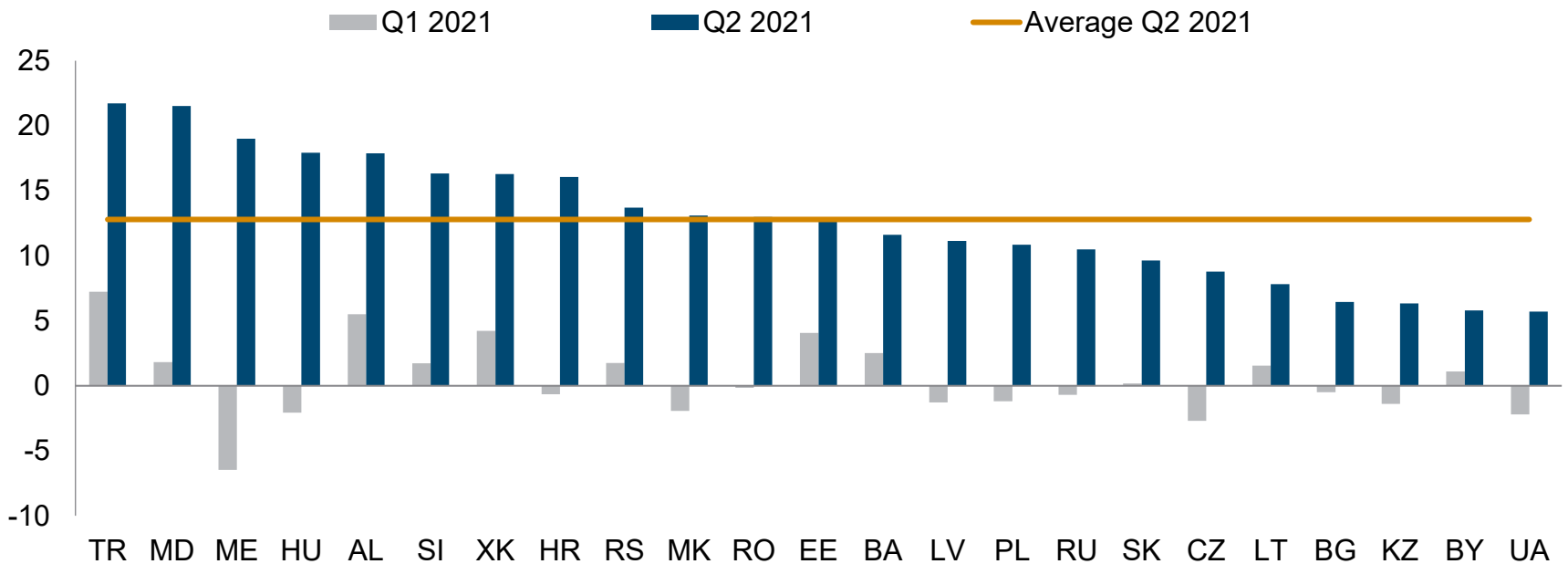
Vasily Astrov, Senior economist

Overview

1. Has economic fallout from COVID-19 been left behind?
2. What are the main drivers of recovery?
3. Has COVID-19 left scars in the labour markets?
4. Is the current spike in inflation transitory?
5. Are CESEE economies overheating?
6. Outlook for 2022-2023 and risks to the forecast

Strong economic rebound in Q2 2021

Real GDP growth (% , year on year)

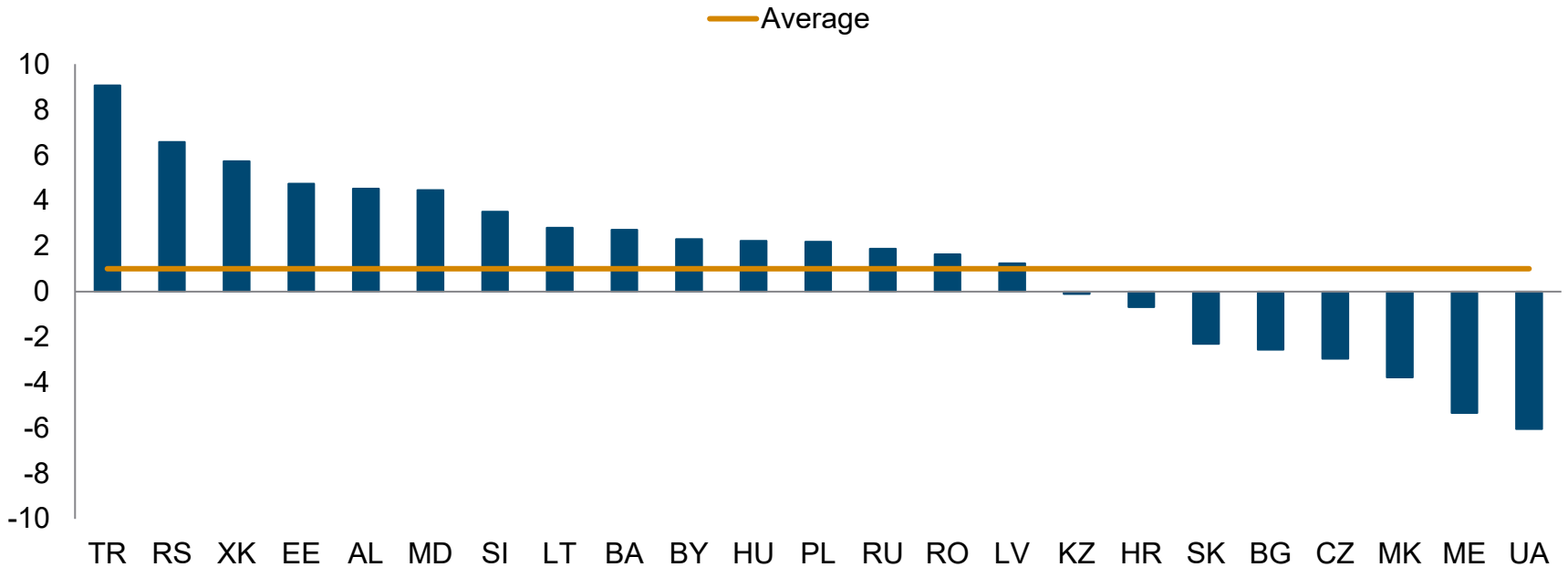


Note: Simple average over all countries.

Source: Eurostat and wiiw Monthly Database.

Pre-pandemic levels of activity largely restored

Real GDP growth in Q2 2021 versus Q2 2019, in %

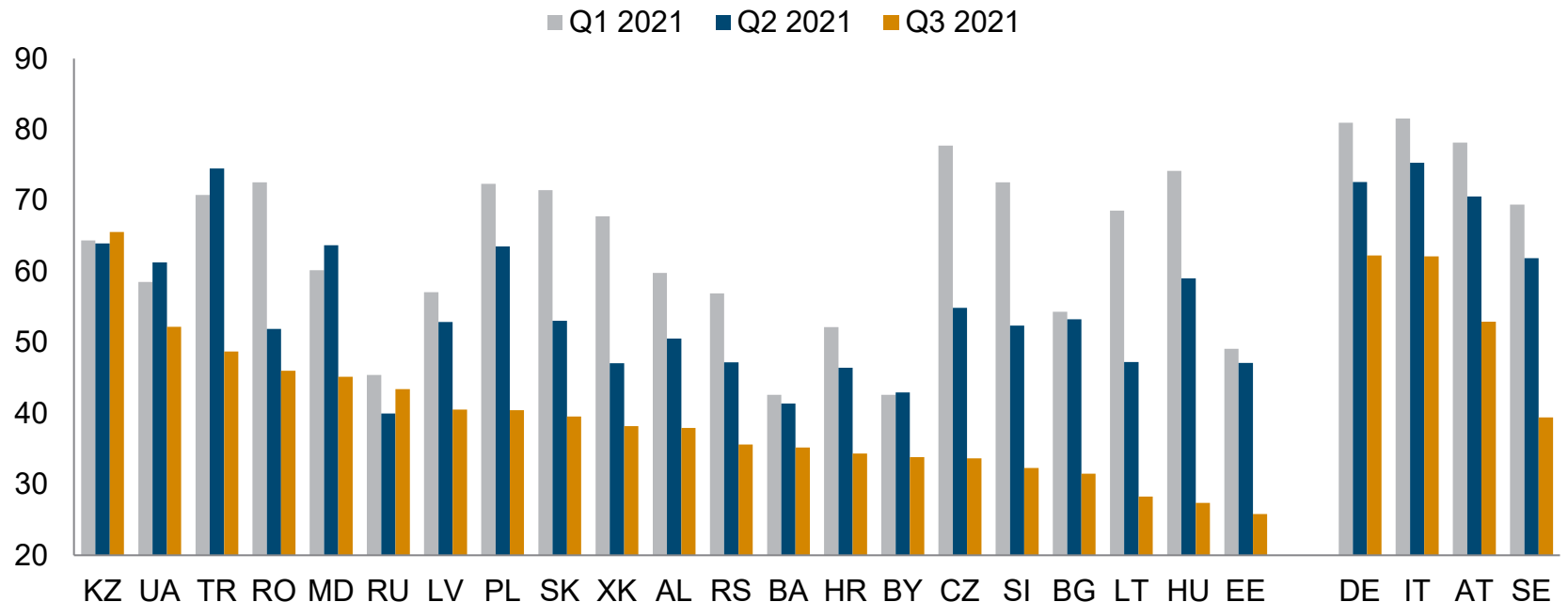


Note: Simple average over all countries.

Source: Eurostat and wiiw Monthly Database.

Why? One reason is declined appetite for imposing COVID-19 restrictions

Stringency Index



Note: Q3 2021 data for several countries are available only until the beginning of August.

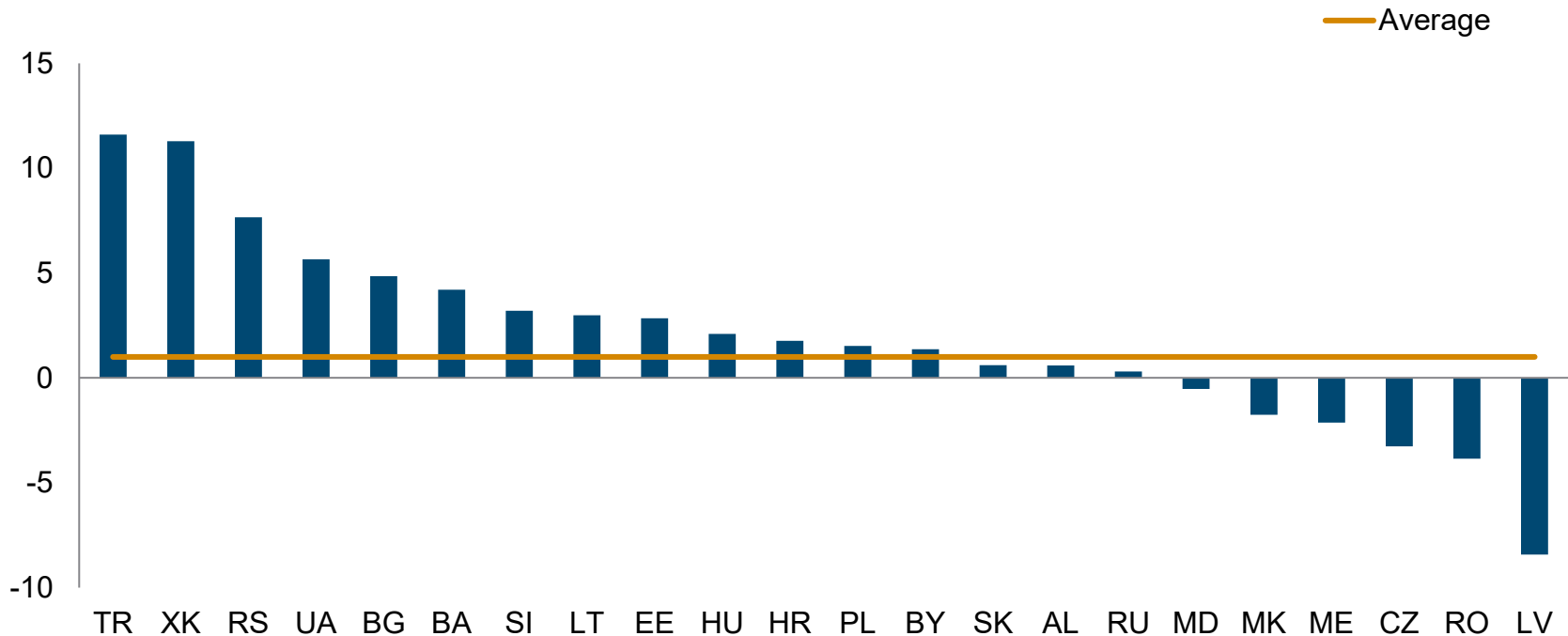
Source: Blavatnik School of Government, Oxford University.

Growth forecasts for 2021 revised upwards

		Forecast, %			Revisions, pp	
		2021	2022	2023	2021	2022
EU-CEE	BG	3.5	3.3	3.2	↑ 0.5	↓ -0.2
	CZ	3.4	3.7	3.6	↑ 0.4	↓ -0.2
	EE	7.8	3.6	3.0	↑ 3.6	↓ -0.9
	HR	7.2	5.0	4.5	↑ 2.1	↓ -0.3
	HU	6.2	4.5	4.0	↑ 1.3	→ 0.0
	LT	4.4	3.7	3.5	↑ 1.4	↓ -0.3
	LV	4.5	4.3	3.4	↑ 1.3	↓ -0.7
	PL	5.3	4.9	4.9	↑ 1.3	↑ 0.4
	RO	6.8	4.3	4.2	↑ 1.6	↓ -0.2
	SI	5.2	4.1	3.3	↑ 1.2	↓ -0.2
	SK	4.0	4.4	3.9	→ 0.0	→ 0.0
Western Balkans	AL	6.4	4.5	4.2	↑ 1.4	↑ 0.1
	BA	3.7	3.1	3.5	↑ 0.8	↓ -0.2
	ME	8.4	4.8	2.4	↑ 1.9	↓ -1.2
	MK	3.5	3.4	3.2	↓ -0.6	→ 0.0
	RS	6.6	4.6	4.5	↑ 0.6	↑ 0.4
	XK	6.0	4.8	4.0	↑ 0.7	↑ 0.1
Turkey	TR	9.1	3.8	3.8	↑ 3.3	↑ 0.4
CIS+UA	BY	2.5	2.0	2.3	→ 0.0	↑ 0.4
	KZ	3.9	4.2	4.4	↑ 0.4	↑ 0.1
	MD	8.0	4.5	4.0	↑ 1.0	→ 0.0
	RU	4.0	3.0	2.8	↑ 0.5	→ 0.0
	UA	3.8	3.6	3.5	↓ -0.5	↑ 0.1

Private consumption surged strongly...

Real growth of household consumption in Q2 2021 versus Q2 2019, in %



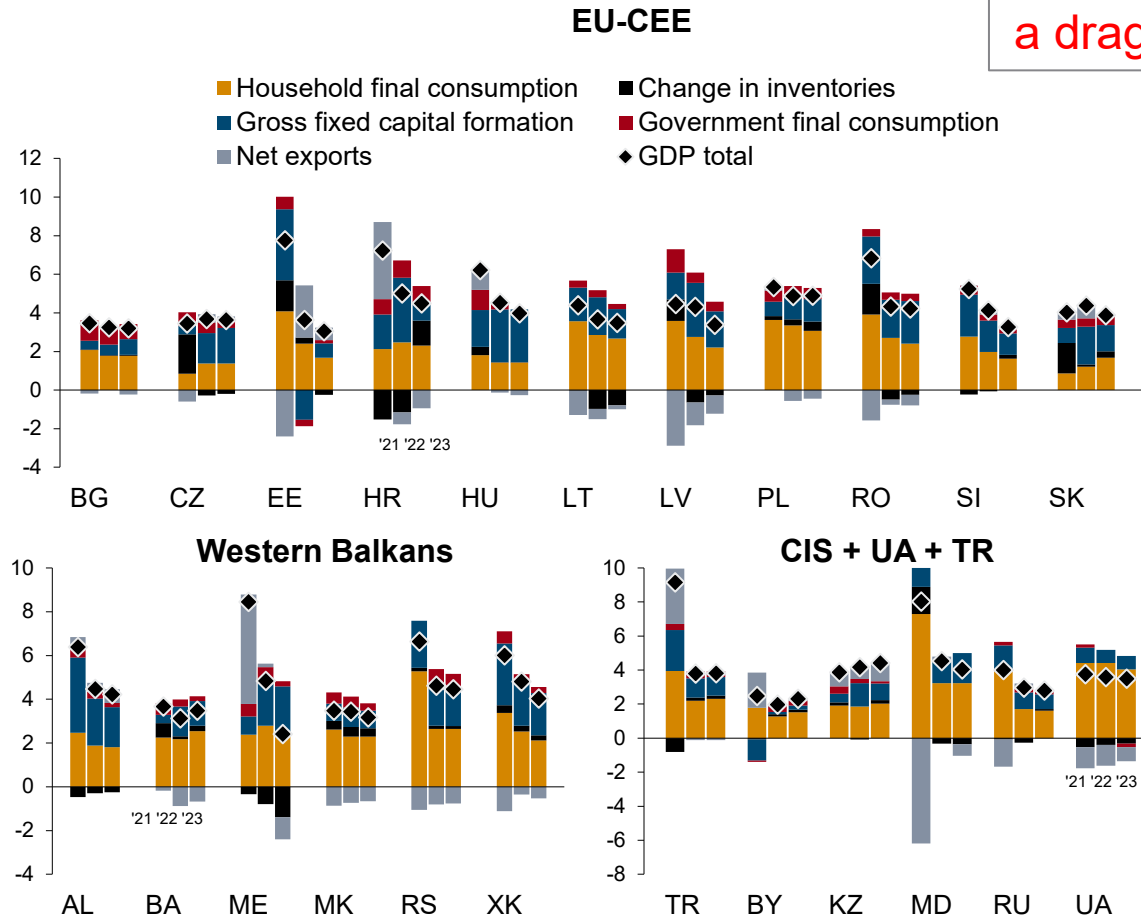
Note: Simple average over all countries.

Source: Eurostat and wiiw Monthly Database.

... and is the main driver of growth this year

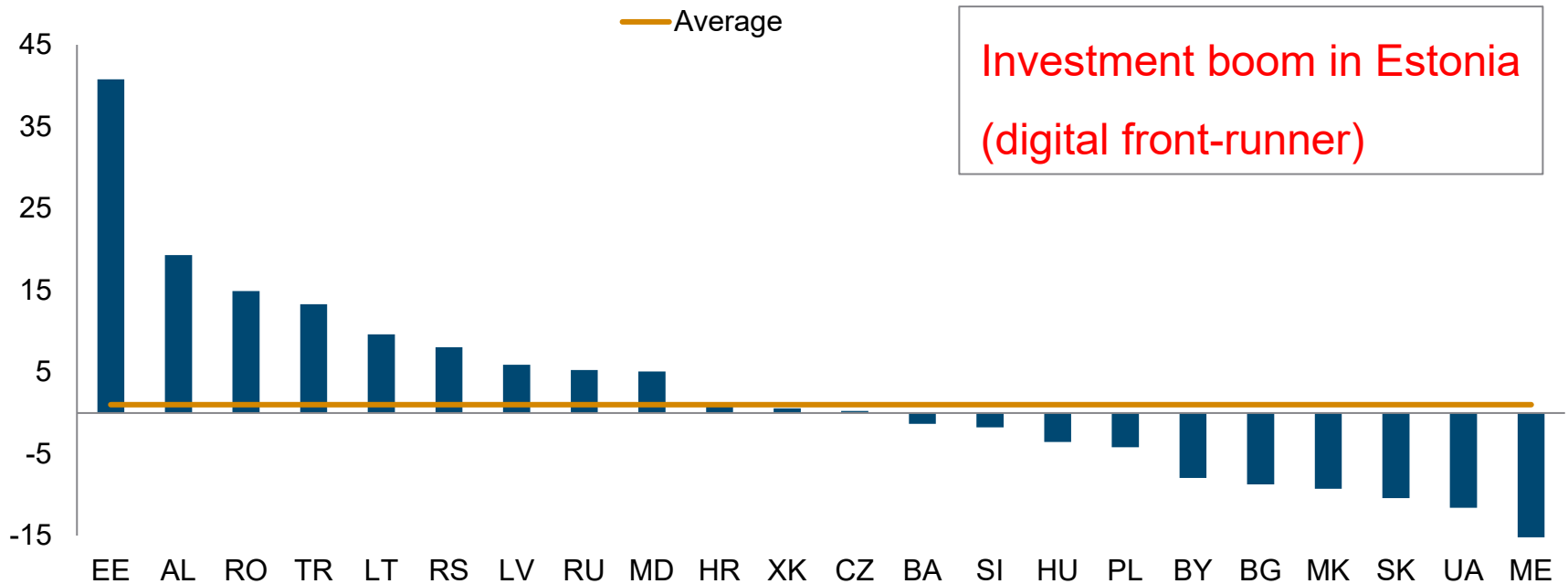
GDP growth forecast for 2021-2023

Net exports mostly
a drag on growth



Investment dynamics highly uneven

Real growth of GFCF in Q2 2021 versus Q2 2019, in %

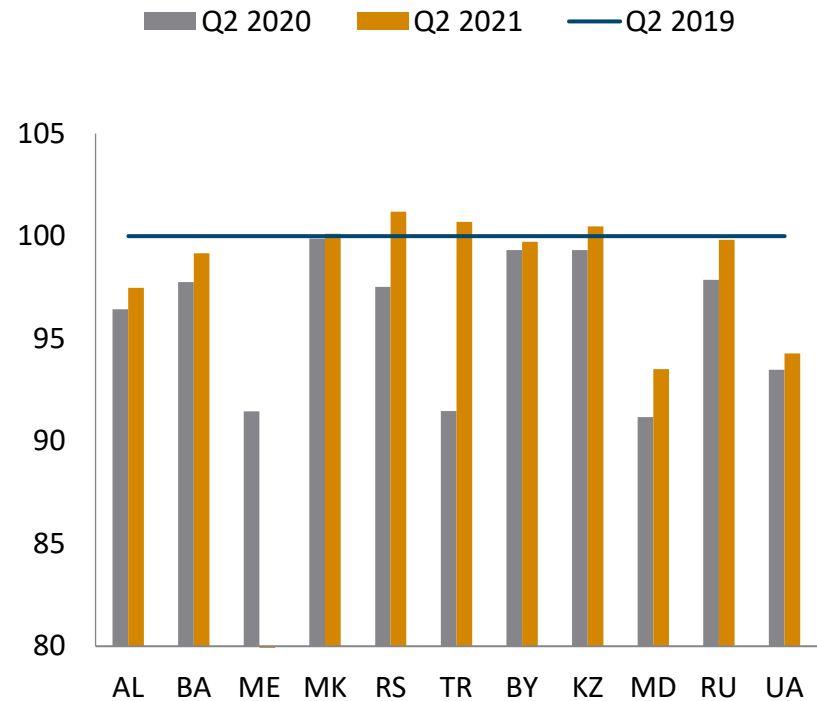
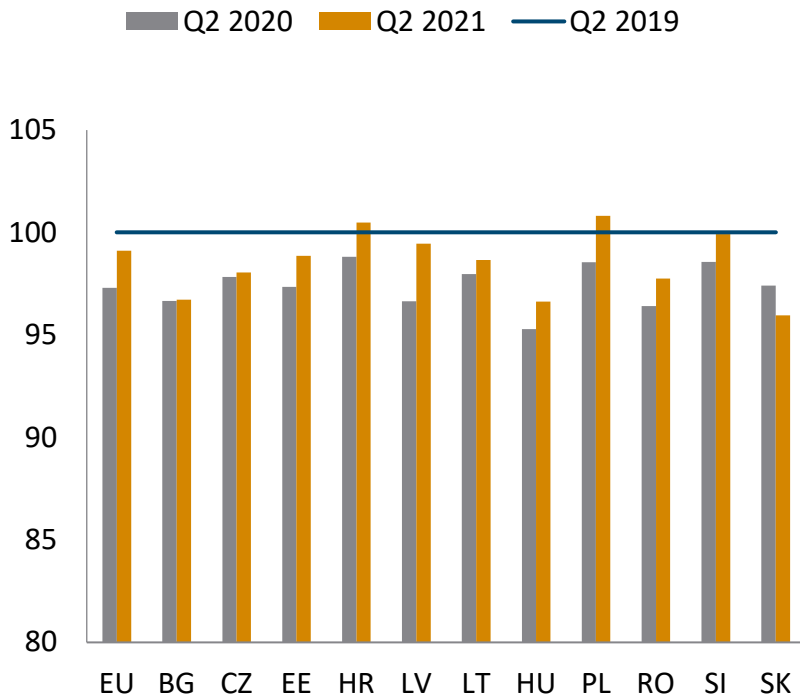


Note: Simple average over all countries.

Source: own calculations based on Eurostat and wiiw Monthly Database.

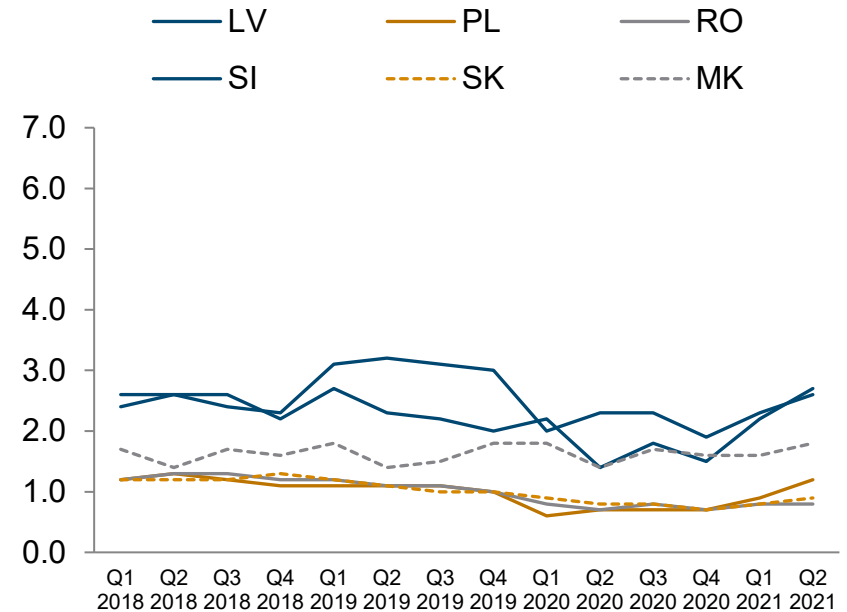
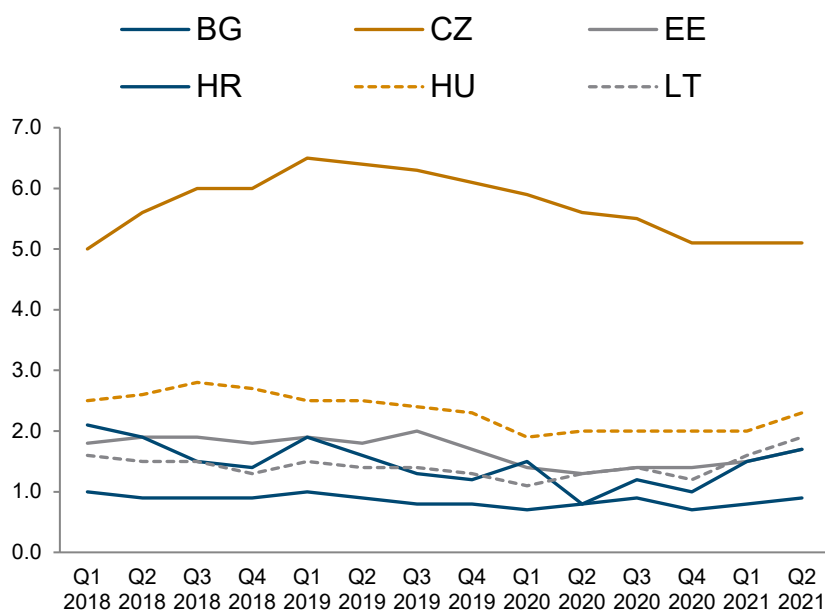
Employment has been recovering...

Employment relative to Q2 2019=100, in %



... and labour markets started to tighten again

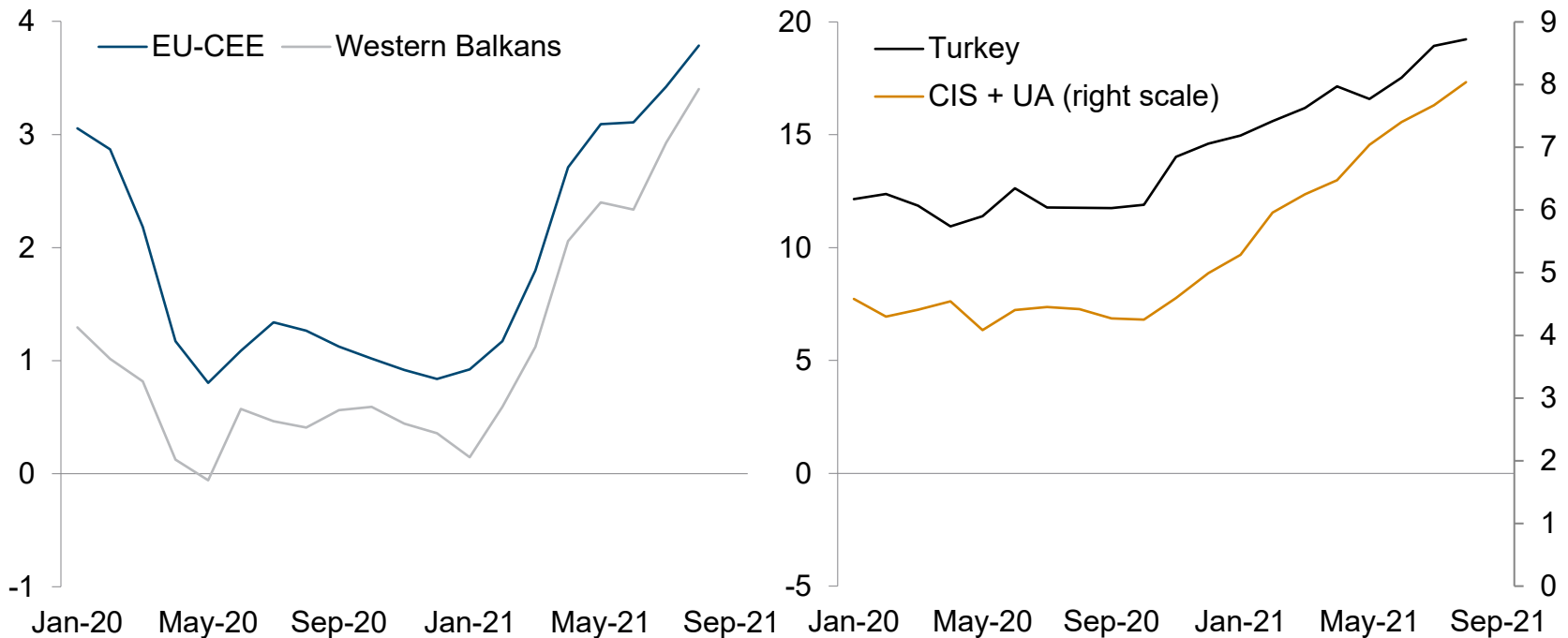
Job vacancy rate, in %



But: under-employment (part-time work etc.) still an issue!

Inflation has accelerated markedly

Consumer price inflation, year on year, in %

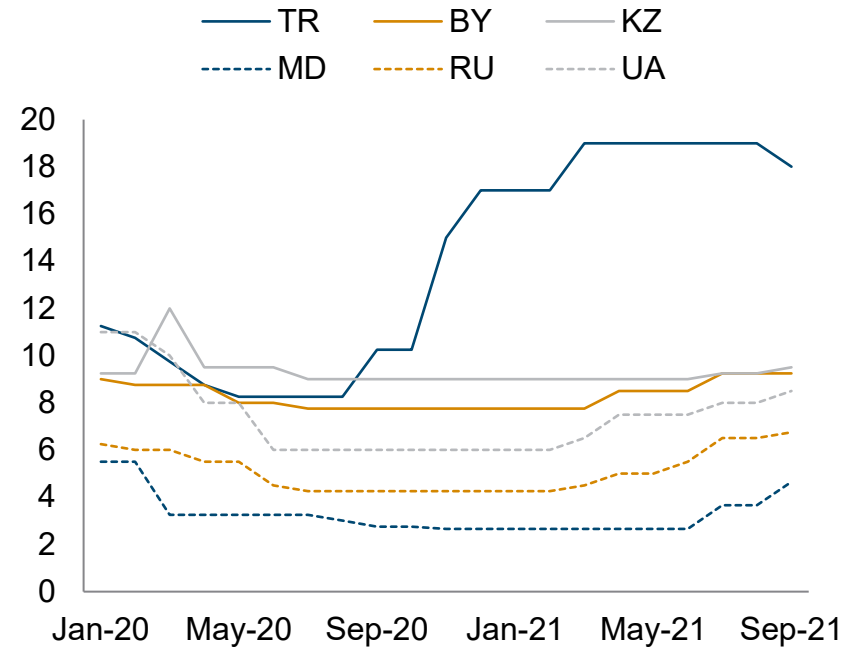
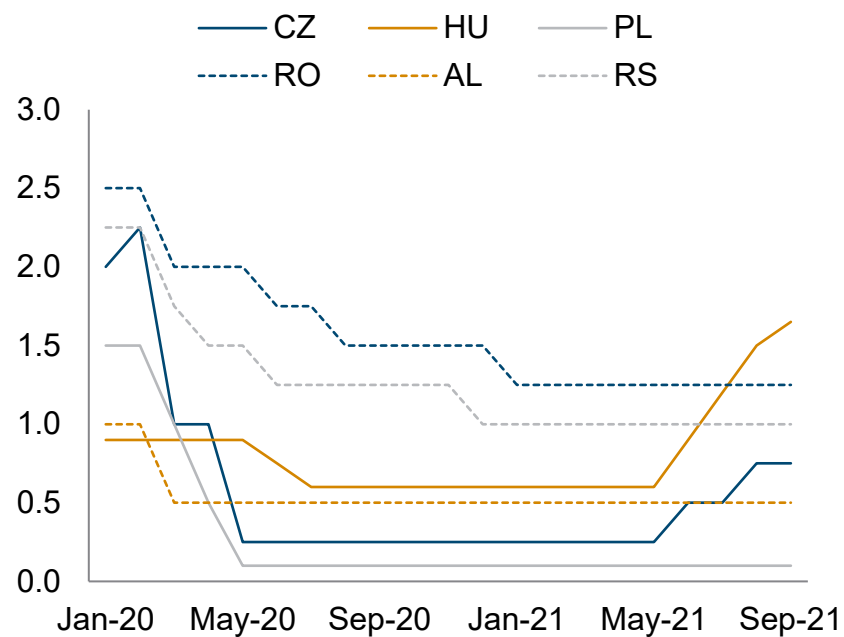


Note: Simple average over all countries.

Source: wiiw Monthly Database incorporating national statistics.

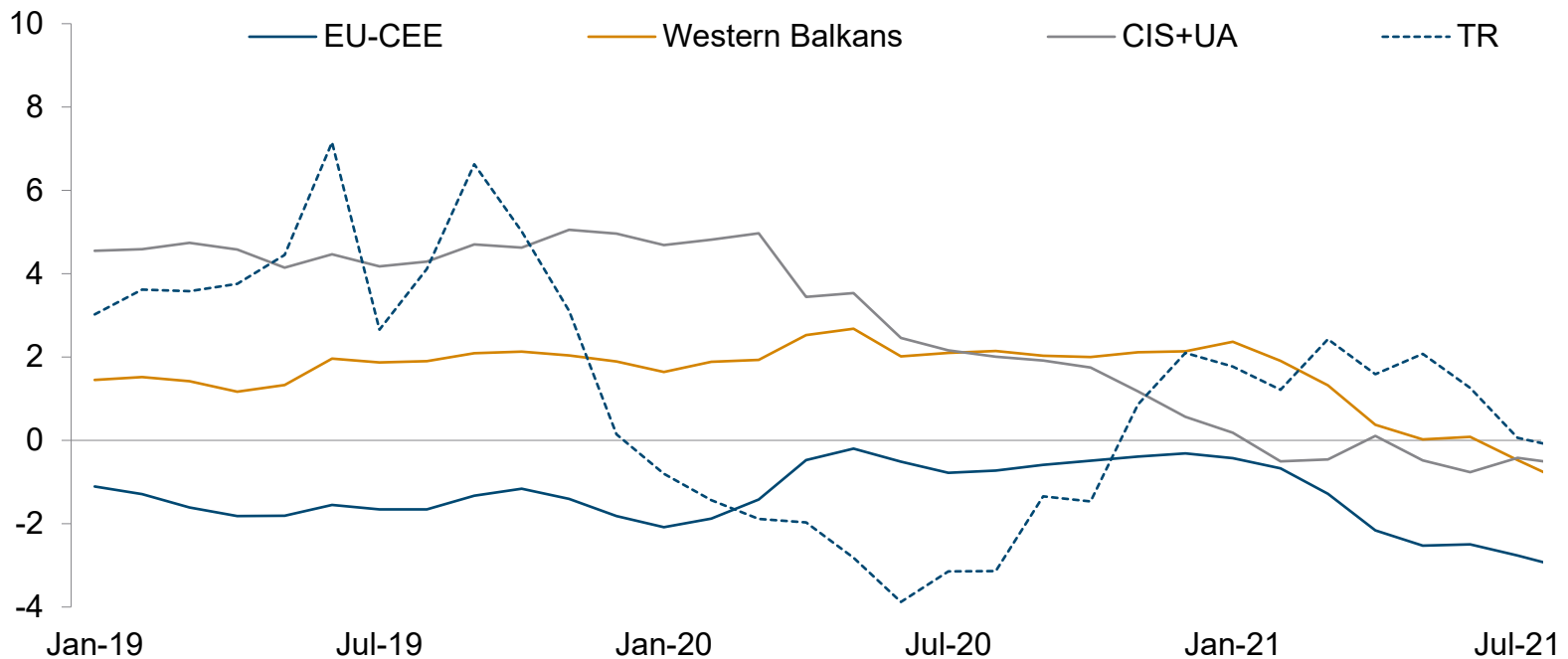
Policy rates hiked in response...

Central bank policy rate, end of month, %



... but real policy rates declined nonetheless

Real policy rate, CPI-adjusted, %



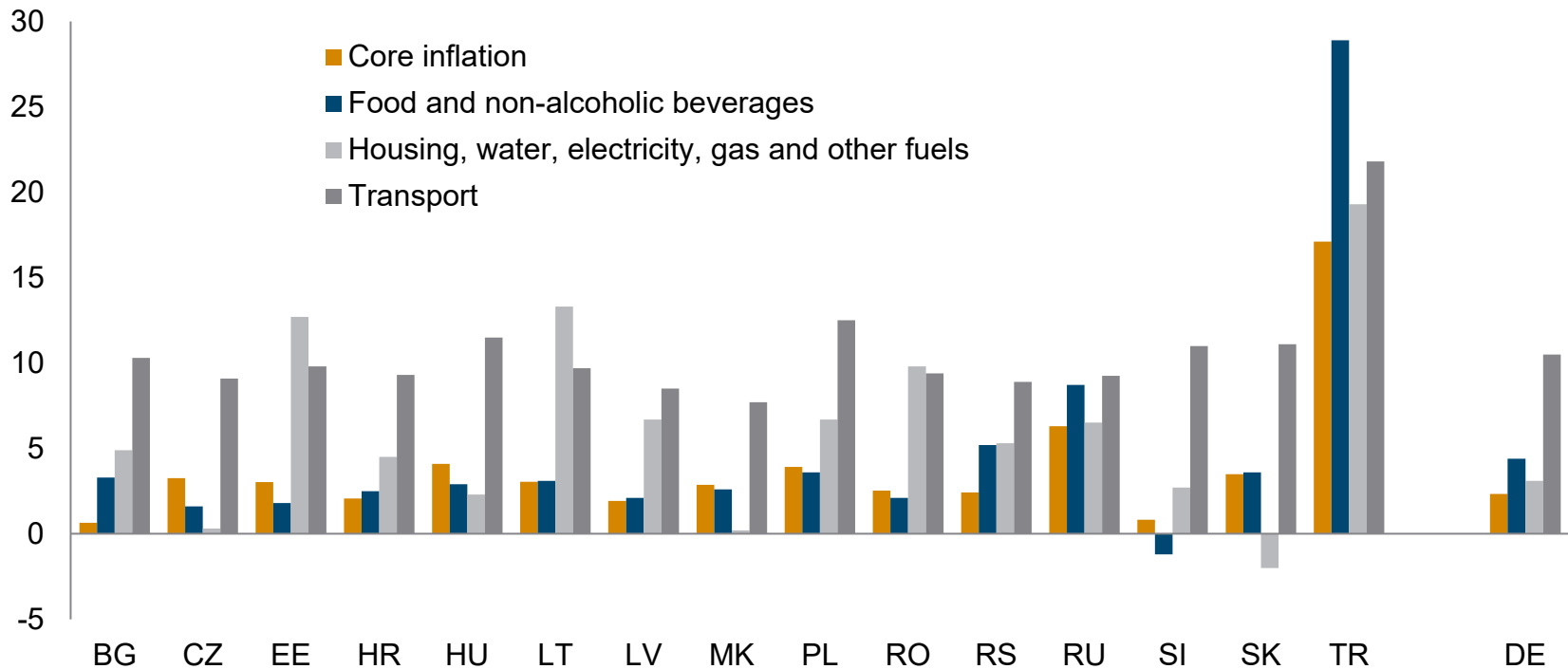
Notes: Deflated with CPI. Simple averages for country aggregates.

Source: wiiw Monthly Database incorporating national statistics.

Inflation driven mainly by energy prices...

In Russia and Turkey
broad based

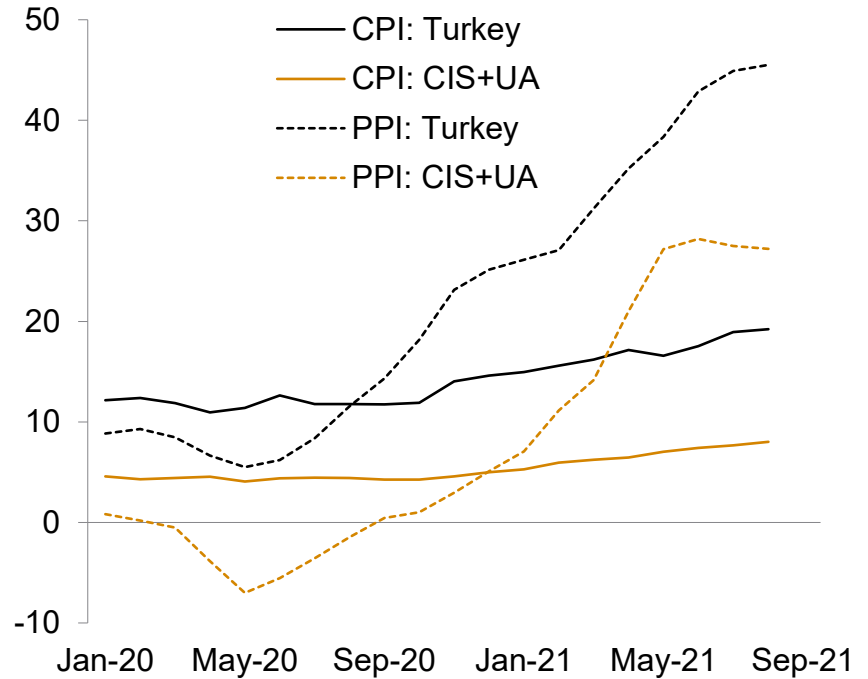
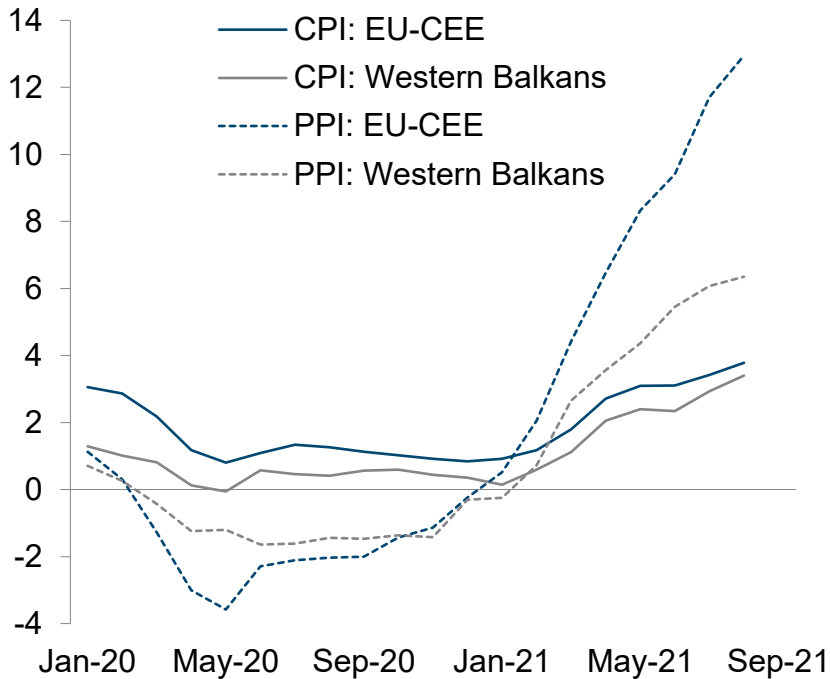
CPI sub-components in August 2021, % change year on year



... and supply-side disruptions

PPI much higher than CPI

Consumer and producer price inflation, year on year, in %

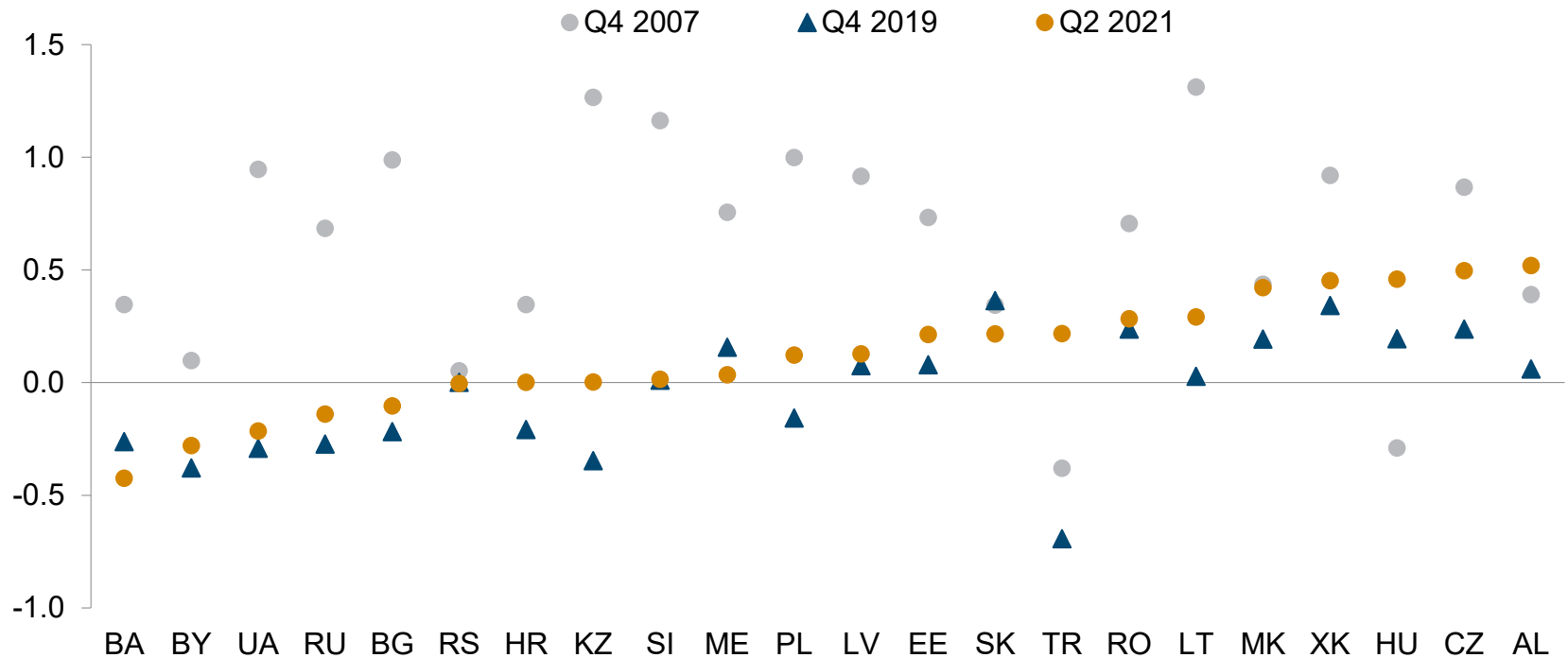


Note: Simple average over all countries.

Source: wiiw Monthly Database incorporating national statistics.

Few signs of overheating...

Business Cycle Index

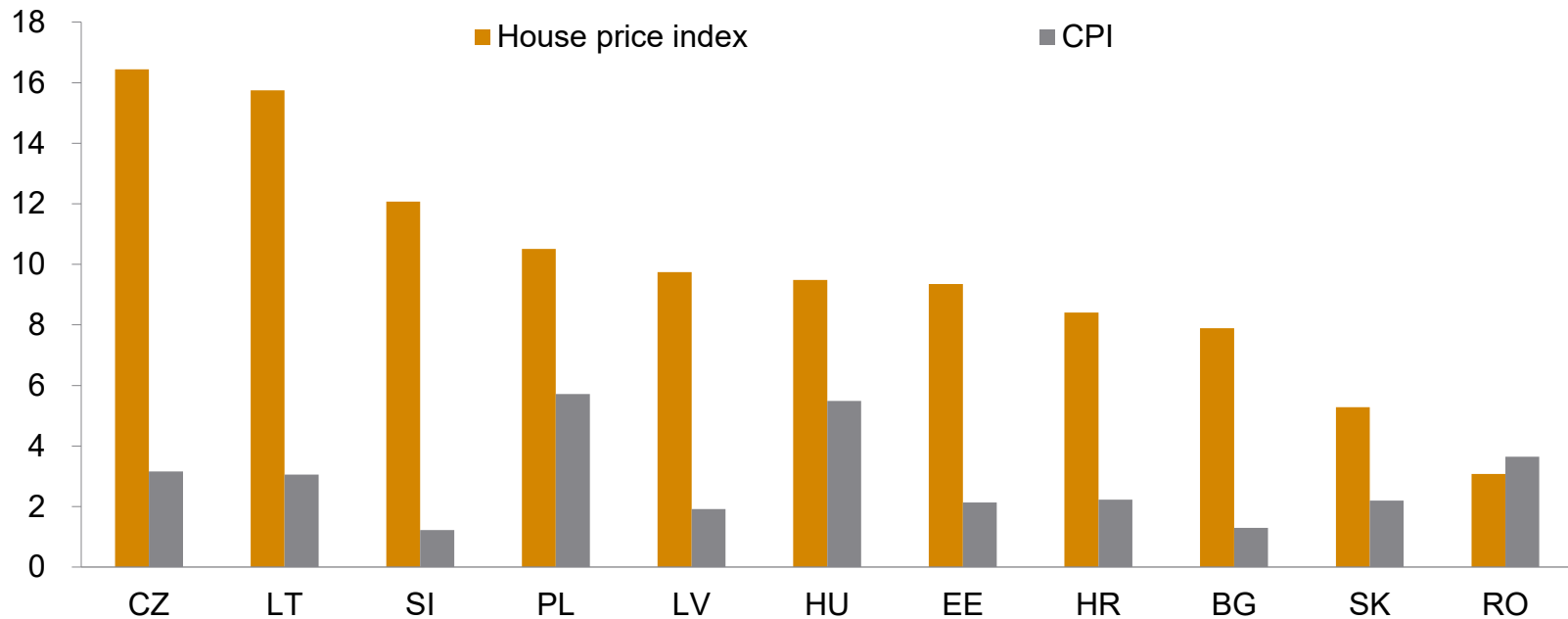


Note: Number of standard deviations from historical mean, average of 11 indicators.

Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

... except in property markets

House price index and CPI, cumulative % change, Q1 2020 - Q2 2021

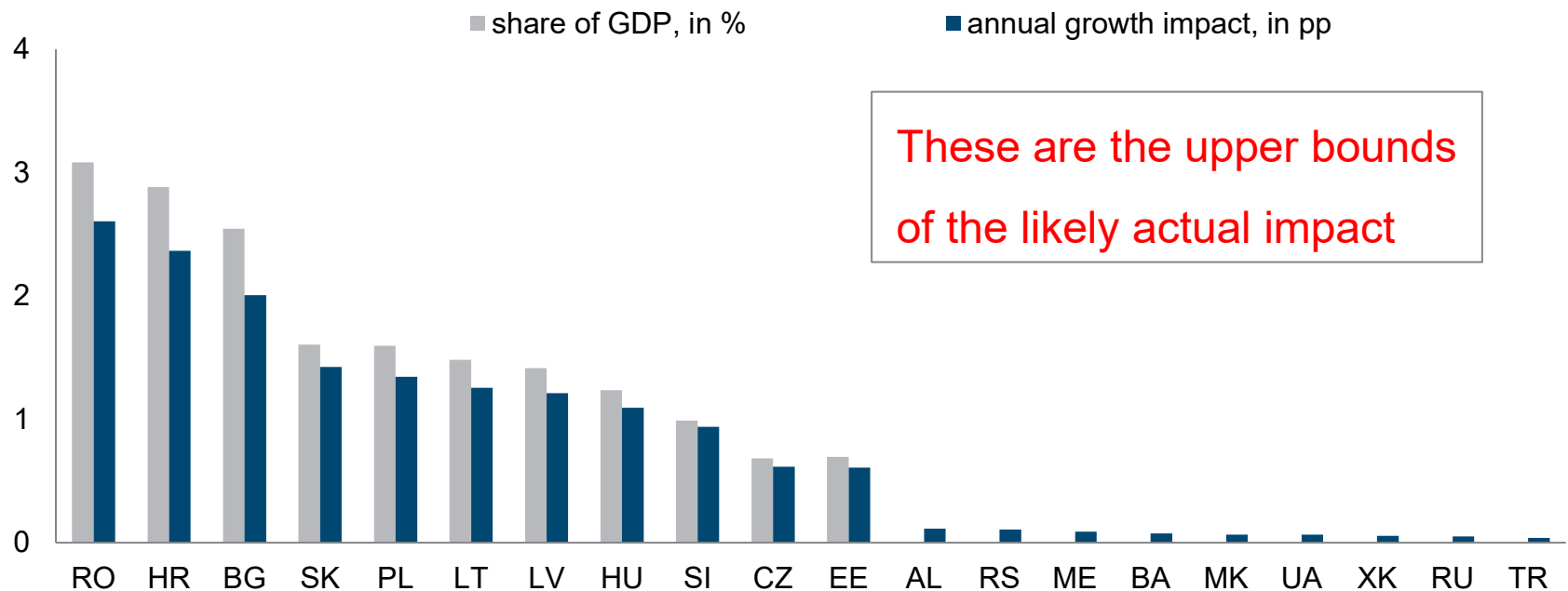


Outlook: Mild growth slowdown ahead

- Baseline: Regional growth will slow to below 4% per year in 2022-2023
- Why?
 - Effect of low statistical base of 2020 will fade
 - Monetary policy tightening - credit expansion will slow
 - At least in short-term, more significant external headwinds

Growth in EU-CEE will be fuelled by expanded EU budget

Projected annual average impact on real GDP growth from EU RRF transfers



Notes: Share of GDP based on GDP in 2018. Annual average growth impact for 2021-2026, based on RRF spending in the EU as a whole, and not only in the EU-CEE countries.

Source: own calculations using wiiw multi-country input-output database (MC IOD) and based on Bruegel data:

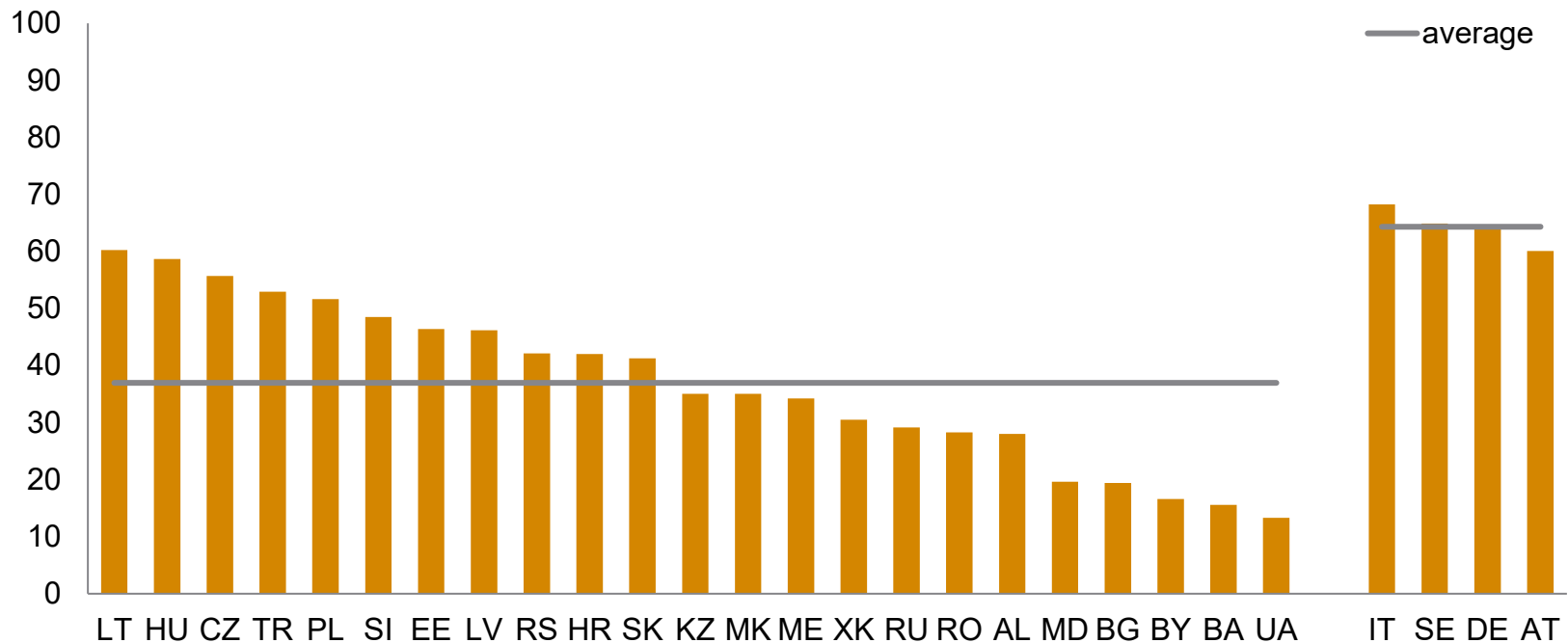
<https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/>

Risks mostly on the downside

- (1) Catastrophic COVID-19 developments – new stringent restrictions not unthinkable
- (2) Monetary policy tapering in the US
- (3) Premature fiscal consolidation
- (4) Supply chain

Risk 1: Catastrophic COVID-19 developments; vaccination rates outside EU-CEE rather low...

Share of population fully vaccinated, end-September 2021, %

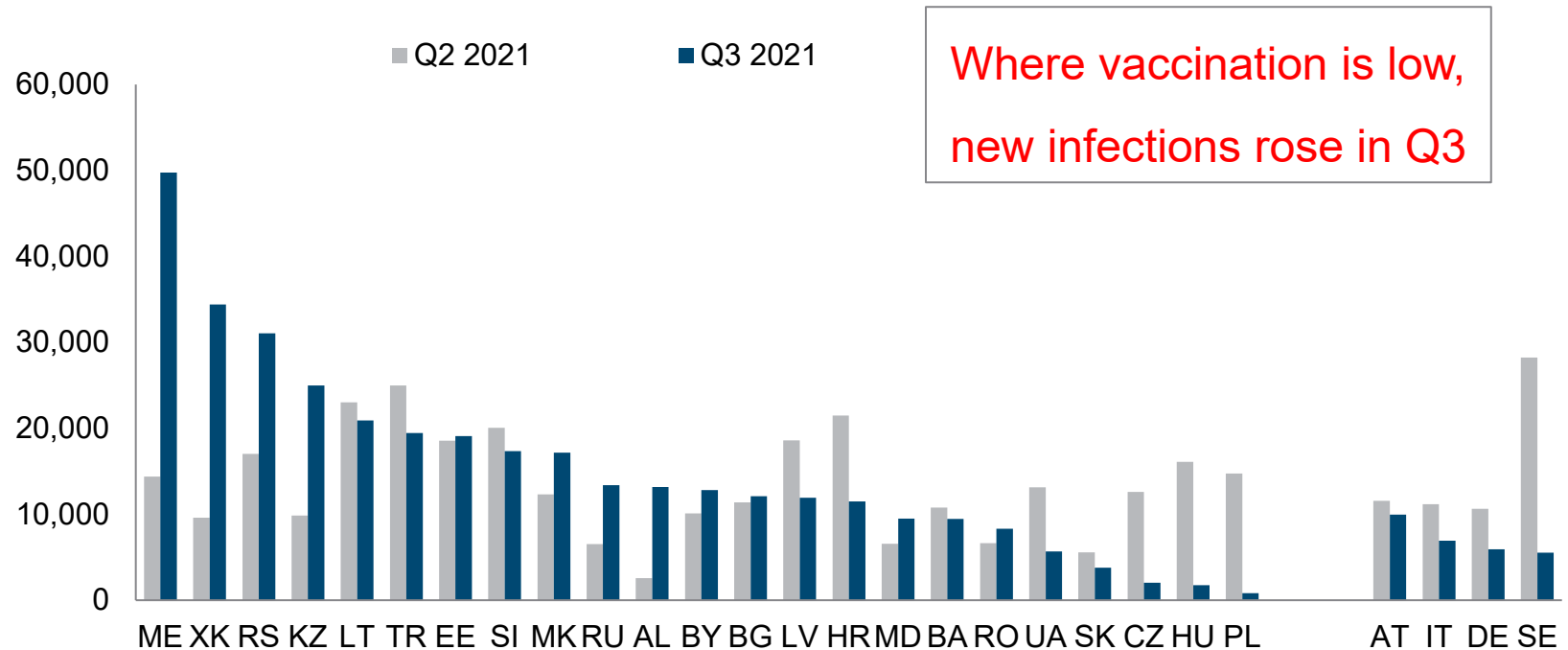


Note: Simple averages for country groups.

Source: Our World in Data, Oxford University.

... which already made a difference in Q3 2021

Number of new COVID-19 cases (per million population)

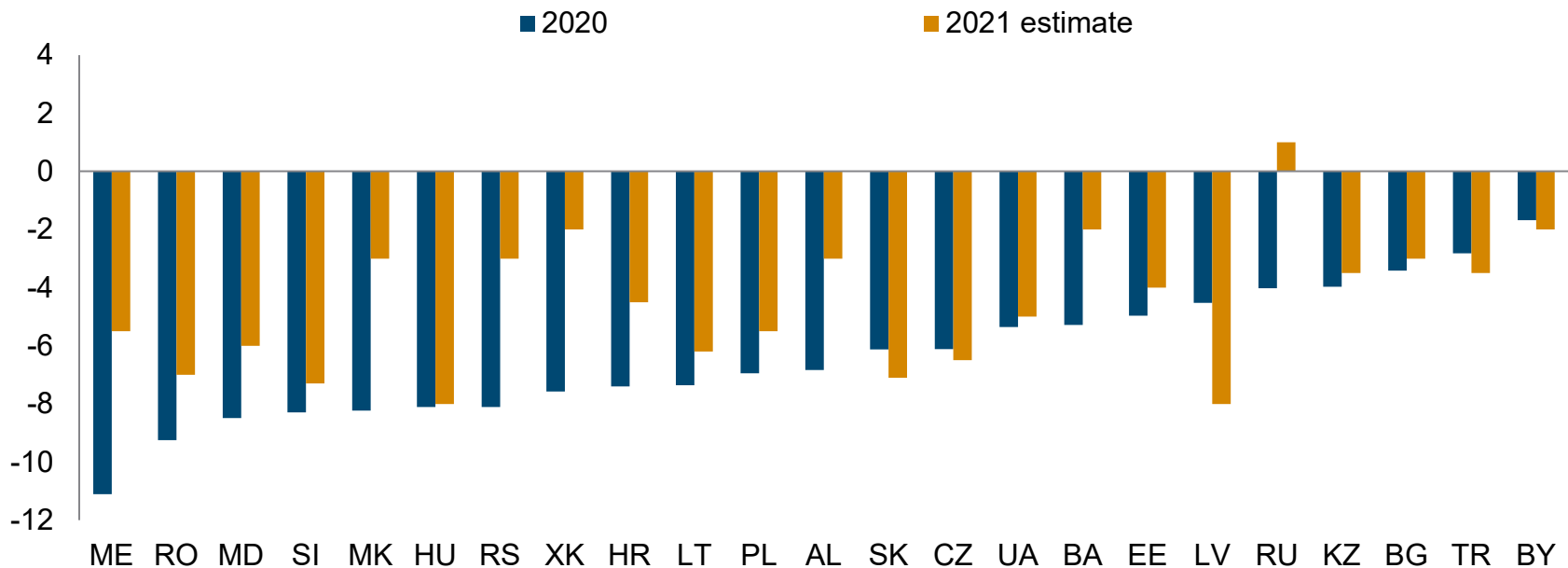


Risk 2: Monetary policy tapering in the US

- Re-orientation of global capital flows away from emerging markets
- Turkey and Romania most vulnerable
 - Risk of ,hard landing‘
- But other CESEE countries will feel the impact as well (higher borrowing costs)

Risk 3: Premature fiscal consolidation Western Balkans and CIS most vulnerable

Fiscal balance, in % of GDP



Note: Simple averages over all countries.

Source: Eurostat and wiiw Monthly Database; wiiw forecasts.

Risk 4: ‚Everything shortages‘ lead to prolonged high inflation and strong monetary response

Mix of factors already acting as break on growth:

- Shortages of key components in global manufacturing (e.g. semiconductors)
- Tightness in supply of key commodities
- Labour shortages
- US-China trade conflict

Risks that a) these become worse, b) drive further upward inflation surge that leads to much faster-than-expected monetary tightening that kills recovery and causes financial instability.

Conclusions

1. Strong rebound, pre-pandemic levels largely restored
2. Forecasts for 2021 revised upwards
3. Recovery driven mostly by private consumption
4. Peculiar mix: underemployment but rising labour shortages
5. Inflation spike supply-side driven and likely transitory
6. Few signs of overheating – except in property markets
7. Mild slowdown ahead, risks on the downside

Thank you for your attention!

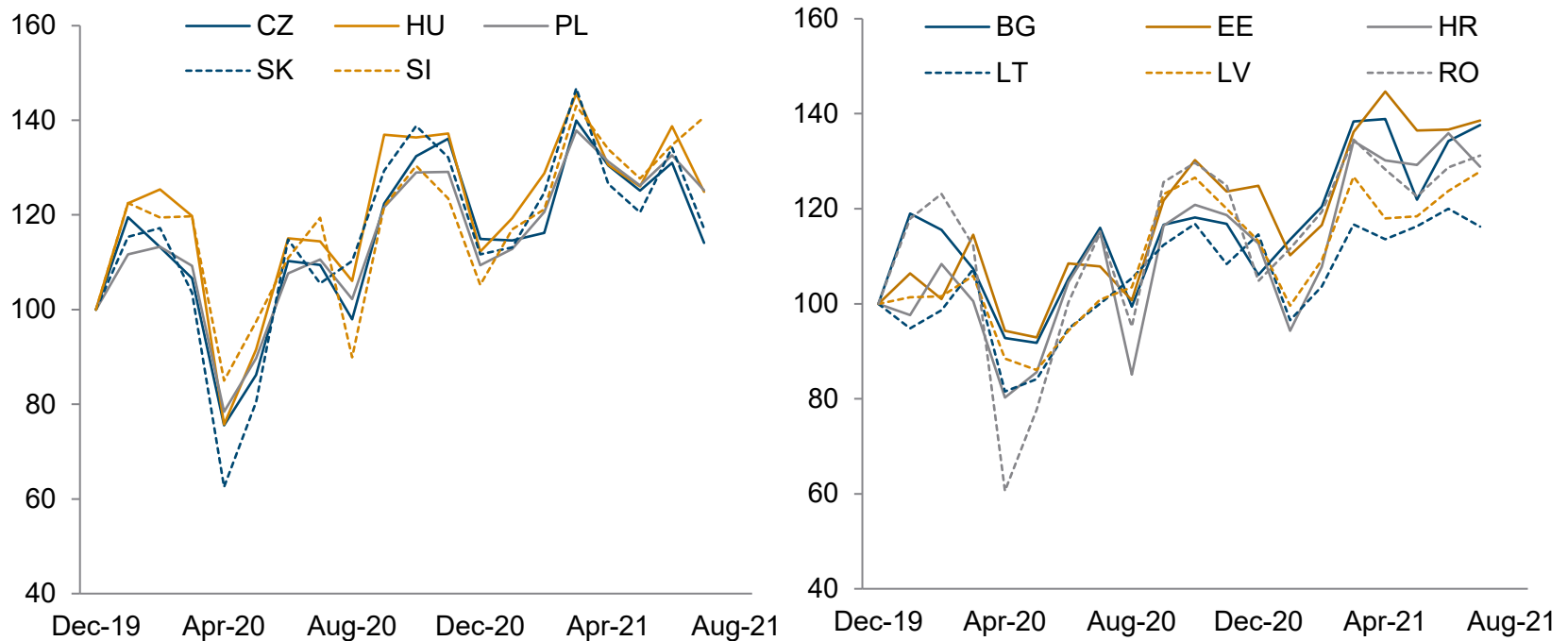
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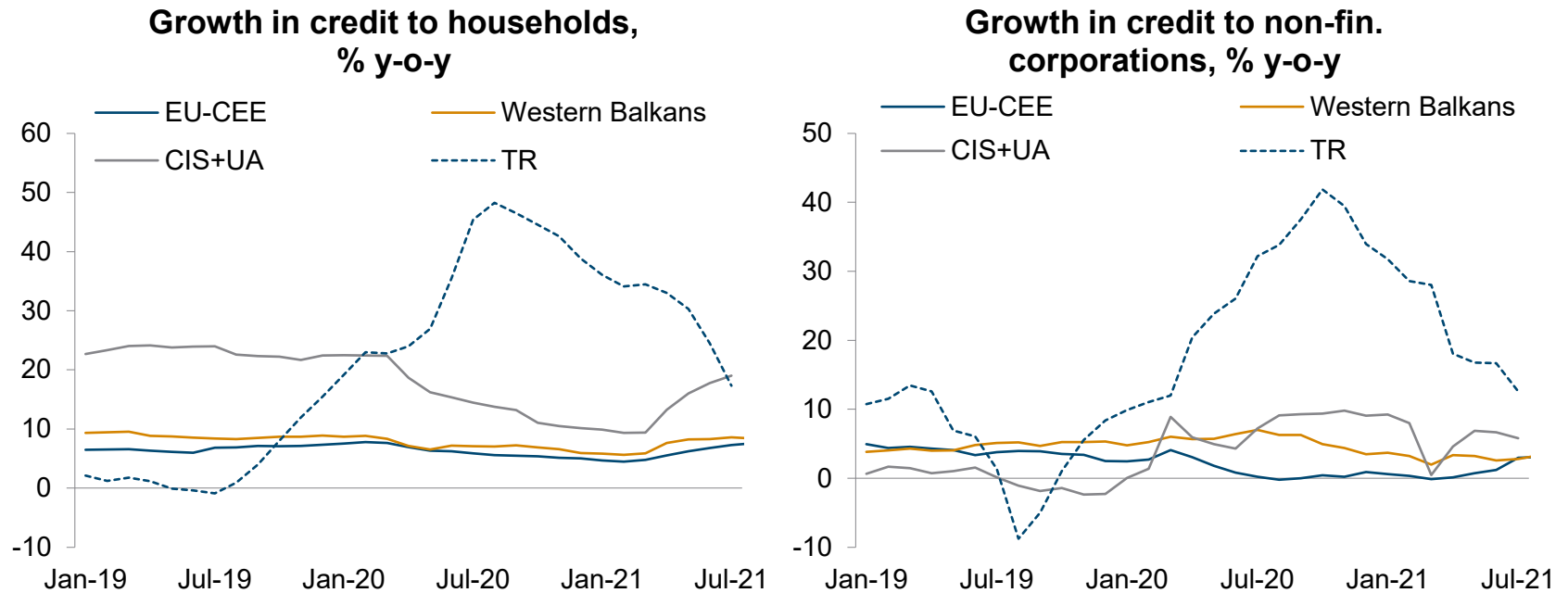


Extra slides

Exports of goods (customs statistics, EUR based)



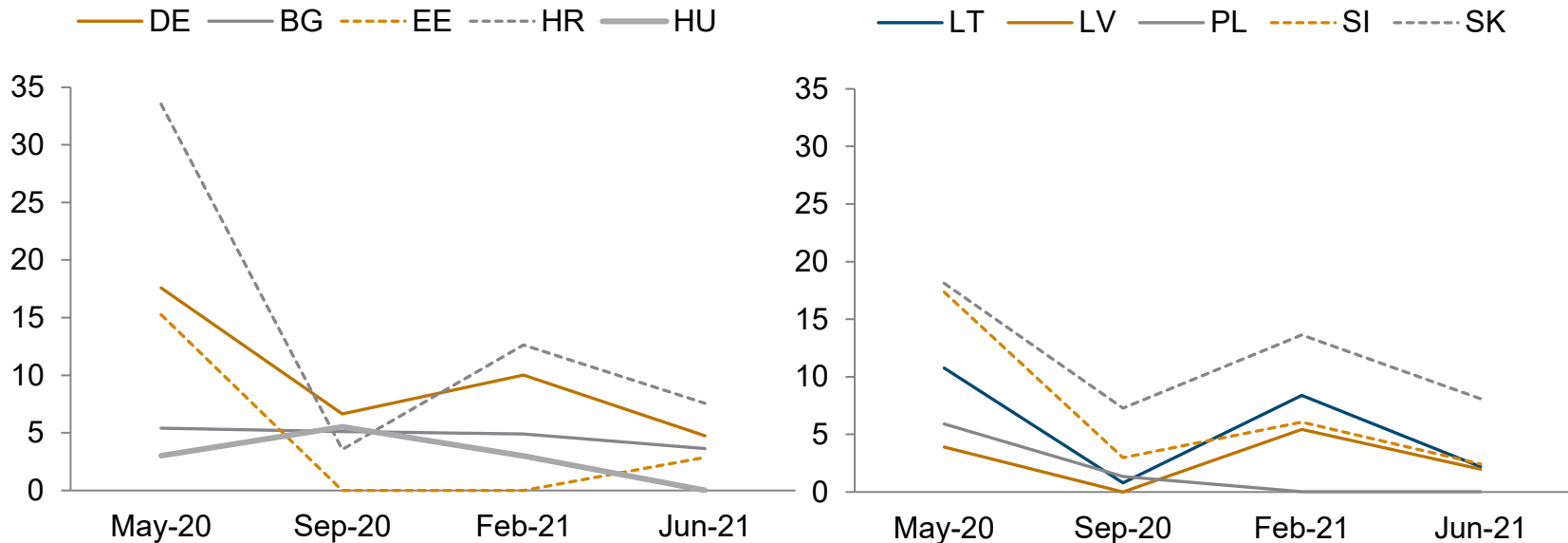
Growth in credit to households and non-financial corporations, % y-o-y



Note: Simple averages for country aggregates.

Source: wiiw Monthly Database incorporating national statistics..

Proportion of jobs supported by governmental measures



Notes: The data comprises jobs supported by different schemes.

Source: Eurostat database.