April 15th 2021

Webinar

Spring Forecasts for CESEE: Darkest before the dawn?

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Overview

1. Global assumptions: Divergence, with Europe lagging behind

2. New forecasts for CESEE: Recovery delayed

3. The pandemic and economic fallout in CESEE so far

4. Drivers of growth in 2021-23: Waiting for vaccines

5. Financial sector: This is not 2008, but watch for asset bubbles

6. Risks and medium-term outlook

1. Global assumptions:

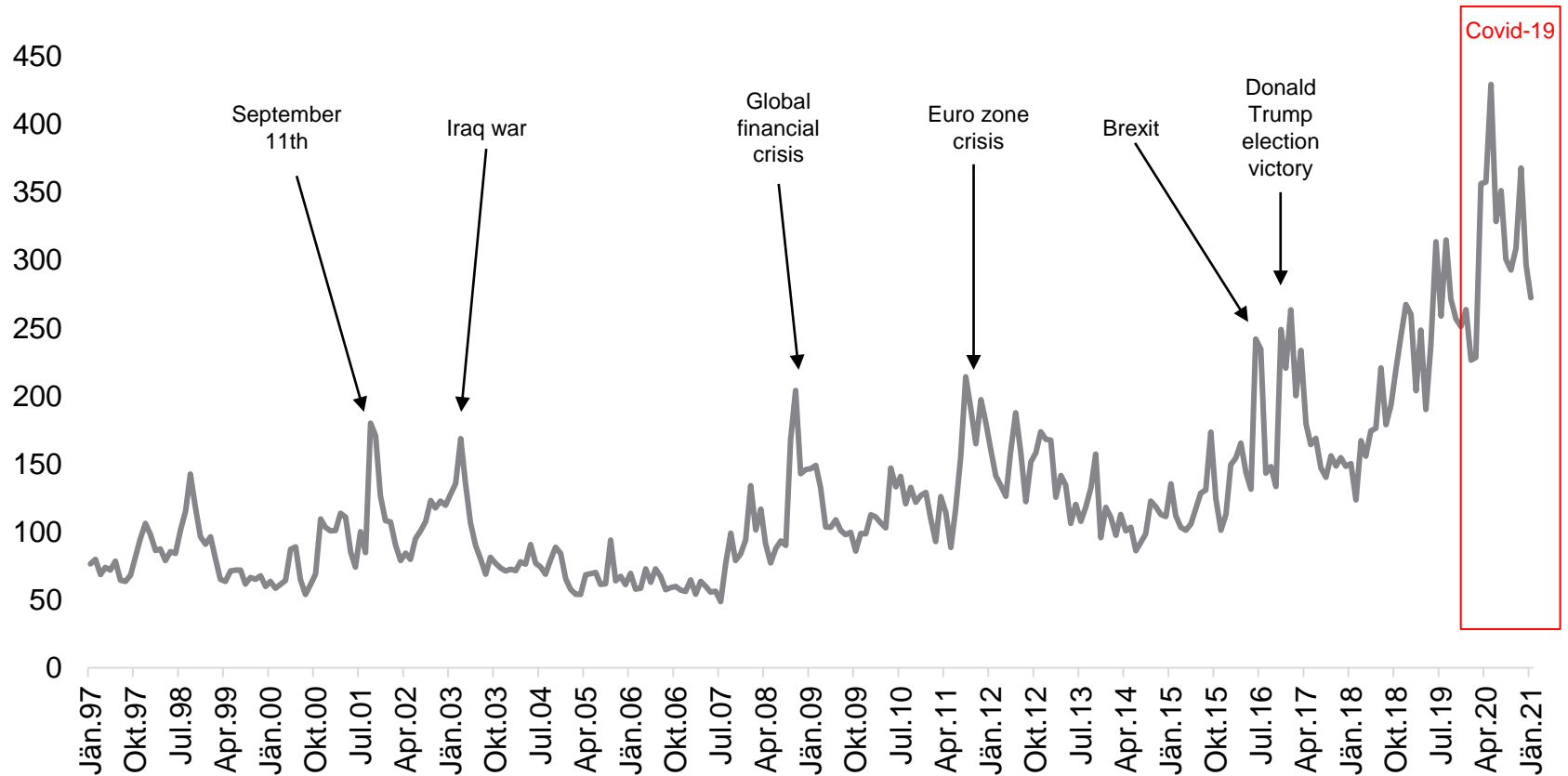Strong recovery but divergence, with Europe lagging behind

The worst crisis since WWII, but different to 2008. Rapid recovery; less so in euro area.

Real GDP, % change versus previous year

Source: IMF WEO April 2021. Data from 2021 onwards = IMF forecasts.

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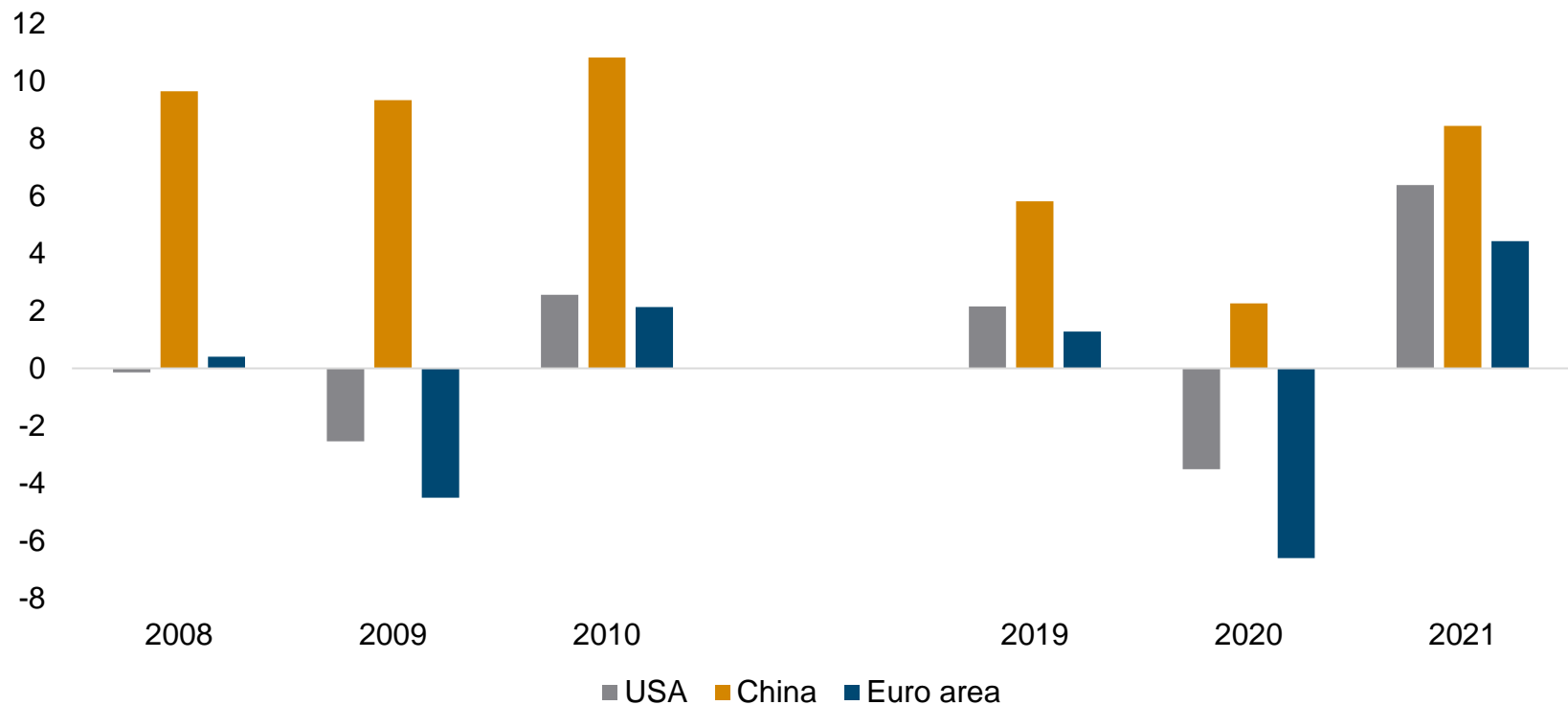
Global uncertainty: Unprecedented levels

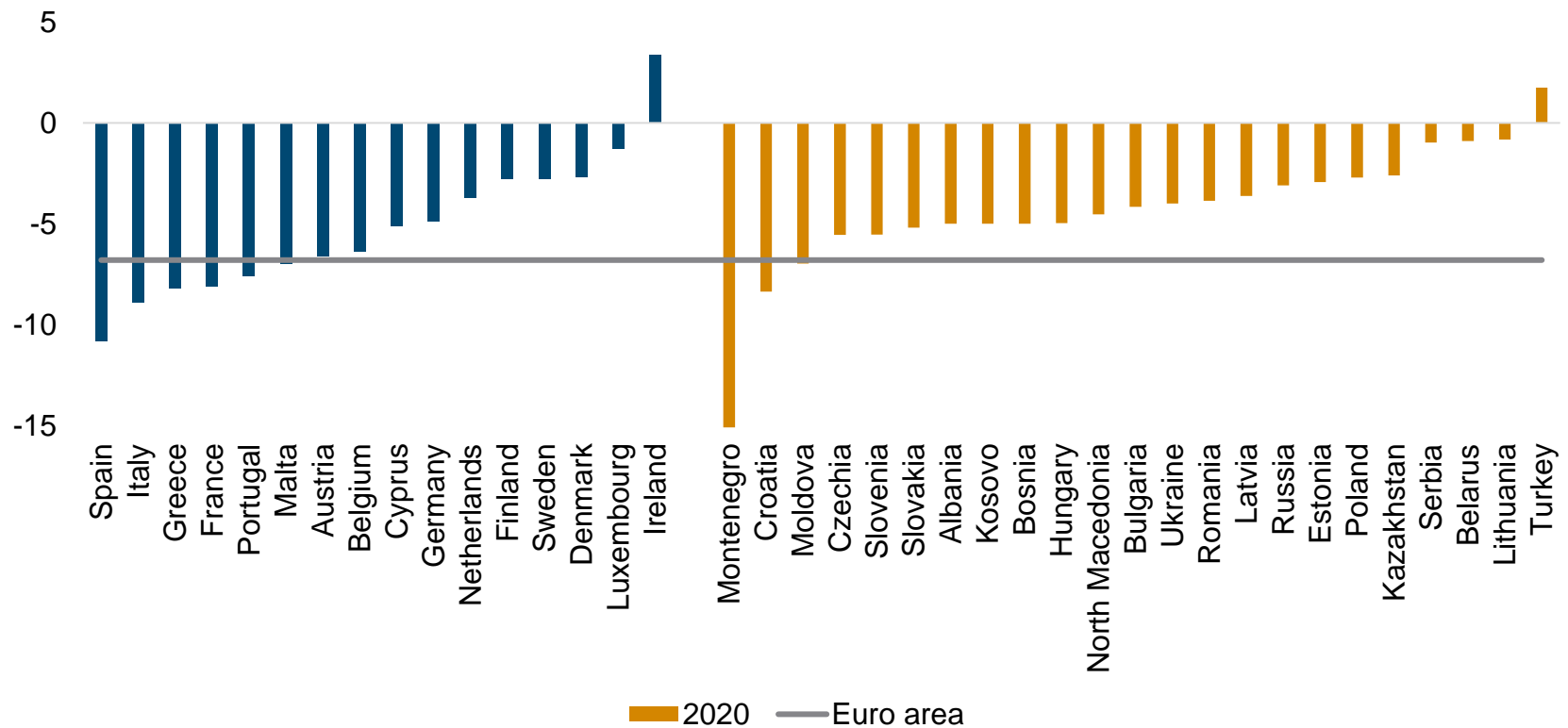Global economic policy uncertainty index

2. New CESEE forecasts:

Outperformance over, recovery delayed

In 2020 CESEE mostly did better than Western Europe and especially the big euro area countries (ex. Germany)

Real GDP, 2020, % change versus previous year

Legend: 2020 — Euro area

Sources: Eurostat, national sources, wiiw.

New forecasts: Most of CESEE will not outperform euro area again this year

Real GDP, % change versus previous year

Legend: ■ EU-CEE ■ Western Balkans ■ Turkey ■ CIS + Ukraine ● Euro area
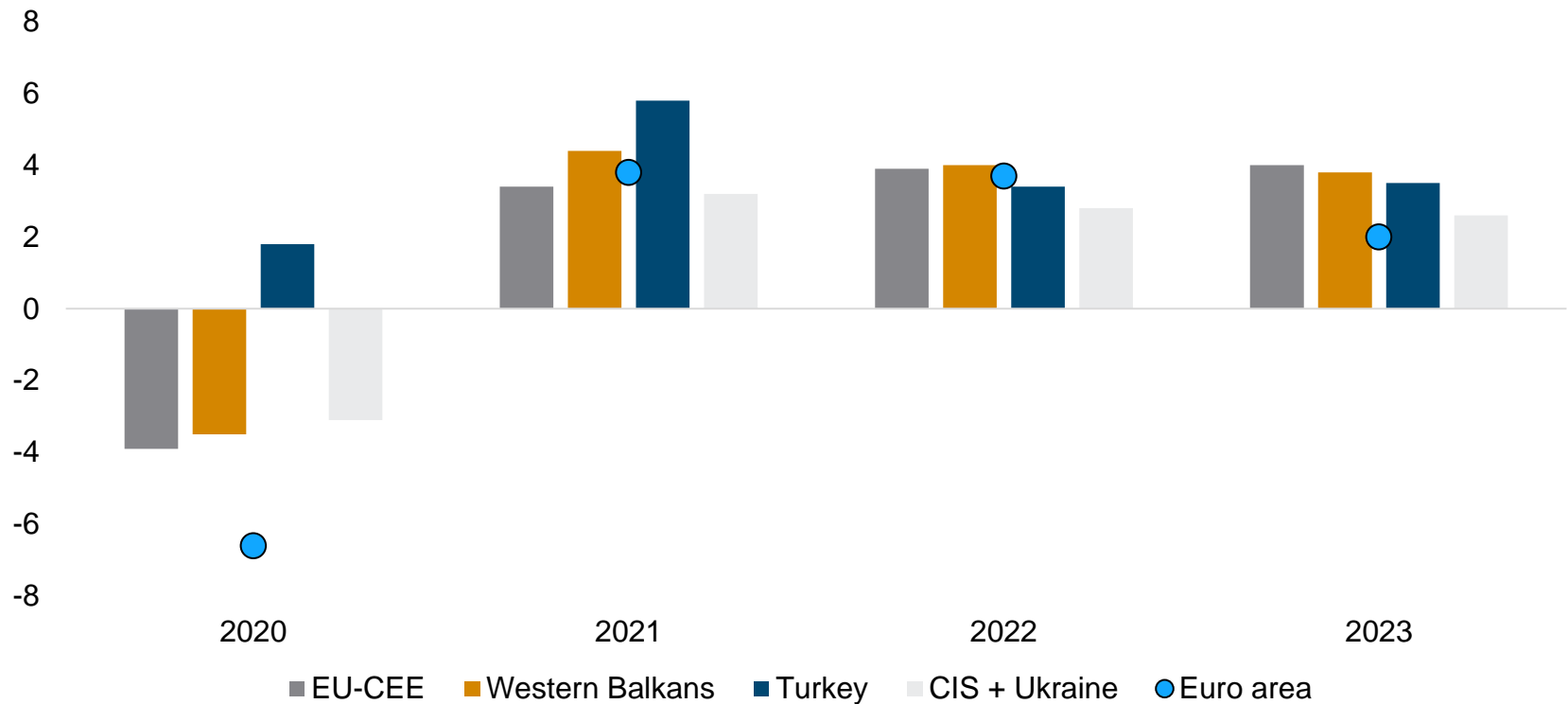
New forecasts: 2021 strongest in Southeast Europe
Revisions: Mostly downwards in EU-CEE this year

		Forecast, %			Revisions, pp	
		2021	2022	2023	2021	2022
EU-CEE	BG	2.5	3.1	3.4	⬆ 0.8	⬆ 0.5
	CZ	2.9	3.2	3.9	⬇ -1.0	⬇ -0.3
	EE	1.2	3.8	4.3	⬇ -2.7	⬆ 0.8
	HR	4.5	4.6	3.7	⬇ -0.5	⬆ 0.6
	HU	3.9	4.5	4.0	⬆ 0.9	⬇ -0.1
	LT	2.1	3.8	3.5	⬇ -2.4	⬆ 0.6
	LV	2.8	4.2	3.8	⬇ -1.6	⬆ 1.4
	PL	3.4	3.6	4.4	⬇ -0.1	⬆ 0.2
	RO	3.8	4.5	4.0	⬆ 0.1	➡ 0.0
	SI	3.6	4.0	3.3	⬇ -0.9	⬆ 1.0
	SK	3.6	4.4	3.5	⬇ -0.5	⬆ 0.5
Western Balkans	AL	4.5	4.4	3.8	⬇ -0.1	⬆ 0.4
	BA	2.5	2.9	3.3	⬇ -0.7	⬇ -0.2
	ME	6.5	5.0	3.7	⬆ 1.5	⬆ 0.9
	MK	4.1	3.4	3.2	⬇ -0.4	⬇ -0.6
	RS	5.0	4.4	4.2	⬆ 0.5	⬆ 0.3
	XK	4.8	4.6	3.9	➡ 0.0	⬆ 0.3
Turkey	TR	5.8	3.4	3.5	⬆ 1.7	⬇ -1.2
CIS+UA	BY	1.5	1.9	2.2	⬆ 2.7	⬆ 0.6
	KZ	3.2	4.1	4.4	⬆ 0.7	⬆ 0.1
	MD	4.0	4.5	3.5	➡ 0.0	⬆ 0.5
	RU	3.2	2.7	2.3	⬆ 0.7	⬆ 0.6
	UA	3.5	3.2	3.0	⬆ 1.5	⬇ -0.4

The region has seen much worse in fairly recent times

Real GDP growth, % per year, regional (simple) averages
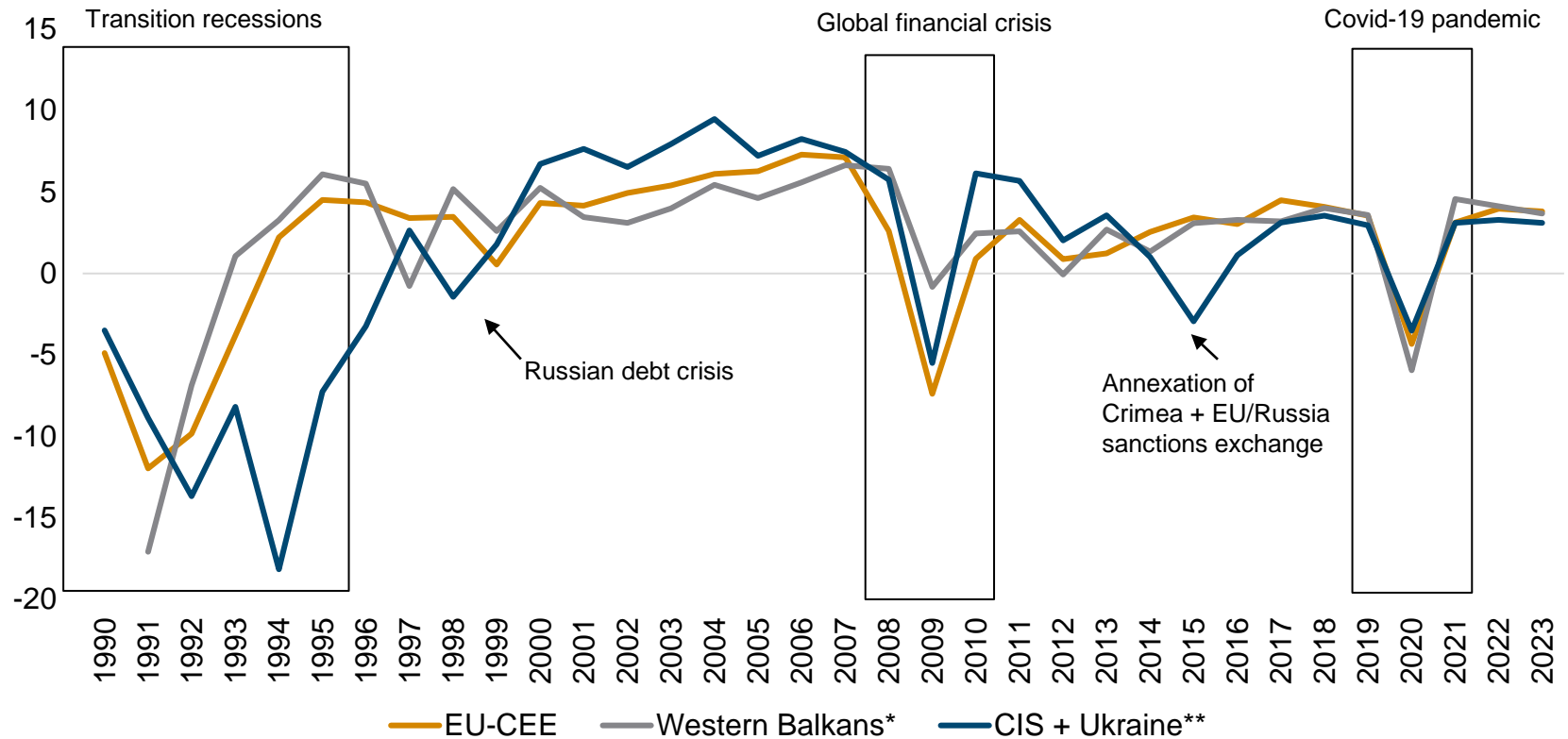
Source: National sources, wiiw. *Average includes Albania and North Macedonia from 1991, Serbia from 1996, Bosnia and Herzegovina and Montenegro from 2000, and Kosovo from 2001. **Average includes Russia and Ukraine from 1990, and Belarus, Kazakhstan and Moldova from 1991.

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3. Measuring the fallout in CESEE so far

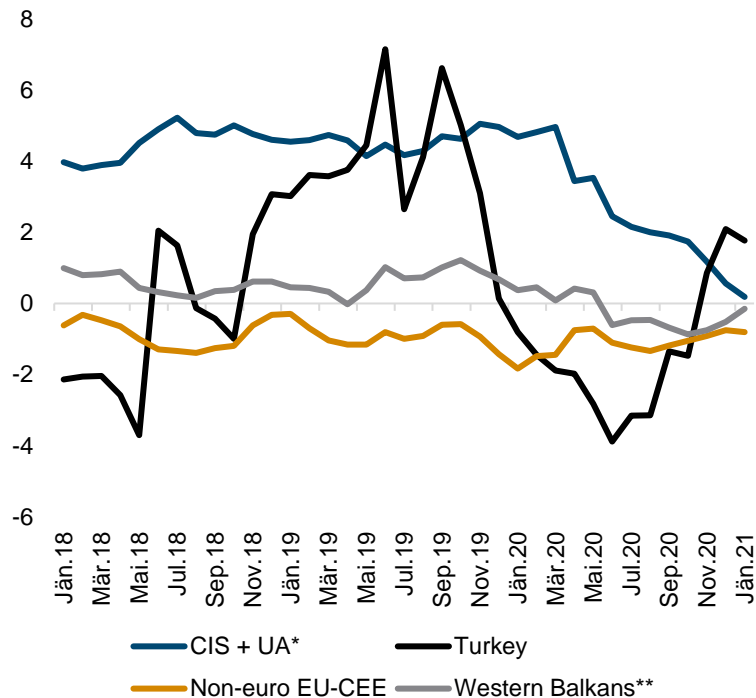# Why has CESEE done better economically? In the first wave, simply managed the pandemic better.
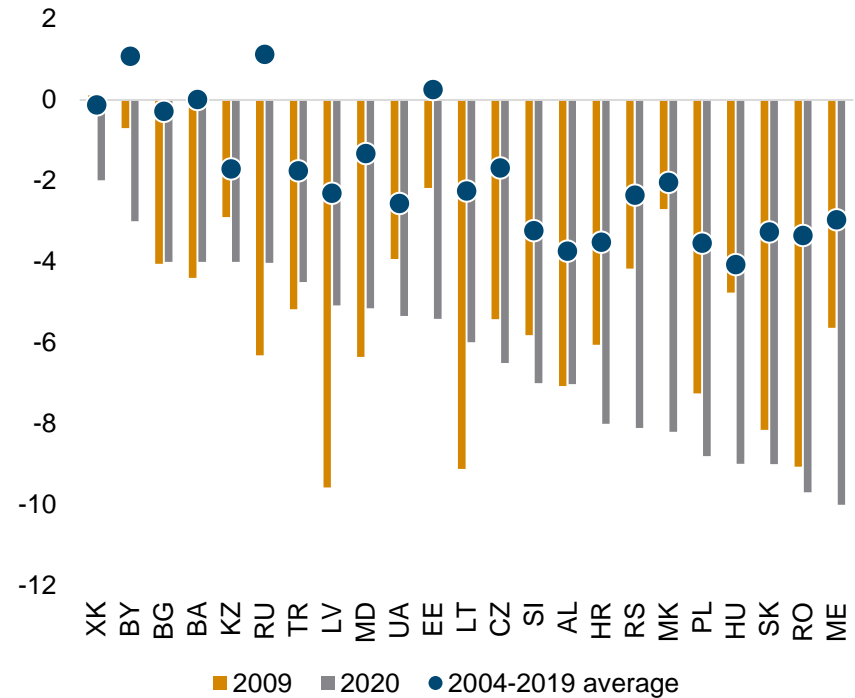
Deaths per million from COVID-19 as of September 2020
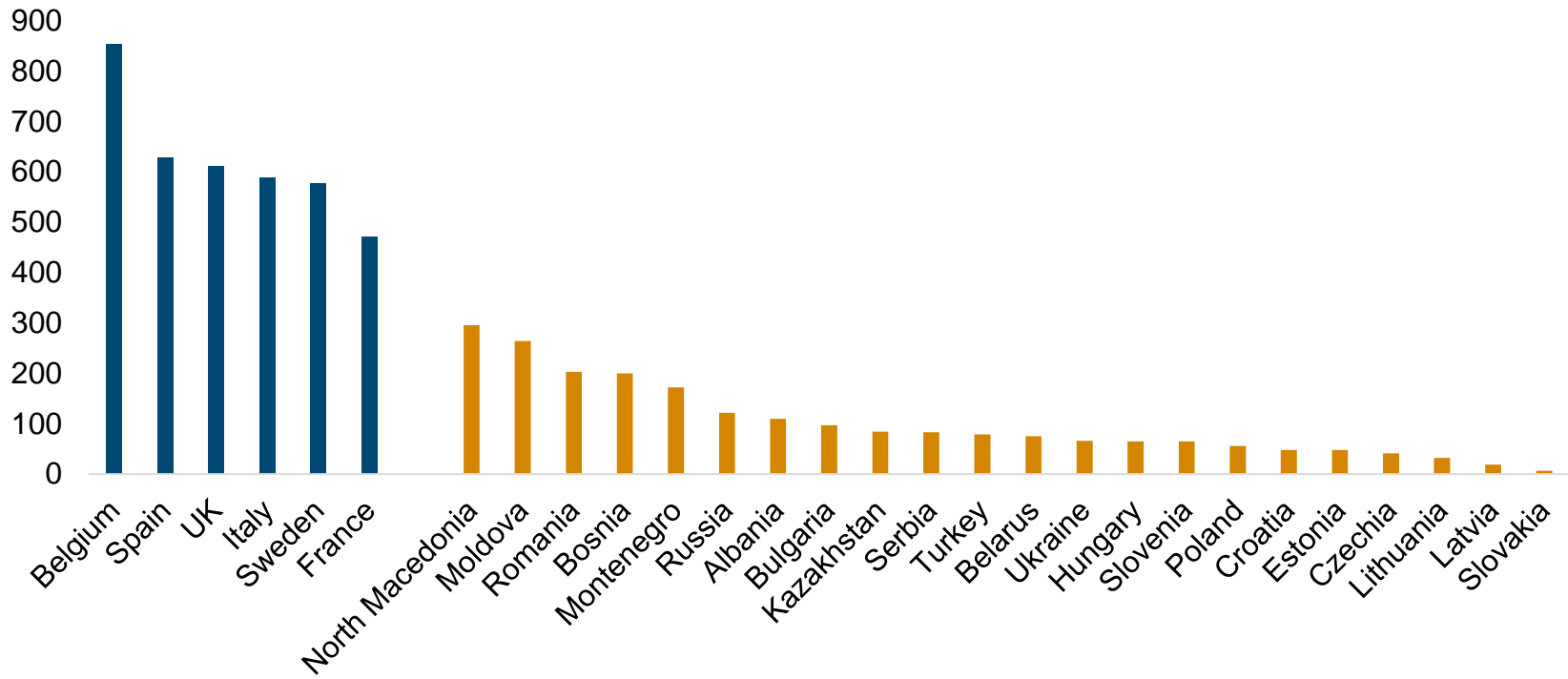
Policy (mostly fiscal) response has also been much bigger than in the past

Real interest rates, CPI-adjusted, %

Legend: CIS + UA*, Turkey, Non-euro EU-CEE, Western Balkans**
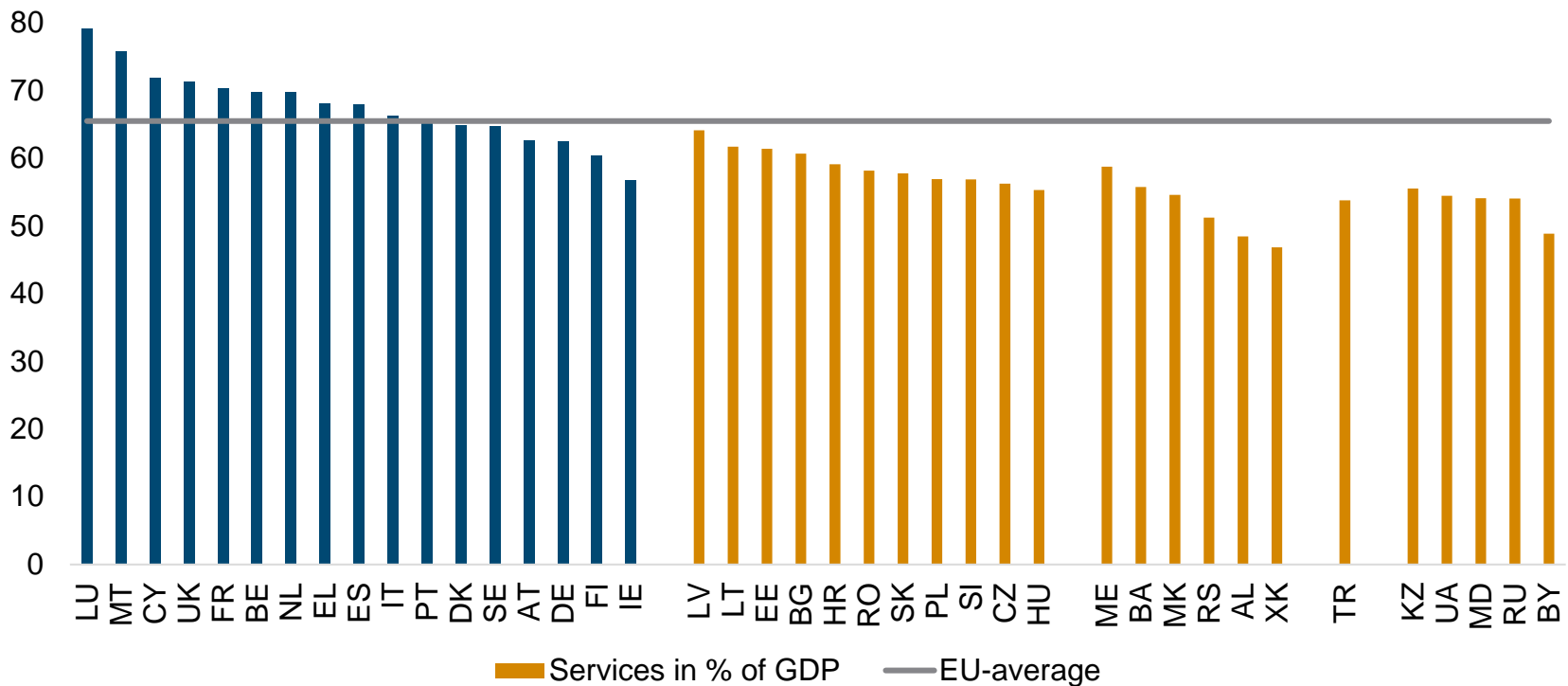
Fiscal balance, % of GDP

Legend: 2009, 2020, 2004-2019 average

Sources: National sources, wiiw. *CIS + UA = average of Belarus, Kazakhstan, Russia, Ukraine. **Western Balkans = average of Albania, North Macedonia, Serbia.
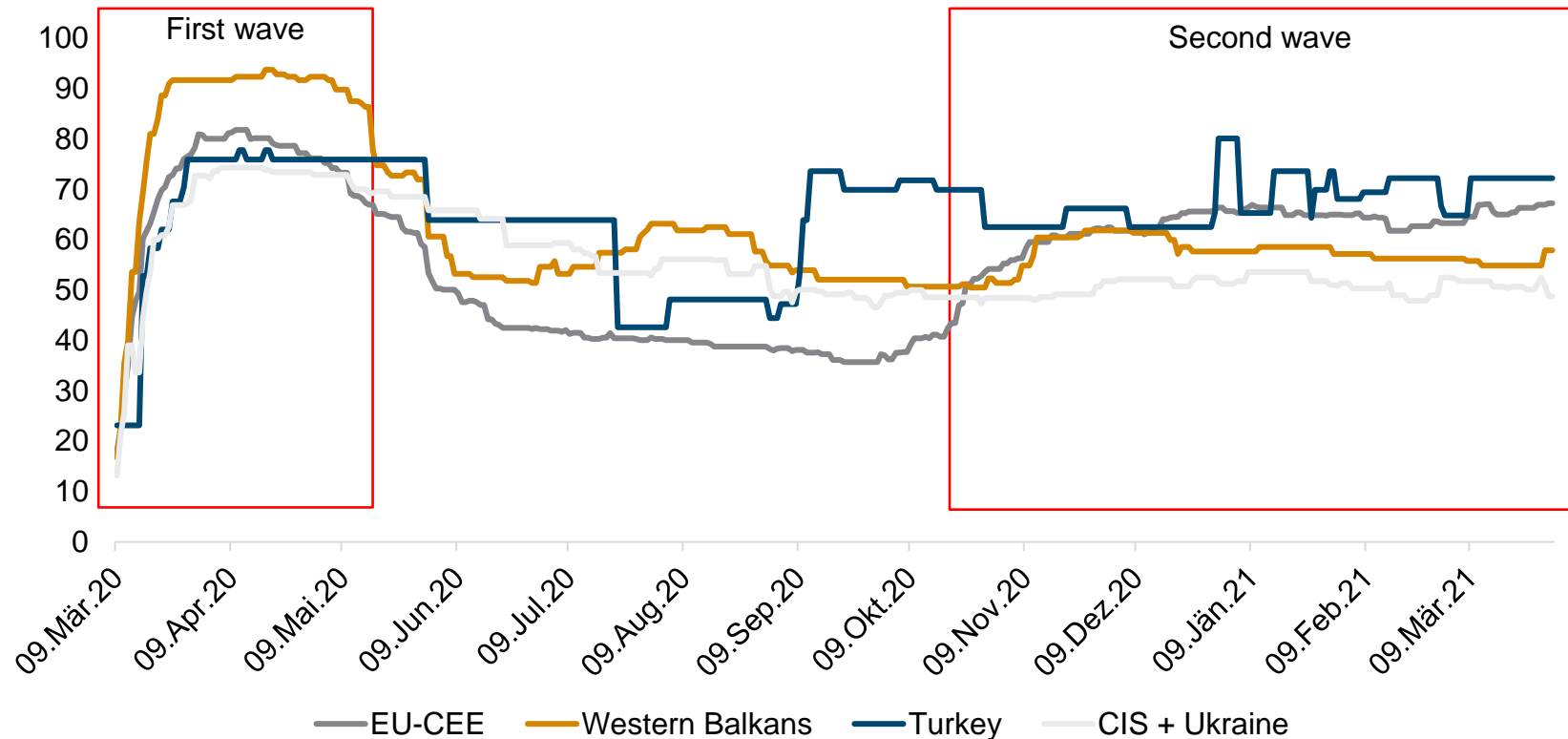
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Structural differences also mattered: CESEE less reliant on services.

Share of services value-added in GDP in 2019, %

Legend: Services in % of GDP | EU-average

In the second wave, however, CESEE has sacrificed public health for the economy, in terms of restrictions…
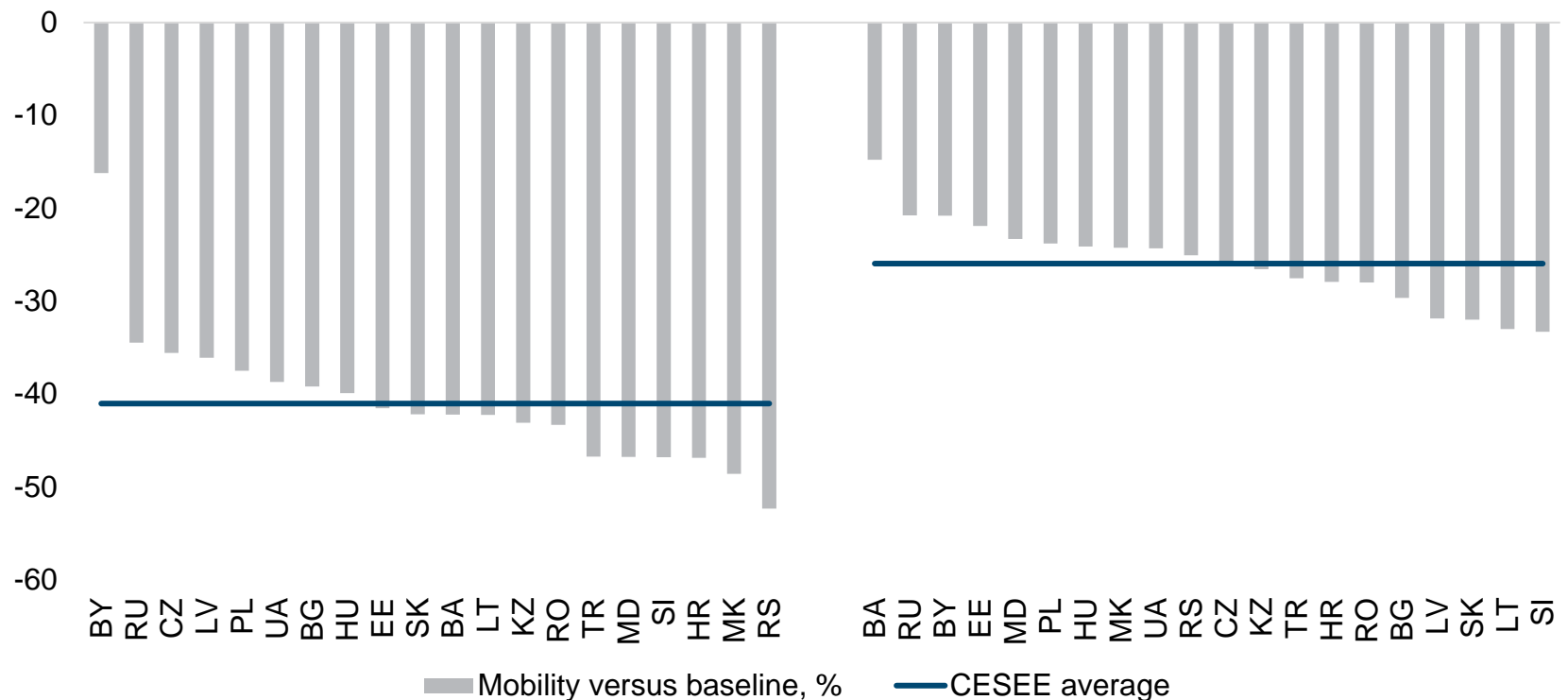
Stringency index (0 = min; 100 = max)

First wave

Second wave

EU-CEE — Western Balkans — Turkey — CIS + Ukraine

Source: Oxford Blavatnik School of Government.

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…and mobility

Googe mobility workplace data, % change versus baseline, period averages

15 March – 15 May 2020   1 November – 28 February 2021

Mobility versus baseline, %   CESEE average

Source: Google.   © wiiw   16

Impact: Six of world's ten highest levels of 'excess deaths' are in CESEE

Excess deaths per 100,000 people, since country' first 50 COVID deaths

All in global top ten

Legend: Excess deaths per 100,000 people — Sweden — Italy
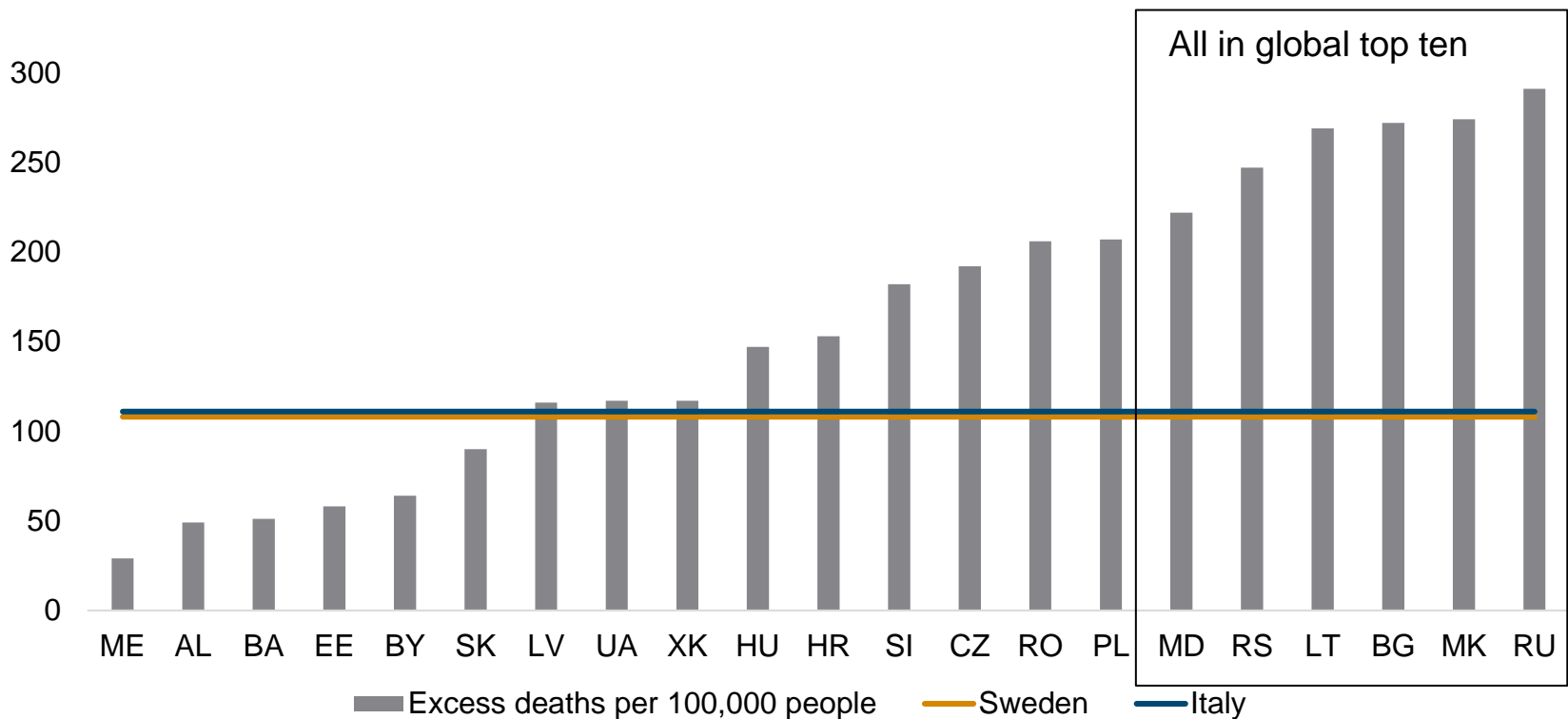
4. Drivers of growth in 2021-23:

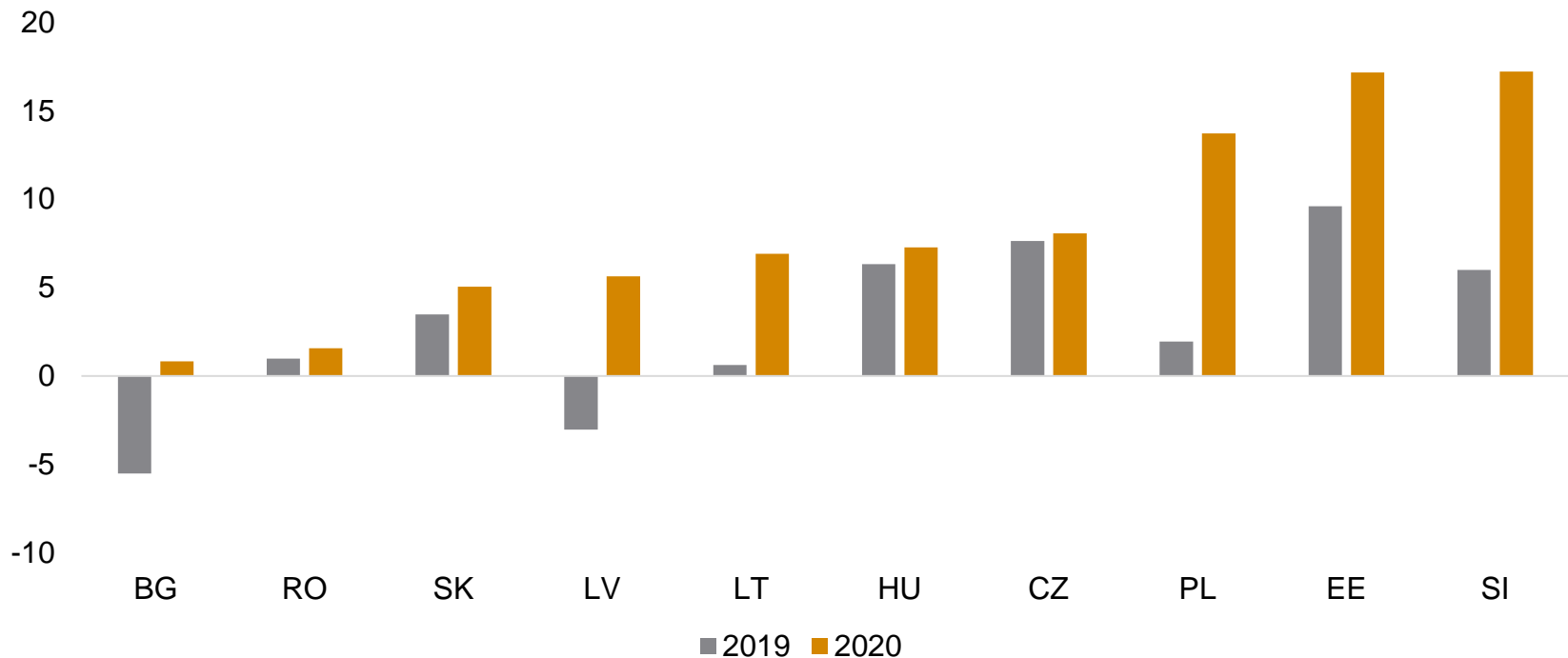## Economies have adapted; waiting for the vaccines

The central question: How quickly can vaccination rates increase? Huge divergence within CESEE.

Years until 75% of population are vaccinated, based on current vaccination rates
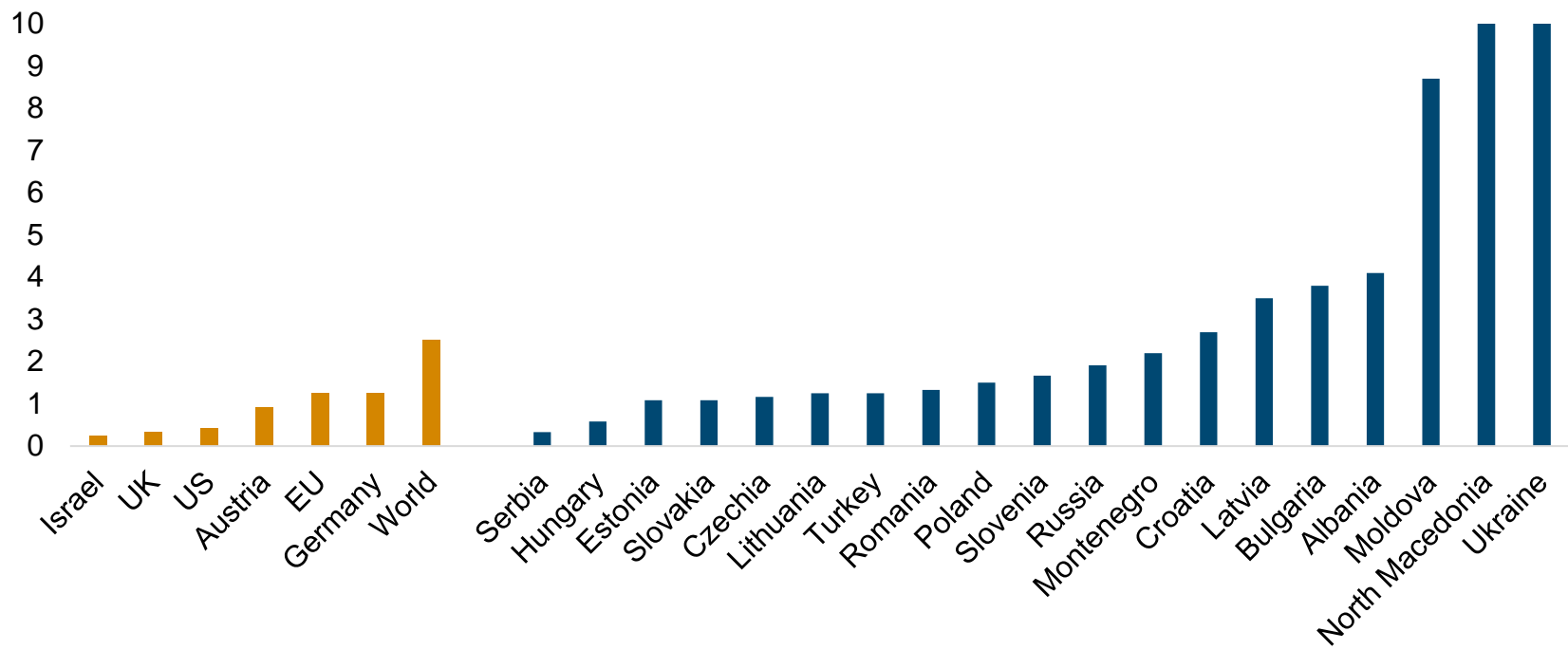
Once vaccination rates increase and weather improves, consumption should swing into gear
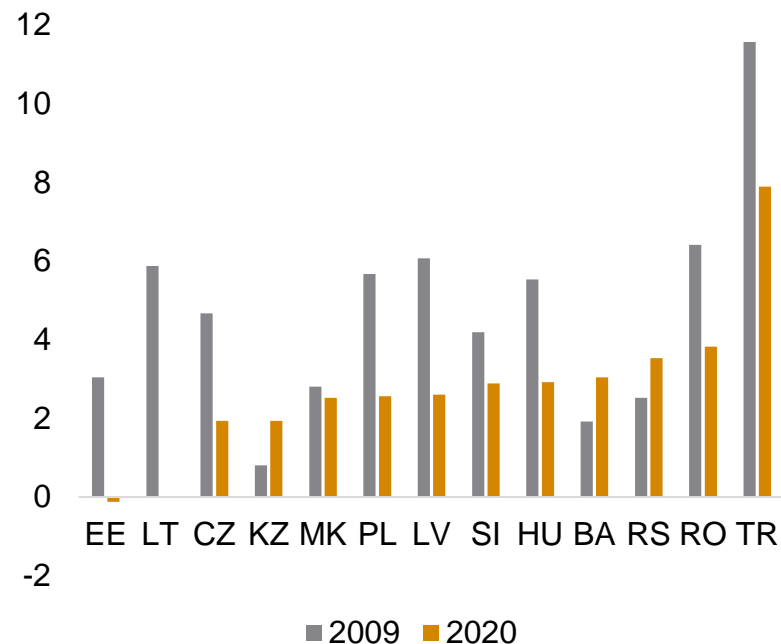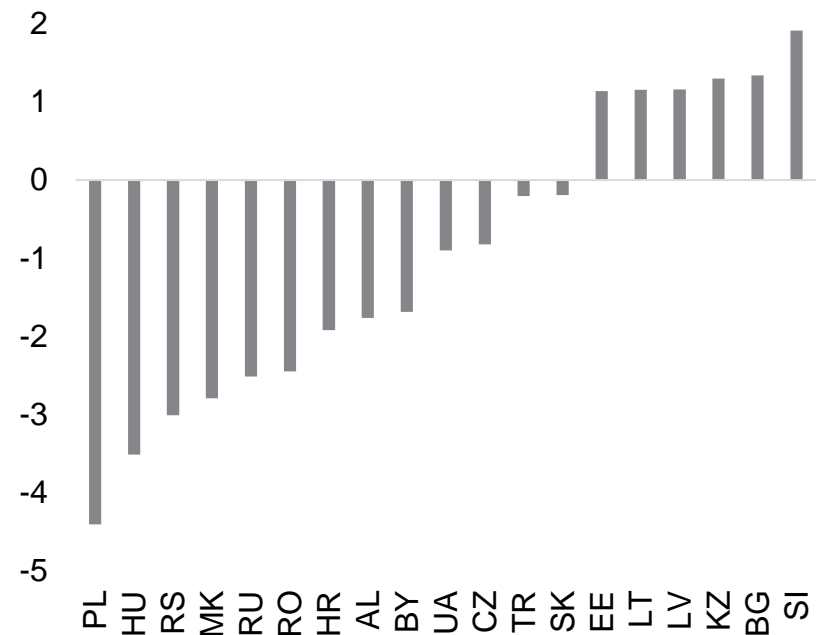
Net savings rates of households, %

Source: OECD. Note: Net household saving = household net disposable income, adjusted for changes in pension entitlements, minus household final consumption expenditure.

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Policy is likely to remain supportive, both at the EU and local levels: cheap debt and room to keep rates low
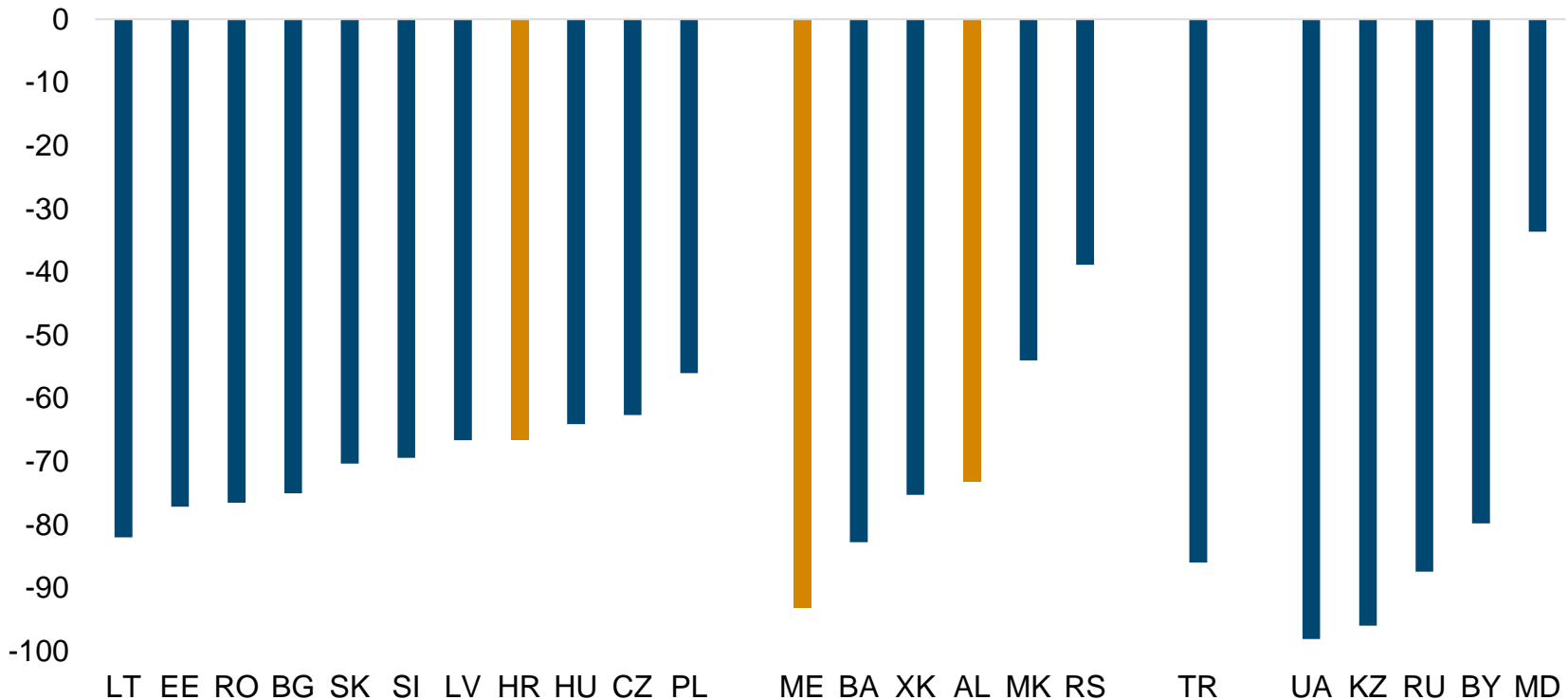
Effective interest rate on public debt, %

Real interest rates, CPI-adjusted, Feb 2021 vs 2007-19 average, pp

External factors: Room to grow as global recovery gains momentum

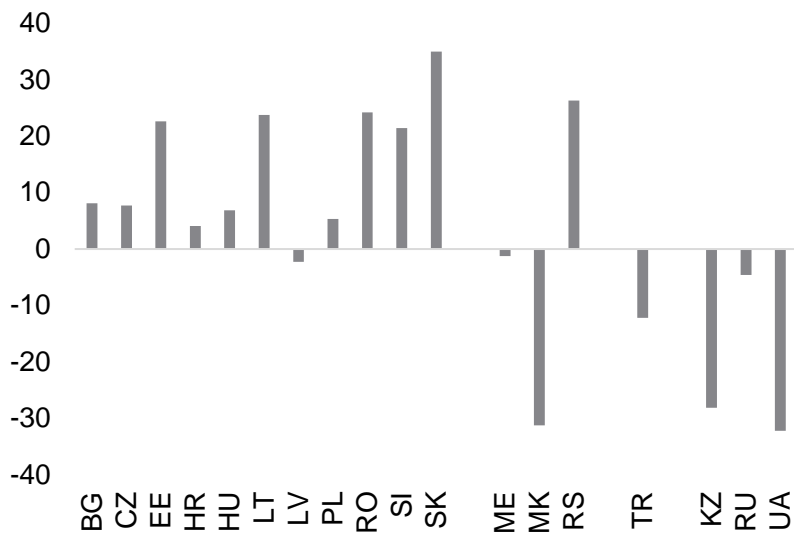Travel services credit (BoP), euro based, % change year on year, April-September 2020
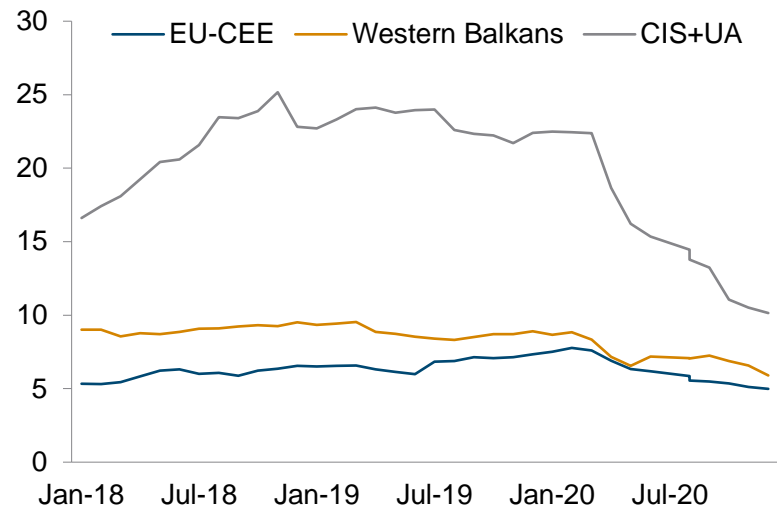
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5. Financial sector:

This is not 2008, but watch for asset bubbles

This time is different (vs GFC): ample monetary stimulus, but credit performance remains weak …

Change in cross-border consolidated bank claims in Q3 2020, % y-o-y

Credit growth of households, % y-o-y
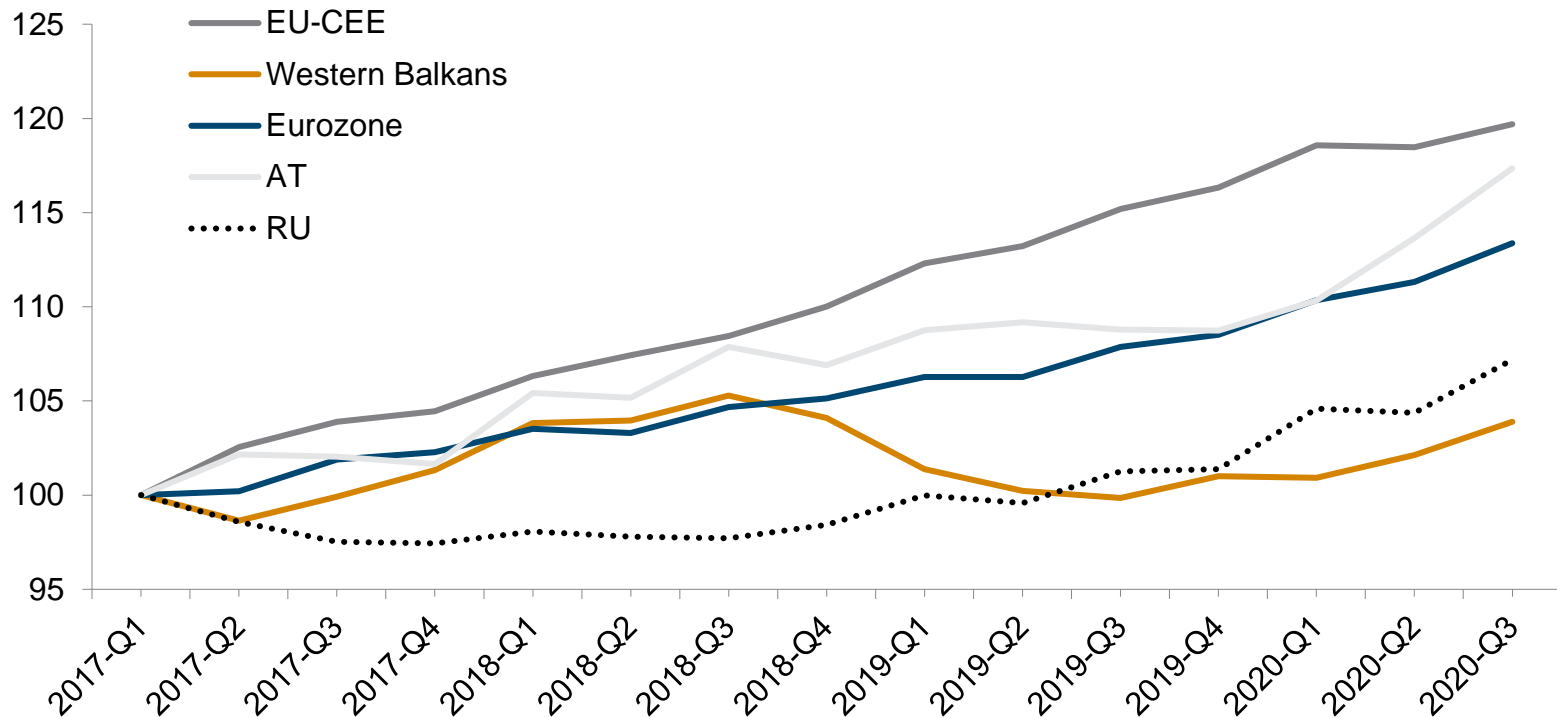

Source: BIS, wiiw calculations

Note: Ultimate risk basis by counterparty, in USD terms

Source: wiiw Monthly Database incorporating national statistics.

Note: Simple averages for country aggregates.

… as liquidity pours into housing market, and risks of price correction are increasing

Index of real residential property prices, Q1 2017=100

Legend:
- EU-CEE
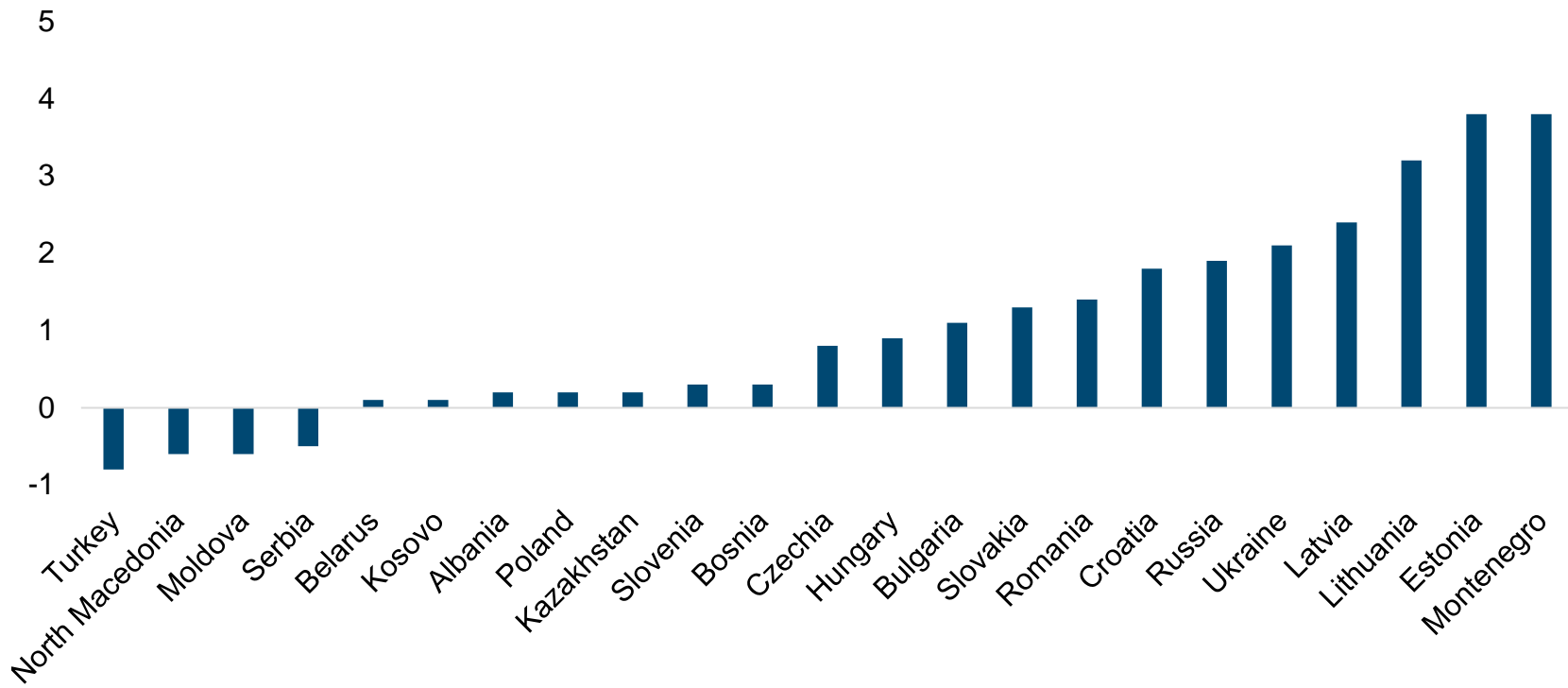- Western Balkans
- Eurozone
- AT
- RU

Source: BIS, wiiw calculations.

Note: Simple averages for country aggregates.

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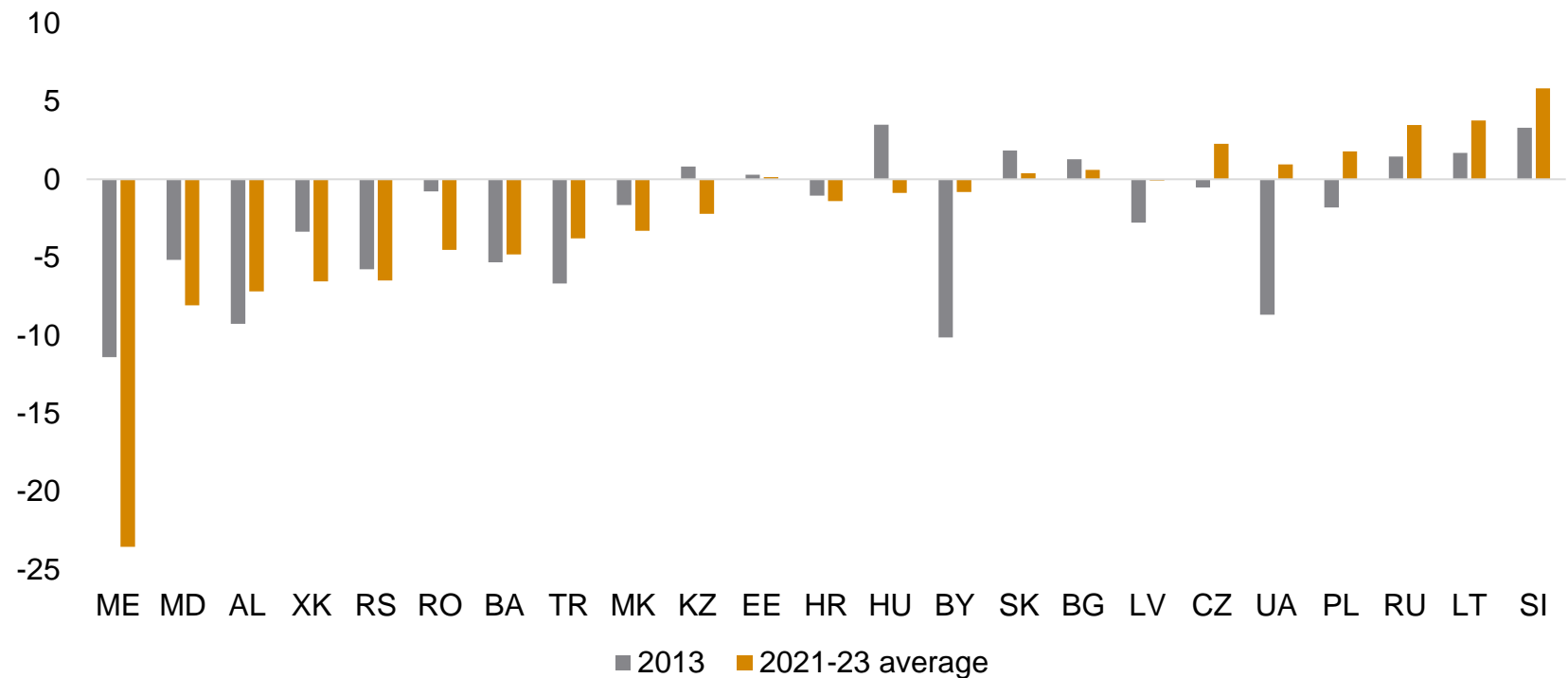
6. Risks and medium-term outlook

The fallout in the labour market: Mostly limited so far, but headline numbers unlikely to reflect underlying reality

Unemployment rate, pp change between Q3 2019 and Q3 2020

![wiiw logo]

Rising US rates, but this is not 2013 for most countries, and key rate is anyway the euro for most

Current account, % of GDP

Legend: 2013, 2021-23 average

Countries (x-axis): ME, MD, AL, XK, RS, RO, BA, TR, MK, KZ, EE, HR, HU, BY, SK, BG, LV, CZ, UA, PL, RU, LT, SI

Should we be worried about inflation? Cost pressures rising, but large output gaps will limit pass-through

Consumer price index, % change on previous year

Legend: ■ 2020   ■ 2021-23 average

Sources: National sources, wiiw.
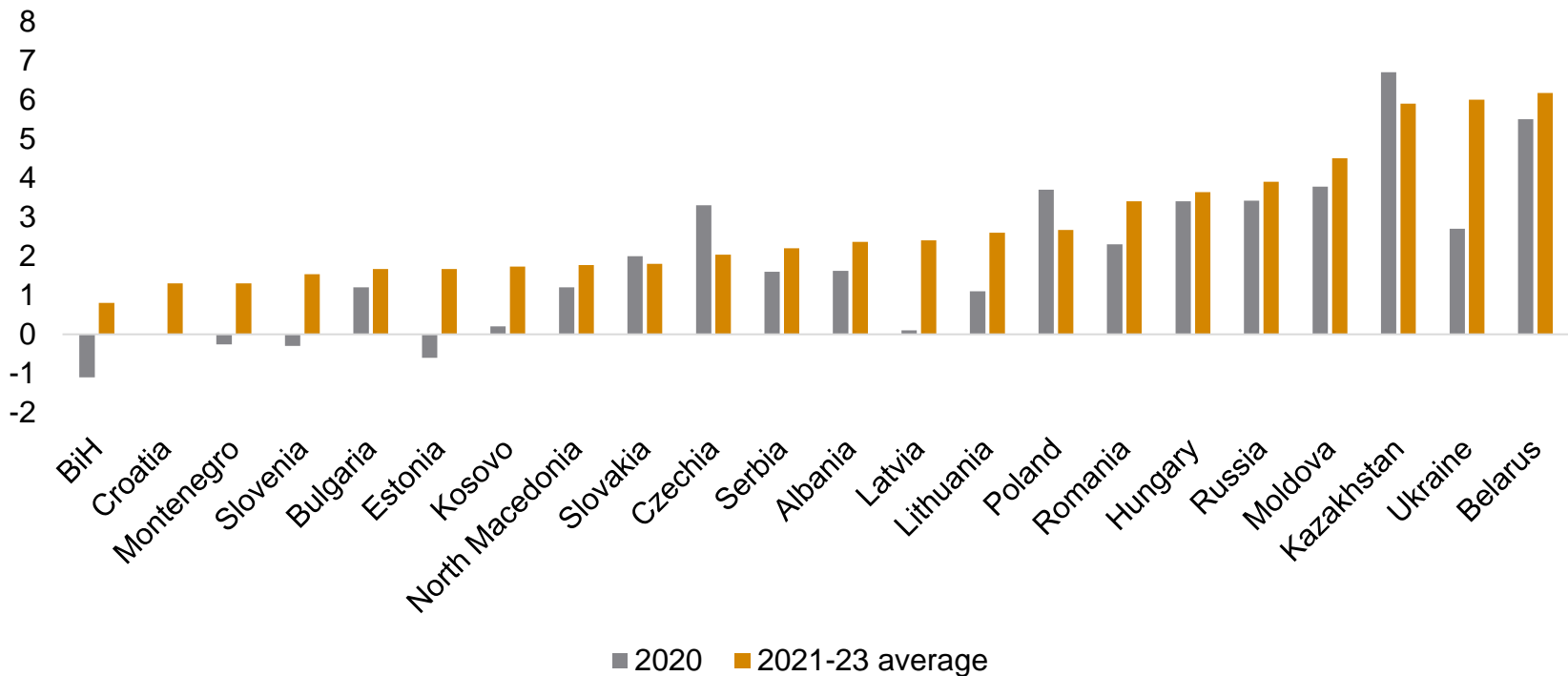
Medium and long-term outlook

Main challenges:

- Serious demographic decline

- Digital and green revolutions - important not to fall behind

- Multi-year institutional regression

- On the faultlines of US-China and West-Russia competition

Opportunities:

- Automation to help tackle labour shortages

- Near-shoring

- Digital revolution changes Europe's economic geography (return migration)

Conclusions: CESEE outlook

- Recovery is here, will be delayed but not stopped by current waves of pandemic: region has already partly adapted.

- Most of CESEE will get back to pre-pandemic GDP this year. But major uncertainty around all forecasts in this climate.

- Key growth drivers: delayed consumption, policy, global recovery.

- Finance: This is not 2008, but watch asset markets.

- The old problems and challenges are all still there: demographics, institutions, geopolitics.

- But also opportunities in the crisis: digitalisation, near-shoring.

Thank you for your attention!

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Extra slides

Impact on institutions: Early signs suggest pandemic "provided cover for abuses of power" (EIU)

EIU Democracy Index