

Revised Medium-Term Economic Prospects for Central, Eastern and Southeast Europe

Recovery – in Low Gear across Tough Terrain: Gear Will be Even Lower and Terrain Tougher

based on the new release of

wiiw Handbook of Statistics 2011

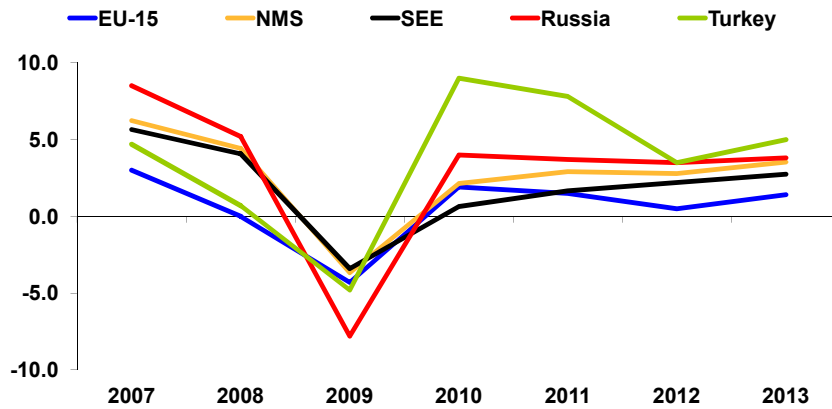
Peter Havlik, 28 November 2011

The main findings

- Recovery 2010-2011: Exports prevailed over domestic austerity
- Domestic demand was slowly recovering (2010-2011)
- Late 2011: sharp downward revisions of growth outlook for 2012
- Elevated risks and uncertainties: contagion from the eurozone, demand contraction and the new credit squeeze

GDP growth will settle at below 2% (EU) and 5% (Russia, Turkey) during 2012-2013

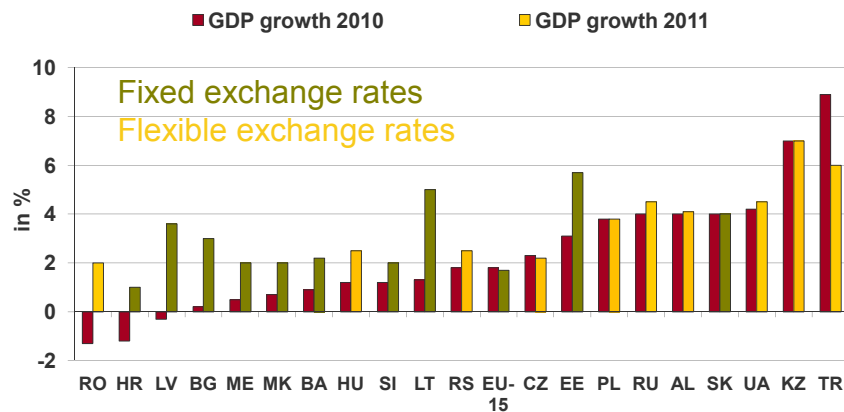
changes against the previous year in %



Source: wiiw (November 2011), Eurostat.

Forecast: wiiw, European Commission (Autumn Forecast, November 2011) for EU-15.

GDP growth 2011: moderate, but throughout the region: also in countries with no growth in 2010



Source: wiiw Database, Eurostat.

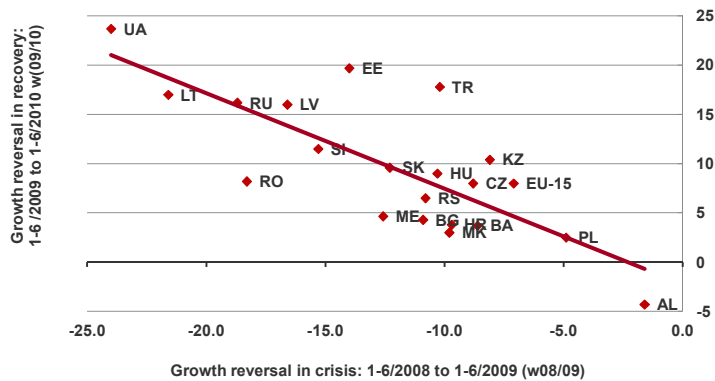
Transmission channels of the (moderate) recovery and key growth challenges

- I. Strong demand for imports from the CESEE region
 - increase of exports in 2011 (growth engine net exports)
 - later on also revival of domestic demand for consumption and investment, and
 - gradual deterioration of trade balances
- II. Credit financing for households, enterprises and the state continues to be difficult
- III. Governments' leeway for economic policy remains tight because of consolidation measures
- IV. Unemployment stays at a relatively high level

GDP growth reversal and the base year effect 1-6/08 to 1-6/09 (crisis) and 1-6/09 to 1-6/10 (recovery)

$$w(09/10) = -0.970 * w(08/09) - 2.249$$

$$R^2 = 0.598$$

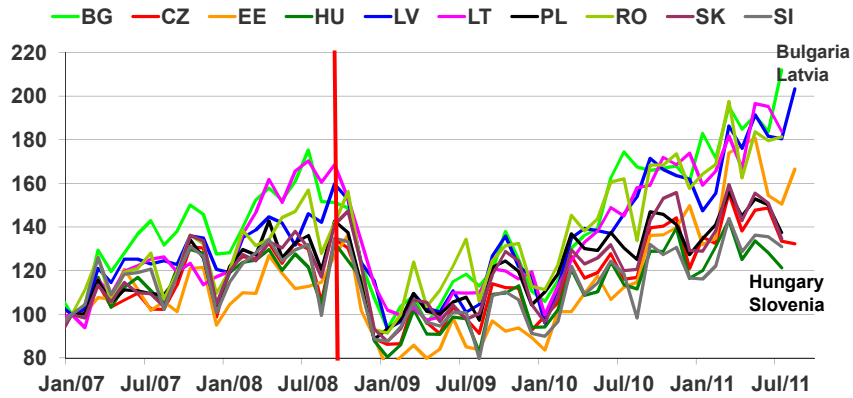


Source: wiiw Database, Eurostat, own calculations.



Exports are in most cases already higher than before the crisis ...

in EUR, January 2007 = 100



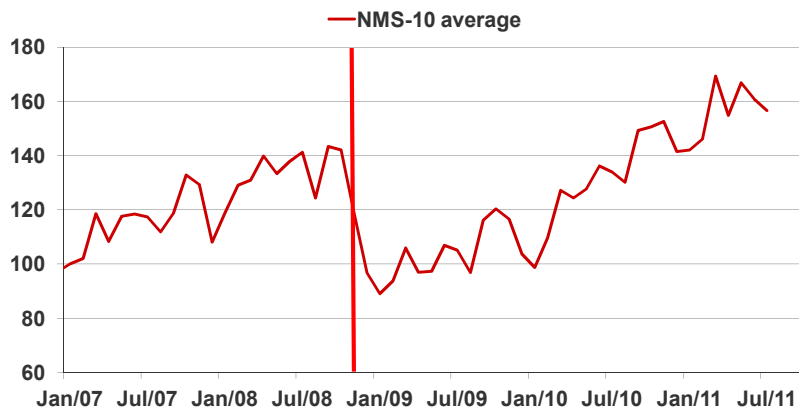
Source: wiiw Monthly Database.

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Exports are already higher than before the crisis ...

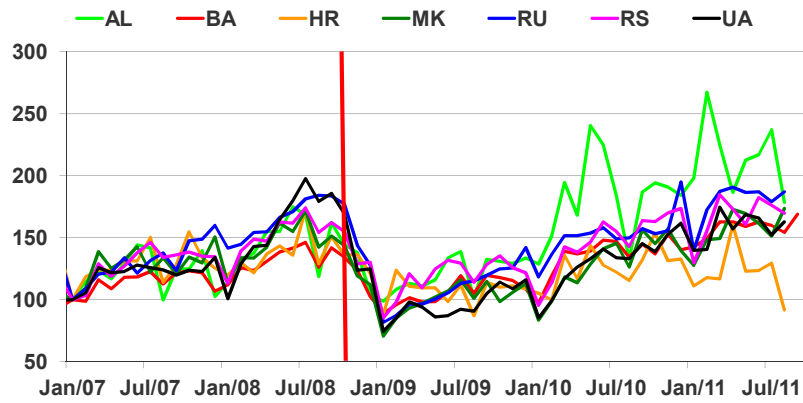
in EUR, January 2007 = 100



Source: wiiw Monthly Database.

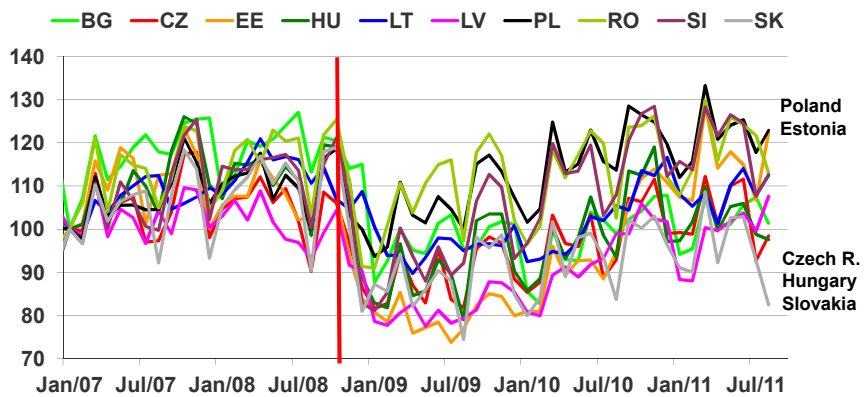
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Exports are recovering faster than before the crisis ...
in EUR, January 2007 = 100



Source: wiiw Monthly Database.

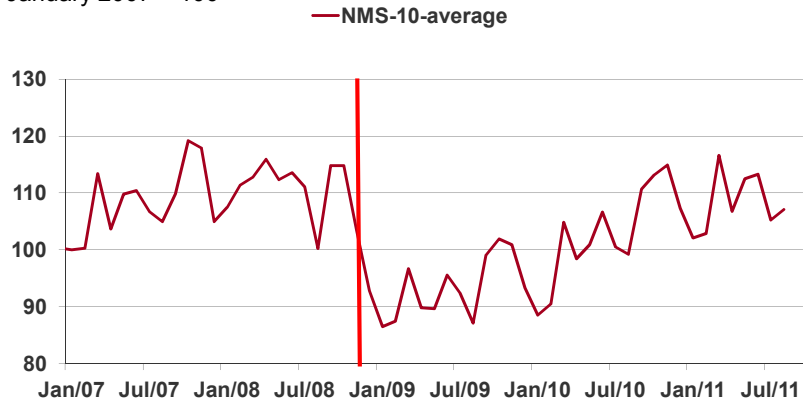
Also industrial production is recovering slowly ...
January 2007 = 100



Source: wiiw Monthly Database.

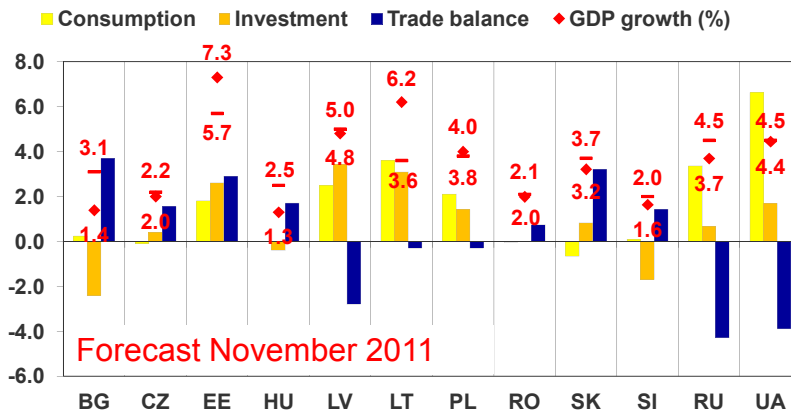
Industrial production is recovering slowly, but not everywhere ...

January 2007 = 100



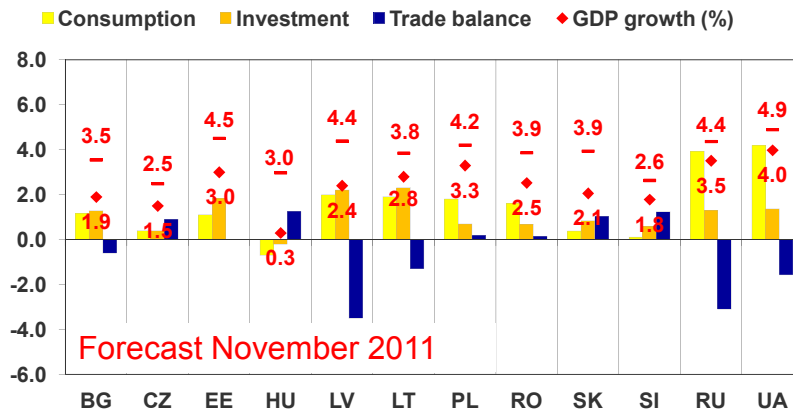
Source: wiiw Monthly Database.

GDP growth 2011 (in %) and the contribution of demand components to GDP growth (in pp)



Source: wiiw Forecast November 2011.

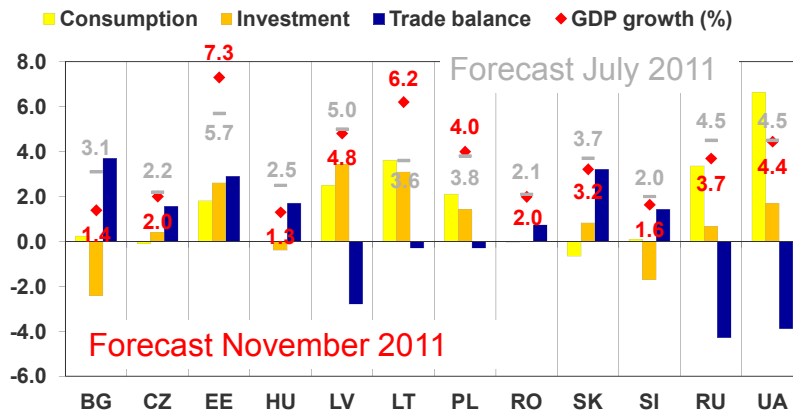
GDP growth 2012 (in %) and the contribution of demand components to GDP growth (in pp)



Source: wiiw Forecast November 2011.

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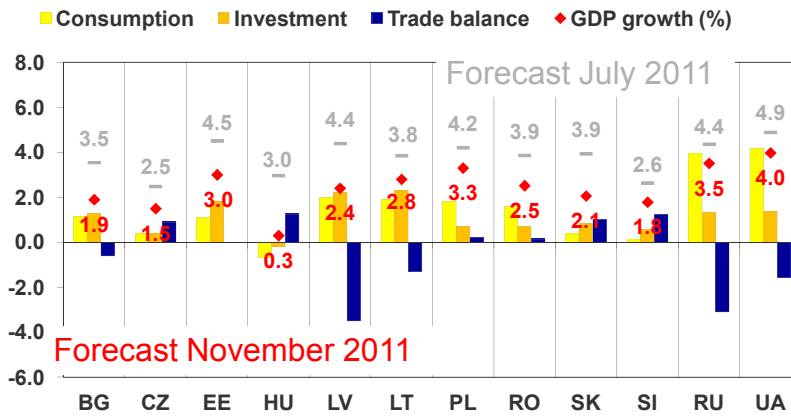
GDP growth 2011 (in %) and the contribution of demand components to GDP growth (in pp)



Source: wiiw Forecast November 2011.

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GDP growth 2012 (in %) and the contribution of demand components to GDP growth (in pp)

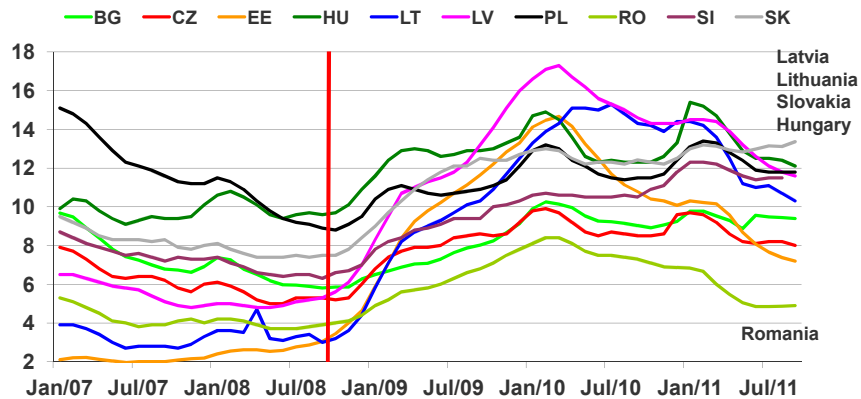


Source: wiiw Forecast November 2011.

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Unemployment declining only slowly and remaining at high level

Unemployment rates, registered, in %

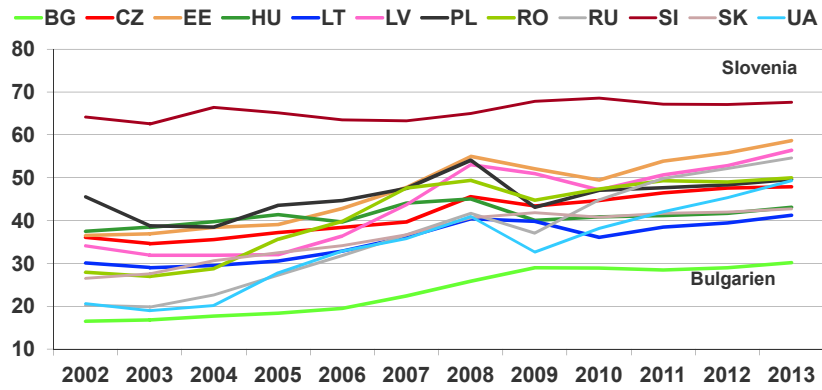


Source: wiiw Monthly Database.

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Development of unit labour costs (GDP level):
decline in 2009 was only temporary

Austria = 100

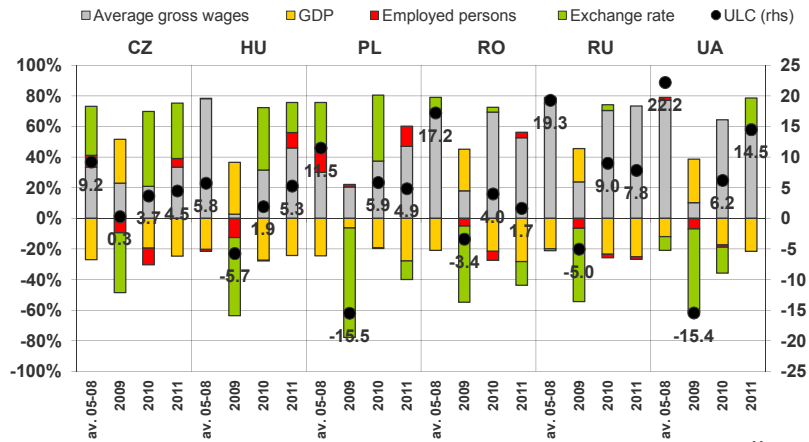


Source: wiiw Database and own estimates.

Development of unit labour costs and their components

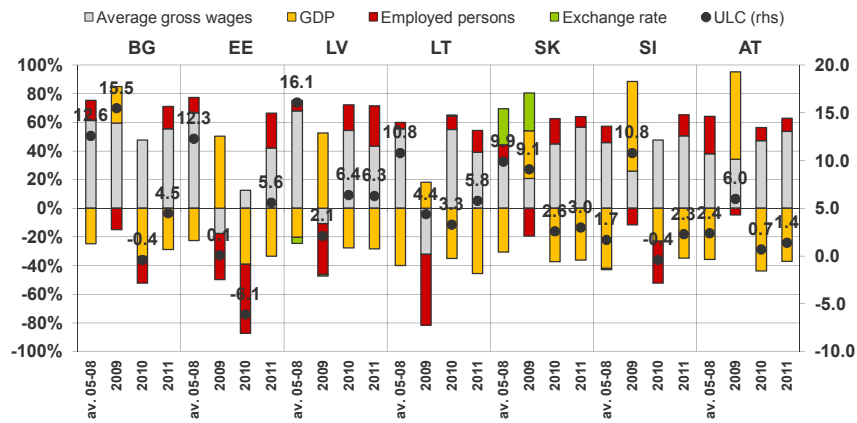
average annual changes against previous year in %, 2005-2011

Countries with 'flexible' exchange rates



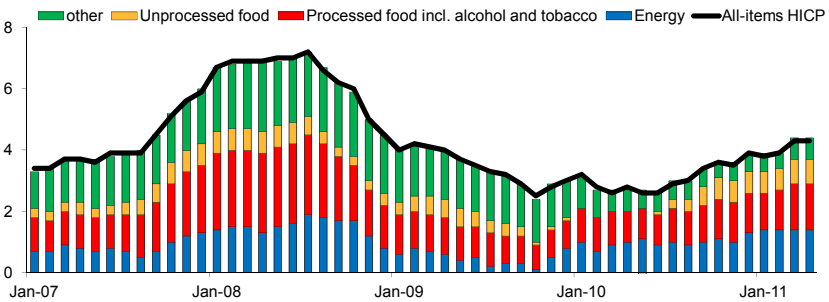
Source: wiiw Database, own estimates and Eurostat.

Development of labour unit costs and of their components
average annual changes against previous year in %, 2005-2011
Countries with 'fixed' exchange rates



Source: wiiw Database, own estimates and Eurostat.

Contributions to inflation in NMS-10
change in % against preceding year



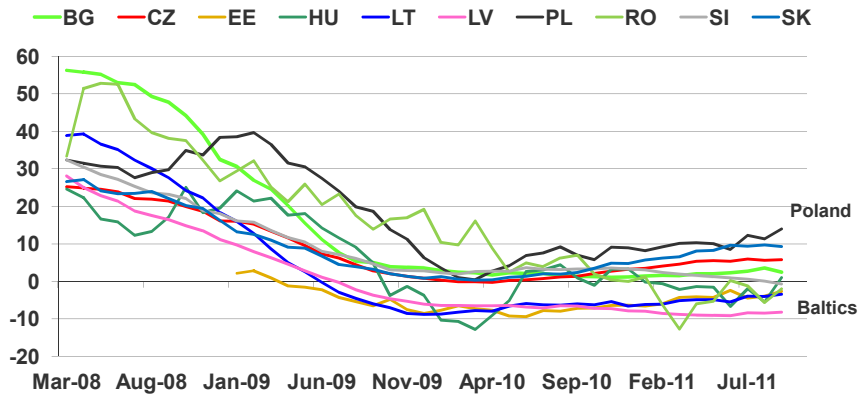
Imported inflation, likely to subside

Risk of Central Banks overreacting → appreciation/capital inflows

Inflation: risk moderate, indirect

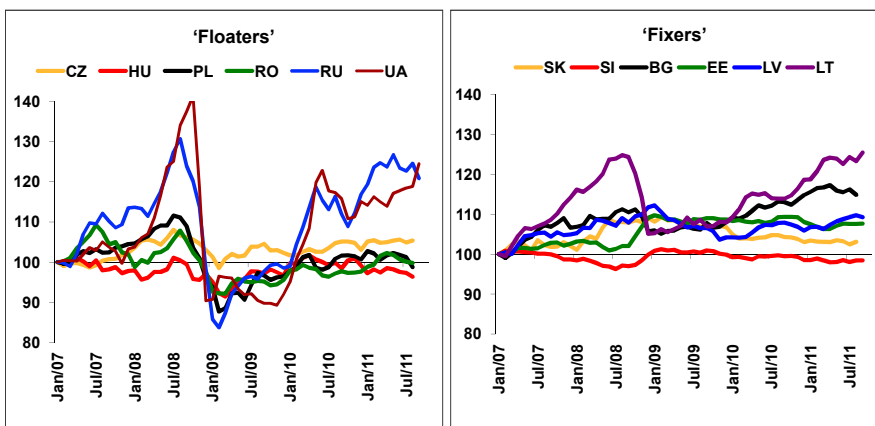
Source: Eurostat statistics, wiiw calculation.

Bank credits to enterprises and households
annual changes in % (nominal)



Source: Nationalbank of respective country.

Real exchange rates*, 2007-2011
EUR per NCU, PPI-deflated, January 2007 = 100



* Values above 100 indicate real appreciation against January 2007.

Source: wiiw Monthly Database.



Main findings (I)

- Global economic outlook deteriorated more than expected in 2011
- Central, East and Southeast Europe is catching up again; all CESEE countries have grown in 2011
- The recession has left deep scars, mainly with respect to the labour market, investment and an increase in indebtedness
- As before, strong heterogeneity within the region:
 - from Croatia with a meagre GDP growth in 2011
 - to the Baltics, Turkey and Kazakhstan with more than 5% GDP growth in 2011

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Main findings (II)

- Private consumption and fixed investment are slowly gaining momentum
- Trade and current account balances are deteriorating again
- Future growth significantly slower than before the crisis
- Labour market situation remains tight, in particular for young and low-skilled labour force segments
- The catching-up process nevertheless continues, after having been interrupted for several years

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Main findings (III)

- Significant and elevated risks may impair future developments:

return of inflation is less likely
 excessive and volatile inflows of capital
 currency appreciations, loss of competitiveness
 scarce and/or more expensive credit financing
 consolidation of state finances, deficit reduction
 weak investment activity (both public and private)
 weakening of the euro area and of the whole EU
 sovereign defaults and the new financial crisis

wiiw Forecast for the New Member States (NMS) GDP growth from 2011 again faster than in the EU-27

	2009	2010	2011	2012	2013
	Forecast				
Bulgaria	-5.5	0.2	1.5	2	2.5
Czech Republic	-4.7	2.7	2.0	1.5	3.3
Estonia	-14.3	2.3	7.3	3	4.5
Hungary	-6.8	1.3	1.3	0.3	2
Latvia	-17.8	-0.3	4.8	2.4	3.5
Lithuania	-14.8	1.4	6.2	2.8	3.8
Poland	1.6	4.0	4.0	3.3	4.2
Romania	-6.6	-1.9	2	2.5	3
Slovakia	-4.8	4.0	3.2	2.1	3.4
Slovenia	-8.0	1.4	1.6	1.8	2
NMS-10	-3.7	2.1	3.0	2.4	3.4
EU-27	-4.3	1.9	1.7	0.7	1.6

Source: wiiw (November 2011),

Eurostat. Forecasts by wiiw and European Commission (Autumn Report, November 2011) for EU.

wiiw forecast for the SEE and CIS region:

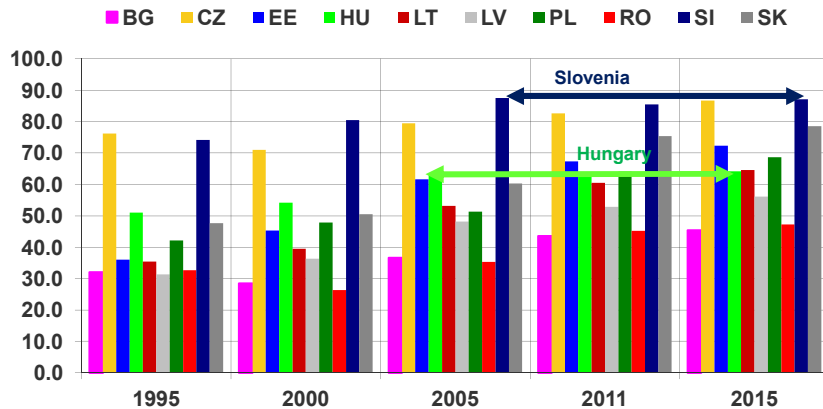
GDP growth, in %

	2009	2010	2011	2012	2013
				Forecast	
Croatia	-6.0	-1.2	0.5	1	2
Macedonia	-0.9	1.8	3	4	4
Montenegro	-5.7	2.5	1	2	3
Turkey	-4.8	9.0	7.8	3.5	5.0
Candidate countries	-4.8	8.1	7.2	3.3	4.8
Albania	3.3	3.6	2.8	3.2	4.0
Bosnia & Herzegovina	-3.0	0.7	2.2	1.4	2.1
Serbia	-3.5	1.0	2	3	3
Potential candidate countries	-2.0	1.4	2.2	2.7	3.0
Kazakhstan	1.2	7.0	7	6	6
Russia	-7.8	4.0	3.7	3.5	3.8
Ukraine	-14.8	4.2	4.5	4	5
NMS-10	-3.7	2.1	3.0	2.4	3.4
EU-27	-4.3	1.9	1.7	0.7	1.6

Source: wiiw (November 2011), Eurostat. Forecasts by wiiw and European Commission (Autumn Report, November 2011) for EU. © wiiw 27

Catching-up process temporarily interrupted

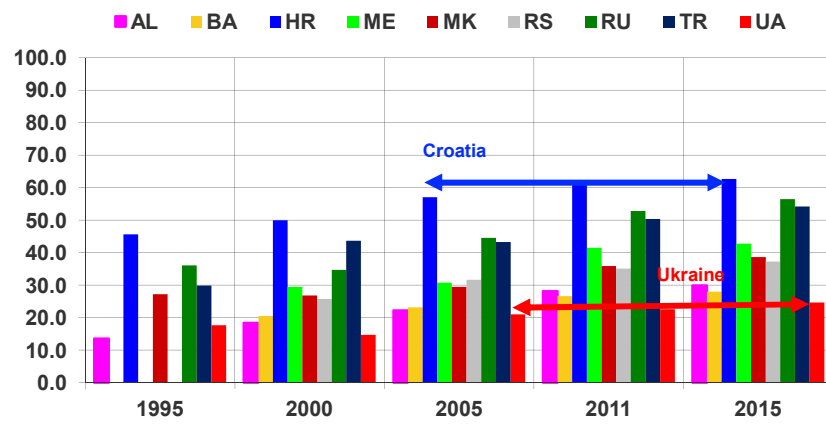
Real GDP per capita, EU-27 average = 100



Note: Projection is based on the assumption of a growth differential of 2 percentage points vis-à-vis the EU-15 after 2014. © wiiw 28

Catching-up process temporarily interrupted

Real GDP per capita, EU-27 average = 100



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