December 2021: OECD Economic Outlook for the CEE economies

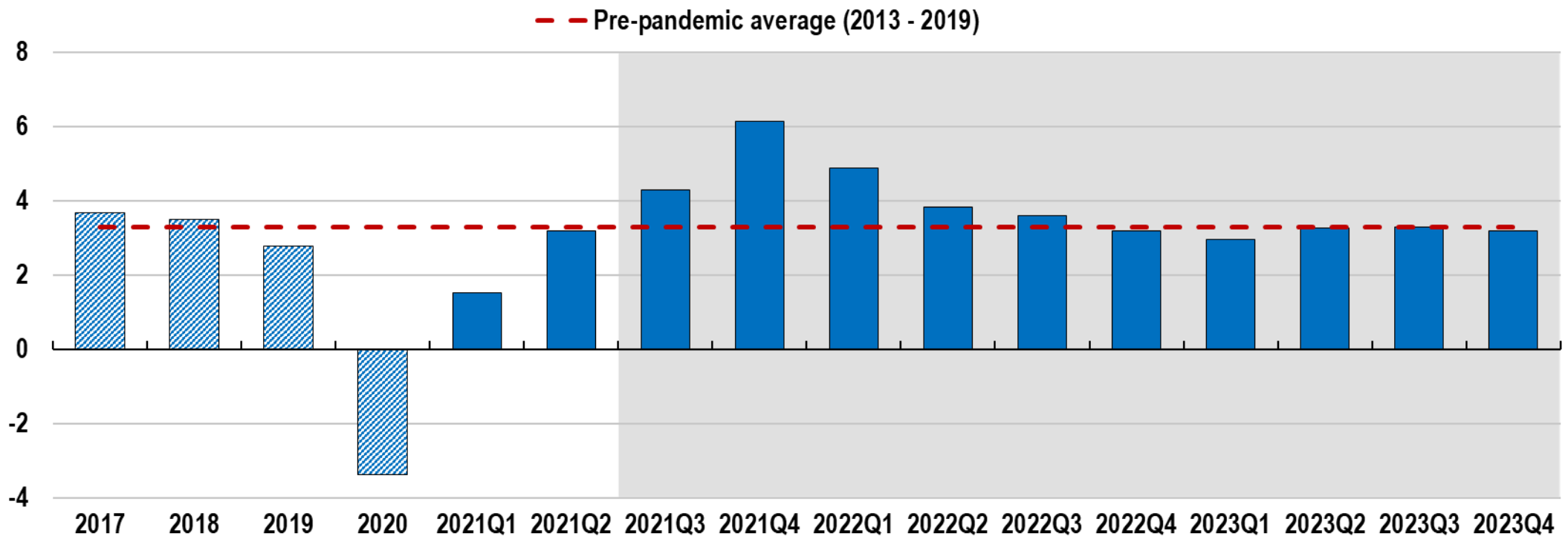
2 December 2021

Alvaro Pereira and Martin Borowiecki
OECD Economics Department

The global rebound is slowing, returning growth to pre-crisis rates

World GDP

% change (annualised), quarter on quarter, real

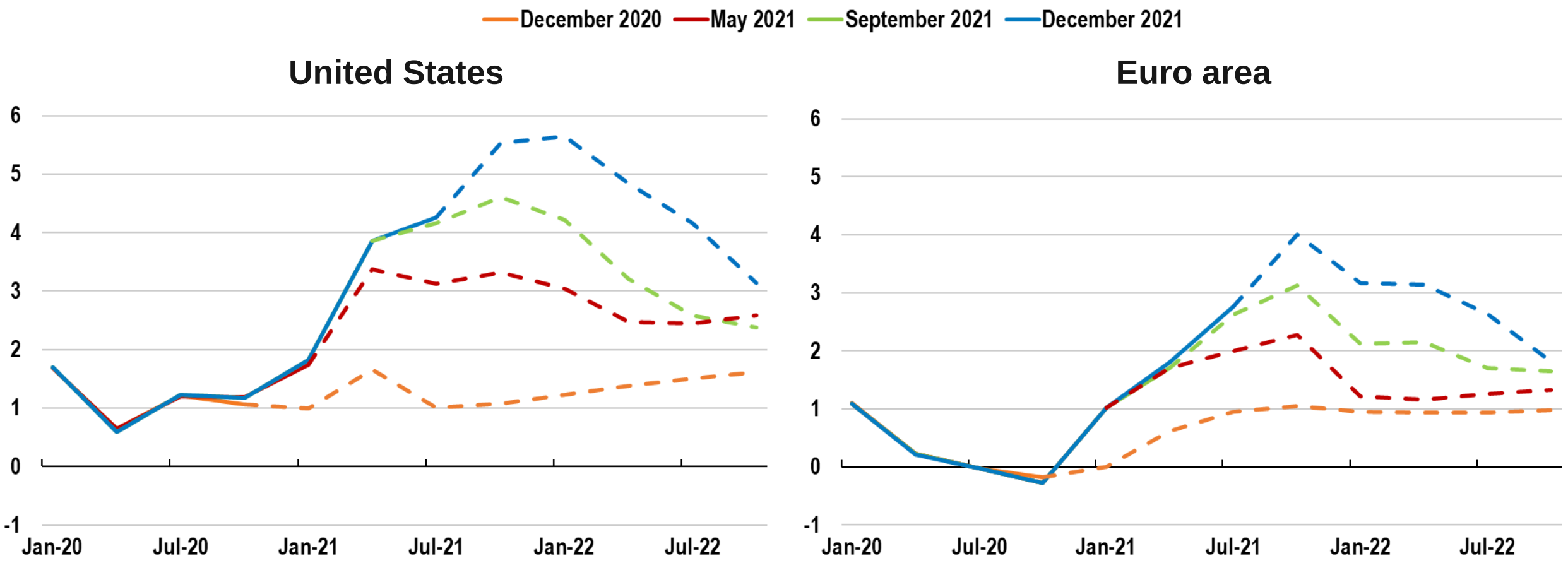


Note: World GDP is aggregated using moving nominal GDP weights at purchasing power parities. Shaded blue columns represent annual growth. Solid blue columns represent annualised quarterly growth rates. The dashed red line represents average annual growth between 2013 and 2019. The projection period is shaded in grey.
Source: OECD Economic Outlook 110 database; and OECD calculations.

Supply shortages could further prolong elevated inflation

Inflation projections have been repeatedly revised upwards

%, year-on-year



Note: Dashed lines represent projections for the personal consumption expenditure deflator.

Note: Dashed lines represent projections for the headline harmonised consumer price index.

Source: OECD Economic Outlook 110 database; OECD Economic Outlook 109 database; OECD Economic Outlook 108 database; and OECD calculations.

Key messages of the Economic Outlook for the CEE region

CEE recovery will mirror that of the global economy

Important differences include:

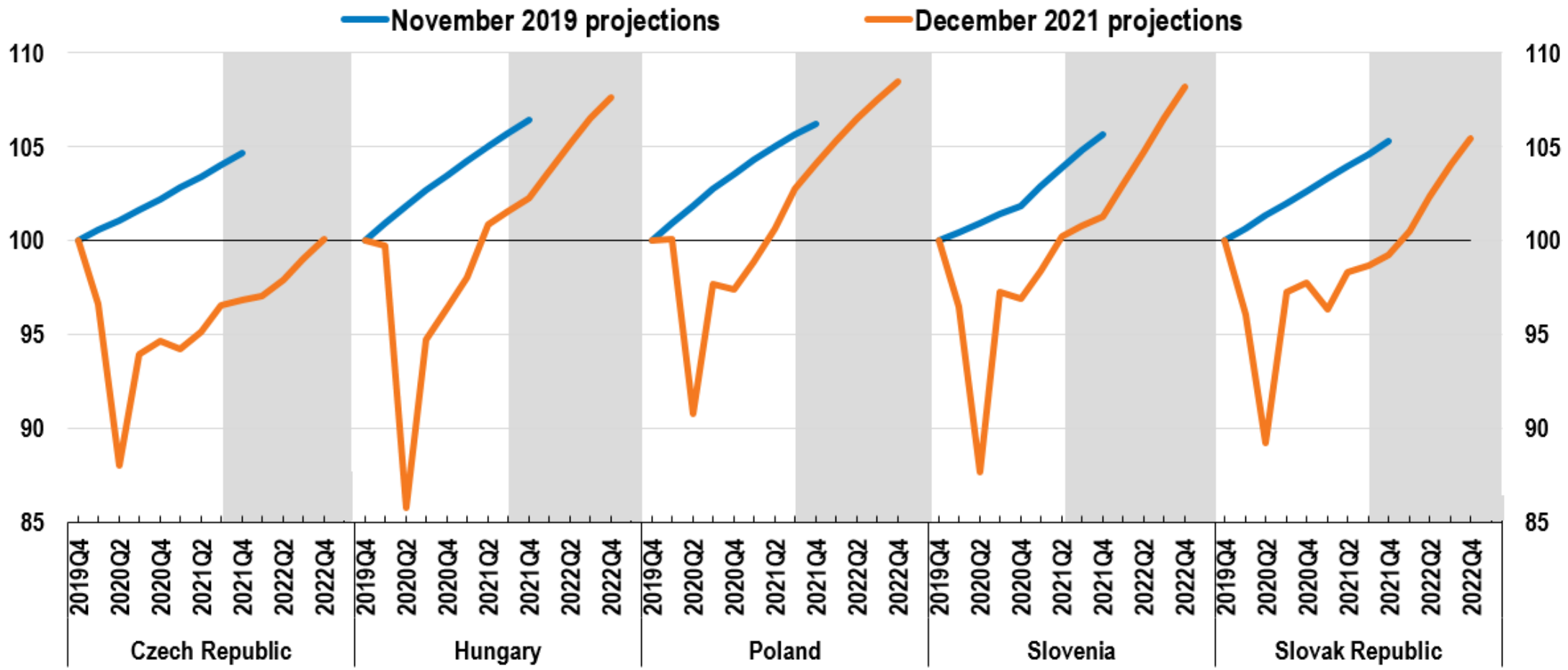
- *Faster growth paths*
- *Tighter labour markets*
- *More dynamic price and wage developments*

The outlook in CEE countries

The recovery is projected to continue

Real GDP

Index, 2019Q4 = 100

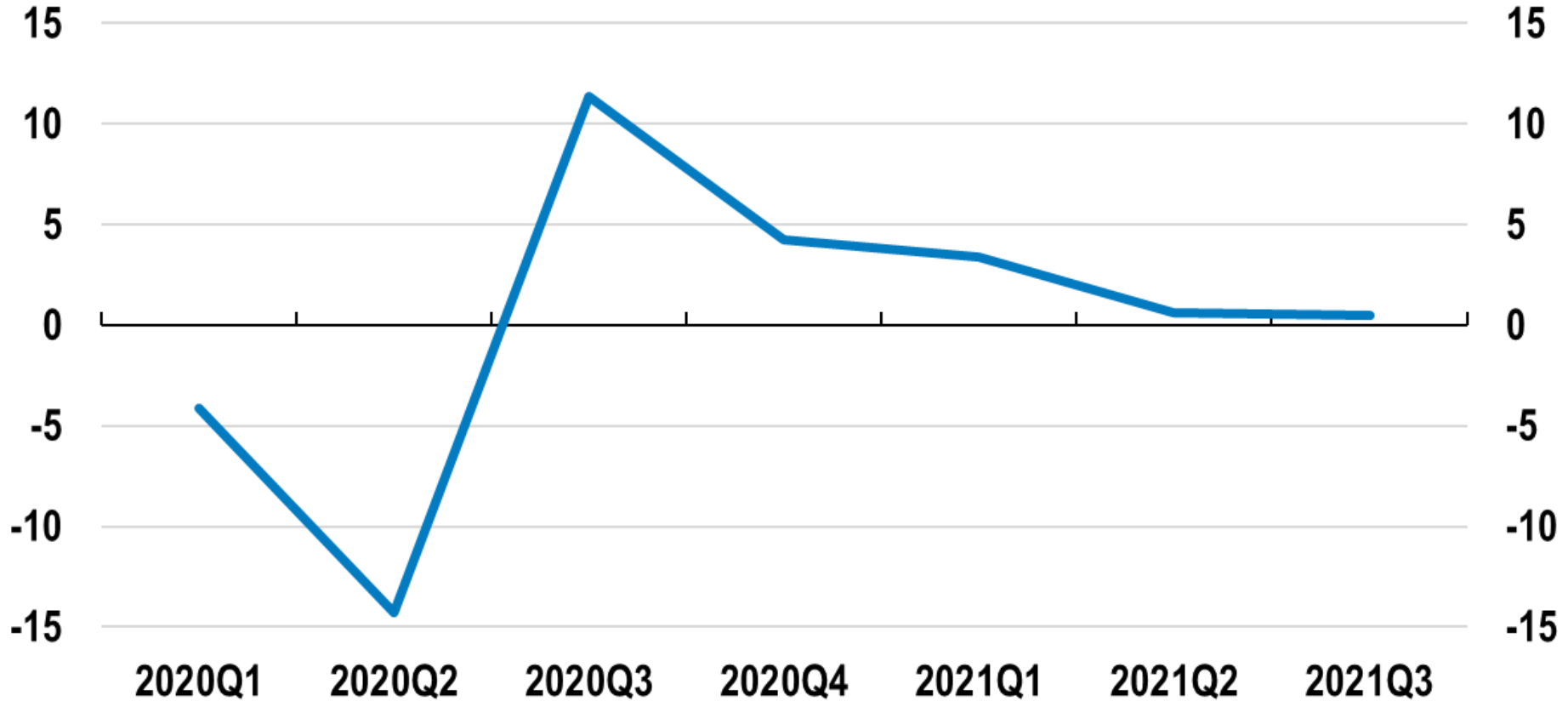


Note: Shaded area denotes projections.
Source: OECD Economic Outlook 106 database; OECD Economic Outlook 110 database; and OECD calculations.

Exports are hindered by international supply disruptions and slower export market growth

World goods and services trade volume

Quarter-on-quarter % changes

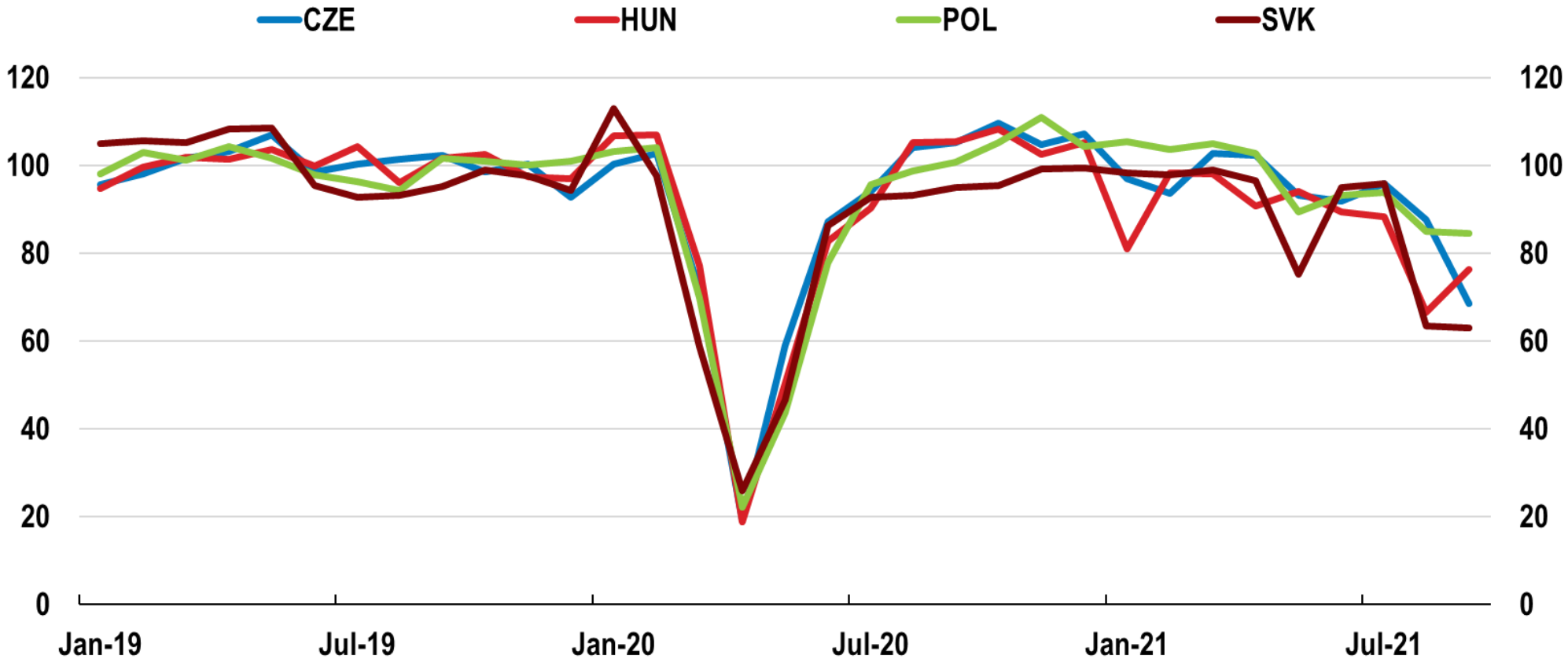


Source: OECD Economic Outlook 110 database; and OECD calculations.

The automotive sector is held back by low external demand and supply chain problems

Car production

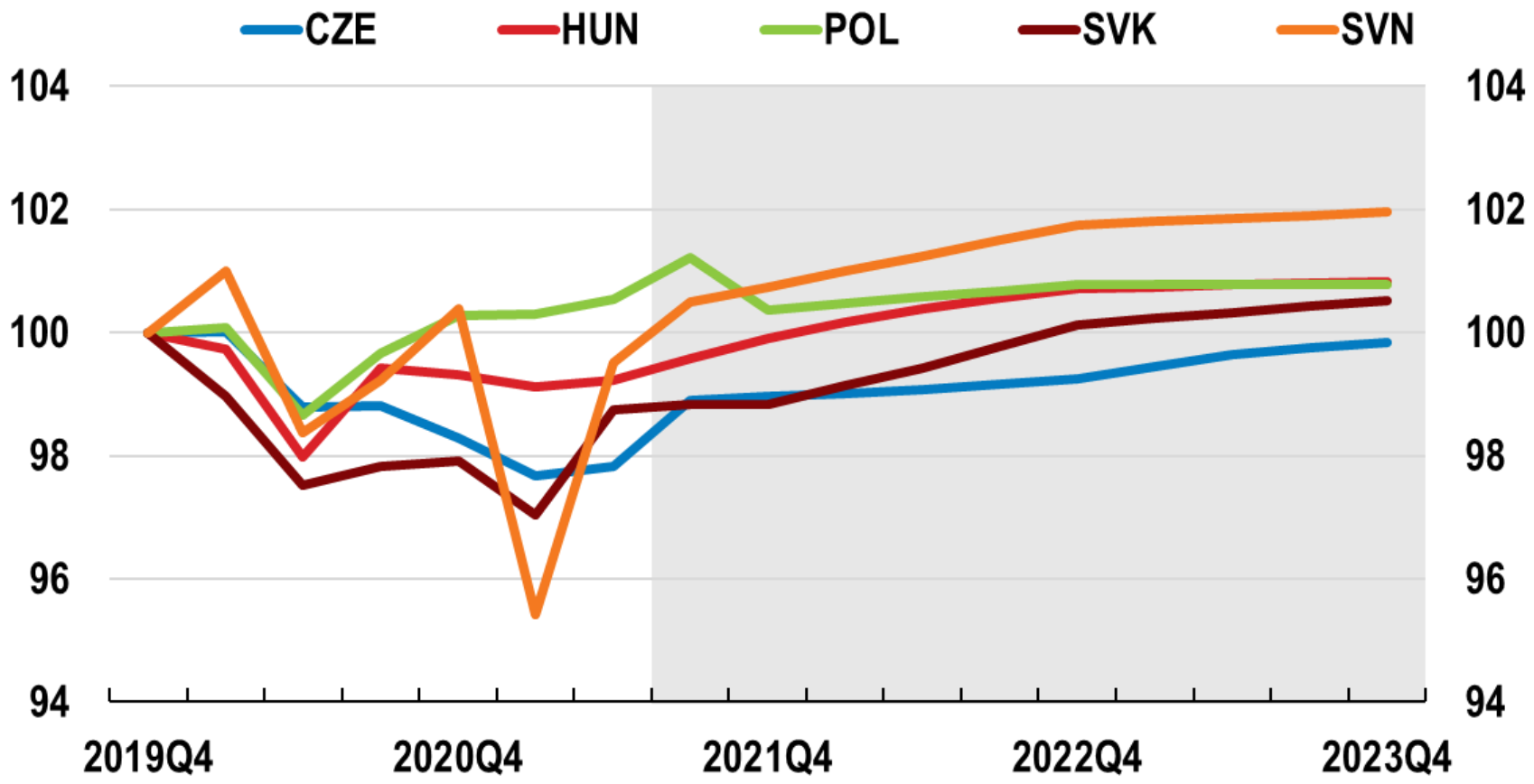
Index, 2019 = 100



Source: Eurostat; Slovak National Bank; and OECD calculations.

Strong domestic demand has ensured that employment has recovered in some countries

Employment, *Index, 2019Q4 = 100*

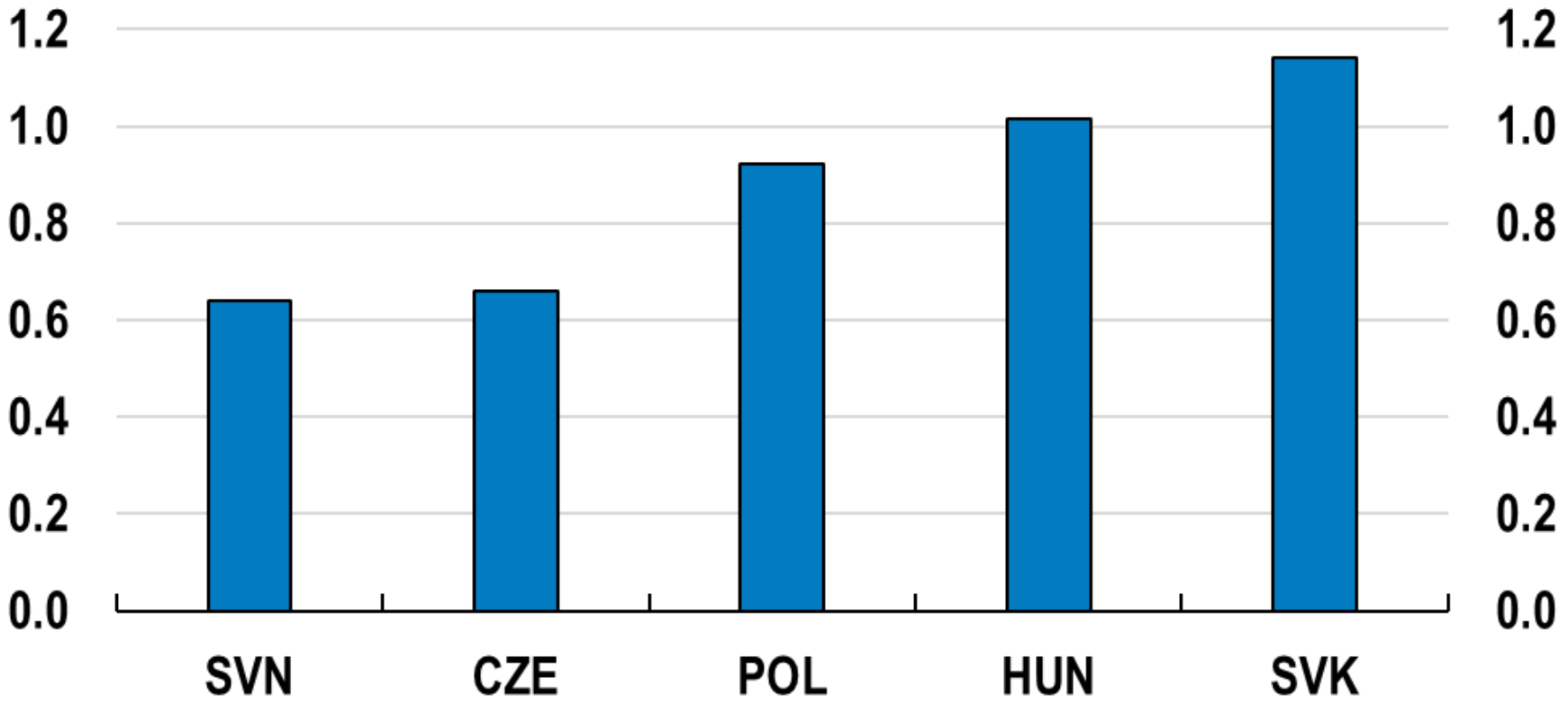


Note: Shaded area denotes projections.
Source: OECD Economic Outlook 110 database; OECD calculations.

Investment will increase on the back of larger inflows of EU funds

Annual allocation of EU Recovery and Resilience Funds

% of 2020 GDP

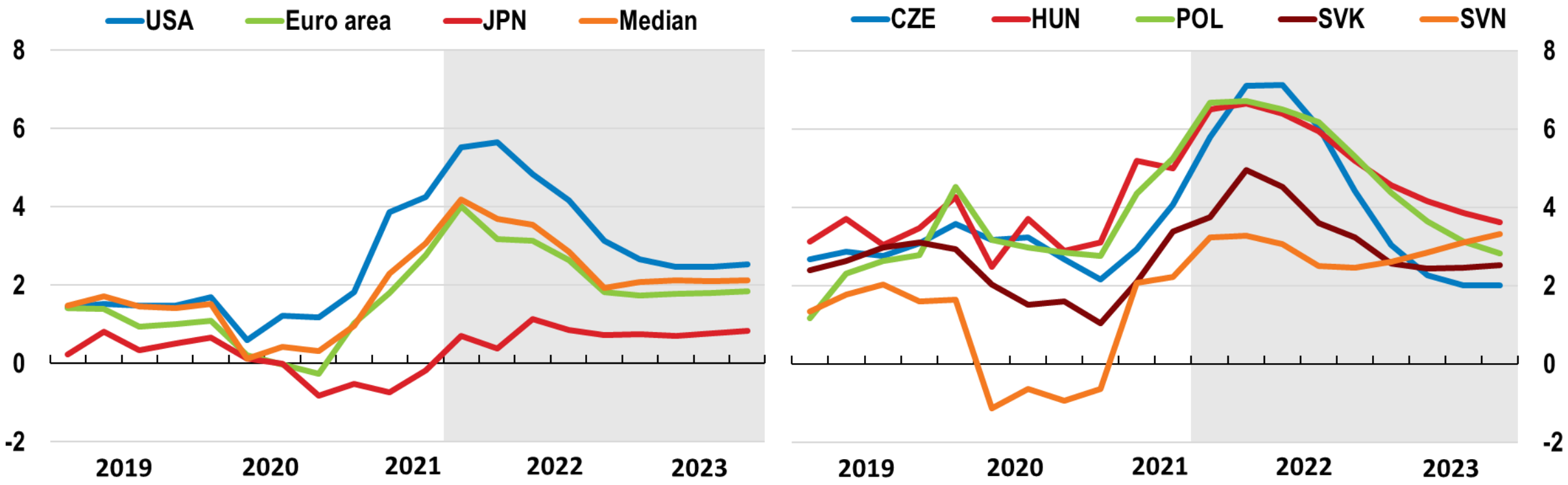


Source: European Commission; OECD Economic Outlook 110 database; and OECD calculations.

Inflation is expected to remain relatively high

Inflation

Year-on-year % changes

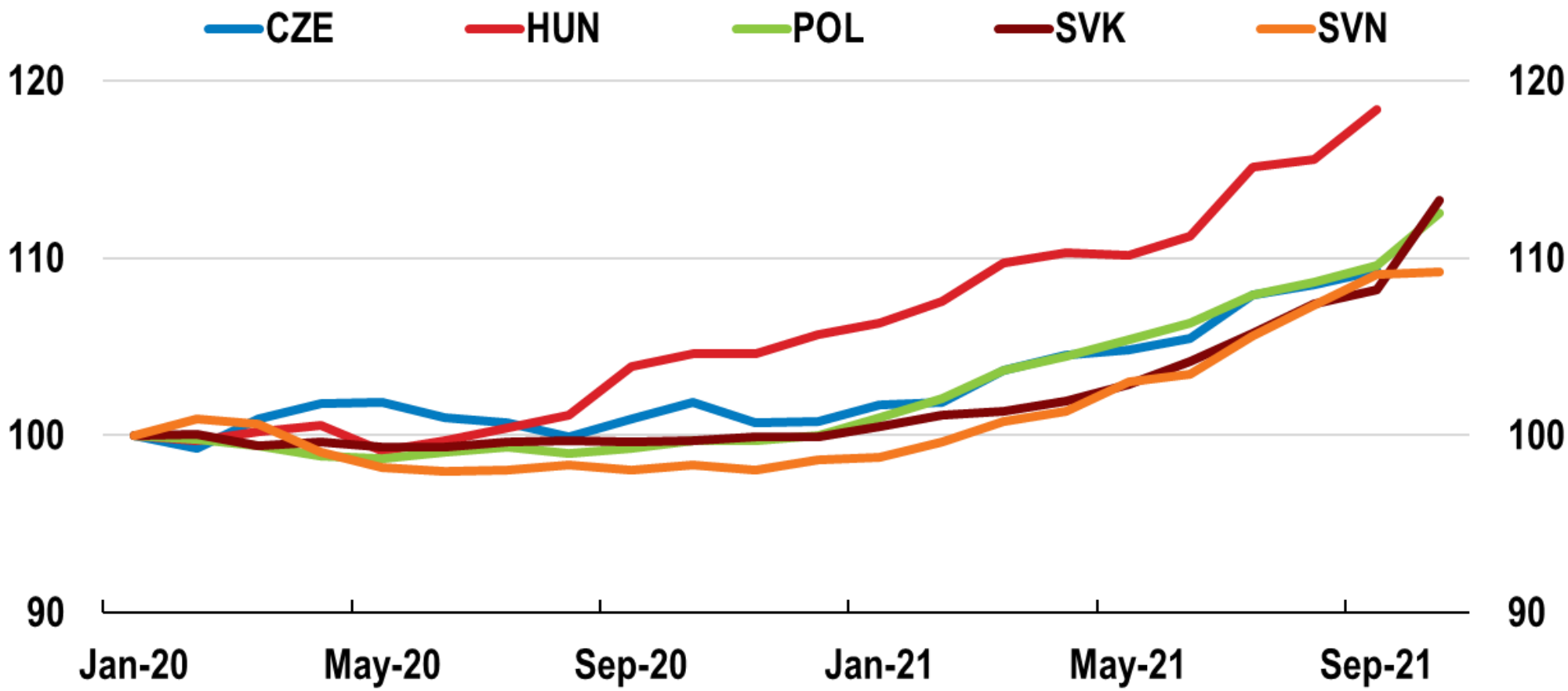


Note: Shaded area denotes projections. Left panel shows the overall harmonised consumer price index for the euro area; the personal consumption expenditure deflator for the United States; and the overall consumer price index for Japan. The median includes OECD countries except Chile, Colombia, Costa Rica, Mexico and Turkey.
Source: OECD Economic Outlook 110 database; OECD calculations.

Supply chain bottlenecks are leading to higher producer prices

Producer prices

Index, Jan-2020 = 100

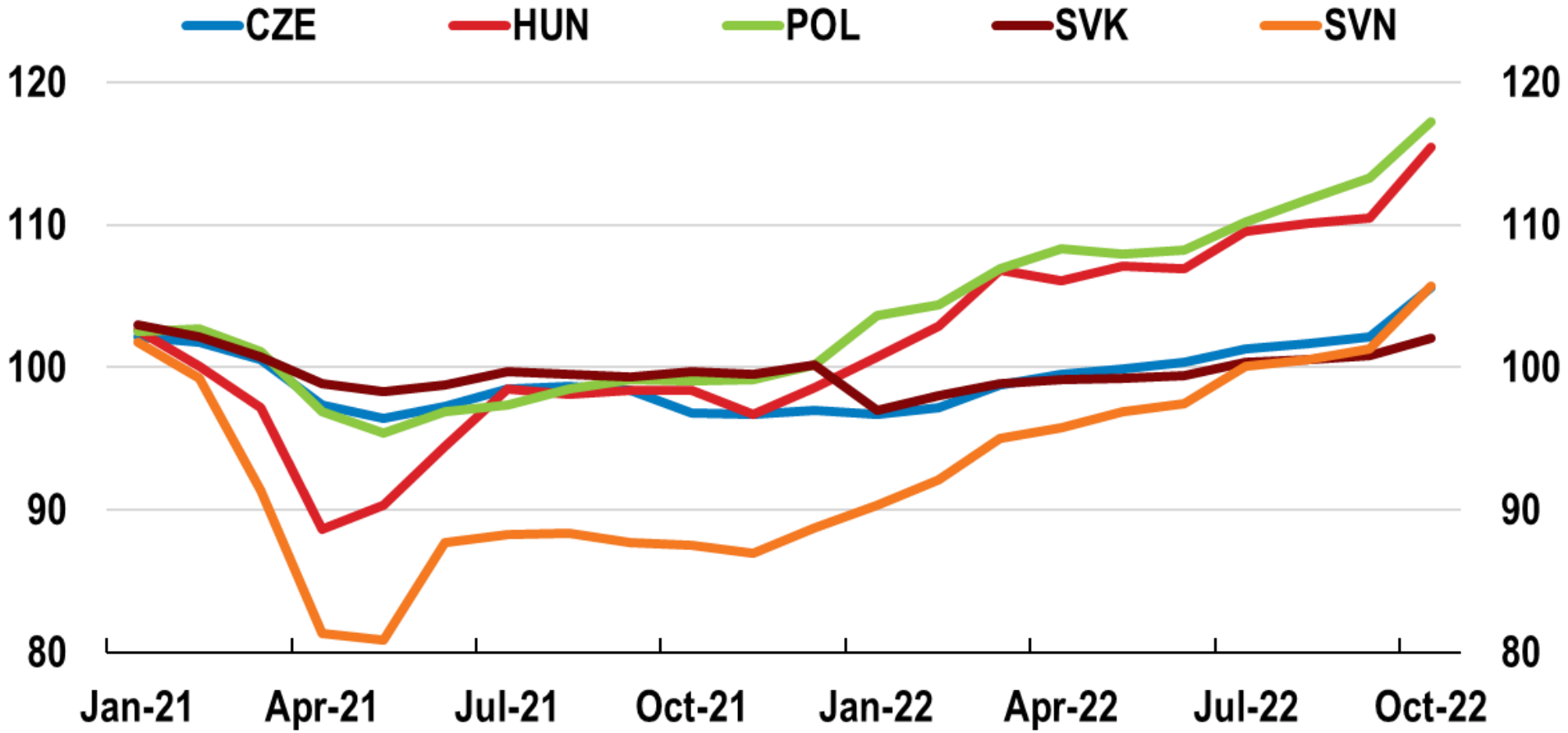


Source: Eurostat Producer prices database; OECD calculations.

Higher energy prices are also pushing inflation up

Consumer prices, Energy sector

Index, 2019Q4 = 100

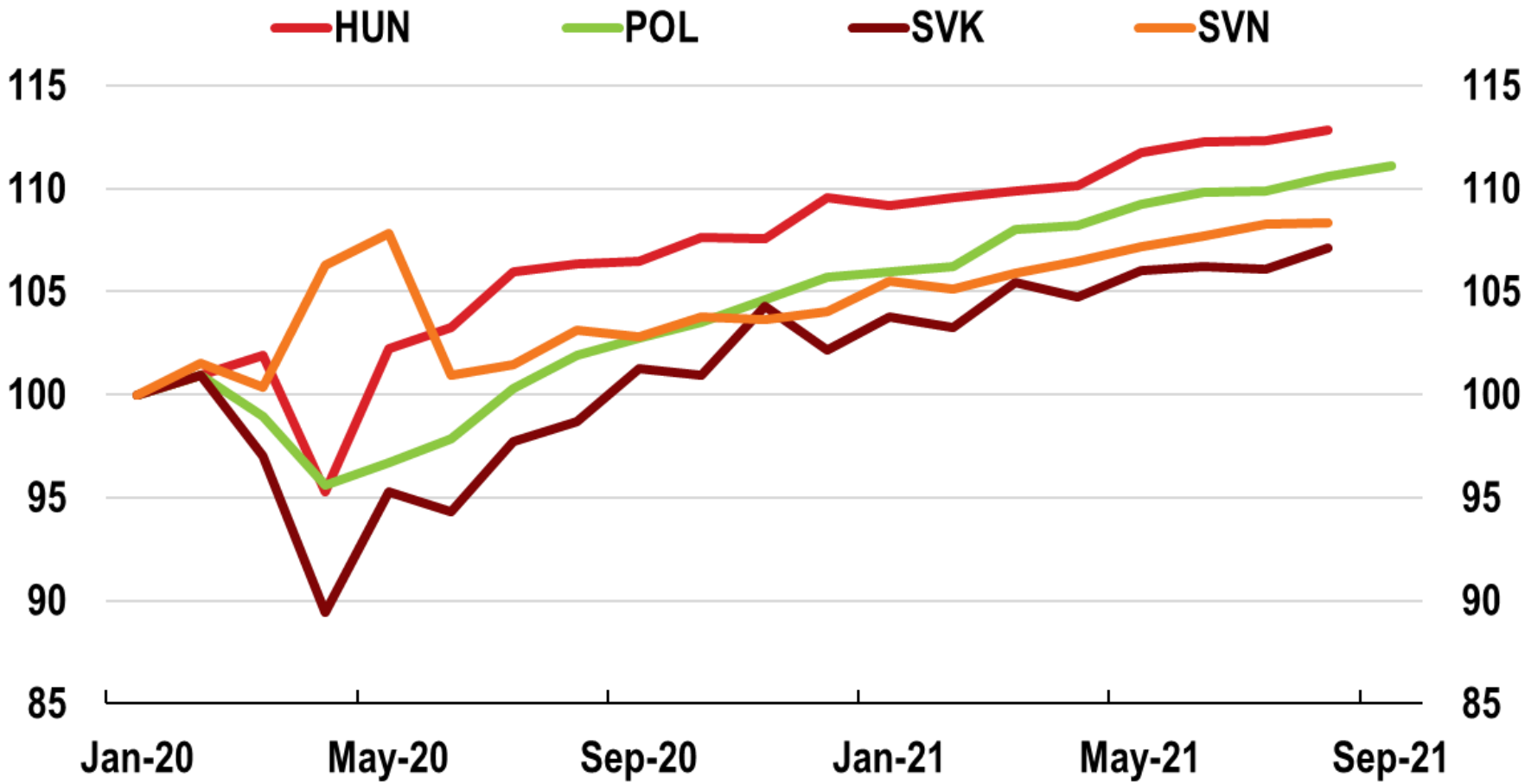


Source: OECD Prices database; OECD calculations.

The dynamic labour market is fueling wage costs

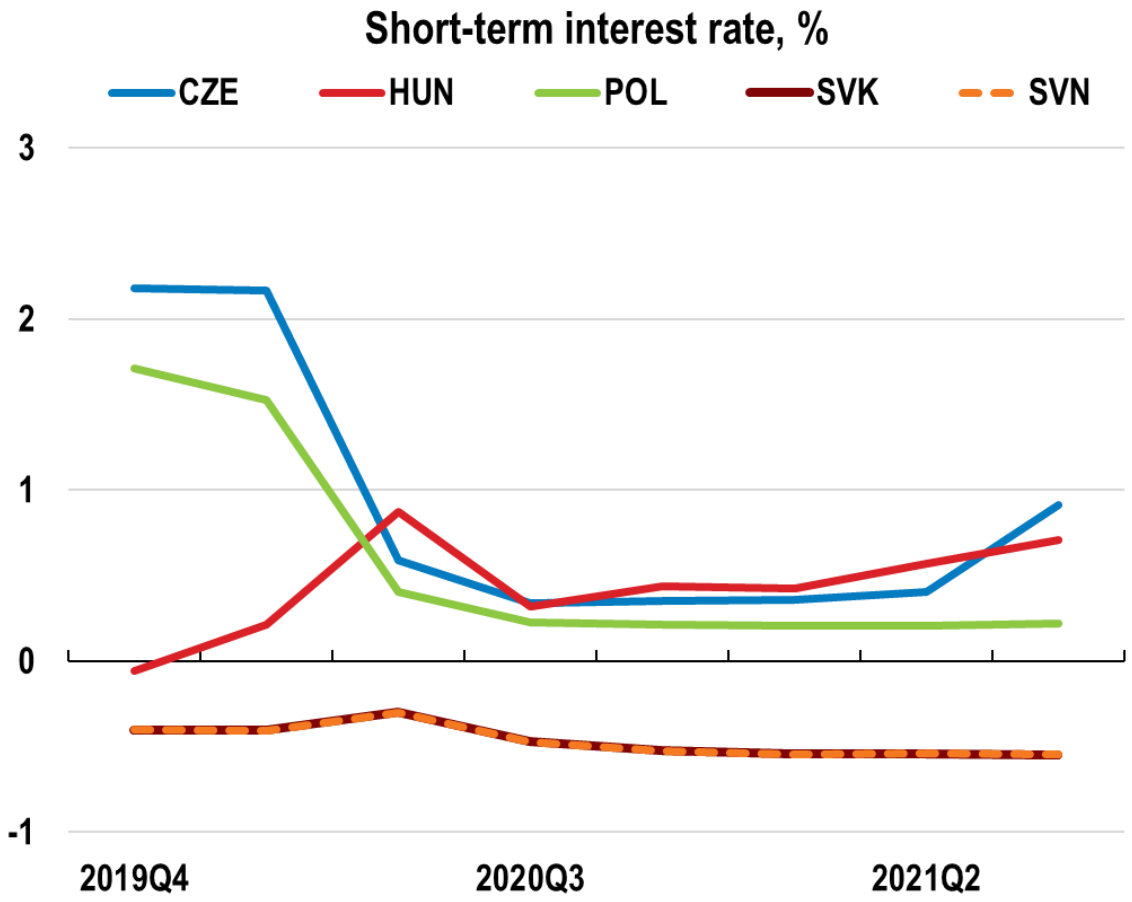
Hourly earnings

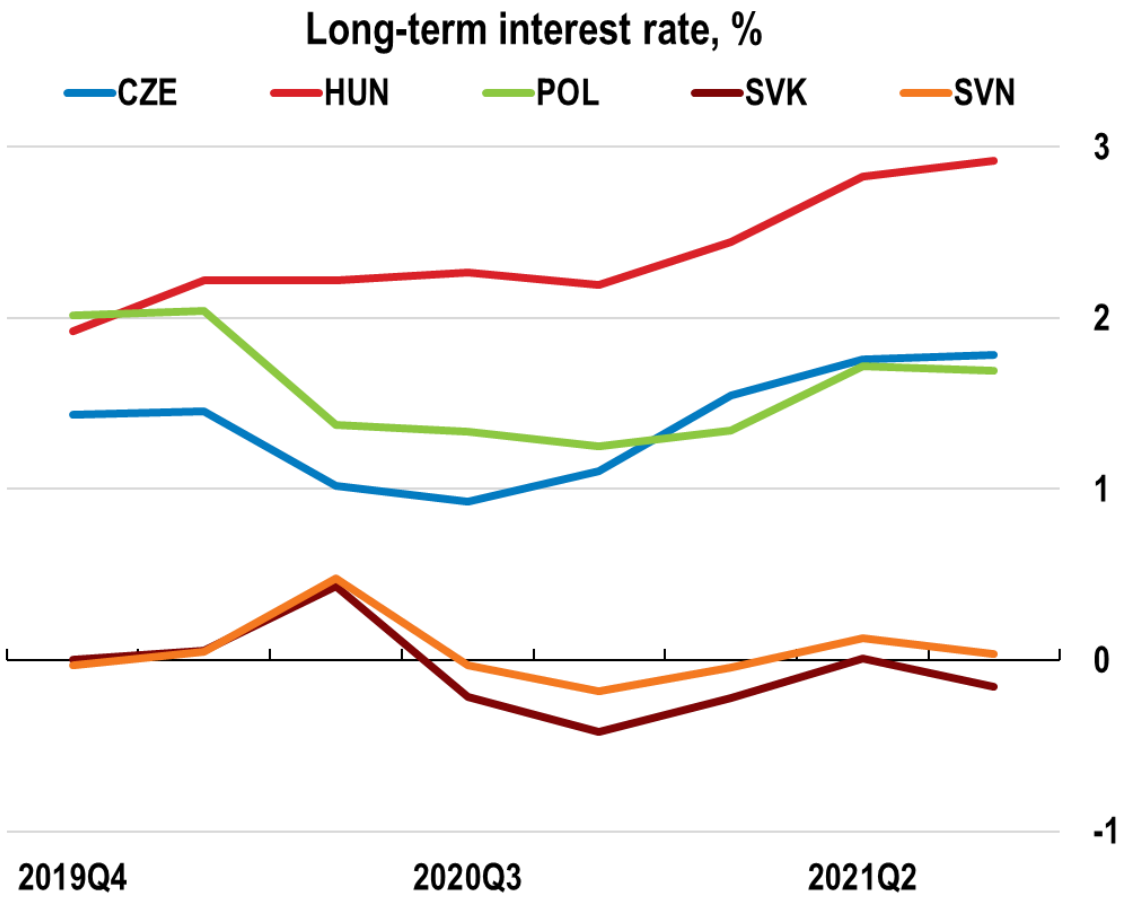
Index, Jan-2020 = 100



Source: OECD Main Economic Indicators database; OECD calculations.

Interest rates are mostly increasing

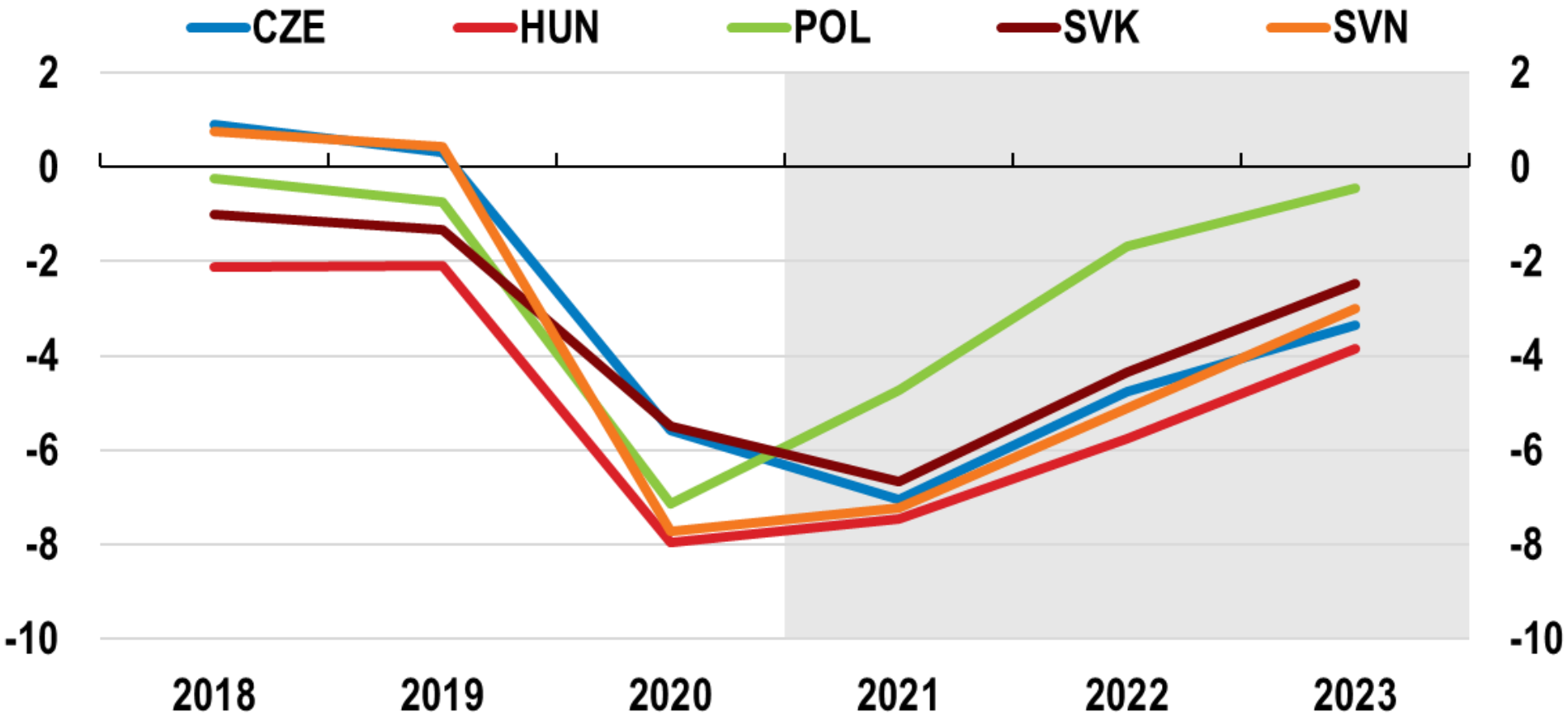




Source: OECD Economic Outlook 110 database.

Faster growth contributes to the reduction in the large public deficits

General government financial balance, *% of GDP*



Note: Shaded area denotes projections.
Source: OECD Economic Outlook 110 database.

Policies for the recovery

Key policy takeaways

- **Monetary policy tightening** is appropriate to steer inflation back to target.
- A **gradual fiscal consolidation** is appropriate given the strong economic growth.
  - Policy should stand ready to continue supporting the economy in case new lockdown measures reduce domestic spending.
  - Fiscal consolidation will be necessary in the medium-term to address ageing-related spending pressures.
- **Structural reforms** should focus on easing labour market tensions and raising potential growth, particularly:
  - Bringing inactive people to work, including mothers with young children and older women, would help sustain growth.
  - Labour taxes should be further lowered to help address labour shortages, financed by greater reliance on energy, property and consumption taxation.

Thank you

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