

PRESS RELEASE

EMBARGO: 12:00 CET, 7 NOVEMBER 2018

New wiiw forecast for Central, East and Southeast Europe (CESEE) in 2018–2020: Robust growth in the face of increased negative risks

wiiw has published its new forecasts for 22 economies in CESEE up to 2020. The main conclusions of the report are as follows:

- **Growth across most of the CESEE region remains robust**, and this is likely to continue during the forecast period. However, growth in the region has passed its peak, and the pace of expansion for CESEE as a whole will trend downwards in 2019 and 2020.
- The **global economy is still growing strongly**, helped in particular by activity in the US, although prospects for the eurozone (a key source of export demand, remittances and investment for CESEE) are less positive than was the case in the spring.
- The growth outlook for **EU-CEE** and the **Western Balkans** is generally good. However, **Turkey** will endure several quarters of recession, reflecting a combination of long-standing structural issues, a sharp external shock and sub-optimal domestic policy. **Russia** continues to post very subdued growth rates, although the rest of the **CIS + Ukraine** will do better.
- **Labour shortages in CESEE are increasingly acute** and present a medium-term challenge to growth. However, in the near term they are spurring significant wage growth, which will support private consumption.
- High levels of capacity utilisation, low interest rates and EU funds inflows will continue to support **strong investment growth**.
- A developing global trade war and weaker demand growth in the eurozone and China present **increased challenges for CESEE exports**.
- Despite high wage growth, **inflation in most of the region remains relatively weak**, reflecting in part higher savings and outflows of remittances from migrant workers in much of CESEE.
- **Overheating concerns have subsided since the spring**. However, the tightness of labour markets, rising property prices and negative real interest rates are potential sources of risk.
- The **credit cycle is picking up**, particularly in relation to households (demand for credit from corporates is much weaker). Asset quality has improved significantly in most places, and real interest rates have continued to fall in EU-CEE and the Western Balkans.

- While the overall outlook remains positive, **negative risks have increased further this year** and present a serious threat to the region's growth during the forecast period.
- We are most worried about a worsening **US–China trade war, a smaller post-Brexit EU budget**, the potential for a **renewed outbreak of the eurozone** crisis and the deterioration in **institutional quality and independence** in parts of CESEE.
- The region's two biggest economies – Russia and Turkey – are also the weakest, based on current growth rates. However, while **Turkey faces serious near-term challenges**, its medium-term growth prospects remain quite positive. **Russia**, by contrast, is beset by **structural problems** that are unlikely to be solved, and it will continue to post weak growth during the forecast period and beyond.
- **The region remains on a convergence path with Western Europe**. However, the pace of convergence will slow quite significantly by 2020. In many places, wage convergence has lagged behind that of overall GDP per capita.
- **Long-term convergence prospects** will depend partly on how foreign firms in CESEE respond to labour shortages and higher wage demands. We expect these firms to keep production in CESEE and invest in productivity-enhancing capital upgrading, although this is by no means guaranteed.
- **China's Belt and Road Initiative (BRI)** has important implications for CESEE, and especially for the **Western Balkans**. However, while it should bring important infrastructure upgrading, the BRI also creates risks of increased political influence and unsustainable debt burdens for the region, as well as questions regarding the transparency of projects.

7 November 2018

For any questions, please contact:

Mario Holzner, Tel. 533 66 10 – 28, holzner@wiiw.ac.at

Olga Pindyuk, Tel. 533 66 10 – 24, pindyuk@wiiw.ac.at

Richard Grieveson, Tel. 533 66 10 - 56, grieveson@wiiw.ac.at

OVERVIEW 2016-2017 AND OUTLOOK 2018-2020

| | | GDP | | | | | Consumer prices | | | | | Unemployment (LFS) | | | | | Current account | | | | |
|----|--------------------------------------|-------------------------------------|------------|------------|------------|------------|--------------------------------|------------|------------|------------|------------|---------------------------|-------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|
| | | real change in % against prev. year | | | | | change in % against prev. year | | | | | rate in %, annual average | | | | | in % of GDP | | | | |
| | | Forecast | | | | | Forecast | | | | | Forecast | | | | | Forecast | | | | |
| | | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| BG | Bulgaria | 3.9 | 3.8 | 3.3 | 3.2 | 3.0 | -1.3 | 1.2 | 2.5 | 2.5 | 2.5 | 7.6 | 6.2 | 5.5 | 5.3 | 5.0 | 2.6 | 6.5 | 2.9 | 1.0 | 0.8 |
| CZ | Czech Republic | 2.5 | 4.3 | 3.3 | 3.2 | 3.1 | 0.6 | 2.4 | 2.3 | 2.3 | 2.0 | 4.0 | 2.9 | 2.3 | 2.2 | 2.2 | 1.6 | 1.0 | 0.6 | 0.8 | 0.7 |
| EE | Estonia | 3.5 | 4.9 | 3.5 | 3.1 | 2.7 | 0.8 | 3.7 | 3.3 | 2.8 | 2.7 | 6.8 | 5.8 | 5.5 | 5.0 | 4.5 | 2.0 | 3.2 | 1.0 | 0.2 | -0.7 |
| HR | Croatia | 3.5 | 2.9 | 2.5 | 2.6 | 2.7 | -0.6 | 1.3 | 1.6 | 2.0 | 2.0 | 13.1 | 11.2 | 9.8 | 9.0 | 8.8 | 2.6 | 4.0 | 2.7 | 1.5 | 1.3 |
| HU | Hungary | 2.3 | 4.1 | 4.3 | 3.0 | 2.3 | 0.4 | 2.4 | 3.1 | 3.0 | 3.0 | 5.1 | 4.2 | 3.6 | 3.5 | 3.5 | 6.2 | 3.2 | 2.5 | 2.7 | 2.8 |
| LT | Lithuania | 2.4 | 4.1 | 3.5 | 3.0 | 2.6 | 0.7 | 3.7 | 2.6 | 2.7 | 2.5 | 7.9 | 7.1 | 6.5 | 6.0 | 5.8 | -0.8 | 0.9 | -1.2 | -1.3 | -1.4 |
| LV | Latvia | 2.1 | 4.6 | 4.1 | 3.3 | 3.0 | 0.1 | 2.9 | 2.4 | 2.5 | 2.5 | 9.6 | 8.7 | 7.7 | 7.2 | 6.7 | 1.6 | 0.7 | 1.8 | 1.0 | 0.5 |
| PL | Poland | 3.1 | 4.8 | 5.0 | 3.5 | 3.3 | -0.2 | 1.6 | 2.0 | 2.1 | 1.9 | 6.2 | 4.9 | 3.8 | 3.7 | 3.6 | -0.5 | 0.2 | -0.4 | -1.4 | -1.5 |
| RO | Romania | 4.8 | 7.3 | 3.8 | 3.6 | 3.7 | -1.1 | 1.1 | 4.0 | 3.0 | 3.0 | 5.9 | 4.9 | 4.5 | 4.5 | 4.7 | -2.1 | -3.4 | -4.4 | -4.5 | -4.3 |
| SI | Slovenia | 3.1 | 4.9 | 4.5 | 3.6 | 3.5 | -0.2 | 1.6 | 1.8 | 2.0 | 2.0 | 8.0 | 6.6 | 5.0 | 4.5 | 4.0 | 5.5 | 7.2 | 7.3 | 6.0 | 5.1 |
| SK | Slovakia | 3.1 | 3.2 | 3.8 | 4.1 | 3.3 | -0.5 | 1.4 | 2.8 | 2.5 | 2.2 | 9.7 | 8.1 | 6.6 | 6.3 | 6.0 | -2.2 | -2.0 | -1.4 | -0.6 | -0.5 |
| | <i>EU-CEE ¹⁾²⁾</i> | <i>3.2</i> | <i>4.9</i> | <i>4.2</i> | <i>3.4</i> | <i>3.2</i> | <i>-0.2</i> | <i>1.8</i> | <i>2.6</i> | <i>2.4</i> | <i>2.3</i> | <i>6.5</i> | <i>5.3</i> | <i>4.5</i> | <i>4.3</i> | <i>4.2</i> | <i>0.6</i> | <i>0.6</i> | <i>-0.1</i> | <i>-0.5</i> | <i>-0.6</i> |
| | <i>EA-19 ³⁾</i> | <i>1.9</i> | <i>2.4</i> | <i>2.0</i> | <i>1.7</i> | <i>1.6</i> | <i>0.2</i> | <i>1.5</i> | <i>1.6</i> | <i>1.6</i> | <i>1.6</i> | <i>10.0</i> | <i>9.1</i> | <i>8.4</i> | <i>7.9</i> | <i>7.7</i> | <i>3.4</i> | <i>3.8</i> | <i>3.4</i> | <i>3.2</i> | <i>2.9</i> |
| | <i>EU-28 ³⁾</i> | <i>2.0</i> | <i>2.4</i> | <i>2.0</i> | <i>1.9</i> | <i>1.8</i> | <i>0.3</i> | <i>1.7</i> | <i>1.7</i> | <i>1.8</i> | <i>1.9</i> | <i>8.6</i> | <i>7.6</i> | <i>6.9</i> | <i>6.4</i> | <i>6.2</i> | <i>2.0</i> | <i>2.5</i> | <i>2.1</i> | <i>1.9</i> | <i>1.6</i> |
| AL | Albania | 3.4 | 3.8 | 4.1 | 4.0 | 4.0 | 1.3 | 2.0 | 2.1 | 2.5 | 2.9 | 15.2 | 13.7 | 12.4 | 12.2 | 12.0 | -7.6 | -7.5 | -8.0 | -7.2 | -6.7 |
| BA | Bosnia and Herzegovina | 3.1 | 3.1 | 3.0 | 3.4 | 3.4 | -1.1 | 1.2 | 1.2 | 1.9 | 1.9 | 25.4 | 20.5 | 18.2 | 17.6 | 17.1 | -4.7 | -4.7 | -4.6 | -4.6 | -4.5 |
| ME | Montenegro | 2.9 | 4.7 | 4.2 | 3.1 | 3.1 | 0.1 | 2.8 | 3.5 | 2.0 | 2.0 | 17.4 | 16.1 | 15.0 | 15.0 | 15.0 | -16.2 | -16.1 | -16.1 | -17.1 | -17.2 |
| MK | Macedonia | 2.9 | 0.0 | 2.9 | 2.8 | 3.1 | -0.2 | 1.4 | 1.5 | 2.0 | 2.0 | 23.7 | 22.4 | 21.0 | 20.0 | 20.0 | -2.8 | -1.0 | -0.8 | -1.0 | -1.0 |
| RS | Serbia | 3.3 | 2.0 | 4.3 | 3.4 | 2.8 | 1.1 | 3.0 | 2.3 | 2.7 | 3.0 | 15.2 | 13.6 | 13.3 | 13.0 | 12.0 | -2.9 | -5.3 | -5.1 | -4.8 | -4.6 |
| XK | Kosovo | 4.1 | 3.7 | 4.2 | 4.0 | 4.2 | 0.3 | 1.5 | 0.7 | 1.6 | 2.0 | 27.5 | 30.5 | 28.0 | 26.0 | 24.0 | -7.9 | -6.1 | -6.2 | -6.3 | -6.9 |
| | <i>WB ¹⁾²⁾</i> | <i>3.3</i> | <i>2.5</i> | <i>3.8</i> | <i>3.5</i> | <i>3.2</i> | <i>0.5</i> | <i>2.2</i> | <i>1.9</i> | <i>2.3</i> | <i>2.6</i> | <i>18.7</i> | <i>16.9</i> | <i>15.7</i> | <i>15.3</i> | <i>14.7</i> | <i>-4.8</i> | <i>-5.6</i> | <i>-5.5</i> | <i>-5.4</i> | <i>-5.3</i> |
| TR | Turkey | 3.2 | 7.4 | 2.5 | 1.0 | 4.0 | 7.7 | 11.1 | 16.5 | 17.0 | 12.0 | 10.9 | 10.9 | 10.2 | 10.5 | 10.0 | -3.8 | -5.5 | -4.8 | -3.2 | -3.2 |
| BY | Belarus | -2.5 | 2.4 | 3.7 | 3.0 | 2.8 | 11.8 | 6.0 | 5.0 | 7.0 | 8.0 | 5.8 | 5.6 | 4.7 | 4.5 | 4.5 | -3.4 | -1.6 | -2.5 | -2.8 | -3.1 |
| KZ | Kazakhstan | 1.1 | 4.1 | 4.0 | 3.1 | 3.0 | 14.6 | 7.4 | 6.5 | 6.0 | 5.0 | 5.0 | 4.9 | 5.0 | 5.0 | 5.0 | -6.5 | -3.3 | -0.9 | -0.7 | -1.2 |
| RU | Russia | -0.2 | 1.5 | 1.7 | 1.6 | 1.8 | 7.1 | 3.6 | 3.5 | 5.5 | 4.0 | 5.5 | 5.2 | 5.0 | 4.9 | 4.9 | 1.9 | 2.1 | 5.9 | 4.3 | 3.3 |
| UA | Ukraine | 2.4 | 2.5 | 3.3 | 2.7 | 2.0 | 13.9 | 14.4 | 10.8 | 8.9 | 5.2 | 9.3 | 9.5 | 8.9 | 8.5 | 8.3 | -1.4 | -2.2 | -2.7 | -3.1 | -4.4 |
| | <i>CIS + Ukraine ¹⁾²⁾</i> | <i>0.1</i> | <i>1.9</i> | <i>2.2</i> | <i>1.9</i> | <i>2.0</i> | <i>8.5</i> | <i>4.9</i> | <i>4.4</i> | <i>5.9</i> | <i>4.3</i> | <i>6.1</i> | <i>5.9</i> | <i>5.6</i> | <i>5.5</i> | <i>5.4</i> | <i>0.8</i> | <i>1.3</i> | <i>4.6</i> | <i>3.2</i> | <i>2.2</i> |
| | <i>V-4 ¹⁾²⁾</i> | <i>2.8</i> | <i>4.5</i> | <i>4.4</i> | <i>3.4</i> | <i>3.1</i> | <i>0.0</i> | <i>1.9</i> | <i>2.3</i> | <i>2.3</i> | <i>2.1</i> | <i>5.9</i> | <i>4.7</i> | <i>3.7</i> | <i>3.6</i> | <i>3.5</i> | <i>0.7</i> | <i>0.6</i> | <i>0.1</i> | <i>-0.2</i> | <i>-0.3</i> |
| | <i>BALT-3 ¹⁾²⁾</i> | <i>2.5</i> | <i>4.4</i> | <i>3.7</i> | <i>3.1</i> | <i>2.7</i> | <i>0.6</i> | <i>3.5</i> | <i>2.7</i> | <i>2.7</i> | <i>2.5</i> | <i>8.2</i> | <i>7.3</i> | <i>6.7</i> | <i>6.1</i> | <i>5.8</i> | <i>0.6</i> | <i>1.4</i> | <i>0.2</i> | <i>-0.3</i> | <i>-0.7</i> |
| | <i>SEE-9 ¹⁾²⁾</i> | <i>4.1</i> | <i>5.1</i> | <i>3.6</i> | <i>3.4</i> | <i>3.4</i> | <i>-0.7</i> | <i>1.4</i> | <i>3.0</i> | <i>2.6</i> | <i>2.7</i> | <i>11.2</i> | <i>9.7</i> | <i>8.9</i> | <i>8.7</i> | <i>8.5</i> | <i>-1.4</i> | <i>-1.6</i> | <i>-2.7</i> | <i>-3.2</i> | <i>-3.1</i> |
| | <i>NON-EU-11 ¹⁾²⁾</i> | <i>1.1</i> | <i>3.6</i> | <i>2.3</i> | <i>1.7</i> | <i>2.6</i> | <i>8.0</i> | <i>6.7</i> | <i>7.9</i> | <i>9.1</i> | <i>6.6</i> | <i>7.8</i> | <i>7.5</i> | <i>7.1</i> | <i>7.1</i> | <i>6.9</i> | <i>-1.0</i> | <i>-1.0</i> | <i>1.7</i> | <i>1.3</i> | <i>0.6</i> |
| | <i>CESEE-22 ¹⁾²⁾</i> | <i>1.7</i> | <i>3.9</i> | <i>2.8</i> | <i>2.2</i> | <i>2.8</i> | <i>5.6</i> | <i>5.2</i> | <i>6.4</i> | <i>7.1</i> | <i>5.3</i> | <i>7.4</i> | <i>7.0</i> | <i>6.5</i> | <i>6.4</i> | <i>6.3</i> | <i>-0.4</i> | <i>-0.4</i> | <i>1.0</i> | <i>0.6</i> | <i>0.1</i> |

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiiw.

Source: wiiw, Eurostat. Forecasts by wiiw (October 2018).