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New wiiw forecast for Central, East and Southeast Europe, 2019-2021

## **Part 1: Eastern Europe standing firm in face of global headwinds**

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- Current trends
- Medium-term outlook
- 30 years fall of the Berlin Wall: taking stock

## Current trends

- The economy in CESEE is cooling down ...
- ... but much less than expected in spring
- This is particularly true for the EU-CEE region
- Western Balkans: Slowdown largely confined to Serbia
- CIS: Different growth performance mainly due to differences in fiscal policies
- Turkey: Economic crisis deeper than previously expected

## Real GDP forecasts and revisions

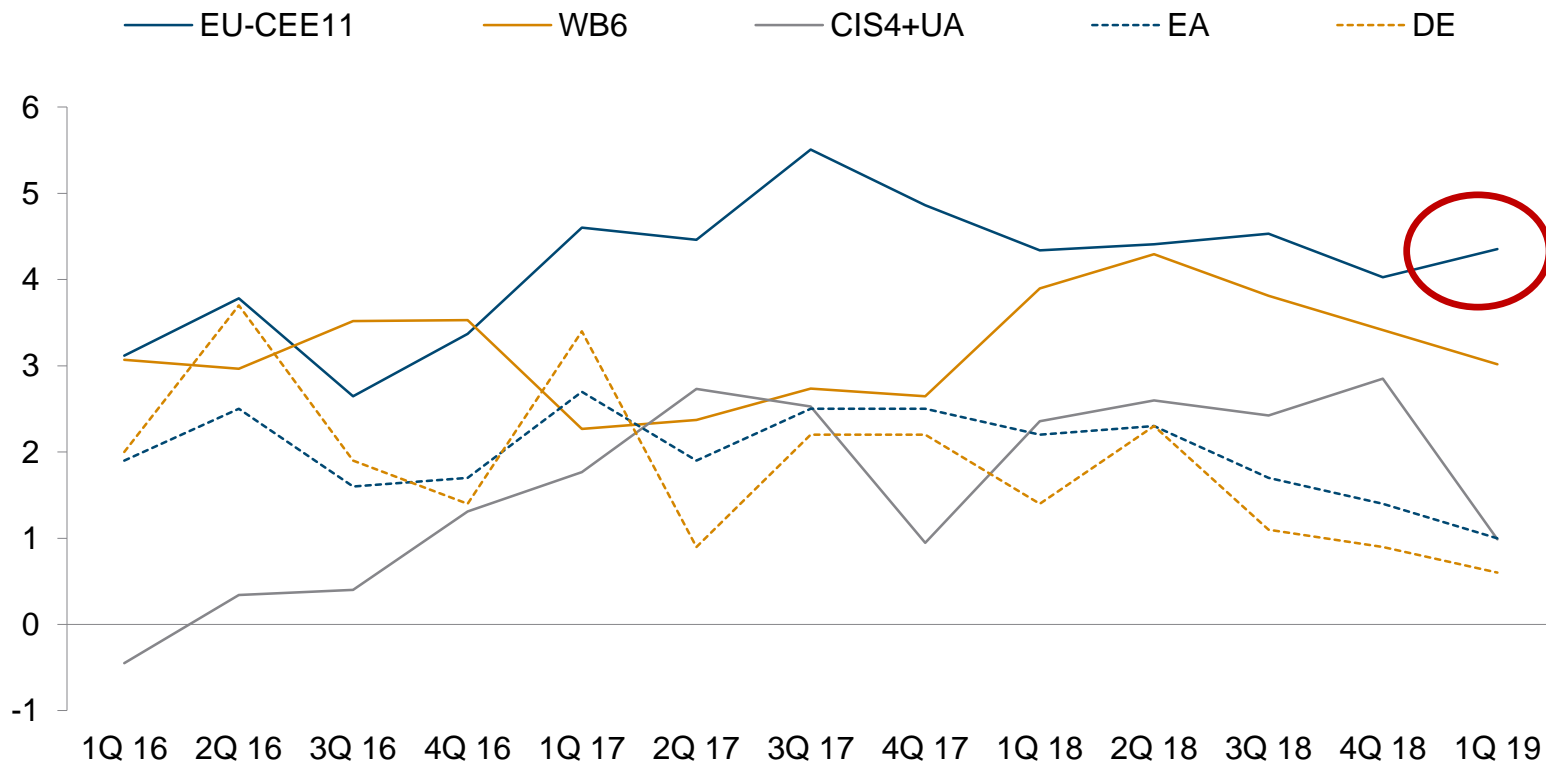
					Revisions, pp		
		2019	2020	2021	2019	2020	2021
EU-CEE11	BG	3.5	3.4	3.1	↑ 0.7	↑ 0.9	↑ 0.6
	CZ	2.5	2.4	2.5	↓ -0.1	↓ -0.3	↓ -0.3
	EE	3.2	2.7	2.4	↑ 0.3	↑ 0.2	↑ 0.2
	HR	2.9	2.7	2.7	↑ 0.3	↑ 0.2	↑ 0.2
	HU	4.1	3.1	2.6	↑ 0.8	↑ 0.8	↑ 0.7
	LT	3.2	2.7	2.4	↑ 0.2	↑ 0.1	↑ 0.1
	LV	3.3	3.1	2.7	↓ -0.2	↑ 0.1	↑ 0.2
	PL	4.6	3.7	3.4	↑ 0.9	↑ 0.4	↑ 0.1
	RO	4.1	3.6	3.3	↑ 1.3	↑ 0.6	↑ 0.1
	SI	3.3	3.1	3.0	↑ 0.1	↑ 0.1	↑ 0.1
	SK	3.6	3.0	2.5	⇒ 0.0	⇒ 0.0	⇒ 0.0
WB6	AL	3.7	3.7	3.5	↓ -0.1	↓ -0.1	↑ 0.1
	BA	2.7	2.8	2.8	↑ 0.2	↑ 0.2	↑ 0.1
	ME	3.1	3.0	2.1	↑ 0.6	↑ 0.8	↑ 0.1
	MK	3.1	3.4	3.4	↑ 0.1	↑ 0.4	↑ 0.4
	RS	2.9	2.7	2.6	↓ -0.5	↓ -0.2	↓ -0.3
	XK	4.1	4.1	4.0	⇒ 0.0	↑ 0.1	↑ 0.1
Turkey	TR	-1.2	2.8	3.1	↓ -0.5	↓ -0.4	↓ -0.6
CIS4+UA	BY	2.3	2.1	2.0	↓ -0.1	↓ -0.1	⇒ 0.0
	KZ	3.6	3.2	3.2	↑ 0.6	↑ 0.2	↑ 0.2
	MD	4.0	3.5	3.4	↑ 0.2	↓ -0.1	↓ -0.1
	RU	1.3	1.7	1.9	↓ -0.5	⇒ 0.0	⇒ 0.0
	UA	2.7	3.0	3.5	↑ 0.2	↑ 1.0	↑ 0.6

Remark: Current forecast and revisions relative to the wiiw Spring Forecast 2019. Colour scale variation from the minimum (red) to the maximum (green).

Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

## EU-CEE growth decouples from downturn in the euro area

Quarterly real GDP growth,  
change in% against preceding year

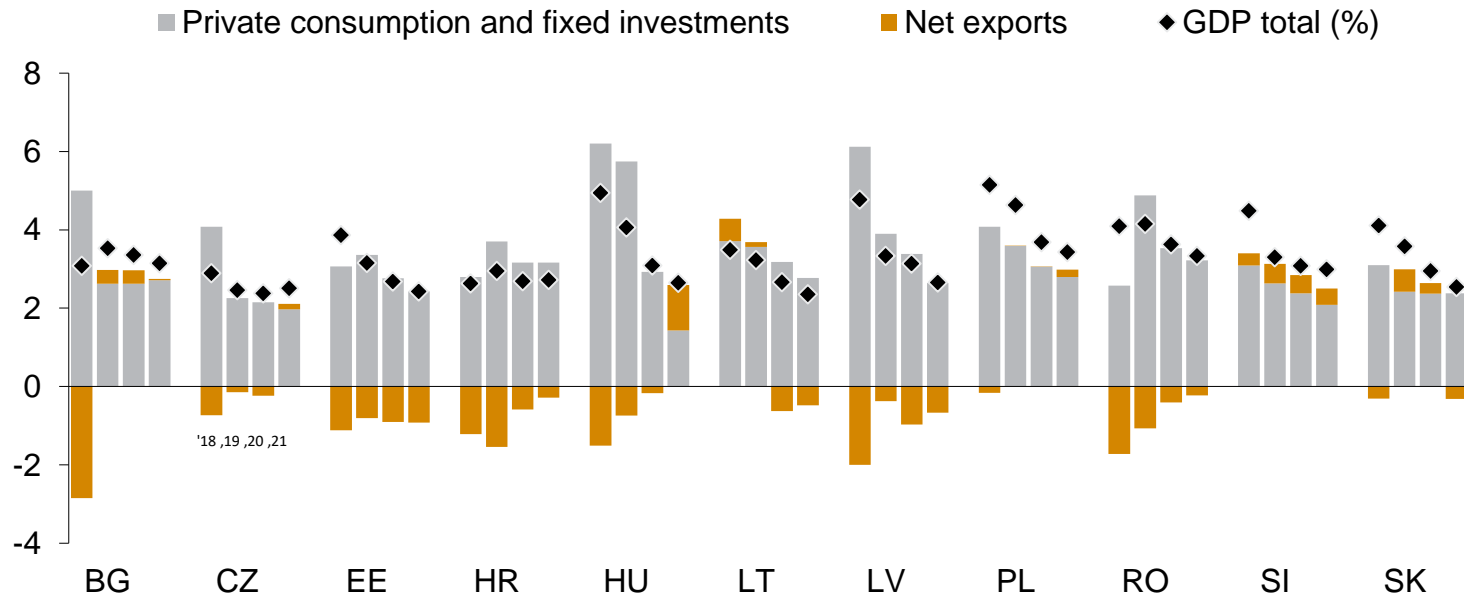


Note: CIS4 excluding MD, WB-6 data for 1Q19 partly estimated.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

## EU-CEE: Improvement in net exports in spite of strong domestic demand

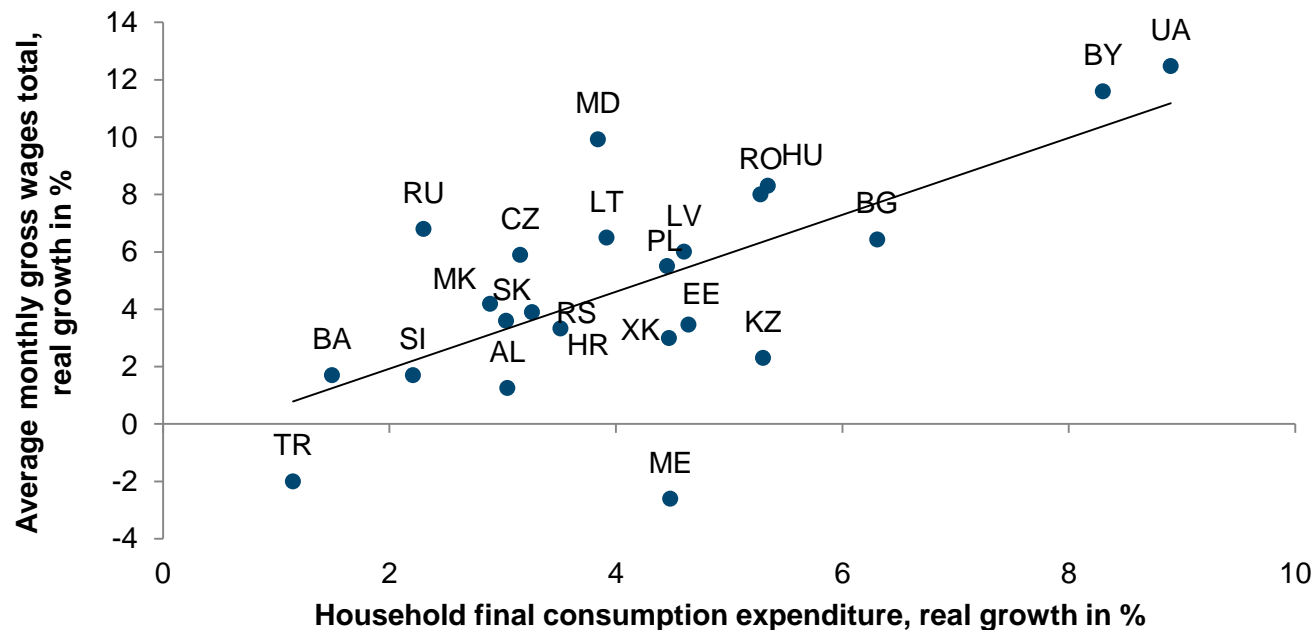
GDP growth in 2018-2021 and contribution of individual demand components in percentage points



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.  
Forecasts by wiiw.

# Consumption continues to be driven primarily by wage growth

Real wage growth vs growth of private consumption, 2018



## Signs of overheating are mounting in some countries

- Mainly in PL, HU, RO and BG
  - Labour shortages – strong wage growth – rising inflation
  - plus: expansionary monetary and fiscal policies
- But: only in RO there is cause for concern
  - overheating has been persisting for a longer period
  - expanding current account deficits
- CZ: counterexample
  - Stability-oriented economic policy at the expense of growth

# Main reason for increasing labour shortages: declining working-age population

Annual average growth rates, 2002-2017

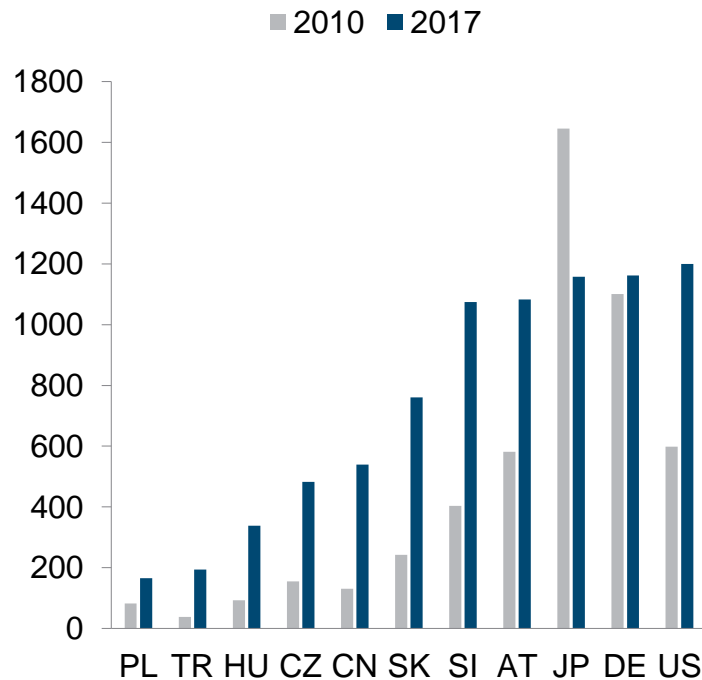




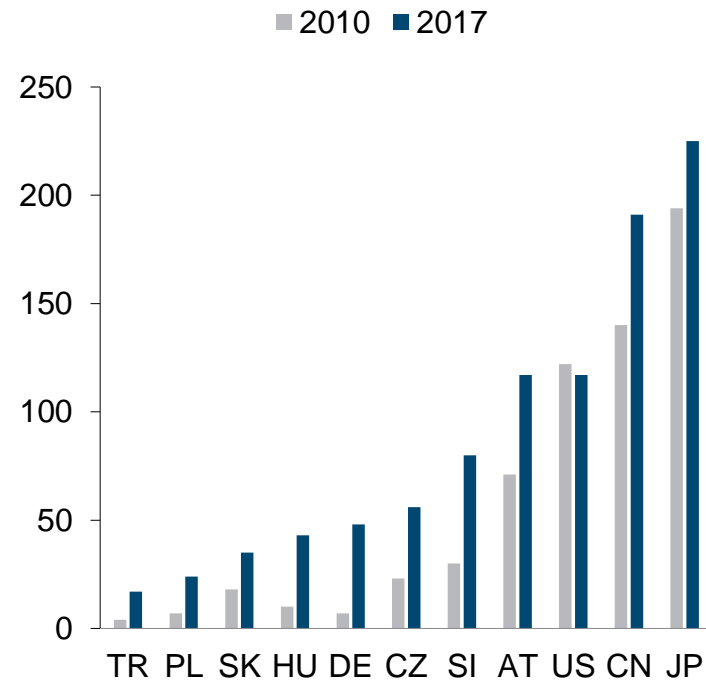
# Labour shortages leading to higher automation

Estimated number of multipurpose industrial robots per 10,000 persons employed

## Automotive industry

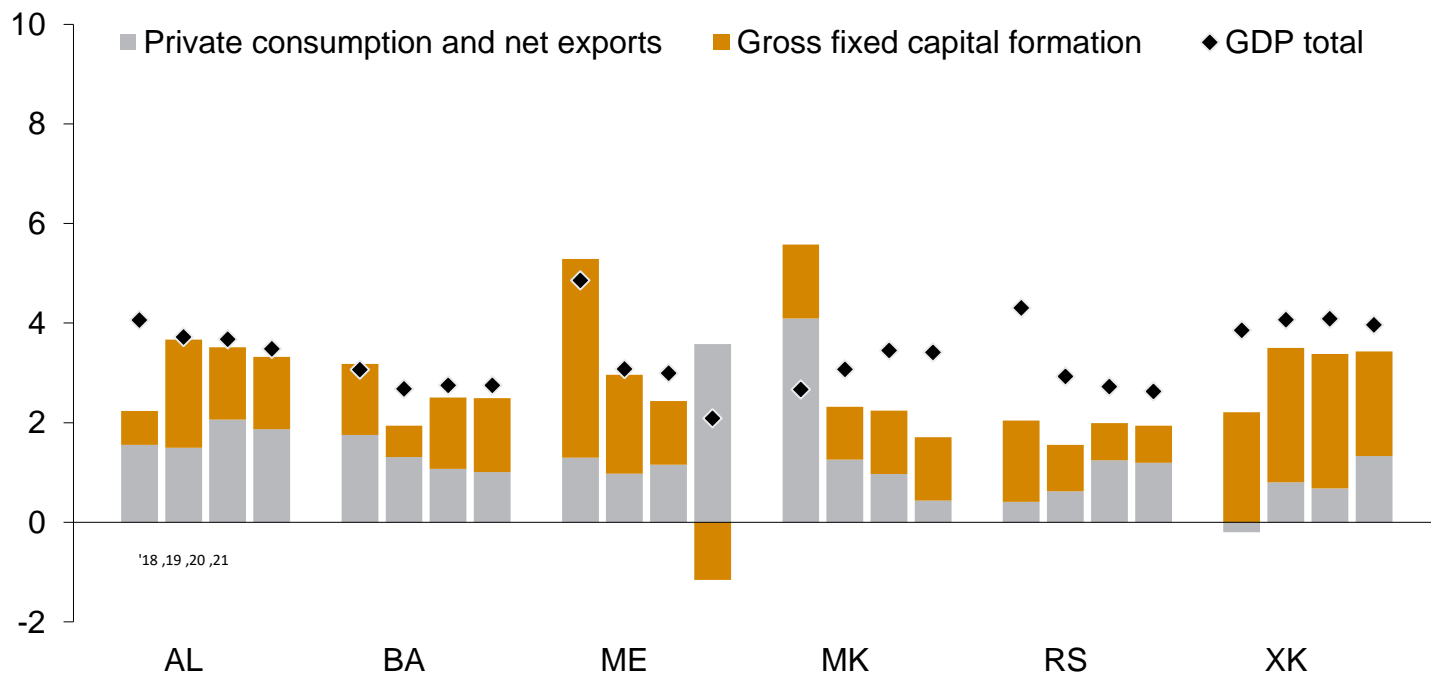


## Other industries



## Western Balkans: Investment a key support to growth

GDP growth in 2018-2021 and contribution of individual demand components in percentage points



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.  
Forecasts by wiiw.

## Medium-term outlook

- EU-CEE: 'soft landing', mainly due to global economic downturn
  - in particular, protectionist risks
  - HU: slump in EU transfers
- Western Balkans: stable growth, rising investment
  - Chinese Belt and Road Initiative
  - but also private FDI inflows
- CIS: only slight acceleration
  - boom of consumer credits might end in a crisis (especially in RU)
- Turkey: crisis should be overcome by 2020
  - but no return to high growth rates

## Real GDP forecasts

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EU-CEE11	BG	3.5	3.4	3.1
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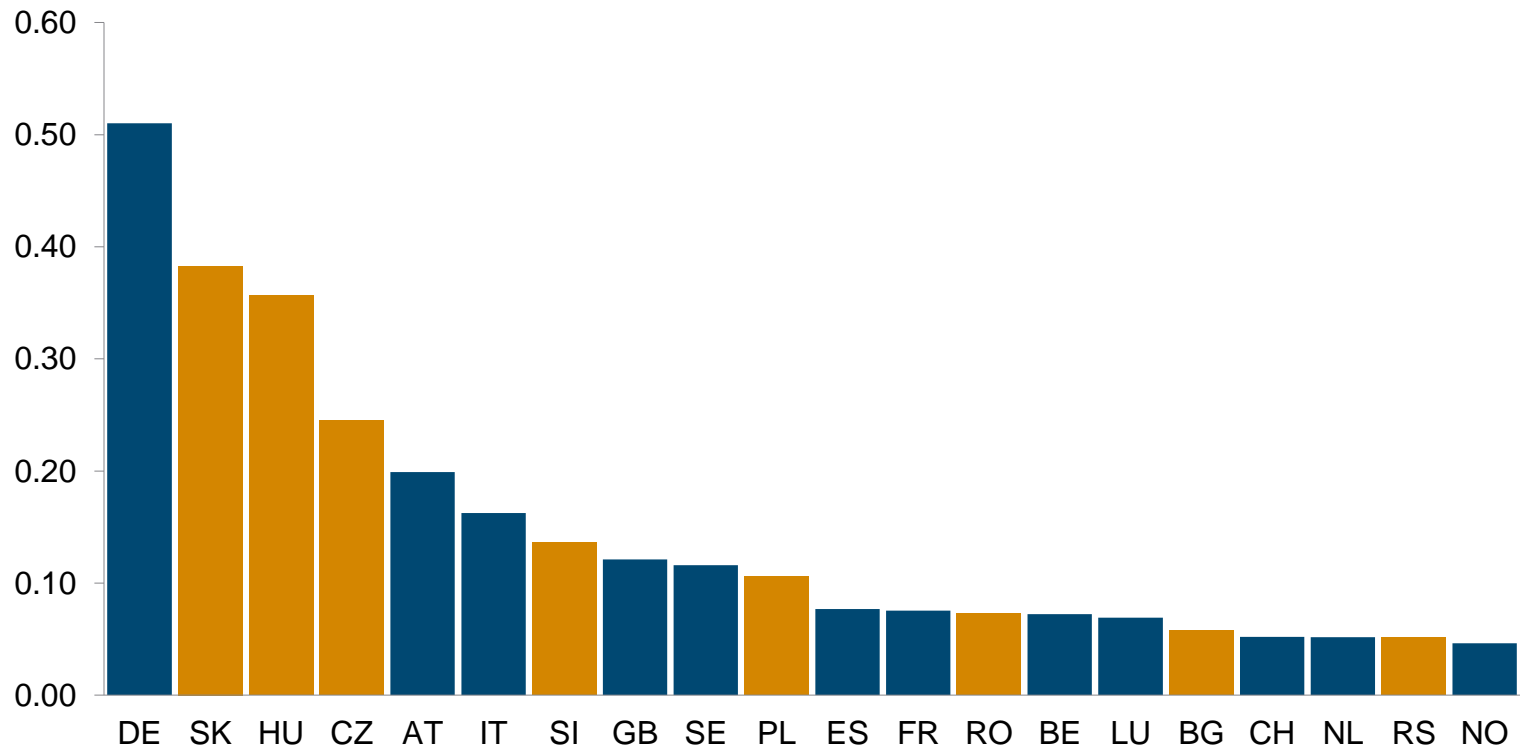
Remark: Current forecast and revisions relative to the wiiw Spring Forecast 2019.

Colour scale variation from the minimum (red) to the maximum (green).

Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

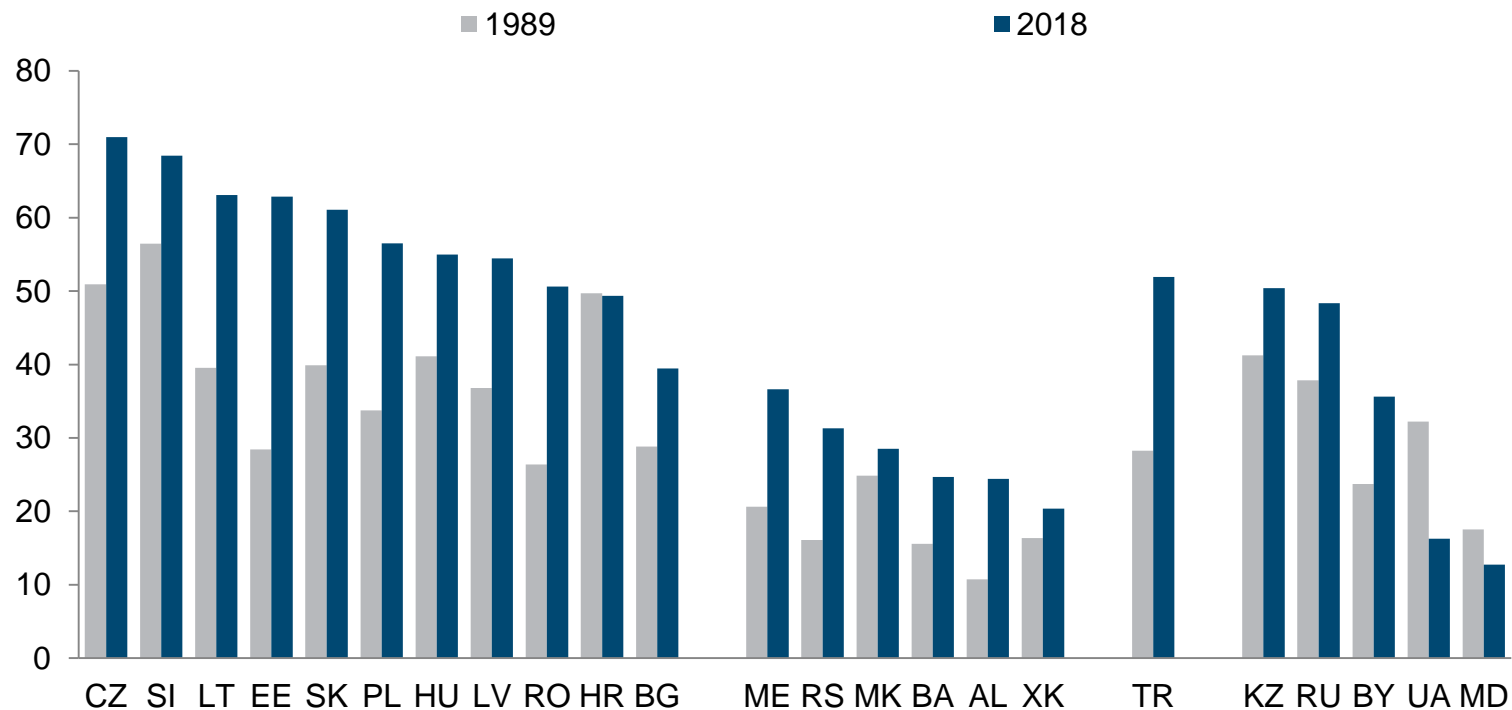
## Potential increase in US import tariffs on cars: Slovakia and Hungary most affected

Value added in US car imports from the EU, in % of gross value added in 2014



## 30 years fall of the Berlin Wall: taking stock

GDP per capita, at PPP, Austria = 100



## **Part 2: Austria and CESEE:**

### **A strong relationship subject to change**

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## Overview

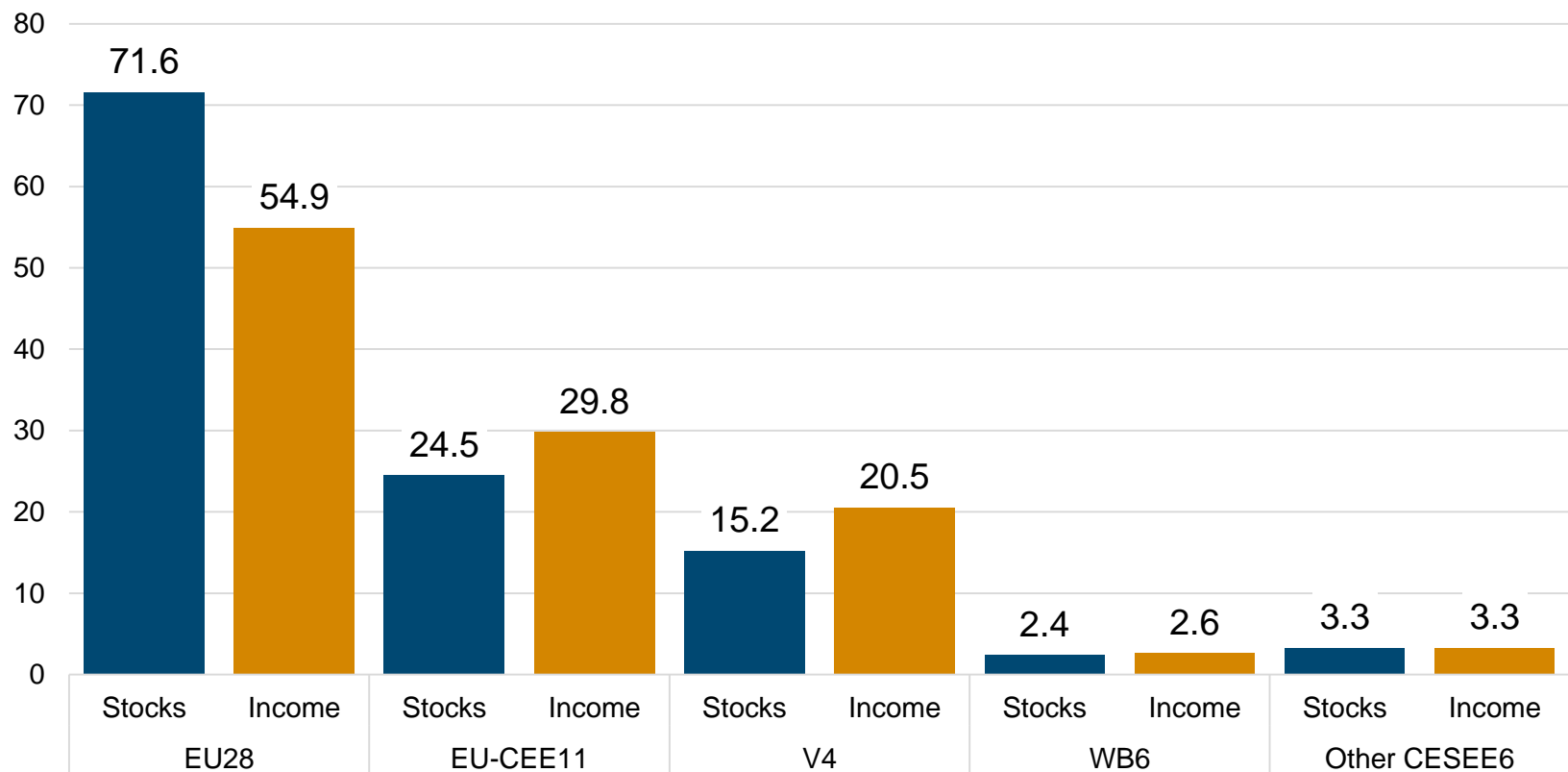
The fall of the Iron Curtain 30 years ago allowed developing a strong economic relationship between Austria and CESEE, which deepened with the EU's Eastern enlargement 15 years ago.

- Did Austria's investments in the region pay off?
- How does Austrian foreign trade with Western Europe differ from trade with Eastern Europe?
- How is Austria affected by the labour shortages in CESEE?
- How has the role of the Visegrád countries changed for Austria?



# Austrian investments in Eastern Europe have paid off

Share of Austrian FDI stock and FDI income in %, 2018



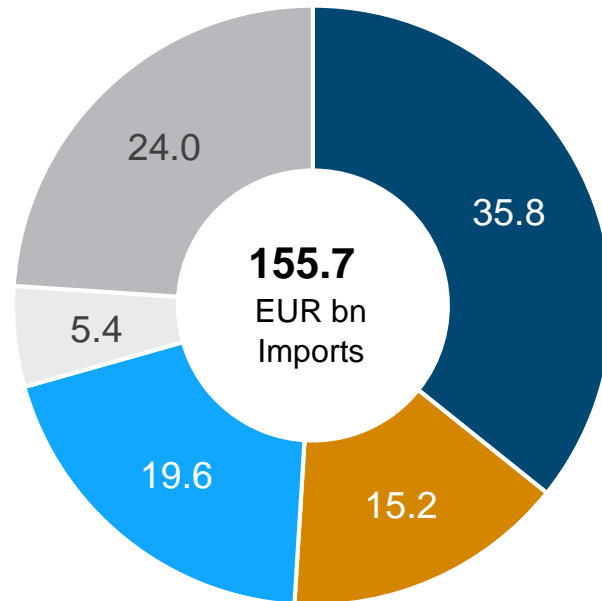
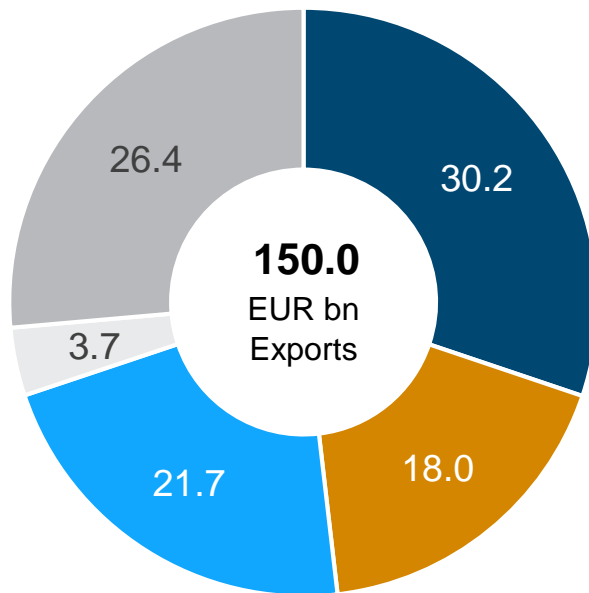
Note: Other CESEE6 = CIS4+UA+TR.

Source: OeNB. See also: Hunya et al. (2019).

# Dwindling goods trade surpluses with Eastern Europe vs consistently high deficits with Western Europe

Austrian trade in goods 2018, share in %

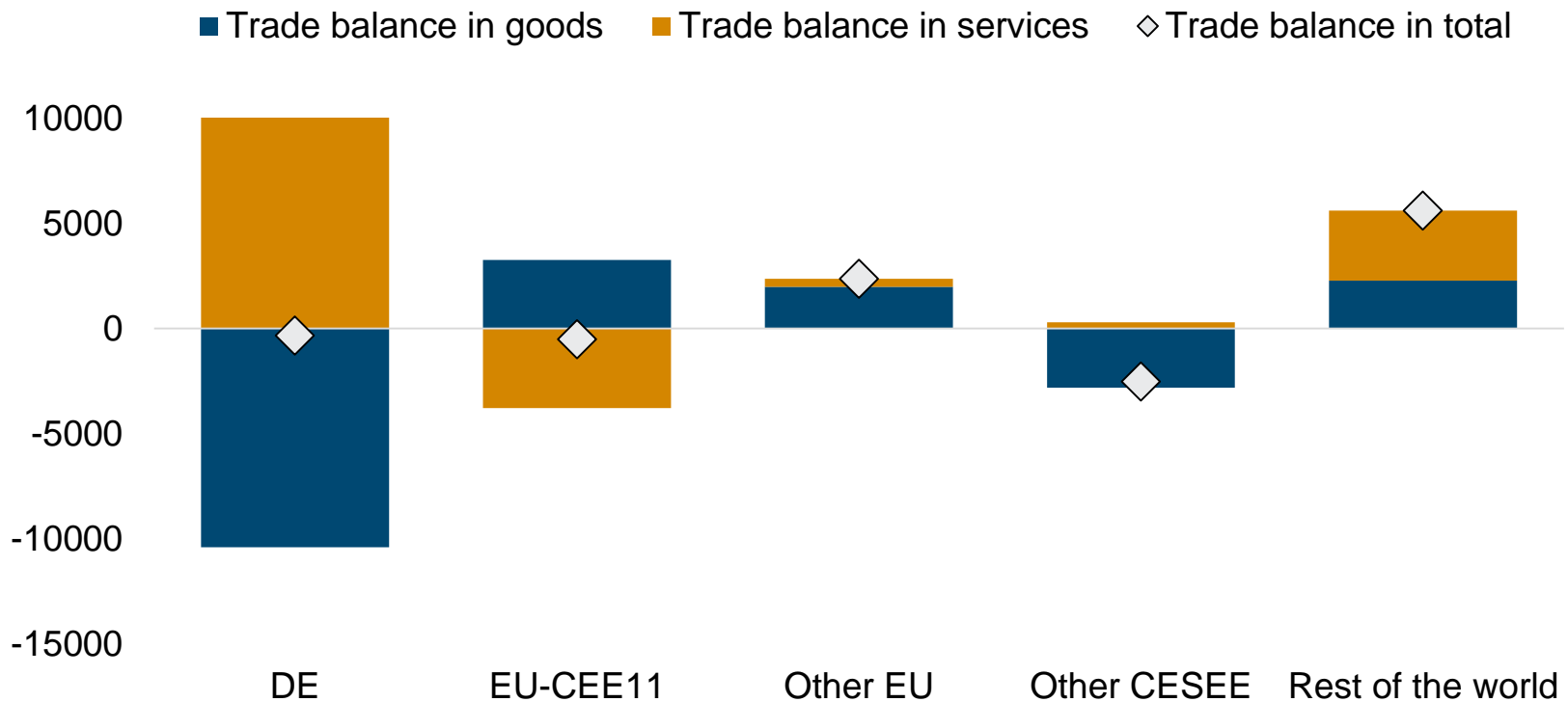
■ DE ■ EU-MOE11 ■ Other EU ■ Other CESEE ■ Rest of the world



Note: Other EU corresponds to EU15 excl. Germany plus Malta and Cyprus.

Source: Statistik Austria.

## Austrian services ensure an overall positive trade balance



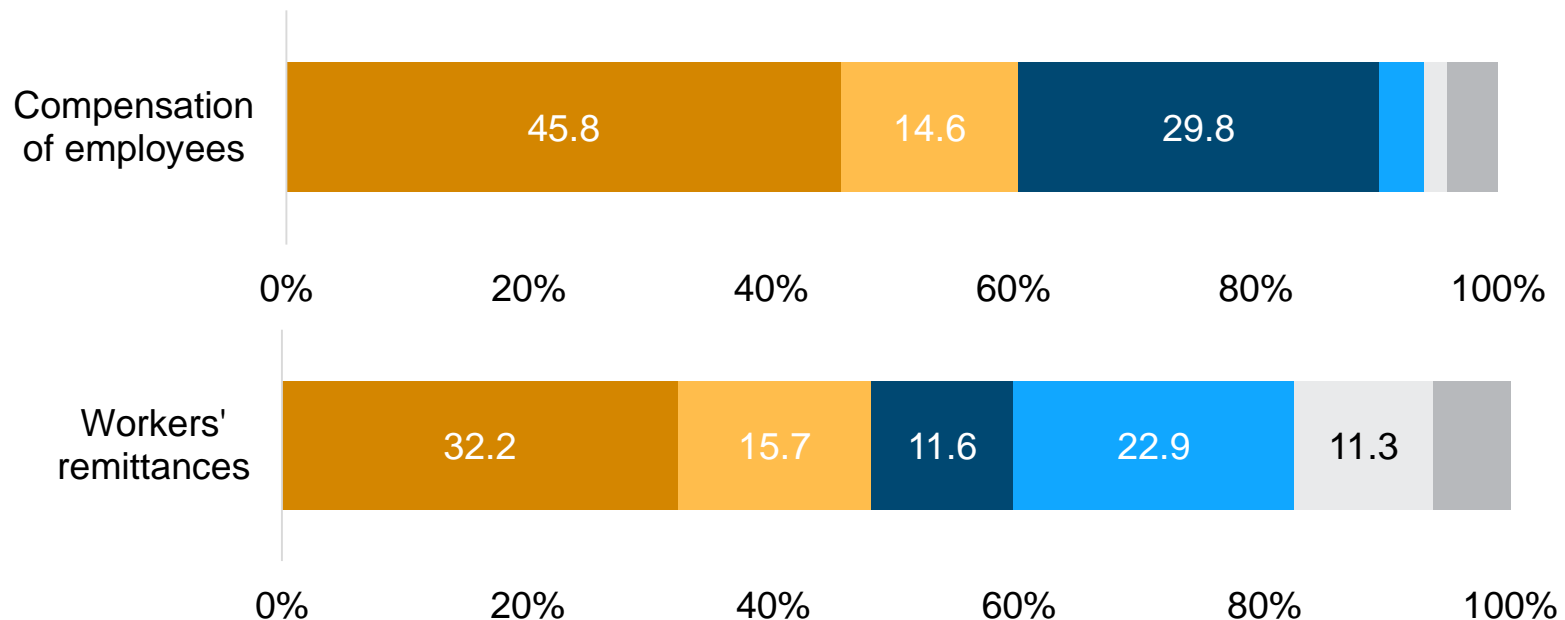
Note: Other EU corresponds to EU15 excl. Germany plus Malta and Cyprus.

Source: Statistik Austria.

# Austria remains an attractive place to work for people from CESEE

## Compensation of employees and workers' remittances, 2018

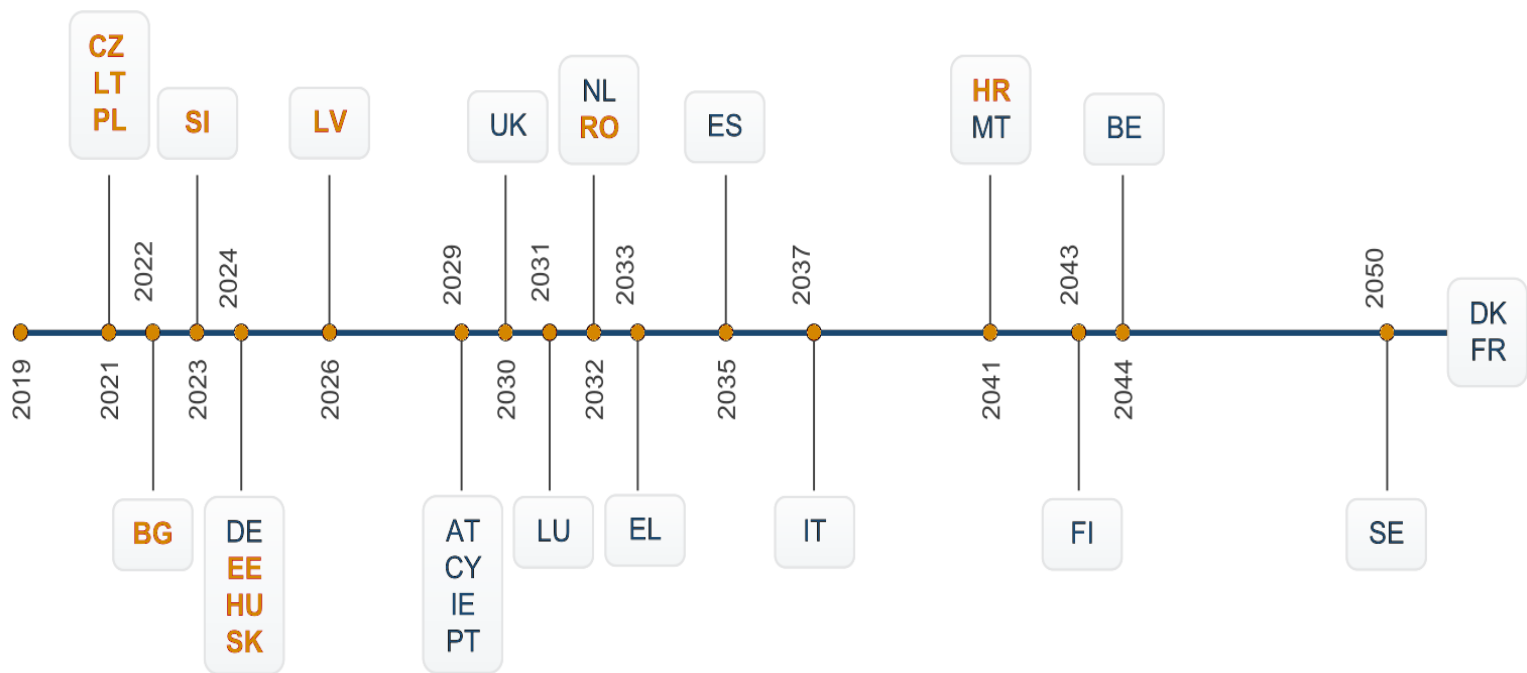
■ V4 ■ Other EU-MOE11 ■ Other EU ■ WB6 ■ Other CESEE ■ Rest of the world



## Labour force shortages in CESEE also affect Austria

even before the 'critical year', when labour demand exceeds labour supply:

(1) through changes in migration patterns and (2) a potential economic slowdown in CESEE



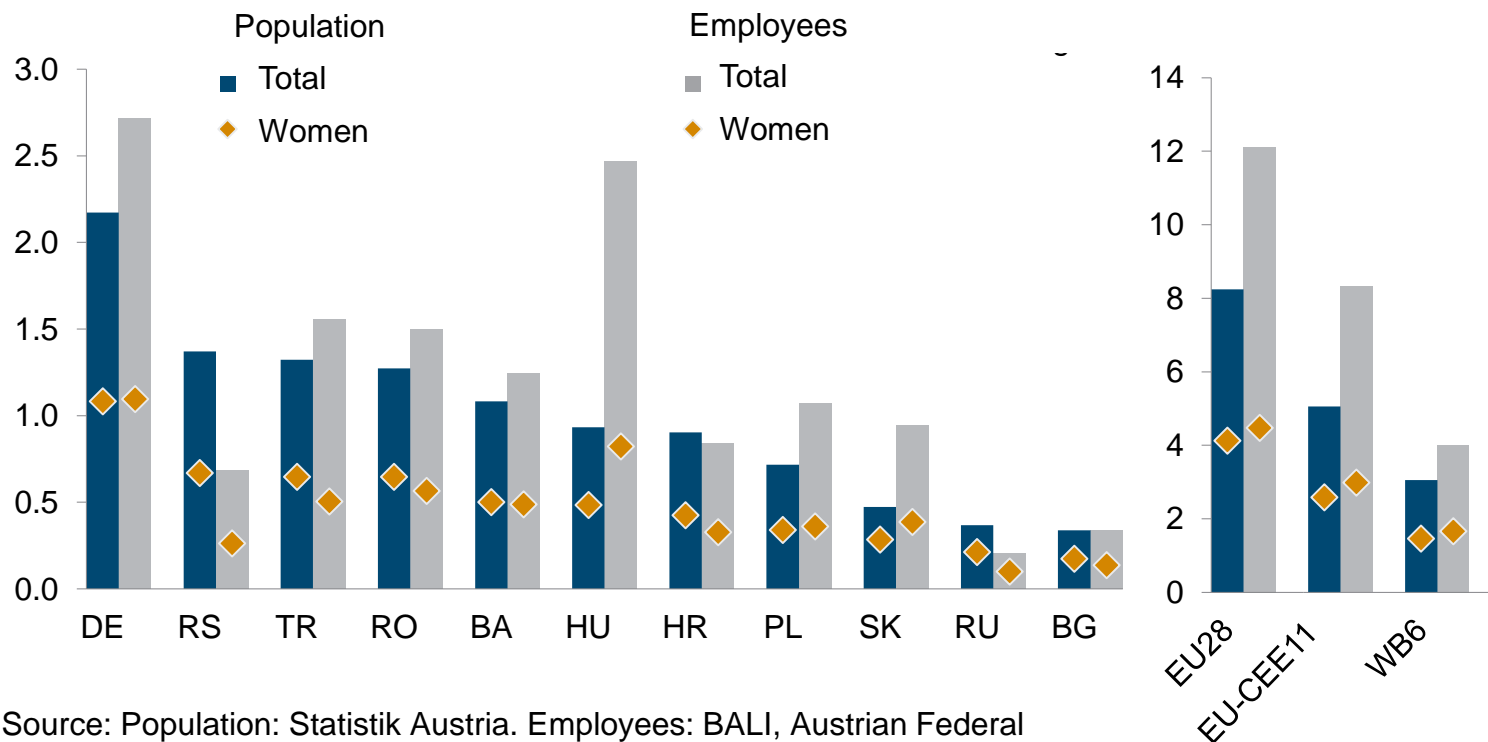
Note: Basic scenario.

Source: Based on Leitner and Stehrer (2019).

# People from EU-CEE make a disproportionately high contribution to the Austrian economy

## Population and employees in Austria by nationality

Germany and top 10 CESEE 2018, shares in % (ranking by population)



Source: Population: Statistik Austria. Employees: BALI, Austrian Federal Ministry for Labour, Social Affairs, Health and Consumer Protection.

## Conclusion (1/2)

### ■ Investments:

- Investments in CESEE play an important role both from the perspective of Austria and of the target countries.
- Austria is one of the top three investors in ten CESEE economies.
- Investments in EU-CEE generated above-average profits for Austria.

### ■ Foreign trade:

- In trade in goods, Austria has a surplus with EU-CEE, but there is a deficit in trade in services.
- Austria's overall positive trade balance results from services exports to countries outside CESEE.

## Conclusion (2/2)

### ■ Migration & Labour Market:

- Austria's attractiveness as a place to work contributes to the labour shortages of its eastern neighbours.
- The share of CESEE in the workforce exceeds the share of the population. They thus contribute disproportionately to the Austrian economy.

### ■ The Visegrád states (V4) are among Austria's most important economic partners:

- >2% of the Austrian population; ~5% of employees
- >10% of the Austrian trade in goods
- >15% of Austrian direct investment abroad
- >20% of income from foreign direct investments
- >40% of the foreign claims of Austrian banks

⇒ Rising political risks in the V4 may also have a negative impact on the Austrian economy



# Thank you for your attention!

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» [Open Data](#)

Appendix of data to the report,  
Excel file, free download

» [Data Visualisation](#)

tool to create customised graphs

## References

- European Parliament (2019), 2019 European elections results, June, <https://www.election-results.eu/>
- Hunya, G., A. Adarov, M. Ghodsi and O. Pindyuk (2019), 'Foreign Investments Mostly Robust Despite Global Downturn; Shift into Services. FDI in Central, East and Southeast Europe', *wiiw FDI Report*, June, Vienna, <https://wiiw.ac.at/p-4947.html>
- Leitner, S.M. and R. Stehrer (2019), 'Demographic Challenges for Labour Supply and Growth', *wiiw Research Report*, No. 439, March, Vienna, <https://wiiw.ac.at/p-4868.html>

## Recommendation

- Székely, I.P. (Hg.) (2019), 'Faces of Convergence', *wiiw e-book*, <https://wiiw.ac.at/p-4908.html>
- wiiw (2016), 'Reality Check: wiiw Economists Reflect on 25 Years of Transition', *wiiw Monthly Report*, January, Vienna, <https://wiiw.ac.at/p-3766.html>

## Country codes

AL	Albania	KZ	Kazakhstan	RS	Serbia
BY	Belarus	LT	Lithuania	RU	Russia
BA	Bosnia and Herzegovina	LV	Latvia	SI	Slovenia
BG	Bulgaria	MD	Moldova	SK	Slovakia
CZ	Czech Republic	ME	Montenegro	TR	Turkey
EE	Estonia	MK	North Macedonia	UA	Ukraine
HR	Croatia	PL	Poland	XK	Kosovo
HU	Hungary	RO	Romania		

CESEE23                      Central, East and Southeast Europe

CIS4+UA                      Commonwealth of Independent States-4 and Ukraine

EA19                              Euro area

EU-CEE11                      European Union – Central and Eastern Europe

WB6                              Western Balkans