OeNB-BOFIT-Prognose für ausgewählte CESEE-Länder: Robustes Wirtschaftswachstum der CESEE-6 tendiert seitwärts; russische Wirtschaft erholt sich nur langsam[3]

*Für die **CESEE-6-Region**[4] erwarten wir für 2018 ein jährliches BIP-Wachstum von 4,0 %, das sich 2019 und 2020 auf 3,6 % bzw. 3,4 % abschwächen wird. Die Verbraucherstimmung bleibt im Allgemeinen aufgehellt; hierzu tragen in erster Linie die günstigen Arbeitsmarkt- und Kreditbedingungen bei. Folglich wird auch weiterhin ein relativ starkes Wachstum des privaten Konsums zu beobachten sein. Das Investitionswachstum wird im Jahr 2018 seinen Höchststand erreichen. Insgesamt profitiert die Investitionstätigkeit von einem hohen Absorptionsgrad von EU-Mitteln, der regen Bautätigkeit sowie dem Bedarf an höheren Produktionskapazitäten. Im Einklang mit unseren Annahmen zum Importwachstum im Euroraum wird sich die Exporttätigkeit der CESEE-6-Länder 2018 abschwächen, bevor sie 2019 und 2020 wieder an Fahrt gewinnt. Die Risiken für die Wachstumsaussichten der CESEE-6-Region sind abwärtsgerichtet und haben sich seit der letzten Prognose erhöht.*

*Für **Russland**[5] wird für 2018 ein BIP-Wachstum von 1,8 % und in den Folgejahren ein Rückgang auf 1,6 % (2019) bzw.1,5 % (2020) erwartet. Diese Entwicklung spiegelt das aufgrund des Ausbleibens tiefgreifender Marktreformen geringe Wachstumspotenzial wider. Das Wachstum der privaten Konsumausgaben wird angesichts höherer Mehrwertsteuersätze und eines schwachen Lohnwachstums verhalten ausfallen. Mit nennenswerten Wachstumsimpulsen durch Investitionstätigkeiten ist nicht zu rechnen. Das Exportwachstum dürfte sich über den Prognosezeitraum beschleunigen. Diese Prognose ist primär mit Abwärtsrisiken behaftet.*

OeNB-BOFIT BIP-Prognose 2018-2020 im Vergleich zur aktuellen IWF/WEO Prognose

Jahreswachstum in %

	Eurostat/ Rosstat	OeNB/BOFIT Oktober 2018			IMF/WEO Oktober 2018			OeNB/BOFIT-IMF/WEO im Vergleich		
		Forecasts								
	2017	2018	2019	2020	2018	2019	2020	2018	2019	2020
CESEE-6	4,9	4,0	3,6	3,4	4,0	3,3	2,9	0,0	0,3	0,5
Bulgarien	3,8	3,6	3,3	3,0	3,6	3,1	2,8	0,0	0,2	0,2
Kroatien	2,9	2,8	2,7	2,7	2,8	2,6	2,4	0,0	0,1	0,3
Tschechien	4,5	3,2	3,1	3,3	3,1	3,0	2,5	0,1	0,1	0,8
Ungarn	4,4	4,3	3,4	2,9	4,0	3,3	2,6	0,3	0,1	0,3
Polen	4,7	4,5	4,1	3,7	4,4	3,5	3,0	0,1	0,6	0,7
Rumänien	6,8	3,8	3,3	3,1	4,0	3,4	3,3	-0,2	-0,1	-0,2
Russland	1,5	1,8	1,6	1,5	1,7	1,8	1,8	0,1	-0,2	-0,3

Anmerkung: saisonbereinigte Daten für 2017.
Quelle: OeNB-Bofit Prognose Oktober 2018, Eurostat, Rosstat, IMF/WEO.

OeNB CESEE-6 forecast: private sector demand sustains economic growth

We predict CESEE-6 GDP growth to reach 4.0% per annum in 2018 and to soften marginally to 3.6% and 3.4% in 2019 and 2020, respectively. Domestic demand continues to be an important

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[4] CESEE-6-Region: Bulgarien, Kroatien, Polen, Rumänien, die Tschechische Republik und Ungarn.

[5] Die von der Bank of Finland herangezogenen Ölpreis-Annahmen entsprechen den Preisen für Terminkontrakte für Brent-Rohöl (Quartalsdaten) mit Stichtag 4. September 2018. Die Prognose geht davon aus, dass der durchschnittliche Rohölpreis 2018 und 2019 bei 75 USD je Barrel liegt und bis 2020 leicht auf 73 USD je Barrel sinkt.

growth driver in 2018 to 2020: favorable labor market conditions support private consumption and EU funding boosts gross fixed capital formation.

Overall, economic confidence continues to be very optimistic but with some moderation

The aggregate consumer confidence indicator for the CESEE-6 countries reached an all-time high in mid-2018 but we observe some slight moderation in August and September 2018 in all CESEE-6 countries with the exception of Romania. Likewise, business confidence has slackened somewhat since the beginning of 2018.

Record low unemployment rates…

Unemployment rates (according to the EU Labor Force methodology) declined further to an unweighted average of 4.5% in August 2018 (August 2017: 5.6%). Croatia reports the strongest decline to 8.5%, but from an elevated level of 10.9%. Posting an unemployment rate of 2.5%, the Czech Republic continues to report the lowest unemployment rate in the EU.

… and high levels of capital utilization

In line with labor market developments, capacity utilization rates in the manufacturing sector are at high levels. In the Czech Republic and in Hungary, utilization rates surpassed the EU-28 average of 84% in the third quarter of 2018. Additionally, in all CESEE-6 countries capacity utilization rates have increased compared to the same period of 2017, most strongly in Croatia (by 5 percentage points). In combination with the overall tight labor market conditions, we see large investment potential – especially in the field of industrial automation – in the CESEE-6 countries over the coming years.

Monetary conditions continue to be accommodative

Overall, monetary conditions continue to be accommodative in the CESEE-6 countries. However, in the Czech Republic, some monetary tightening took place in light of stronger-than-expected inflationary pressure. For other CESEE-6 countries, we do not expect any decisive monetary tightening actions before mid or toward the end of 2019. Against the background of prevailing monetary conditions in the CESEE-6 and the overall positive economic expectations of consumers and investors, we assume credit growth to remain strong over the projection horizon. Particularly in Bulgaria, the Czech Republic and Romania the growth of credit to households stands at elevated levels, which is driving up private consumption. In Hungary, by contrast, credit to the corporate sector has been growing more dynamically than credit to the household sector.

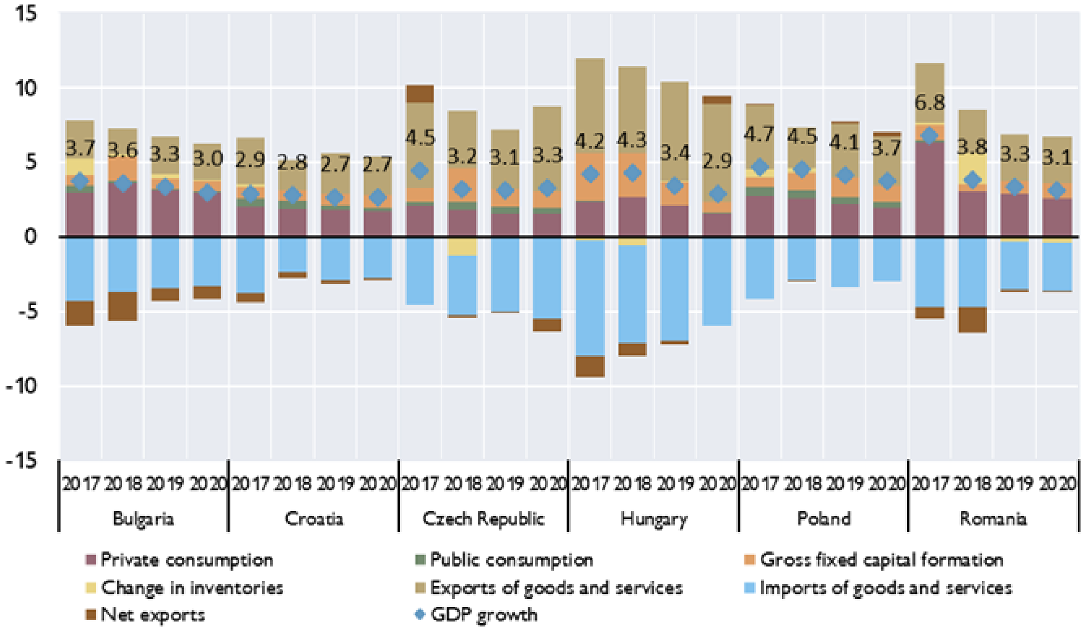
Some countries in need for fiscal consolidation

Turning to fiscal policy, the picture is rather mixed across the CESEE-6 countries. Romania as well as Hungary need to consolidate their public finances, as they are both subject to Significant Deviation Procedures[6] initiated by the European Commission. For the Czech Republic, we expect a rather expansionary fiscal stance in 2018 and 2019. For Bulgaria, Croatia and Poland, we assume a neutral or a somewhat expansionary fiscal stance over the projection horizon.

[6] The Significant Deviation Procedure aims to give Member States the opportunity to correct a deviation from their medium-term objective (MTO) or the adjustment path towards their MTO in order to avoid the opening of an Excessive Deficit Procedure.

GDP and GDP components
(realized data for 2017, projections for 2018 to 2020)

in percentage points, year on year GDP growth in %



Source: Eurostat, OeNB.

Private consumption growth will remain strong

In this environment, private consumption in the CESEE-6 will remain strong over the projection horizon. Labor market conditions are favorable and real wages continue to grow strongly. Furthermore, robust lending to households supports private consumption. However, several factors are expected to curtail private consumption growth: Given the need for fiscal tightening in Hungary and in Romania, there seems to be no room for further significant increases of public spending for households. Furthermore, in some CESEE-6 countries higher inflation has started to lower real disposable income, leading to a moderation in consumption growth.

Public consumption growth has been rather mixed in 2018 so far. After a period of generous public spending, Hungary and Romania have cut public consumption in order to comply with EU requirements. Therefore, we expect negative growth of public consumption in 2018 and 2019 and for Romania also in 2020. In Bulgaria, public consumption growth will also moderate over the projection horizon. By contrast, in the Czech Republic and Poland, public consumption growth will expand more strongly in 2018 compared to 2017, partly due to a higher public wage bill.

Investment growth will peak in 2018

Investment activity in Bulgaria, the Czech Republic and Poland will pick up strongly in 2018 compared to the previous year. In Hungary, gross fixed capital formation will moderate slightly but will continue to expand strongly by more than 13% in 2018. The main driving factors are the strong use of EU funds (in particular in Hungary, where EU funds have been strongly frontloaded in 2018), growing investment activity – partly due to capacity limits – as well as very dynamic growth impulses from the construction sector. For Romania, we see some deceleration of gross fixed capital formation because of some cooling down in certain sectors (e.g. housing construction). In Croatia, difficulties in some large companies that are important for the economy impair investment growth.

Weakening of export activity in 2018, revival in 2019 and 2020

In the CESEE-6 countries, exports will grow in line with the euro area import demand. Therefore, we expect export growth to weaken in 2018 compared to 2017 and to gain some momentum thereafter. Apart from stronger external demand, new export production facilities – notably in the Czech Republic and Hungary – will support export dynamics. In parallel with decelerating consumption and export growth, import growth will moderate slightly in 2018. In 2019, we expect import growth to strengthen somewhat in most CESEE-6 countries. In all CESEE-6 countries, the contribution of net export to GDP growth will turn out to be negative in 2018, in particular in Romania (-1.7 percentage points). Going forward, the negative contribution of net exports will fade in Poland (already in 2019); the Czech Republic and Hungary (both in 2020) will register a slightly positive contribution of the external sector to GDP growth.

CESEE-6: mounting risks cloud the CESEE-6 outlook

A wide range of downside risks und mounting uncertainties cloud the still favorable outlook for the CESEE-6 countries. In our view, the most acute risks emanate from trade tensions between the largest countries of the world, unclear modalities of Brexit, and geopolitical tensions including further political sanctions against specific countries. Adverse developments in these areas would impact strongly on sentiment and thus cloud the overall positive outlook for economic growth over our projection horizon. Further risk relates to recent financial tensions in some emerging markets, in particular in Turkey, even though the CESEE-6 countries have been more or less cushioned from these adverse developments so far. Some general risks also emanate from adverse developments in the euro area, in particular with regard to the potential reemergence of redenomination risk.

Domestic political developments remain a source of internal risks in some CESEE countries. Tensions with the EU on compliance with EU laws resulted in disciplinary actions against Poland and more recently also against Hungary which could impinge in particular on the overall confidence of (foreign) investors. Further domestic risks originate from CESEE-6 labor markets, which are increasingly characterized by labor shortages in certain sectors amid strongly rising unit labor costs (ULC).

We see only a few risks on the upside. The most important one would be a higher-than-foreseen absorption rate of EU funds in some CESEE-6 countries. There is still room for further improvements – mostly in the field of administrative efficiency – which could boost investment growth above expectations in some CESEE-6 countries. We also consider as an upside risk the chance that a sustainable solution of the trade conflicts will be reached. This would certainly increase export confidence and – in the end – global trade. Furthermore, in case of stronger-than-expected growth in the euro area, our growth expectation would be beaten on the upside.

Stagnant reforms and sanctions dampen economic prospects for Russia

Economic recovery continues in 2018 at a pace similar to that seen in 2017, scoring 1.7% in the first half in annual terms. Meanwhile, the oil price has risen strongly while Russia's fiscal and monetary stance as well as sanctions have continued to partly moderate the effect on GDP growth.

Unlike in 2017, however, the floating ruble exchange rate did not appreciate but instead weakened in spring 2018 due to new U.S. sanctions. The federal budget rule kept on limiting part of the expenditures due to the fixed low oil price benchmark[7], while non-oil budget revenues allowed consolidated government budget spending to increase quite briskly against the backdrop of improved revenue collection and planned public sector wage hikes. Private consumption and fixed investments recovered at a moderate pace, whereas the real volume growth of exports accelerated. The recovery of imports slowed down significantly in the spring as the ruble weakened.

The oil price assumption has been raised considerably since our last forecast, to around USD 75 per barrel for 2018 and 2019, to be followed by a slight decline to about USD 73 per barrel in 2020. Even so, we have maintained the GDP growth forecast at 1.8% for 2018 and 1.6% for both 2019 and 2020. The pace reflects the growth potential of the Russian economy, which is low as there are no significant market-friendly reforms in sight.

For 2018, increases in government expenditures and the export volume will support the economy, but private consumption and fixed investments will pick up only marginally. The VAT rate will rise at the beginning of 2019 (from 18% to 20%), which will increase inflation and dampen private consumption growth. Relatively slow growth of public sector wages and pensions in 2019 and 2020 will not lead to higher private consumption growth over the projection horizon. The rather low growth of productivity should contain the rise of corporate sector wages while employment will increase only modestly, even if the gradual rise of the statutory retirement age from the beginning of 2019 onward is taken into account. Borrowing by households will likely give limited support to private consumption due to uncertainties and CBR measures to constrain the growth of consumer lending.

Government expenditures will be supported by additional spending that arises from the need to implement tasks given to the government by President Putin's inaugural decree of 7 May 2018. This marks the start of a relaxation of the budget rule as regards the deficit limit. The decree has also induced the government to guide investments of large companies to so-called new national projects under the decree. However, the national projects will start to materialize only later in 2019 and it remains uncertain to what degree this will step up the companies' total investments. At the same time, uncertainty surrounding investments of the corporate sector has risen due to increased government interference and the introduction and threats of new sanctions by the U.S.A. Furthermore, the inflation outlook is not conducive to monetary policy easing.

Russia's export volume should continue growing reasonably well, largely thanks to non-energy commodities supported by the rather weak ruble. As the real exchange rate is not anticipated to appreciate considerably and the revival of domestic demand remains unpromising, we have strongly lowered the forecast for Russia's imports for 2018 compared to previous year. For 2019 and 2020, we expect imports to grow at a similar rate as in 2018.

Risks to the forecast for Russia

The risks to the forecast for Russia are predominantly on the downside. Even if the sensitivity of the Russian economy to swings in the oil price has somewhat diminished, deviations from the assumed oil price remain a risk to the forecast. Risks to the global growth outlook are mainly skewed downward, posing a potential detriment to Russia both directly and via the oil price.

[7] The fiscal rule limits federal budget expenditure i.a. to a revenue frame which is currently determined by a fixed, relatively low, oil price.

Geopolitical risks as well as other risks such as new unexpected sanctions remain elevated. Given that in the U.S.A. draft legislation for further punitive measures against Russia is on the table, uncertainty appears particularly pronounced in the immediate future.

As to domestic risks, increases in government budget expenditures may support the growth of GDP more than anticipated. On the other hand, production capital in Russia may become an unexpectedly strong constraint on growth, as uncertainties surround the volume and quality of the capital stock. Russia's imports remain sensitive to changes in the oil price, Russia's export income and the ruble exchange rate.