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Stable prospects for Central and Eastern Europe

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The countries of Central, Eastern and Southeastern Europe are among the most important economic growth markets for Europe. But while the CEE economies grew at an above-average rate in 2018, a Vienna Institute for International Economic Studies (WIIW) forecast published last week concludes that economic growth in some of these countries could slow down in the coming years. However, according to the WIIW forecast, not all countries are affected, and the reasons for this are diverse.

Growth by and large between 2 and 3 per cent

For example, the Czech Republic, Poland, Croatia and Slovenia, are all showing signs of largely constant economic development, with GDP growth in the forecast period (2019 to 2021) expected to be well above 2.5 per cent – in the case of Poland even well above 3 per cent. And while relatively low annual growth of between 1.7 and 1.9 per cent is expected in Russia, this constitutes a constant development rather than a deterioration.

Recession in Turkey

At first glance, the two exceptions are Hungary and Turkey. While Hungary's GDP increase could drop from 3.3 per cent to 2.3 next year and to 1.9 per cent the year after that, a recession of minus 0.7 per cent looms in Turkey this year. After Poland, Hungary has recently been the region's fastest growing economy. The fact that the picture here could be somewhat clouded by comparison is mainly due to the fact that the EU member has already used up a large part of its budgeted Community funds. In Turkey, there are already signs of significant renewed growth of 3.2 and 3.7 per cent for 2020 and 2021 respectively.

Global economy weakening

The main reasons for the slight downtrend, according to the WIIW economists, are global factors such as a generally slower growth of world economy, the consequences of US protectionist measures and the potential effects of Britain's withdrawal from the EU. In the case of the Brexit, the extent depends strongly on whether the British can still agree on a treaty with the remaining EU states. Fortunately, a "hard Brexit" without agreements is still anything but certain.

While increasing tension is evident in the labour market and property prices in Central and Eastern Europe, this is not a problem on an aggregated level, according to the WIIW. In addition, currencies are proving surprisingly stable: "Inflation is surprisingly low in the majority of the region, especially considering the rapid rise in wages and the rise in oil prices last year," the study authors explain.

The challenge of qualified labour shortage

In order to ensure solid long-term growth in the CEE countries, WIIW recommends decisive action to tackle the challenges facing the region, in particular the sharp rise in wages due to the shortage of qualified labour that is further exacerbated by remarkable demographic changes. The Vienna Institute considers rapid automation in the export-dependent industry a priority. The study authors also call for increased investment in education and training to make Central, Eastern and Southeastern Europe fit for the new digital economy.

Stock market players still in buying mood

Just how exciting the region remains for investors is shown by the development on the capital markets. The CECE index determined by the Vienna Stock Exchange for the stock exchanges in Budapest, Prague and Warsaw, for example, has risen by 4.1 per cent on a euro basis since the start of the year, with individual fund products showing even stronger results.

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Prognoses are no reliable indicator for future performance.

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A blog post by APA Finance together with Erste AM Communications.