

wiiw Spring Seminar 2013

21 March 2013

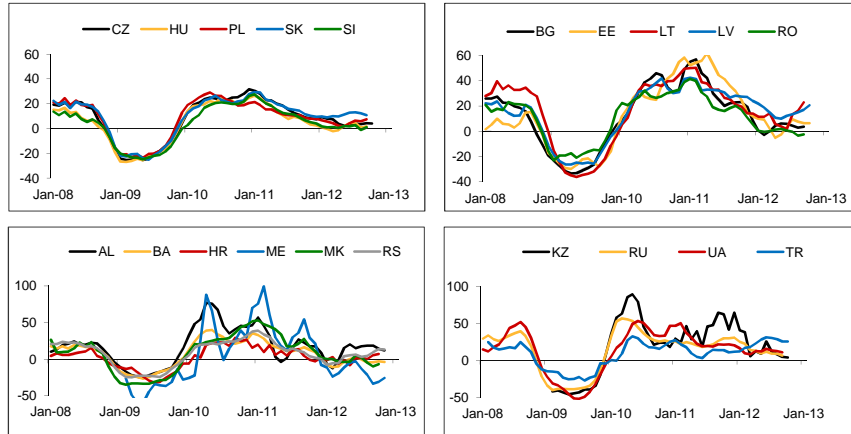
Economic Situation in CESEE:
Double-dip Recession over, yet no Boom in Sight

Vasily Astrov

Outline

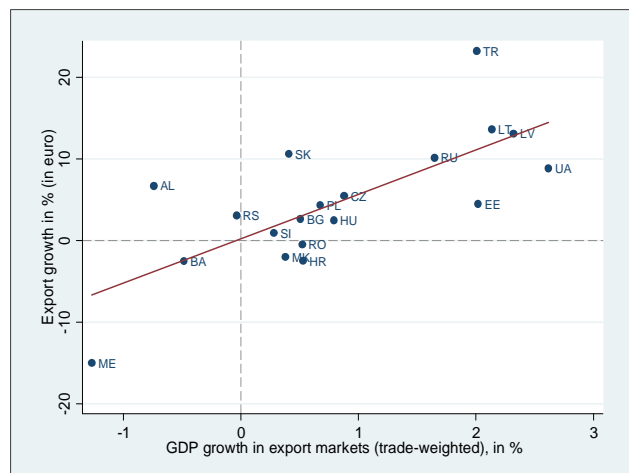
- External demand
- Domestic demand
 - Labour markets
 - Private consumption
 - Investments and construction
 - Role of deleveraging
 - Role of fiscal policy
- Drivers of economic growth
- Prospects
- A new growth strategy?

Exports of goods (nominal, euro-based)
 change in % against preceding year, 3-month moving average



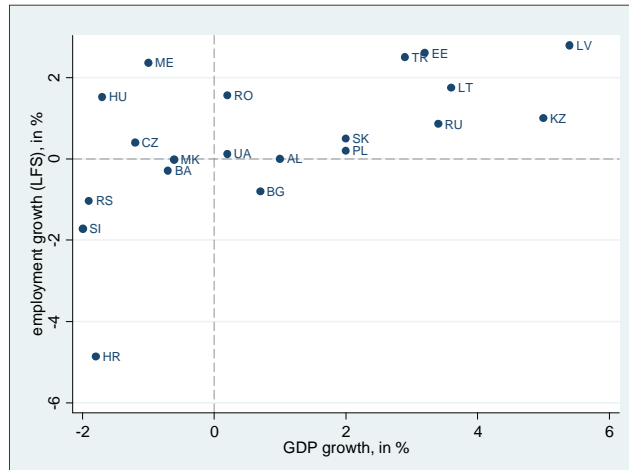
Source: wiiw Database incorporating national and Eurostat statistics.

GDP growth in export markets and export growth, 2012



Source: wiiw Database incorporating national and Comext statistics.

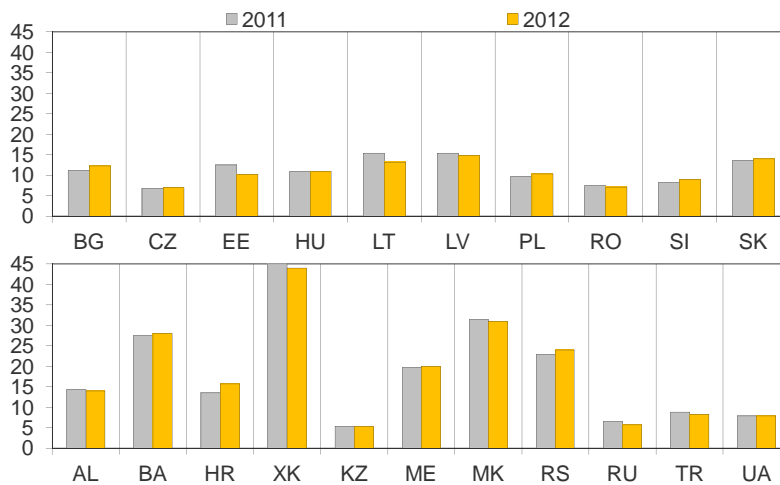
GDP and employment growth (LFS), 2012



Source: wiiw Database incorporating national and Eurostat statistics.

Unemployment, based on LFS

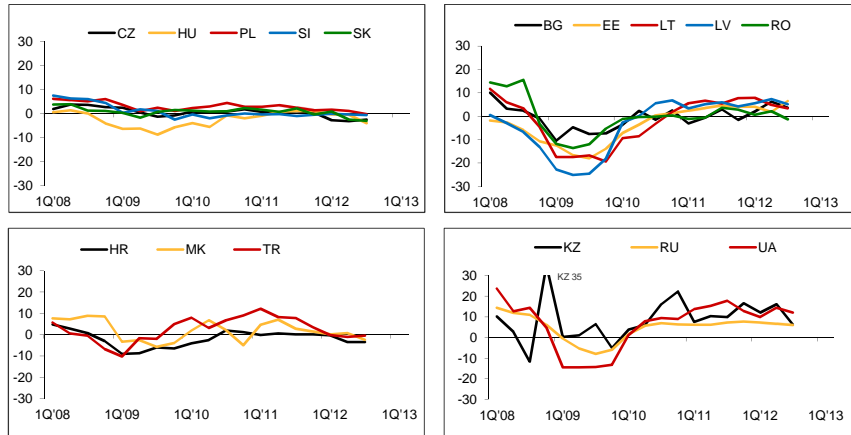
rate in %, annual average



Source: wiiw Database incorporating national and Eurostat statistics.

Household consumption

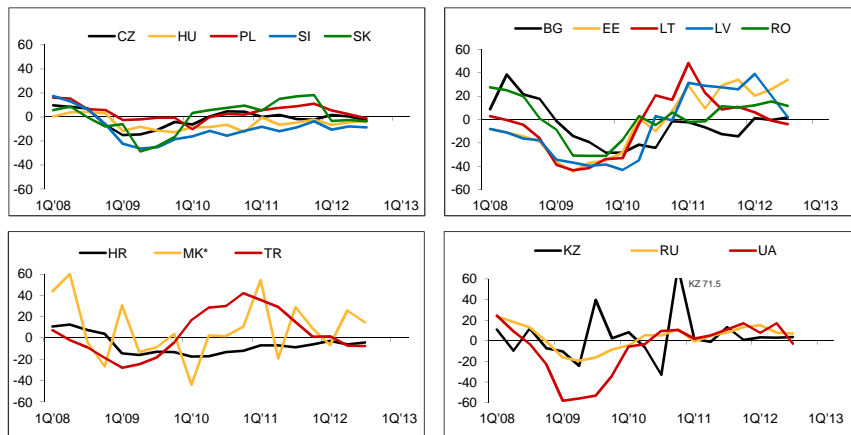
real change in % against preceding year



Source: National and Eurostat statistics.

Gross fixed capital formation

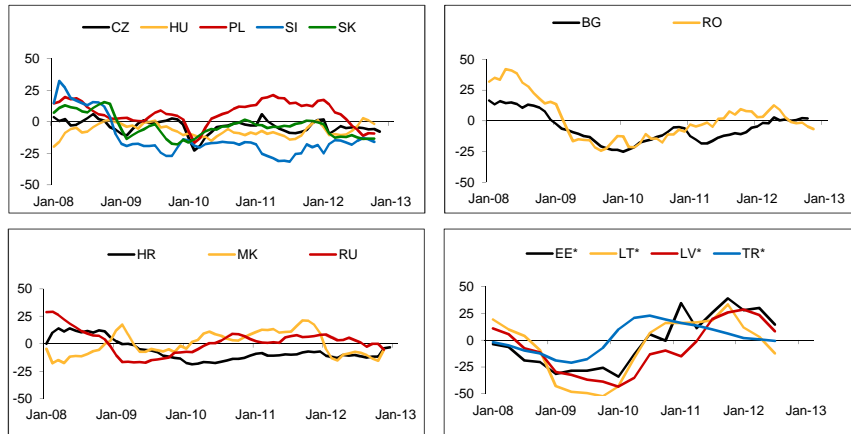
real change in % against preceding year



Remark: * MK gross capital formation.
 Source: National and Eurostat statistics.

Construction

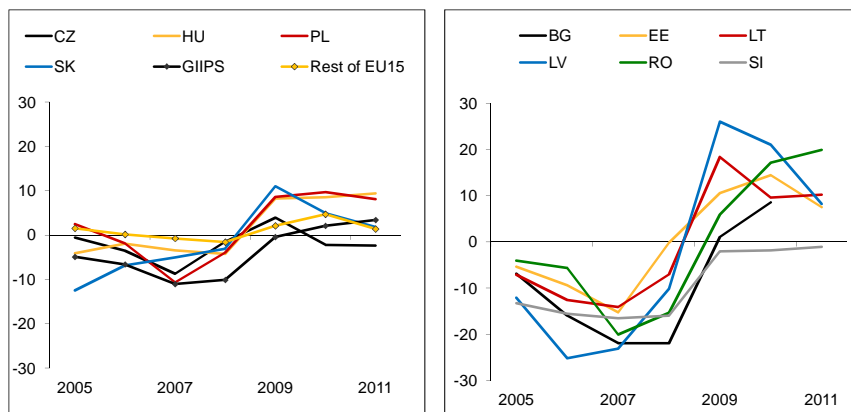
change in % against preceding year, 3-month moving average



Remark: EE, LT, LV, TR quarterly data, change in % against preceding year.
 Source: wiiw Database incorporating national and Eurostat statistics.

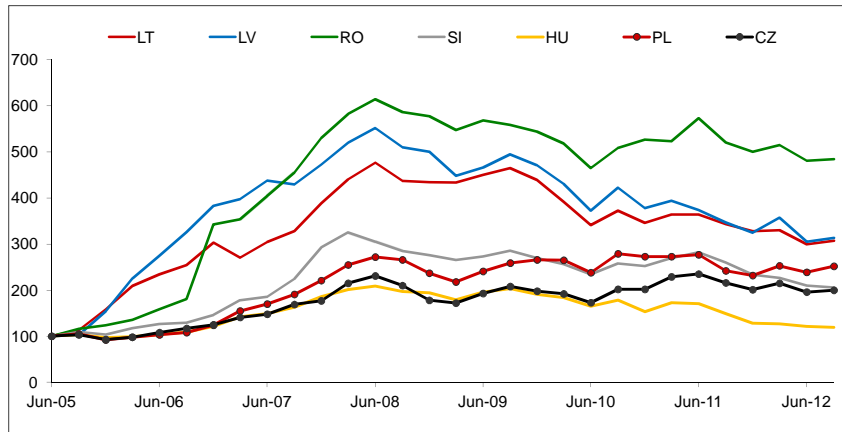
Non-financial corporations' net lending/borrowing

% of gross value-added



Source: Eurostat.

Claims of European banks on selected CESEE countries,
 June 2005 = 100

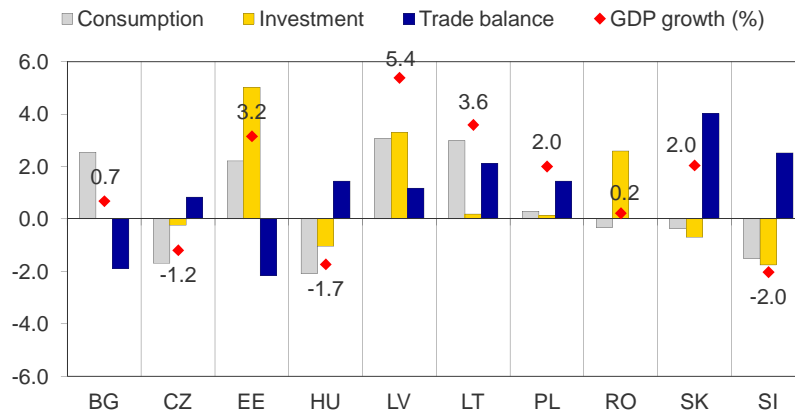


Source: BIS.

Austerity packages suppress domestic demand

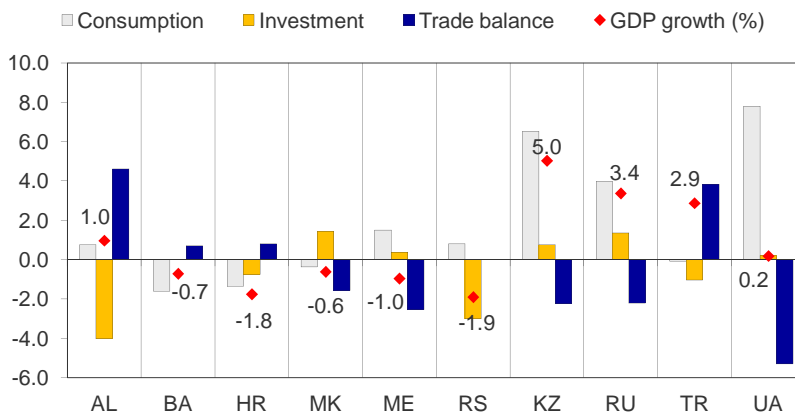
- Tax increases drive up consumer prices: CZ, PL, HU
 - But LV reduced VAT (low inflation required for euro adoption)
- Expenditure cuts
 - Wage cuts and lay-offs in the public sector (mainly HR, other countries of the Western Balkans)
 - But first of all: cuts in public investments
 - Therefore: EU transfers are crucial (RO, EE)
- No austerity policy in the Baltics, RU, UA, KZ

GDP growth 2012 (in %)
 and contribution of individual demand components
 in percentage points



Source: wiiw Database incorporating national and Eurostat statistics.

GDP growth 2012 (in %)
 and contribution of individual demand components
 in percentage points



Source: wiiw Database incorporating national and Eurostat statistics.

Main findings

- Exports curbed by recession in the euro area
- Still: Net exports contribute positively to GDP growth in most cases
- High unemployment, stagnating wages and deleveraging suppress private consumption
- Investments driven mainly by infrastructure projects
- Austerity policy: tax increases and expenditure cuts

Prospects

- 2013: hardly any improvement
 - CZ, HU, RO and Western Balkans: slight recovery
 - but: PL and SK growth deceleration
 - SI, HR: again recession
- From 2014: possibly positive impulses from the euro area
 - would benefit first of all the NMS
 - Western Balkans: weak industrial sector, high unemployment endangers social and political stability
- Baltics, RU, KZ, TR: considerably better prospects for 2013-2014
 - but: UA highly uncertain (suffers from overvaluation)

GDP growth, wiiw forecast 2013-2015

	2013	2014	2015
Kazakhstan	5.0	6.0	6.5
Latvia	3.8	4.3	4.5
Lithuania	3.8	4.0	4.2
Turkey	3.8	4.5	5.0
Russia	3.6	3.8	3.7
Kosovo	3.0	5.0	4.0
Estonia	2.8	3.5	3.8
Albania	2.8	3.3	3.0
Poland	1.5	2.7	3.5
Romania	1.5	2.0	2.3
Ukraine	1.5	3.0	4.0

	2013	2014	2015
Slovakia	1.0	2.4	3.0
Bulgaria	1.0	1.8	2.6
Macedonia	1.0	1.7	2.0
Montenegro	1.0	2.0	3.0
Serbia	1.0	2.0	3.0
Bosnia and Herzegovina	0.8	2.0	3.0
Czech Republic	0.3	1.6	2.4
Hungary	0.0	1.2	2.5
Croatia	-0.5	1.5	2.5
Slovenia	-1.5	0.5	2.0

Source: wiiw (March 2013).

© wiiw

A new growth strategy?

- High growth rates before the crisis unlikely to be repeated
- Previous sources of growth (foreign capital, incl. FDI) partly dried up
- 'Industrial policy' to the rescue?
 - RU, KZ, Baltics, BG, RO: potentially feasible
 - Western Balkans, UA: lack of both financial resources and institutions
 - Central European NMS: less need for industrial policy, rather a problem of domestic demand

© wiiw