





Is Emerging Europe Overheating? A Reality Check

Overheating guide for key Emerging European economies

	Real Economy	Labor Market			Monetary Policy			Fiscal Policy		External Sector	
	GDP growth (2017 deviation from long-term trend)	Unemployment rate		Nominal wage growth (2017)	Consumer price inflation		Private sector credit growth (Latest month)	Fiscal balance (2017e)	Public spending growth (2017e)	Current account balance (2017e)	FDI / CAD (Latest)
		(2017e)	(Change since 2013)		(Jan 2018)	(Increase since end-2016)					
Poland	45%	5.0%	(-5.3pp)	4.8%	1.9%	+1.1pp	2.9%	-2.0%	1.6%	-0.8%	388%
Czech Republic	128%	3.0%	(-4.0pp)	7.1%	2.2%	+0.2pp	5.3%	1.0%	2.3%	0.6%	CA surplus
Romania	107%	5.3%	(-1.8pp)	13.2%	4.3%	+4.8pp	5.6%	-3.2%	3.0%	-3.6%	71%
Hungary	142%	4.2%	(-6.0pp)	7.6%	2.1%	+0.3pp	4.3%	-2.5%	-3.0%	3.5%	CA surplus
Slovakia	14%	8.3%	(-5.9pp)	4.1%	2.4%	+2.2pp	9.9%	-1.5%	-0.2%	-1.0%	723%
Bulgaria	75%	6.4%	(-6.6pp)	7.8%	1.8%	+1.7pp	4.0%	0.0%	3.5%	4.8%	CA surplus
Turkey	29%	11.3%	(+2.5pp)	13.5%	10.4%	+1.9pp	20.5%	-3.2%	3.0%	-4.9%	19%

 Indicating low overheating risk
 Indicating moderate overheating risk

 Indicating significant overheating risk
 Indicating high overheating risk

Accelerating GDP growth combined with tightening labor markets and a rebound in inflation fueled **concerns of overheating in Emerging Europe.**

Yet, a closer look shows that only **Romania** is seriously overheating as inflation continues to rise and fiscal and current account deficits are rapidly widening. **Turkey** is a different story: large economic imbalances reflect persistent high country risk. Elsewhere in the region, inflation has leveled off in the meantime and economic fundamentals have remained stable.