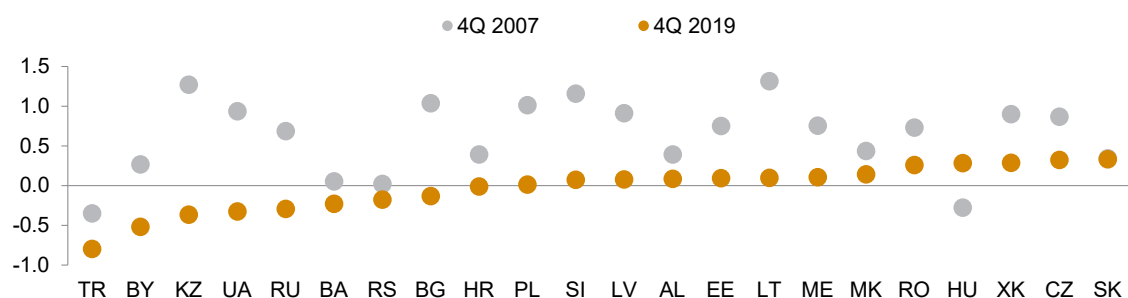


## 5.2. BUSINESS CYCLE MONITOR: HEADLINE INDEX STABLE, WITH MIXED DYNAMICS ACROSS COUNTRIES

by Alexandra Bykova

- › The average value of our headline business cycle index for the whole CESEE region remained at slightly below zero, only 0.01 down on our previous update. Hence, there is no obvious over- or underheating relative to the period 2000-2019. Whereas the headline index for EU-CEE11 as a region is declining (dragged down by Croatia, Hungary, Estonia and Latvia), the value of the index for CIS and Ukraine as a region is increasing, although it remains negative (see Figure 5.2).
- › Overheating in CESEE labour markets is observed in all countries except Kazakhstan, Ukraine and Turkey. Compared to autumn 2019, it has deepened in two CEE countries – Bulgaria and Croatia – and in all Western Balkan countries, except Montenegro. However, for the Western Balkan countries, which have the highest unemployment in the CESEE region, moving away from their long-term averages is a positive development. Overheating remains visible in several countries in terms of property prices and real interest rates. Underheating persists for some countries for such indicators as fiscal balances and current account balances (see Table 5.3 and Table 5.4).
- › The countries topping the headline business cycle index in Q4 2019 are Slovakia, the Czech Republic and Kosovo. Hungary and Romania slipped down the rankings from the top positions they occupied in autumn 2019. A halt to the overheating in GDP growth and slower broad money expansion were responsible for Hungary's lower position, while Romania's slide was caused by reduced overheating in the labour market and slower growth in property prices. Turkey, which was in recession in the first half of 2019, has the lowest score for the headline index, and underheating in that country continues in real GDP, the labour market, the current account, the real exchange rate, private credit and property prices (see Figure 5.2 and Table 5.3).
- › Russia, Kazakhstan and Kosovo have seen the biggest increases in their headline scores since the autumn 2019 update, coming on the back of higher values for the external and domestic finance sub-indices. Imbalances in the external finance sub-index are present in Albania and in Bosnia and Herzegovina. While in Albania, this is due to the appreciation of the real exchange rate over the historical average, in Bosnia and Herzegovina the opposite is true: the real exchange rate is depreciating due to low inflation in the country. Overall, since our previous update, inflation has picked up only in the Czech Republic, Slovakia, Poland, Kosovo, Belarus and Russia; in other countries, inflation has decelerated (see Figure 5.3 and Table 5.4).

**Figure 5.2 / Business Cycle Index**



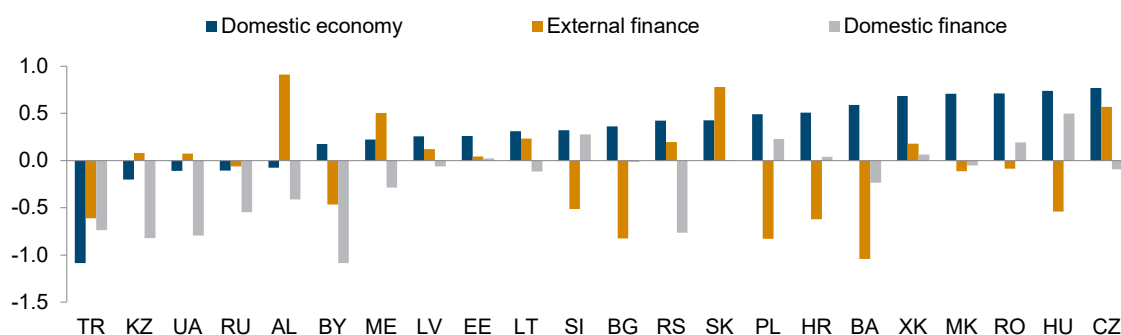
Note: Number of standard deviations from historical mean, average of 11 indicators. Indicators are those in Table 5.3.  
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

**Table 5.3 / Number of standard deviations from historical mean, 4Q 2019**

	Domestic economy			External finance			Domestic finance				
	Real GDP	Unemployment	CPI	CA	RER	External debt	RIR	Private credit	Broad money	Fiscal balance	Property prices
BG	-0.06	1.52	-0.38	-1.67	0.52	-1.33	0.17	-0.35	-0.62	0.63	0.10
CZ	-0.17	2.14	0.34	-0.78	1.02	1.47	0.22	-0.55	-0.08	-1.29	1.24
EE	-0.01	1.32	-0.52	-0.90	1.41	-0.39	0.52	-0.40	-0.27	0.36	-0.10
HR	0.33	2.11	-0.91	-1.70	0.01	-0.17	0.62	-0.24	-0.55	-1.74	2.11
HU	0.87	1.65	-0.31	-0.50	-0.46	-0.66	2.12	0.69	-0.34	-1.08	1.10
LT	-0.05	1.08	-0.09	-0.85	1.23	0.32	0.75	-0.45	-0.26	-0.85	0.23
LV	-0.27	1.28	-0.24	-0.69	0.99	0.06	0.69	-0.48	-0.30	-0.47	0.25
PL	0.13	1.47	-0.13	-2.05	-0.71	0.28	1.22	-0.58	-0.03	-1.36	1.90
RO	0.01	2.59	-0.47	-0.15	0.04	-0.14	1.20	-0.45	-0.79	0.39	0.61
SI	0.07	1.42	-0.53	-1.70	0.07	0.09	1.30	-0.09	0.25	-1.11	1.03
SK	-0.53	1.97	-0.16	-0.39	0.80	1.93	1.33	-0.56	0.01	-1.09	0.31
AL	-0.87	1.83	-1.18	-0.63	2.54	0.83	1.26	-0.62	-0.91	-1.38	
BA	-0.21	2.54	-0.57	-0.92	-1.83	-0.38	0.30	-0.35	-0.43	-0.45	
ME	0.09	1.34	-0.77	-0.41	0.72	1.20	0.23	-0.38	-0.81	-0.18	
MK	0.20	2.53	-0.60	-0.90	-0.83	1.40	0.72	-0.57	-0.36	-0.19	0.15
RS	0.17	1.69	-0.58	-0.19	0.88	-0.11	-0.15	-0.48	-0.60	-1.22	-1.38
XK	0.03	1.74	0.28	-0.54	0.69	0.39	1.45	-0.49	-0.35	-0.36	
TR	-1.02	-2.19	-0.04	-1.76	-2.00	1.92	0.24	-1.53	-0.26	-0.04	-2.09
BY	-0.81	1.99	-0.66	-1.16	-1.02	0.79	-0.44	-1.20	-0.88	-1.83	
KZ	-0.57	0.97	-1.00	0.64	-1.13	0.74	-1.62	-0.64	-1.36	0.32	
RU	-0.58	1.44	-1.18	0.61	0.12	-0.91	-0.31	-0.70	-1.25	-0.11	-0.37
UA	0.09	0.06	-0.47	0.01	-0.10	0.32	-1.37	-0.97	-1.02	0.19	

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

Notes: 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. 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 2019. Calculations are based on four-quarter trailing averages.  
Sources: wiiw Monthly Database incorporating national statistics and Eurostat; BIS.

**Figure 5.3 / Sub-components of the Business Cycle Index, 4Q 2019**

Note: Number of standard deviations from historical mean, average of indicators in each sub-component. Indicators are those in Table 5.3.

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

**Table 5.4 / Over-/under-heating in relation to regional peers, 4Q 2019 (4-q trailing average)**

	Domestic economy			External finance			Domestic finance				
	Real GDP %	Unemployment %	CPI % yoy	CA % of GDP	RER 2015 = 100	External debt % of GDP	RIR %	Private credit % yoy	Broad money % yoy	Fiscal balance % of GDP	Property prices % yoy
BG	3.5	4.3	2.5	9.5	99.6	57.5	-2.4	6.8	9.1	-1.5	5.9
CZ	2.4	2.0	2.6	-0.1	108.7	78.3	-0.6	5.6	6.4	0.6	9.2
EE	3.9	4.4	2.3	1.7	104.8	78.0	-2.2	4.8	10.4	-0.3	6.6
HR	3.0	6.5	0.8	2.6	100.3	81.7	2.2	2.9	4.6	0.3	8.6
HU	4.9	3.4	3.4	-0.3	98.9	77.2	-2.4	12.4	7.2	-1.7	13.0
LT	3.9	6.3	2.2	0.5	103.8	70.6	-2.2	3.6	10.2	0.1	7.0
LV	2.2	6.5	2.7	-0.3	103.0	117.2	-2.7	-2.0	10.6	-0.8	9.3
PL	4.0	3.5	2.1	1.1	96.7	59.9	-0.6	5.8	9.2	-1.2	8.4
RO	4.1	3.9	3.9	-4.7	96.1	47.3	-1.4	7.1	9.2	-4.0	3.0
SI	2.6	4.6	1.7	6.6	99.7	92.2	-1.7	4.0	8.5	0.2	7.6
SK	2.4	5.8	2.8	-2.9	100.9	109.7	-2.7	7.5	7.5	-1.2	8.5
AL	2.6	11.3	1.4	-7.6	115.2	60.4	-0.4	3.6	3.6	-1.9	
BA	2.6	15.7	0.6	-5.2	96.0	23.9	-0.6	6.0	8.5	1.0	
ME	3.3	14.8	0.4	-16.7	99.7	55.7	5.2	6.8	-3.5	-2.3	
MK	3.4	17.0	0.8	-0.7	98.2	75.8	1.5	7.2	10.6	-1.8	2.5
RS	4.0	10.7	1.9	-6.2	105.3	60.3	0.8	9.3	11.9	0.7	-5.9
XK	4.1	24.5	2.7	-6.8	100.2	30.1	3.7	10.6	10.1	0.7	
TR	0.5	13.7	15.4	0.2	72.1	58.5	3.2	5.6	21.6	-3.0	2.5
BY	1.2	4.2	5.6	-0.5	93.2	60.2	3.8	10.4	11.8	4.0	
KZ	4.4	4.8	5.3	-3.1	72.2	88.6	3.7	2.9	1.5	-1.7	
RU	1.3	4.6	4.6	4.2	104.9	28.3	2.4	9.9	7.3	2.0	7.1
UA	3.2	8.4	7.9	-0.7	123.8	77.1	7.8	-4.4	7.6	-2.1	

potential overheating/instability  
relative to regional peers

underheating/stability  
relative to regional peers

Notes: 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.

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