Forecast Report

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Investment to the Rescue

Economic Analysis and Outlook for Central, East and Southeast Europe

The Vienna Institute for International Economic Studies
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Investment to the Rescue

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The statistical data presented in this Report are as of mid-February 2014. Most data are taken from the wiiw Databases. Direct access is available here: http://data.wiiw.ac.at/.

ABBREVIATIONS

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

ALL	Albanian lek
BAM	convertible mark of Bosnia and Herzegovina
BGN	Bulgarian lev
CZK	Czech koruna
EUR	euro
HRK	Croatian kuna
HUF	Hungarian forint
KZT	Kazakh tenge
LTL	Lithuanian litas
MKD	Macedonian denar
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
TRY	Turkish lira
UAH	Ukrainian hryvnia
USD	US dollar

BOP	balance of payments
CEE	Central and Eastern Europe
CESEE	Central, East and Southeast Europe
CIS	Commonwealth of Independent States
CIS-STAT	Interstate Statistical Committee of the Commonwealth of Independent States
CPI	consumer price index
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ER	exchange rate
ESA'95	European system of national and regional accounts
EU	European Union
FDI	Foreign Direct Investment
FISIM	Financial Intermediation Services, Indirectly Measured
GDP	Gross Domestic Product
ICP	International Comparison Project
IMF	International Monetary Fund
LFS	Labour Force Survey
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne (Statistical classification of economic activities in the European Community)
NACE Rev. 1	the first revision of the original NACE (1970)
NACE Rev. 2	revised classification, introduced in 2008
NB	National Bank
NC	national currency
NMS	new Member States
OECD	Organisation for Economic Co-operation and Development
pp	percentage points
PPI	producer price index
PPP	Purchasing Power Parity
SEE	Southeast Europe
SME	small- and medium-sized enterprises
SNA	System of National Accounts
SPE	Special Purpose Entity
TCB	Turkish Central Bank
VAT	value added tax
WIFO	Austrian Institute of Economic Research
wiiw	The Vienna Institute for International Economic Studies

.	not available (in tables)
bn	billion
mn	million
p.a.	per annum

Executive summary

The improving external economic environment, perceptible in the euro area as well, has the potential to favour growth in the countries of Central, East and Southeast Europe (CESEE). However, three factors will restrain euro area growth at its current low level: slow banking sector consolidation; persistent fiscal consolidation policy; and a disinflationary and, in some countries, even deflationary climate. Emerging market economies with large current account deficits financed by short-term capital, such as Turkey, are affected by the announced change in the US Federal Reserve's monetary policy.

Over the past few quarters GDP growth in the CESEE countries has been rather weak. Strong deflationary pressures have built up in the region: a matter of major concern, especially for private and public debtors. With the exception of the Baltic countries and the European periphery, household consumption has been flat. In the core CESEE countries net exports have been on the rise; however, the increase is mostly due to stagnating or falling imports attributable to weak domestic demand.

The region has been able to adjust its current account for a second time in recent years after even harsher adjustments in 2008-2009. Major rebalancing and, in some instances, large surpluses were the outcome of stagnating consumption and a decline in capital inflows in 2013. The current account balance improved in the New Member States (NMS). The Western Balkan countries improved their current account positions although they still display relatively high deficits in the range of 5-10% of GDP. The two energy exporters, Russia and Kazakhstan, registered small and decreasing current account surpluses. Turkey and Ukraine compose a crisis-ridden group, although for very different reasons and with different longer-term prospects.

In most of the CESEE countries, investment seems to be pulling out of the doldrums. Only more recently have most countries in the region recorded positive investment growth. The general expectation is that investment has bottomed out in the course of late 2012 or by early 2013. By and large, investment will start increasing throughout most of the CESEE countries in 2014 and beyond. Overall, confidence in the economy can be seen to be on the rise, as is industrial production.

Anecdotal evidence suggests that in several economies of the region major infrastructure projects are being launched or planned. They include traditional public transport infrastructure such as modern motorways, typically financed from the state budget with support from the EU Trans-European Transport Networks (TEN-T) initiative. Chinese construction companies together with Chinese investment banks are also building several coal-fired power plants across the Balkans. Moreover, several nuclear power stations are being planned across the broader region.

High interest rates constitute a major impediment for many investors in the CESEE countries; at the same time, increasingly large amounts of private investment might be financed via cash-flows. In 2013, the dynamics of loans to non-financial corporations was either anaemic or negative in most of the countries in the region, with the exception of the peripheral economies. Household loans have on average grown more rapidly or decreased more slowly than corporate loans. Loan dynamics are negatively correlated with the level of private debt, as well as with the level of non-performing loans in the total loan stock.

The question remains whether the expected investment-led growth in the CESEE countries is merely a base effect of a few replacement investments in the energy sector or an indication of a profound paradigmatic shift. Increasing evidence suggests the latter for a number of reasons. Most importantly, in the NMS, towards the end of the previous year additional efforts were made to raise the absorption rate of the funds allocated within the context of the EU Multiannual Financial Framework (MFF) for 2007-2013 that was about to come to a close. Over the remaining disbursement period of the biennium 2014-2015 substantially higher amounts of EU-funded investment are to be expected. Given that, in practically all cases, national co-financing is also required, CESEE public capital investment will increase, with private investors likely following in its slipstream. Furthermore, improving growth prospects in the euro area, the CESEE economies' main trading partner, are likely to encourage export industries in the region to modernise and increase their capital stock.

A boost in investment is essential to higher GDP growth, which, in turn, is desperately needed if the inordinately high unemployment rates are to be reduced. High unemployment is not the sole reason for social conflict in the region; the lack of jobs for the young can certainly act as a catalyst, as evidenced by the recent outbreak of social unrest in Bosnia and Herzegovina. This has been intensified by democratic deficiencies which we can also detect in a number of other countries in the region.

Overall, wiiw expects GDP in the CESEE countries to pick up speed and grow on average by 2-3% over the forecast period 2014-2016: a major driving force rooted in an upward reversal of public and private investment. However, substantial downward risks include possible effects from the current Russia-Ukraine conflict; in particular the interruption of energy supplies, potential trade embargoes or additional interest rate risk premia. All this could adversely affect investment-led growth in CESEE.

COUNTRY SUMMARIES

BULGARIA

Economic activity in Bulgaria was anaemic in 2013, for the second year in a row, curbed by weak domestic and external demand. The signs of a possible upturn that are observable at present in the main reflect the shift towards a more proactive policy stance undertaken by the current government. In particular, the government envisages a sustained rise in public capital expenditure as well as support to low-income earners. However, these impulses are relatively modest and will take time to feed into the economy. In the absence of a more notable upturn in export demand, economic growth is expected to remain moderate in 2014 and the following years.

CROATIA

Economic recovery in Croatia will be delayed by another year due to fiscal consolidation efforts. GDP growth should rebound only in 2015, provided investments pick up and external demand strengthens. Private consumption will remain suppressed due to high and persistent unemployment as well as household and enterprise deleveraging. Benefits of EU membership can be expected only in the medium run.

THE CZECH REPUBLIC

Recession is likely to come to an end in 2014, mostly on account of the discontinuation of negative developments such as fiscal consolidation (whose chief aims have already been realised) and contraction of inventories (which have been reduced in 2012-2013). Competitive devaluation will help preserve positive impulses from external trade. A very weak recovery in 2014 is likely to follow primarily from a slight strengthening of private and public consumption. But fixed capital formation is not likely to rebound strongly before 2015. Only in 2015-2016 growth can become adequate.

ESTONIA

The end of stagnation in Northern Europe will allow the Estonian GDP to grow by 2.6% in 2014. Strong increases in real wages coupled with still substantial employment growth will further support the upswing. A stronger revival in private and public investment activity should lift GDP growth to 3% in 2015 and 3.2% in 2016.

HUNGARY

The Hungarian economy attained moderate growth in 2013, to a large extent due to the outstanding agricultural output related to favourable weather. In the last months of 2013 investments began to recover from hibernation but consumption remained flat. 2014 will bring about a modest acceleration of GDP growth driven by an upturn of primarily EU co-financed investments and net exports. Institutional conditions for a more robust economic growth will likely remain unfulfilled.

LATVIA

In the first year of Latvia's accession to the euro area we expect a slight upswing of economic growth to 4.2% driven by improving conditions in the main trading partners and rising investment in machinery and equipment. The government reshuffle at the beginning of this year will not result in a change of economic policies pursued so far. Also in 2015 and 2016 GDP growth will amount to about 4% since household consumption will be supported by strongly rising wages.

LITHUANIA

In July 2014 the EU Council will most likely approve Lithuania’s admission to the euro area, since the country fulfils all Maastricht criteria. For 2014 we expect GDP growth to rise to 3.6% and to further accelerate slightly in 2015 and 2016. An upswing of external demand this year and in 2015 and ongoing flourishing household consumption driven by strong wage developments bolster economic activity. From 2015 onwards public investments will provide for an additional impulse.

POLAND

Improving sentiments support recovery of private sector investment and faster GDP growth in 2014 while political expediency will dictate a measured relaxation of fiscal policy. In 2015-2016 investment and GDP growth will be even higher than in 2014, also on account of the initiation of a public programme supporting a number of larger-scale investment projects.

ROMANIA

Romania was one of the fastest growing European economies in 2013, driven by soaring exports of goods and services. One-time factors of growth such as the bumper harvest are expected to expire in 2014, reducing the rate of growth which may recover again in 2015 and 2016. The expanding, competitive manufacturing sector can drive further growth if external demand improves, FDI keeps flowing in and current infrastructure investment projects are finalised. While an IMF precautionary agreement anchors fiscal policy also in 2014, structural reforms and legislative improvements are expected to proceed sluggishly due to political crisis at the government level and the upcoming presidential elections.

SLOVAKIA

The forecast for Slovakia for the period 2014-2016 is quite positive. We expect the Slovak economy to grow by 2.4% in 2014, 3% in 2015 and 3.2% in 2016. All components of GDP should contribute to this hike in 2014, including net exports, gross capital formation and final consumption. The latter two categories should increasingly contribute to growth in the two consecutive years. This is based on the assumption that growth occurs in Slovakia’s main trading partners, foremost Germany and the Czech Republic, and that the investment climate improves.

SLOVENIA

Slovenia could avert a bailout in 2013 but will have to continue the restructuring of its banking and corporate sectors to create the basis for sustainable growth. In addition, further fiscal consolidation can be expected. Owing to corporate deleveraging and dampened household consumption as a consequence of rising unemployment, the economy will remain in recession in 2014 and should rebound only in 2015.

MACEDONIA

GDP growth at 3% in 2013 has exceeded expectations. The economy should continue to expand at that rate in the next few years. Acceleration is possible only if investments and exports improve significantly, substituting for the slower growth of consumption, both public and private.

MONTENEGRO

Last year ended with a rebound from the year before: GDP grew 2.5% mostly because of increased investments, both public and private, and improving net exports due to a continued contribution from tourism and declining imports of goods and services. Consumption stagnated and there are few signs that it will be recovering more than modestly in the medium term. As in most other countries in the Balkan region, but also elsewhere in the transition world, real growth of GDP is not expected to accelerate beyond 3%. Whether that is the new long-term growth rate is an open question.

SERBIA

Last year delivered a recovery in GDP growth, early estimate 2.4%, which can be attributed to the full rebound of agricultural production and the start of Fiat's production and export of cars. This and the next couple of years will see a slowdown of growth, with probably slight recession in 2014 and a speed-up to not more than 2% in the medium term, due to the disappearance of these one-time effects. Inflation is decelerating and positive employment effects cannot be expected.

TURKEY

Turkey is in the thrall of a renewed emerging markets volatility; in fact Turkey is one of the two economies most strongly affected by it (the other one being Argentina). The higher vulnerability of Turkey which shows up in a reversal of foreign capital flows and strong pressures on the exchange rate is the result of a history of high current account deficits, relatively low reserves, a delayed response by the Turkish Central Bank (TCB) to increase interest rates and the relatively short-term nature of foreign loans taken up over the recent period. wiiw expects the recent vigorous response by the Turkish Central Bank, which increased interest rates by roughly 400-500bp, to reduce the 2014 growth rate of GDP to 2.2% and then a gradual return to the longer-run potential growth path of 4.5% by 2016. The significant devaluation will improve the current account balance but impact negatively on inflation, which will remain higher than the TCBs target rate.

ALBANIA

We expect 2014 GDP growth in Albania to slightly accelerate to 1.7%; the reason being a mix of a statistical base year effect due to weak growth in 2013 and strong foreign investment in the energy sector. However, restrictive fiscal policy and reduced lending activity owing to high levels of NPLs will likely curtail economic growth to 1.5% in 2015 and 1% in 2016. The current and expected meagre growth is not only a far cry from the pre-crisis performance but will not suffice to generate a visible income convergence.

BOSNIA AND HERZEGOVINA

On paper, Bosnia and Herzegovina has not done as badly as some other Balkan economies during the current crisis. GDP has declined by about 0.4% per year on average since 2009. Last year's growth was below 1% and the recovery over the medium term should not be much faster than 2%. Employment has been stagnant, but social sustainability has deteriorated. The upcoming general elections could provide a chance to turn things around.

KOSOVO

The Kosovo economy is growing fast, at least by current European standards. Due to a favourable outlook for Germany and Switzerland, the prime host countries of Kosovo migrant workers and remittances senders, as well as due to higher government spending in the wake of the upcoming parliamentary elections, we expect a GDP growth rate of 5% for 2014. A number of large infrastructure projects in the transport and energy sector are being planned for the years to come, hence growth is likely to remain firm, at around 4% in both 2015 and 2016.

KAZAKHSTAN

According to the preliminary statistical report, Kazakhstan managed to achieve 6% real GDP growth in 2013, which makes it the fastest growing economy in the region we analyse. Total GDP growth is expected to remain robust during the whole forecast period of 2014-2016 at a rate of 5.5-6.5%. The oil sector will remain the main driving force of the economy, while the role of private consumption is expected to decline during that period.

RUSSIAN FEDERATION

Russian economic growth came to a near standstill in 2013. The country is 'stuck in transition'. With traditional growth drivers exhausted, there is little prospect for a renewal of growth without a new decisive reform push. GDP growth forecasts were revised downwards accordingly. The wiiw baseline scenario assumes a continuation of the negative contribution of real net exports to GDP growth and, in nominal terms, reductions of the trade and current account surpluses. We expect a revival of investment and an ongoing modest expansion of household consumption. Inflation and unemployment will gradually diminish.

UKRAINE

The severe political crisis and the suspension of Russian credits have put the currency under strong downward pressure, prompting the National Bank to switch to a floating exchange rate regime and impose partial capital controls. The near-term economic prospects are hardly encouraging, with a balance-of-payments crisis and a bank run looming on the horizon. A 'rescue package' from the IMF is urgently needed to prevent this scenario. However, the 'austerity' conditionalities, which will likely be attached to such a package, will almost certainly push the economy into recession this year.

Keywords: Central and East European new EU Member States, Southeast Europe, financial crisis, Balkans, Russia, Ukraine, Kazakhstan, Turkey, economic forecasts, employment, foreign trade, competitiveness, debt, deleveraging, exchange rates, fiscal consolidation

JEL classification: C33, C50, E20, E29, F34, G01, G18, O52, O57, P24, P27, P33, P52

Table 1 / Overview 2012-2013 and outlook 2014-2016

	GDP real change in % against previous year					Consumer prices change in % against previous year					Unemployment, based on LFS rate in %, annual average					Current account in % of GDP				
			Forecast					Forecast					Forecast					Forecast		
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
NMS-11																				
Bulgaria	0.8	0.7	1.5	2.3	2.7	2.4	0.4	1.5	2.0	2.0	12.3	12.9	12.5	12.0	11.5	-1.3	2.1	1.0	0.0	-1.3
Croatia	-1.9	-0.9	0.0	1.0	1.5	3.4	2.3	1.5	1.5	1.5	15.9	17.5	17.5	17.5	17.0	0.0	1.4	0.9	0.8	0.7
Czech Republic	-1.0	-1.4	1.4	2.4	3.0	3.5	1.4	1.7	1.8	1.5	7.0	7.0	7.7	7.3	7.0	-2.4	-1.2	-1.5	-1.6	-1.7
Estonia	3.9	0.7	2.6	3.0	3.2	4.2	3.2	2.5	2.8	3.2	10.0	8.6	7.8	7.2	6.8	-1.8	-1.4	-1.6	-2.0	-2.8
Hungary	-1.7	1.1	1.4	2.1	2.0	5.7	1.7	2.9	3.0	3.0	10.9	10.2	10.0	9.0	8.5	1.0	2.0	1.3	0.9	0.6
Latvia	5.2	4.0	4.2	4.1	3.9	2.3	0.0	1.8	2.2	2.6	15.0	11.7	10.2	9.0	8.0	-2.5	-0.9	-1.4	-2.3	-3.2
Lithuania	3.7	3.4	3.6	3.8	4.0	3.2	1.2	1.5	2.8	3.0	13.4	11.8	10.6	9.7	9.0	-0.2	0.9	-0.3	-0.4	-0.5
Poland	1.9	1.6	2.4	3.2	3.1	3.7	0.9	1.8	2.0	2.0	10.1	10.6	10.8	10.5	10.0	-3.7	-1.5	-2.5	-3.0	-3.1
Romania	0.7	3.5	2.4	2.7	3.0	3.4	3.2	2.5	3.0	3.5	7.0	7.4	7.3	7.0	7.0	-4.4	-1.1	-2.0	-3.0	-3.0
Slovakia	1.8	0.9	2.4	3.0	3.2	3.7	1.5	2.0	3.0	3.0	14.0	14.4	14.0	13.0	12.0	2.2	3.2	3.0	2.5	2.1
Slovenia	-2.5	-1.1	-0.5	0.5	1.4	2.8	1.9	1.9	1.9	1.8	8.9	10.1	11.5	11.5	11.0	3.3	6.5	5.3	4.9	4.5
NMS-11 1)	*0.8*	*1.3*	*2.0*	*2.7*	*2.9*	*3.7*	*1.5*	*2.0*	*2.3*	*2.4*	*9.9*	*10.1*	*10.2*	*9.7*	*9.3*	*-2.1*	*-0.1*	*-0.9*	*-1.4*	*-1.6*
EA-18 2)	*-0.7*	*-0.4*	*1.2*	*1.8*	.	*2.5*	*1.4*	*1.0*	*1.3*	.	*11.4*	*12.1*	*12.0*	*11.7*	.	*1.8*	*2.7*	*2.7*	*2.7*	.
EU-28 1)2)	*-0.4*	*0.1*	*1.4*	*2.0*	.	*2.6*	*1.5*	*1.2*	*1.5*	.	*10.5*	*11.0*	*10.7*	*10.4*	.	*0.9*	*1.7*	*1.7*	*1.7*	.
Candidate countries																				
Macedonia	-0.4	3.0	3.0	3.0	3.0	3.3	2.8	3.0	3.0	3.0	31.0	29.2	29.0	28.0	28.0	-3.0	-2.0	-4.0	-4.0	-4.0
Montenegro	-2.5	2.5	2.1	2.9	3.0	4.1	2.2	3.0	3.0	3.0	19.7	20.0	19.0	19.0	19.0	-18.7	-15.0	-15.4	-15.4	-15.0
Serbia	-1.5	2.4	-0.5	1.0	1.9	7.8	7.8	4.0	4.0	3.0	23.9	23.6	24.0	23.0	23.0	-10.7	-7.0	-6.0	-6.0	-6.0
Turkey	2.2	3.8	2.2	3.5	4.5	9.0	7.5	6.0	6.5	6.8	8.2	8.5	9.0	9.0	8.5	-6.2	-7.9	-3.5	-5.5	-6.5
Potential candidate countries																				
Albania	1.5	1.0	1.7	1.5	1.0	2.0	2.0	1.0	1.0	1.0	13.4	14.0	15.0	15.0	15.5	-10.6	-11.2	-9.5	-8.8	-7.8
Bosnia and Herzegovina	-1.7	0.8	1.9	3.0	3.0	2.0	0.2	1.5	2.0	2.0	28.0	27.5	27.0	27.0	27.0	-9.6	-9.0	-8.0	-7.0	-8.0
Kosovo	2.5	4.0	5.0	4.0	4.0	2.5	1.8	4.0	4.0	3.0	30.9	31.0	29.0	30.0	30.0	-7.7	-6.7	-12.3	-12.9	-10.6
Kazakhstan	5.0	6.0	6.0	6.5	5.5	5.2	5.8	8.0	6.0	6.0	5.3	5.2	5.1	5.0	5.0	0.3	0.1	2.1	4.1	6.7
Russia	3.4	1.3	1.6	2.3	3.0	5.1	6.8	6.0	5.0	5.0	5.5	5.5	5.5	5.5	5.4	3.6	1.6	1.3	0.9	0.9
Ukraine	0.2	0.0	-1.1	0.9	1.8	0.6	-0.3	4.0	5.0	4.5	7.5	7.5	7.5	7.5	7.5	-8.1	-8.9	-7.4	-6.7	-6.0

Note: LFS: Labour Force Survey. NMS: The New EU Member States. EA: Euro area 18 countries.
1) wiiw estimate. - 2) Current account data include transactions within the region (sum over individual countries).
Source: wiiw (March 2014), Eurostat. Forecasts by wiiw and European Commission for EU and euro area.(Winter Report, February 2014).

Table 2 / Central and East European new EU member states (NMS-11): an overview of economic fundamentals, 2013

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	*NMS-11 1)*	*EU-28 2)*
GDP in EUR at exchange rates, EUR bn	40.09	43.99	147.42	18.10	98.70	23.04	34.46	388.33	141.73	72.80	35.27	*1043.9*	*13067.1*
GDP in EUR at PPP, EUR bn	90.04	67.27	217.49	24.90	173.11	35.23	57.45	680.75	285.93	107.54	43.78	*1783.5*	*13067.1*
GDP in EUR at PPP, EU-28=100	0.7	0.5	1.7	0.2	1.3	0.3	0.4	5.2	2.2	0.8	0.3	*13.6*	*100.0*
GDP in EUR at PPP, per capita	12300	15800	20700	18900	17500	17500	19400	17700	14300	19900	21300	*17100*	*25700*
GDP in EUR at PPP per capita, EU-28=100	48	49	81	74	68	68	75	69	56	77	83	*67*	*100*
GDP at constant prices, 1990=100	131.7	105.8	144.7	155.6	125.5	116.2	126.9	203.6 3)	140.8	172.6	151.9	*166.6*	*145.8*
GDP at constant prices, 2007=100	104.1	90.1	100.3	96.8	96.0	91.0	101.2	120.1	105.5	111.1	93.5	*107.8*	*99.5*
Industrial production real, 2007=100 4)	88.1	82.9	97.2	110.3	95.7	104.4	109.6	121.3	121.4	125.0	90.4	*111.0*	*91.9*
Population, thousands, average	7300	4260	10514	1316	9870	2015	2958	38507	20000	5412	2059	*104211*	*508782*
Employed persons, LFS, thousands, average	2935	1380	4937	621	3939	900	1293	15530	9300	2330	906	*44071*	*216660*
Unemployment rate, LFS, in %	12.9	17.5	7.0	8.6	10.2	11.7	11.8	10.6	7.4	14.4	10.1	*10.1*	*11.0*
General gov. revenues, EU-def., in % of GDP	37.0	40.3	40.5	38.0	46.9	35.2	32.2	36.7	32.0	32.9	43.0	*36.1*	*45.7*
General gov. expenditures, EU-def., in % of GDP	38.5	45.8	43.0	38.5	49.6	36.5	35.0	41.5	34.5	35.9	58.0	*39.4*	*49.2*
General gov. balance, EU-def., in % of GDP	-1.5	-5.5	-2.5	-0.5	-2.7	-1.3	-2.8	-4.8	-2.5	-3.0	-15.0	*-3.4*	*-3.5*
Public debt, EU def., in % of GDP	20.0	62.0	49.0	10.2	79.7	41.0	41.5	58.2	38.0	54.3	75.0	*53.4*	*89.4*
Price level, EU-28=100 (PPP/exch. rate)	45	65	68	73	57	65	60	57	50	68	81	*59*	*100*
Compensation per employee, monthly, in EUR 5)	500	1435	1281	1306	961	1011	990	975	691	1227	2013	*984*	*2956*
Compensation per employee, monthly, EU-28=100	16.9	48.5	43.3	44.2	32.5	34.2	33.5	33.0	23.4	41.5	68.1	*33.3*	*100.0*
Exports of goods in % of GDP	55.4	20.9	70.9	67.7	79.5	43.7	71.2	40.0	35.0	89.4	62.6	*53.0 6)*	*33.6 6)*
Imports of goods in % of GDP	61.2	35.2	65.6	72.3	75.2	52.8	74.2	39.4	37.4	83.4	60.7	*52.7 6)*	*33.0 6)*
Exports of services in % of GDP	14.1	21.6	11.6	24.3	16.1	15.9	15.5	7.8	7.3	7.7	15.4	*10.8 6)*	*11.4 6)*
Imports of services in % of GDP	8.9	6.4	10.3	17.9	12.6	8.8	11.6	6.5	5.5	7.3	9.7	*8.2 6)*	*8.2 6)*
Current account in % of GDP	2.1	1.4	-1.2	-1.4	2.0	-0.9	0.9	-1.5	-1.1	3.2	6.5	*-0.1 6)*	*1.7 6)*
FDI stock per capita in EUR, 2012	5183	5636	9834	11110	7847	5069	4072	4427	2803	7818	5695	*5375*	*11616*

NMS-11: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. PPP: Purchasing power parity.
1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) 1989=100, which in the Polish case is the appropriate reference year. - 4) EU-28 working-day adjusted. - 5) Gross wages plus indirect labour costs, according to national account concept. - 6) Data for NMS-11 and EU-28 include transactions within the region (sum over individual countries).
Source: wiiw Annual Database, Eurostat, AMECO.

Table 3 / Southeast Europe and selected CIS countries: an overview of economic fundamentals, 2013

	Macedonia	Monte-negro	Serbia	Turkey	Albania	Bosnia - Herzegovina	Kosovo	Kazakhstan	Russia	Ukraine	*NMS-11 [1]*	*EU-28 [2]*
GDP in EUR at exchange rates, EUR bn	7.89	3.20	32.72	623.57	9.84	13.34	5.20	165.87	1577.69	136.07	*1043.9*	*13067.1*
GDP in EUR at PPP, EUR bn	19.50	6.71	67.69	1086.97	22.47	27.90	10.40	305.79	2661.18	303.81	*1783.5*	*13067.1*
GDP in EUR at PPP, EU-28=100	0.1	0.05	0.5	8.3	0.2	0.2	0.1	2.3	20.4	2.3	*13.6*	*100.0*
GDP in EUR at PPP, per capita	9400	10800	9500	14300	7900	7300	5600	17900	18600	6700	*17100*	*25700*
GDP in EUR at PPP per capita, EU-28=100	37	42	37	56	31	28	22	70	72	26	*67*	*100*
GDP at constant prices, 1990=100	123.9	.	.	245.2	208.7	.	.	183.9	117.7	69.3	*166.6*	*145.8*
GDP at constant prices, 2007=100	112.9	106.6	103.7	120.6	121.9	103.4	127.6	134.2	110.8	95.6	*107.8*	*99.5*
Industrial production real, 2007=100 [3]	98.0	71.9	95.5	116.9	140.2	113.4	139.0	123.5	108.0	84.7	*111.0*	*91.9*
Population, thousands, average	2070	622	7100	75860	2840	3832	1829	17037	143000	45490	*104211*	*508782*
Employed persons, LFS, thousands, average	675	210	2311	25700	1100	822	303	8580	71391	20350	*44071*	*216660*
Unemployment rate, LFS, in %	29.2	20.0	23.6	8.5	14.0	27.5	31.0	5.2	5.5	7.5	*10.1*	*11.0*
General gov. revenues, nat. def., in % of GDP	28.9	41.0	39.7	37.6 [4]	24.0	43.5	35.0	19.0	36.1	30.7	*36.1 [4]*	*45.7 [4]*
General gov. expenditures, nat. def., in % of GDP	32.9	45.0	44.5	39.3 [4]	30.0	46.0	37.0	21.1	37.4	35.1	*39.4 [4]*	*49.2 [4]*
General gov. balance, nat. def., in % of GDP	-4.0	-4.0	-4.8	-1.7 [4]	-6.0	-2.5	-2.0	-2.1	-1.3	-4.4	*-3.4 [4]*	*-3.5 [4]*
Public debt, nat. def., in % of GDP	36.0	58.5	62.2	34.6 [4]	70.0	43.0	6.3	13.5	10.5	40.5	*53.4 [4]*	*89.4 [4]*
Price level, EU-28=100 (PPP/exch. rate)	40	48	48	57	44	48	50	54	59	45	*59*	*100*
Average gross monthly wages, EUR at exchange rate	503	726	537	664 [5]	291	665	362 [6]	538	708	308	*984 [5]*	*2956 [5]*
Average gross monthly wages, EU-28=100	17.0	24.6	18.2	22.5 [5]	9.9	22.5	12.2	18.2	24.0	10.4	*33.3 [5]*	*100.0 [5]*
Exports of goods in % of GDP	40.6	12.8	29.1	19.7	17.8	20.8	6.0	37.9	24.9	35.9	*53.0 [7]*	*33.6 [7]*
Imports of goods in % of GDP	61.7	54.1	44.5	29.4	33.5	50.1	44.2	22.5	16.4	46.8	*52.7 [7]*	*33.0 [7]*
Exports of services in % of GDP	10.8	34.4	10.1	5.6	15.8	11.1	12.5	2.3	3.3	11.4	*10.8 [7]*	*11.4 [7]*
Imports of services in % of GDP	10.3	13.3	9.4	2.8	16.3	2.8	5.8	5.4	6.2	8.9	*8.2 [7]*	*8.2 [7]*
Current account in % of GDP	-2.0	-15.0	-7.0	-7.9	-11.2	-9.0	-6.7	0.1	1.6	-8.9	*-0.1 [7]*	*1.7 [7]*
FDI stock per capita in EUR, 2012	1817	6452	2686	1809	1327	1461	.	5595	2614	1221	*5375*	*11616*

NMS-11: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia. PPP: Purchasing power parity, wiiw estimates for Kazakhstan, Russia and Ukraine; IMF for Kosovo.
1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) EU-28 working-day adjusted. - 4) EU definition: expenditures and revenues according to ESA'95, excessive deficit procedure. - 5) Gross wages plus indirect labour costs, according to national account concept. - 6) Average net monthly wages. - 7) Data for NMS-11 and EU-28 include transactions within the region.
Source: wiiw Annual Database, Eurostat, AMECO.

External environment

MICHAEL LANDESMANN

The impact of the external environment on developments in the countries of Central, East and Southeast Europe (CESEE) will be characterised by the following features over the next couple of years:

› A relatively subdued recovery in the euro area and more rapid growth in the United States and other advanced economies

› Gradual reform processes relating to EU governance and policy coordination and their contribution to the recovery of the banking sector and economic activities

› Uneven growth at the global level with Asian and other emerging economies displaying comparatively high growth rates

› A gradual shift of US monetary policy ('tapering') and its ripple effect on international financial flows, revealing the vulnerability of a sub-set of emerging economies with weak current accounts and debts accrued over previous years

› Commodity prices and energy price developments remain flat (implications of the current Ukraine crisis and related developments with Russia not accounted for)

Five to six years have elapsed since the global financial crisis erupted; it is now time for Europe to set out on the path to recovery. The period since the outbreak of the crisis corresponds roughly to the time-span which Carmen Reinhart and Kenneth Rogoff estimated as the average time it takes for countries to recover from an economic crisis induced by a deep financial crisis (see their widely discussed study *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2009). In fact, the advanced economies are expected to record positive growth in both 2014 and 2015. This holds true for the euro area which is expected to grow at 1.2% in 2014 and 1.8% in 2015 after having gone through a period of recession in 2012 and 2013 – with GDP growth rates of -0.7% and -0.4%, respectively. This is in contrast to the United States which started out on the road to recovery at an earlier stage, registering growth rates of 2.8% in 2012 and 1.9% in 2013 and is expected to grow at close to 3% in 2014 and 2015.

The consensus amongst economists is that a number of factors contributed to the recovery in the United States being more rapid and robust than in Europe. Four major contributory factors were:

› the fiscal reaction to the financial crisis being markedly more pronounced in the United States than in Europe – particularly in the first three years of the crisis, when fiscal deficits were high and the initial surge in the public debt to GDP ratio was far stronger in the United States than in the EU;

› the US Federal Reserve showing more resolve than the European Central Bank in its monetary policy response, in particular its use of unorthodox measures (the so-called ‘quantitative easing’);

› both the bank restructuring process and bank consolidation policy going ahead much more swiftly in the United States than in Europe where the moves to restructure the banking system were, and still are, both hesitant and very slow;

› the correction of the internal imbalances plaguing the EU imposed an ‘austerity bias’ on the group of interrelated economies within the euro area and the associate economies.

The current external economic environment appears to favour growth in the CESEE countries. With even the economies of Southern Europe, such as Spain and Italy, emerging from recession (see Figure 1) in tandem with world output growth picking up speed from its current level of 3.0% and rising to expected rates of 3.7% in 2014 and 3.9% in 2015 (International Monetary Fund, World Economic Outlook (WEO) Update, January 2014), the mild recovery in the euro area will engender a global economic climate that also favours growth in the CESEE countries. Three factors, however, will restrain European growth at its current low level.

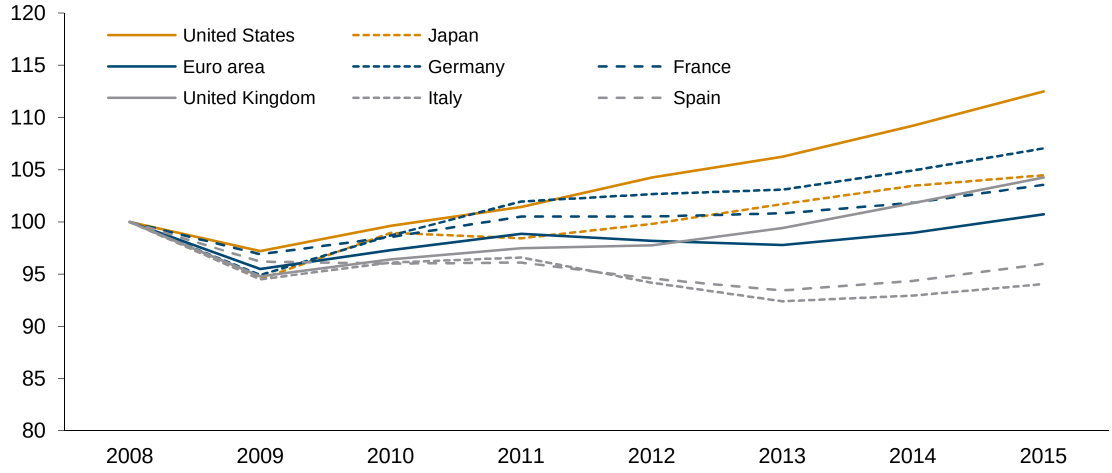
› the lack of progress in dealing with the issue of ailing European banks, linked as it is to the very slow progress towards establishing a banking union in the euro area, where bank consolidation remains almost wholly within the purview of national authorities;

› the persistent nature of the fiscal consolidation process which has – in the eyes of policy-makers – taken on even greater urgency on account of the ever increasing levels of debt resulting from low growth and the periods of recession in previous years; and

› the disinflationary – in some countries deflationary – climate that acts as a drag on both deleveraging and spending.

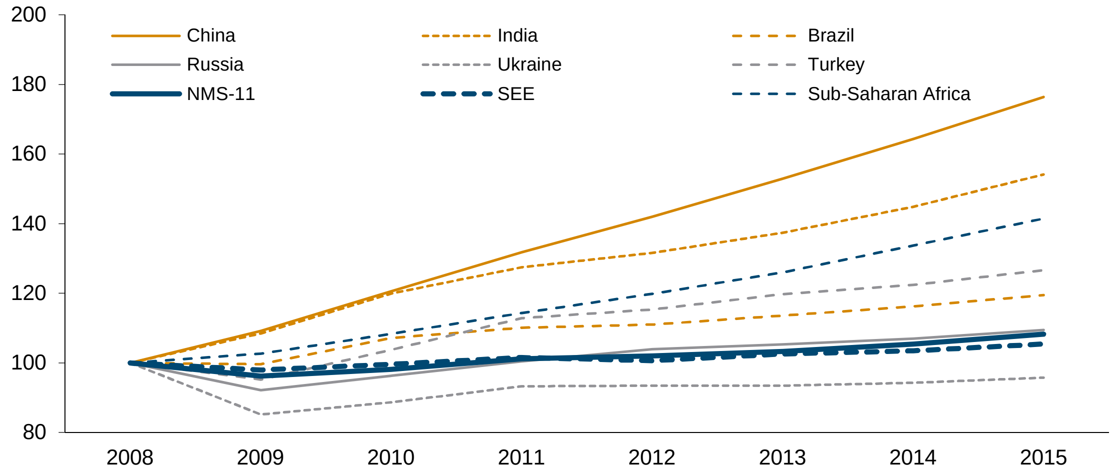
Consequently, the European economy will continue to operate below potential. In keeping with most international forecasts (see European Commission, Quarterly Report of the Euro Area, vol. 12, no. 4, 2013; International Monetary Fund, WEO Update 2014) we envisage the European economy continuing to operate below potential for the next few years as a result of the contributory factors described above. Those factors bear implications in terms of unrelentingly high unemployment rates and hysteretic effects on long-term growth (discouragement effects on activity rates, skills erosion, reduced levels of infrastructure spending, less venture finance and reduced R&D expenditure). In its central (‘no policy change’) scenario, the Directorate General for Economic and Financial Affairs of the European Commission (see European Commission, ibid., Table I.2) projects that the potential output growth of the euro area for the period 2014-2023 will be a mere 1.1% p.a., while that of the GDP per capita growth rate will be 0.9% p.a. (the estimates for the United States over the same period are 2.5% and 1.8%, respectively). All that would imply a considerable broadening of the income gap between the United States and Europe over the ten-year period. Of course, evaluating all those long-term effects is a difficult task. A more optimistic scenario could emerge featuring a major drive to resolve the policy coordination and imbalances problems in the European Union over the medium term that would ultimately yield markedly different projections of long-term growth.

Figure 1 / Overview of the World Economic Outlook Projections. Development of GDP, 2008 = 100



Source: Forecasts by European Commission for EU and euro area (Winter Report, February 2014). For US and JP: IMF, World Economic Outlook, January 2014.

Figure 2 / Development of GDP, 2008 = 100

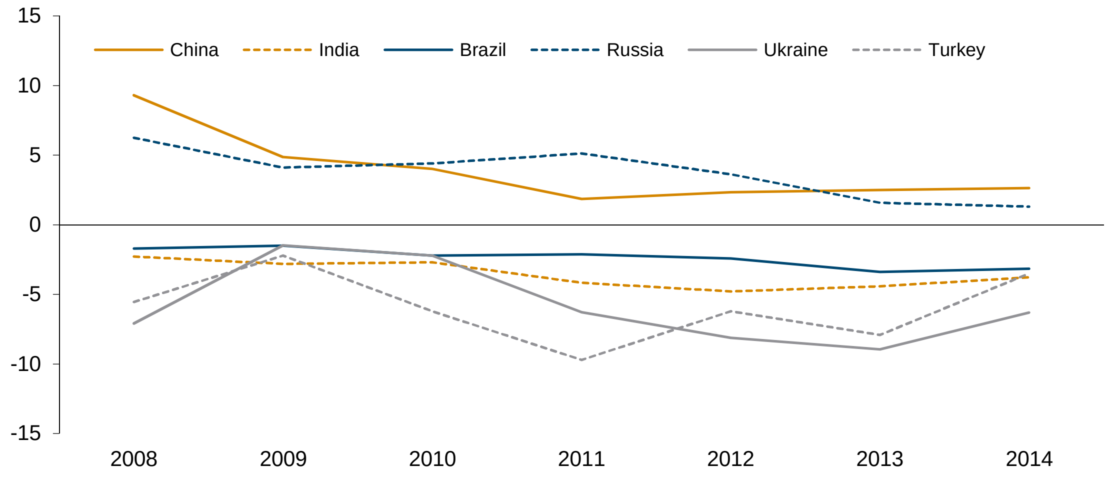


Source: wiiw Annual Database and wiiw forecasts. For CN, IN, BR and Sub-Saharan Africa: IMF, World Economic Outlook, January 2014.

Countries with large current account deficits, such as Turkey, will be affected by the announced change in the US Federal Reserve's monetary policy. An important factor, a corollary to the recovery of the US economy, will be the impact on a sub-set of emerging economies of the gradual shift away from the US Federal Reserve Bank's 'quantitative easing' policy (and thus towards somewhat higher interest rates in the long term in the United States and other advanced economies). We have recently witnessed significant reversals of capital flows in economies such as Argentina, Indonesia, South Africa and Turkey, all of which were recipients of major capital inflows in the past when interest rates in the advanced economies were extremely low. The reversal of capital flows was triggered by hints of so-called 'tapering' (reduced bond purchases by the US Federal Reserve Bank) and posed a severe threat to the emerging economies. Capital outflows or even expectations thereof can bring about higher risk premia, leading to deterioration in financing conditions and rescheduling problems. That, in turn, increases the risk of bad debts and can induce abrupt flights of capital. As a consequence, exchange rates come under significant pressure and fears of forex loans not being repaid loom large, thus reinforcing the destabilisation process. The economies most affected are those that incurred high current account deficits over the previous years matched by a massive increase in private sector debt. Some of these countries also pursued an inflexible monetary policy and were unwilling or unable to react in time to changing financial conditions, Turkey being very much a case in point.

Differentiated growth in emerging economies, energy and commodity prices and current account developments. In the countries where high current account deficits had built up over previous years, we can expect a series of exchange rate adjustments over the years to come as the countries so affected re-equilibrate their current accounts and witness an increase in inflationary pressures and a slowdown of growth. Other economies in the developing world (China, India and Sub-Saharan Africa, see Figure 2) are expected to maintain comparatively high growth rates (albeit lower than those achieved in earlier years) significantly outstripping low- or medium-income economies in Europe. Finally, energy prices are expected to fall in relative terms over the next two years on account of shale gas and fracking, as well as the possible lessening of tension with Iran. Similarly, given the moderate recovery of the global economy, commodity prices are also expected to drop in relative terms. In the ultimate analysis, the export revenues of energy exporters, such as Russia, and commodity producers, such as Brazil, will shrink. This will be reflected in a drop in Russia's current account surpluses and an increase in Brazil's projected current account deficits (see Figure 3).

Figure 3 / Current account, % of GDP



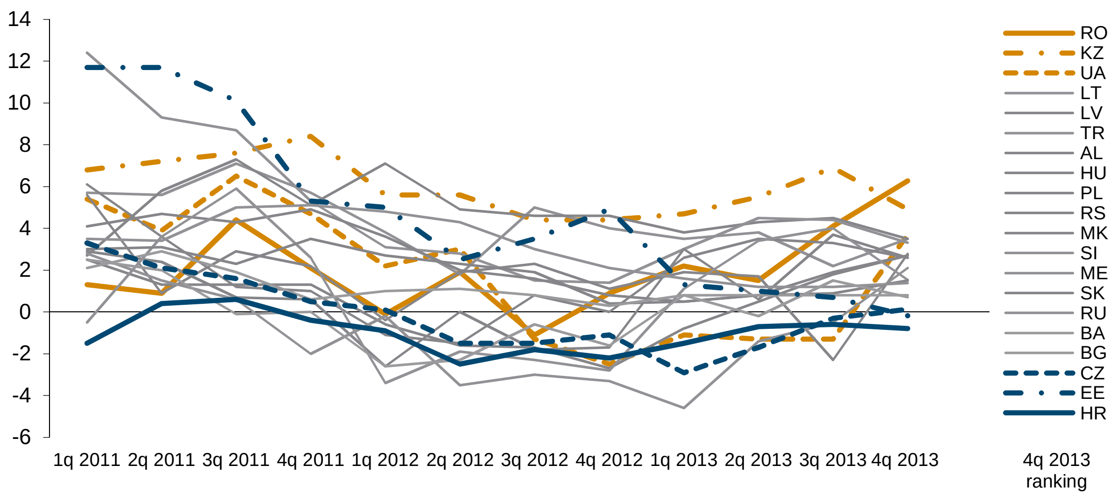
Source: wiiw Annual Database and wiiw forecasts. For CN, IN and BR: IMF, World Economic Outlook, January 2014.

Investment-led growth in the CESEE countries: a base effect or signs of a paradigm shift

VLADIMIR GLIGOROV AND MARIO HOLZNER

Over the past few quarters GDP growth in Central, East and Southeast Europe (CESEE) has been rather weak. That notwithstanding, in the course of 2013 most CESEE countries registered an upward movement in economic activity compared to the previous year, when the region suffered the second dip in the double-dip great recession. Those developments also tracked the fragile recovery in the euro area. In the first quarter 2012, almost half of the CESEE economies re-entered negative territory year-on-year; by the fourth quarter, average growth was close to zero. From the first to the final quarter 2013, the average annual economic growth rose from 1% to 2%. Preliminary figures for the fourth quarter 2013 suggest that almost all CESEE countries have returned to positive territory, the most notable exception being Croatia stuck at the bottom of the regional league. Both economies had been constantly shrinking since the fourth quarter 2011. The top performers in 2013 were the economies on the fringes of Europe, such as Kazakhstan, Latvia and Turkey. The three countries registered growth rates of some 4-5% that might, however prove unsustainable, at least in the case of Turkey, confronted as it is by a sell-off in emerging markets.

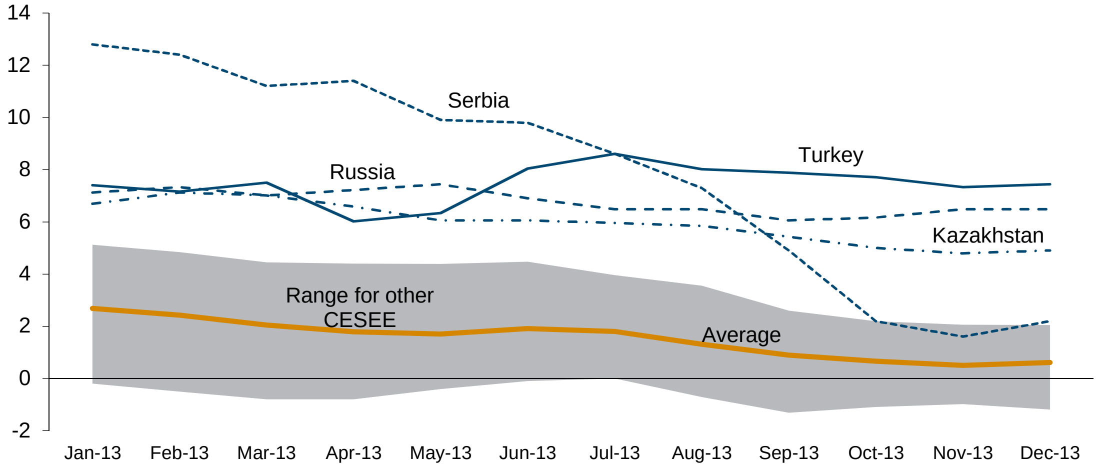
Figure 4 / Development of quarterly GDP, real change in % against preceding year



Remark: Highlighted lines represent top 3 and bottom 3 countries referring to growth of 4th quarter 2013.
Source: National and Eurostat statistics.

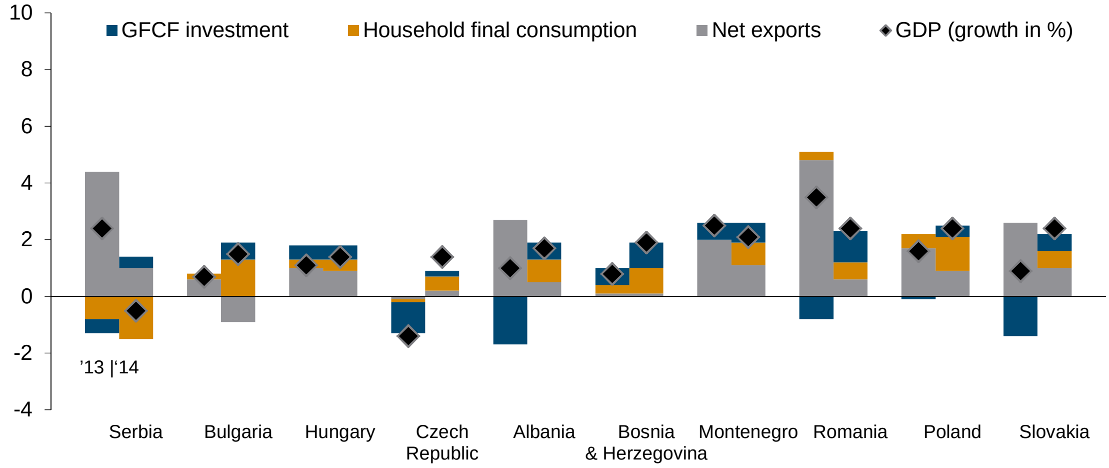
Strong deflationary pressures have built up in the region: a matter of major concern, especially for private and public debtors. While disinflation in terms of consumer prices was standard for almost all CESEE economies in 2013, a few countries (Bosnia and Herzegovina, Bulgaria and Latvia in particular) stumbled into full-blown deflation late that summer. By the end of the year annual consumer price inflation had on average slowed down to about 1.5%. Those trends were even more pronounced when taking producer prices in industry into account; by the end of 2013 more than half of the CESEE countries had ‘gone south’. Stagnating or even falling consumer prices are partly due to the stabilisation of world food and energy prices; in most cases they are symptomatic of weak aggregate demand. Entering a deflationary spiral is a major threat. Only a few economies, such as Turkey, Russia and Kazakhstan, recorded higher rates of inflation: some 5-7% per year.

Figure 5 / Consumer prices, change in % against preceding year



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

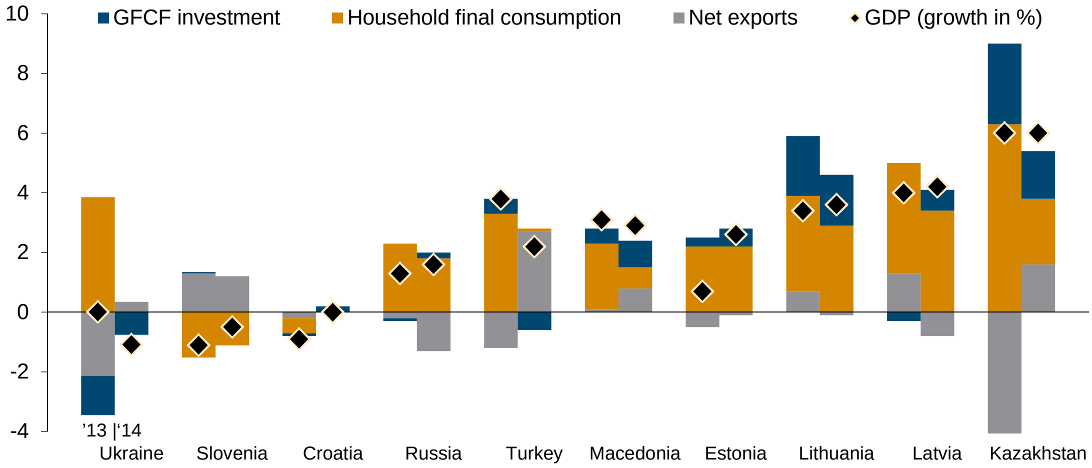
Figure 6 / GDP growth in 2013, 2014 in % and contribution of individual demand components in percentage points, flat household consumption countries



Remark: Ordered by 2014 growth rates.
Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

With the exception of the Baltic countries and the European periphery, household consumption has been flat. In the Baltic countries, a wage rebound is fuelling household expenditures. Moreover, this trend is likely to continue in the years to come, as Baltic governments have announced their intention to raise minimum wages and unfreeze public sector wages and pensions in an attempt to make up for the misery suffered under the previous harsh austerity measures. In other former Soviet republics, current consumption growth is partly credit-fuelled. Consumption was high in 2013; it is also expected to continue to lead GDP growth throughout our forecast period 2014-2016 − albeit at a somewhat slower rate compared to previous years. This projection holds only partly true for Turkey, which, having registered strong consumption growth in 2013, will have to rely more on net exports in 2014 and beyond following a marked devaluation of the national currency in recent months. However, in all the other CESEE economies private consumption has stagnated or even dropped over the past few quarters. Even though future quarters might bring some improvement, overall private consumption will not necessarily lead the way out of the slump.

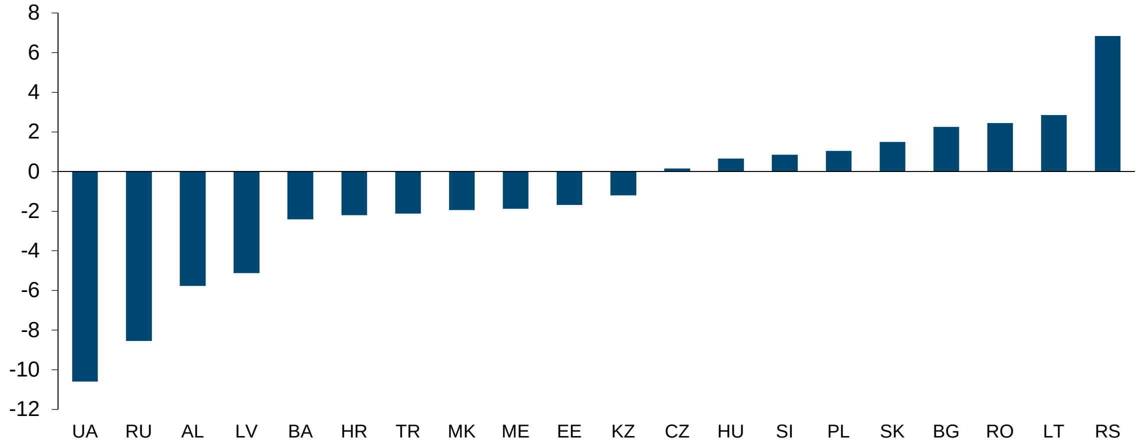
Figure 7 / GDP growth in 2013, 2014 in % and contribution of individual demand components in percentage points, dynamic household consumption countries



Remark: Ordered by 2014 growth rates.
Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

In the core CESEE countries net exports have been on the rise; however, the increase is mostly due to stagnating or falling imports attributable to weak domestic demand. Monthly trade data suggest that since mid-2013 the majority of CESEE economies have recorded negative import developments in euro terms compared to the previous year. The other countries in the region recorded hardly anything other than stagnation. Only Serbia enjoyed a marked increase in imports. This is mainly related to the rise in production of the new 500L model at the Fiat automotive assembly plant in Kragujevac. For the same reason Serbia was the only CESEE country in late 2013 to record high double-digit nominal export growth rates year-on-year. Export growth rates of around 10% were registered in Albania, Romania and Bulgaria in the second half of 2013. The remaining countries fall into two discrete groups: a central group with little or no growth in exports; and a peripheral group of former Soviet republics (including Latvia and Estonia) as well as Turkey, Montenegro and Croatia, all of which were recently confronted by a significant shrinkage in nominal exports. In the latter case, the contraction is related to the shipyards being downsized after Croatia joined the EU and thus had to comply with the Union's anti-subsidy rules. In the case of the smaller economies in the peripheral group, lack of growth is often related to production problems in one major enterprise as evidenced by production grinding to a halt in Liepajas metalurgs in Latvia. In the larger countries in the peripheral group, dependence on (falling) world commodity prices is an issue. Overall, for the most part real trade developments resemble nominal trade developments (for a detailed description of recent changes in current, capital and financial accounts in the CESEE countries, see our special section I). Despite improved growth prospects in the euro area, the region's main trading partner, we do not expect an increase in net exports in the core CESEE countries in 2014 and beyond, since imports are likely to rebound once private consumption picks up, however slightly. In a number of peripheral countries the net export outlook differs somewhat as domestic household consumption cooled off recently. Furthermore, at the same time some of those countries had to devalue their national currencies.

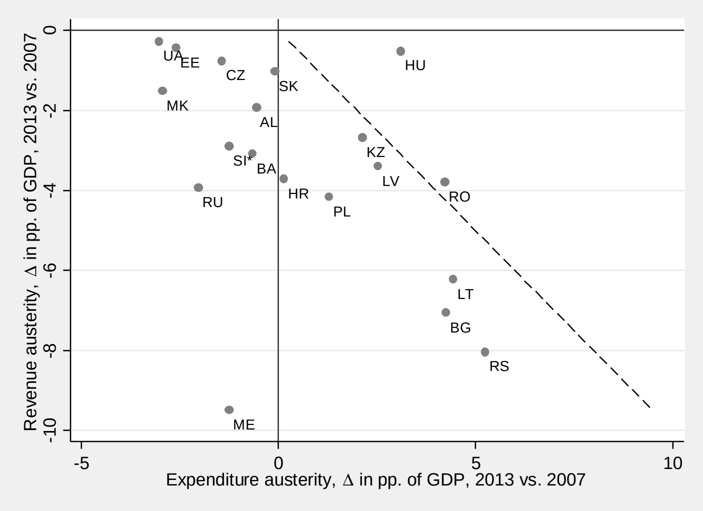
Figure 8 / Imports of goods, change in % against preceding year, 2H2013 vs. 2H2012, current EUR



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Investment seems to be pulling out of the doldrums. Apart from some of the former Soviet republics and Macedonia with its humongous monuments programme, all of which have recorded more or less solid rates of growth in gross fixed capital formation for quite a while, the core CESEE economies have only recently departed troubled waters. In the final quarter 2012, the bulk of NMS and Western Balkan countries still faced contracting real investment rates. Only more recently did some of them manage to reach calmer patches and record positive investment growth in the third quarter of 2013. However, at that very point in time, which in most cases is our last point of reference, some of the major economies in the region were still disinvesting, as evidenced by the Czech Republic, Slovakia, Romania, Serbia and Ukraine. Investments also dropped in Russia – the Sochi Olympics notwithstanding. None the less, the general expectation is that investment has bottomed out and by and large will start increasing throughout most of the CESEE countries in 2014 and beyond. While this might also be a statistical base effect, there is every reason to believe that there is more to it than that. Higher growth forecasts for the euro area might prompt exporters across the region to start modernising and expanding production facilities. When the EU multiannual financial framework (MFF) for 2007-2013 neared its close, the NMS started applying for as many EU-funded projects as possible in order to increase the absorption rate of the funds allocated. As a consequence, we can expect a substantial increase in EU-funded investment projects over the period 2014-2015, when on the one hand disbursement of funds from the earlier MFF will continue and on the other hand, the new MFF for 2014-2020 will only be at a very initial stage. Given that most of the projects have to be co-financed by national governments, we can also expect public capital investment to increase markedly.

Figure 9 / General government revenue and expenditure austerity



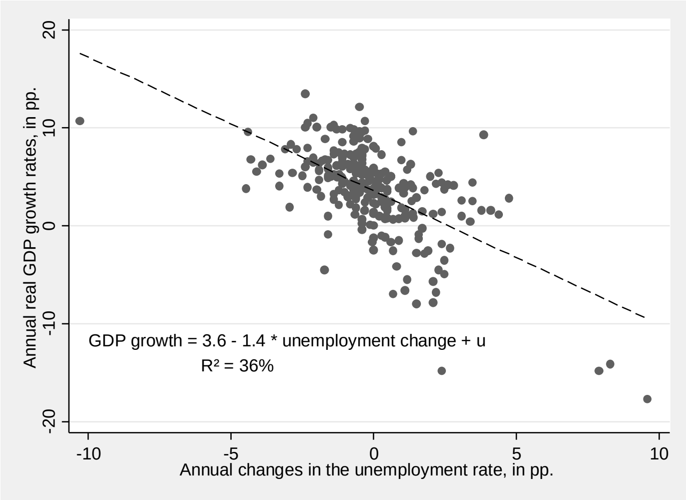
Note: * Slovenia excluding bank bailout. Positive values of revenues and expenditures, expressed in actual 2013 GDP percentage points differences between counterfactual 'at potential' and actual shares, hint at fiscal austerity and reduced national income.
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

In net terms government activity in the region appears to be more supportive of growth than its reputation for 'austerity' would suggest. But how can we measure austerity? Using an estimate of potential output based on Okun's law, which relates unemployment to losses in a country's output (Box 1 below provides more details), we can make an attempt at measurement. By extrapolating data from the pre-crisis year 2007 pertaining to general government revenues and expenditures as a percentage of GDP and drawing on the change in the estimated output gap, we can obtain counterfactual shares for 2013. Those findings can then be related to the actual revenue and expenditure shares in 2013. The resulting difference should provide us with a rough measure of austerity. Hence, positive values of both revenues and expenditures, expressed as actual 2013 GDP percentage point differences, hint at fiscal austerity and reduced income, whereas negative values point to an expansionary fiscal stance and income creation. Based on that measure, about half of the CESEE economies are characterised by expansionary revenue and expenditure policies. The other economies pursue 'loose' revenue policies, but adopt a tough austerity stance where expenditures are concerned. In net terms, however, only Hungary and Romania have put a public sector choke on the economy. Nevertheless, results have to be interpreted with caution as comparing the two years is rather like taking a snapshot: an approach that is invariably somewhat arbitrary.

BOX 1 / OKUN'S LAW AND THE 'OUTPUT GAP'

Okun's law refers to an empirically observed relationship between a country's unemployment and losses in output. Based on US data, the law originally stated that a 2% increase in output corresponded to a 1% decline in the rate of unemployment. We have re-calculated that relationship for a pool of 19 CESEE economies over a period of 14 years. For that group of countries and given the incontrovertible turbulence of the period selected, we find that an increase of 1 percentage point in unemployment is related to a decrease of 1.4 percentage points in GDP growth.

Figure 10 / Pooled regression of GDP growth in selected CESEE countries on changes in unemployment (2000-2013)



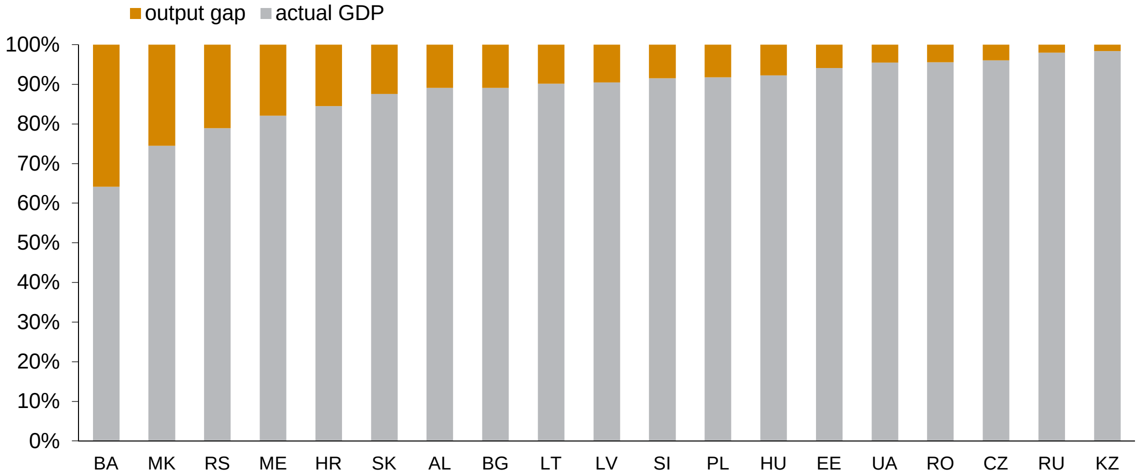
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

Starting from this relationship we can define an 'output gap version' of Okun's law as follows:

$$\boldsymbol{c * (u - \bar{u}) = (\bar{Y} - Y)/\bar{Y},}$$

where c is the absolute value of the regression coefficient estimated above relating changes in unemployment to changes in output, u is the actual unemployment rate, $\bar{u}$ is a 'natural' or 'normal' rate of unemployment in a state close to full employment (Okun has assumed this to be 4%; that is also our working assumption), $\bar{Y}$ is potential output and Y is actual output. Using the left hand side of the identity above it is possible to estimate the potential 'output gap' for each country and year separately. Obviously the result is very much driven by the rate of unemployment. The latter is extremely high in the Western Balkan countries, where we can discern 'output gaps' in the order of 30 - 15% of potential GDP. Most NMS display 'output gaps' of around 10%, while the gap in the CIS economies is estimated to be single-digit. Especially in the extreme cases on both tails of the distribution, the correct measurement of the unemployment rate might pose a potential problem when estimating the 'output gap' in the CESEE countries.

Figure 11 / Actual GDP and output gap in % of potential GDP, 2013

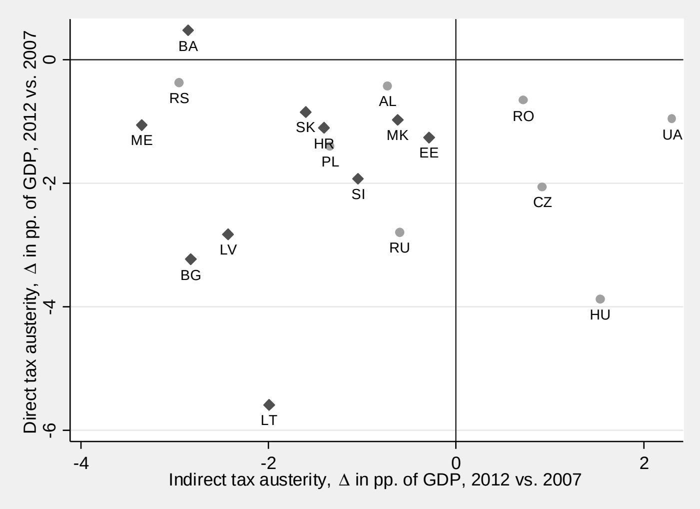


Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

However, in all likelihood the assumed expansionary revenue stance is largely due to the impact of automatic stabilisers. In the wake of the crisis in most CESEE countries, both direct (income taxes) and indirect (VAT and excise duties) tax revenues decreased as income and consumption went down. However, it would appear that a few countries, more precisely Romania, Ukraine, the Czech Republic and Hungary, have actively increased indirect tax rates. Interestingly enough, all four economies ran a flexible exchange rate regime that allowed for a certain degree of nominal cushioning in the event of external shocks during the crisis. That flexibility might have granted them more manoeuvring space in fiscal matters, which they apparently used to introduce counter-cyclical consumption tax increases. It is also interesting to note that throughout the crisis no major changes in the exchange rate regime were to be observed in the CESEE countries, with the exception of Ukraine and Kazakhstan, both of which moved from fixed to flexible exchange rates.

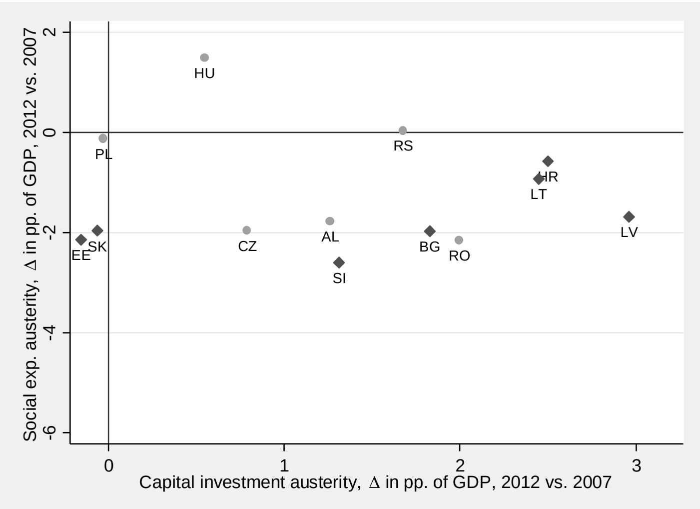
Although automatic stabilisers have also done what is expected of them in terms of social expenditures, almost all CESEE governments have introduced massive cuts in public investments. With the exception of Hungary, all the countries in the region (given data availability) have by and large demonstrated a sense of social responsibility and have permitted an increase in social expenditures in the course of the crisis, hence the negative indicator relating to their social expenditure austerity measures. In stark contrast thereto, most governments have greatly reduced their public capital investments in such areas as transport infrastructure, schools and hospitals, as well as public utilities (to name but a few). Those investments are often the first items in a budget that can be cut without a major public outcry at a time of economic crisis when tax revenues are dropping and social benefit claims exploding. Once again, it is interesting to consider possible differences in fiscal policy choices in the light of the exchange rate regime in use. A loose cluster of flexible exchange rate economies would appear to have been less generous in terms of social expenditures, yet less austere in terms of cuts in public capital investment.

Figure 12 / General government direct vs. indirect taxation austerity



Note: Positive values of tax revenues, expressed in actual 2012 GDP percentage point differences between counterfactual 'potential' and actual shares, hint at fiscal austerity and reduced national income. Diamonds represent countries with fixed exchange rate regimes as opposed to flexible regimes.
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

Figure 13 / General government social expenditure vs. capital investment austerity

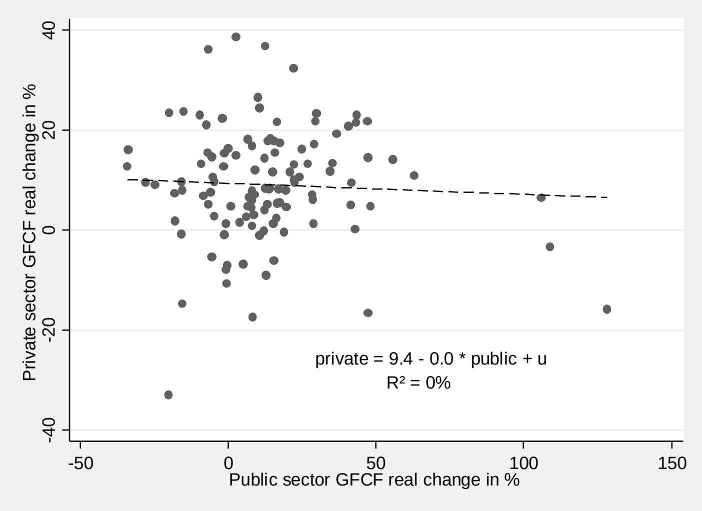


Note: Positive values of expenditures, expressed in actual 2012 GDP percentage point differences between counterfactual 'potential' and actual shares, hint at fiscal austerity and reduced national income. Diamonds represent countries with fixed exchange rate regimes as opposed to flexible ones.
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

Whereas during a boom period public and private investment would appear to be unrelated, that relationship is very different in times of crisis, when public investment has the potential to kick-start private investment. As a matter of fact, the correlation coefficient between pooled private and public gross fixed capital formation (GFCF) growth rates in the pre-crisis boom period 2000-2008 was virtually zero, a positively sloped regression line emerges from the scatter plot for the crisis period 2009-

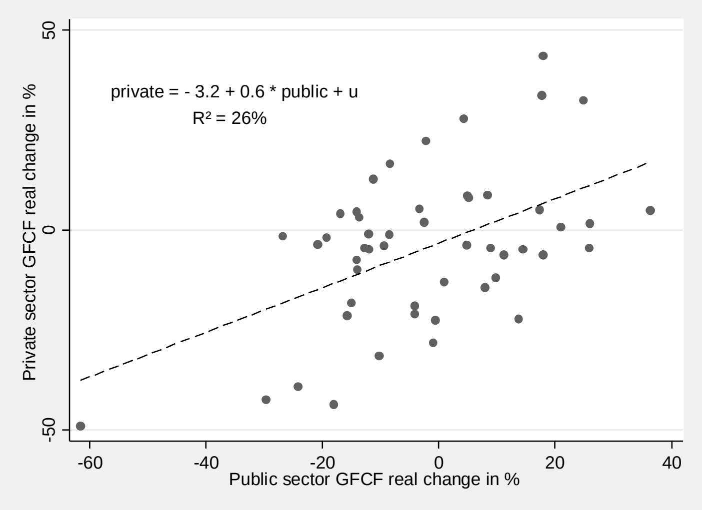
2012. The interpretation goes as follows. A 1 percentage point year-on-year real increase in public gross fixed capital formation is related to a 0.6 percentage point increase in private GFCF, for the sample of CESEE economies during the crisis period. Although a causal relationship is difficult to prove and reverse causality might be an issue, we conjecture that, in periods of increased uncertainty, the private sector is loath to invest, whereupon public investment has to take the lead, with private investors following in its slipstream.

Figure 14 / Public and private GFCF growth in 15 CESEE countries (2000-2008)



Source: National and Eurostat statistics, own calculation.

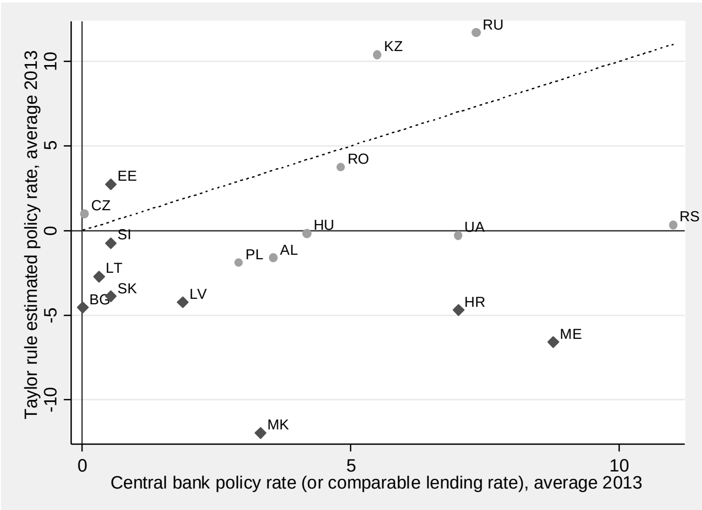
Figure 15 / Public and private GFCF growth in 15 CESEE countries (2009-2012)



Source: National and Eurostat statistics, calculation.

High interest rates constitute a major impediment for many investors in the CESEE countries. The so-called ‘Taylor Rule’ is both a positive and normative rule of thumb used to assess central bank interest rate policy. In its original basic form, the nominal policy rate should be the sum of the inflation rate, plus the 'output gap' and the 'inflation gap' both weighted by 0.5, and the equilibrium interest rate. We can take the 'output gap' from the earlier estimate (as described in Box 1 above). The 'inflation gap' is the difference between the current inflation rate and the respective central bank's inflation target (or its peer group's target if no country-specific target has been set). Instead of the equilibrium interest rate, we can also take the target inflation rate. The outcome of this exercise for 2013 is as follows. The central bank policy rate (or average lending rate, if no policy rate exists) in the vast majority of CESEE economies is far too high compared to the Taylor Rule estimate. According to the latter, most of the countries should have a negative nominal interest rate: something that obviously poses a problem on account of the zero lower bound. A group of Western Balkan economies with fixed exchange rate regimes display particularly high interest rates. There may be several reasons for this, such as high-risk premia, the need to defend the current exchange rate or the ongoing deleveraging process and stricter lending standards. At the same time, increasingly large amounts of private investment might be financed via the cash-flow (for more information on the financing conditions of the private sector in the CESEE countries, see our special section II).

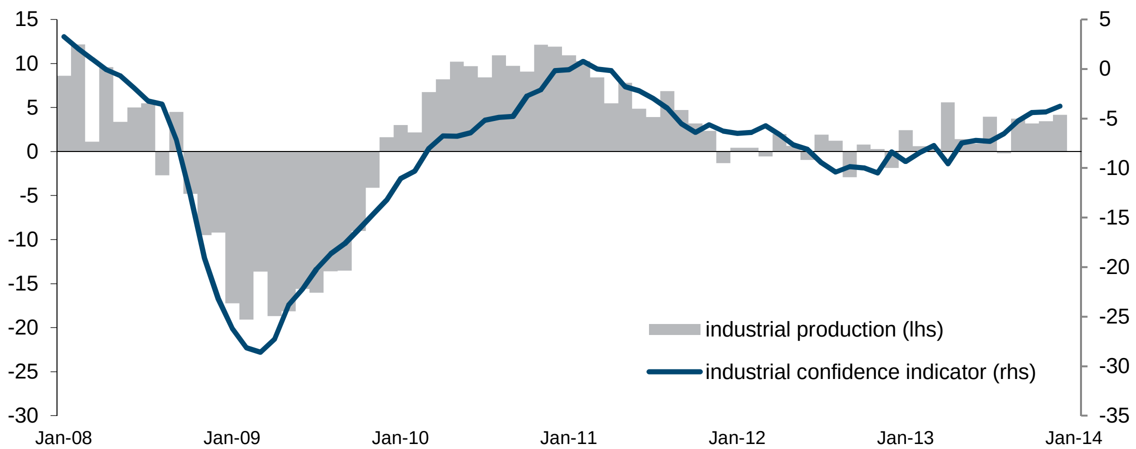
Figure 16 / Actual vs. Taylor Rule estimated interest rate, 2013



Note: Diamonds represent countries with fixed exchange rate regimes as opposed to flexible regimes.
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

On a positive note, by and large confidence in the economy can be seen to be on the rise, as is industrial production. With only few exceptions, across the region the final months of 2013 displayed steady growth in gross industrial production year-on-year. On average, industrial production in the CESEE countries had already started rising as of late 2012. The mean indicator of industrial confidence, however, only commenced increasing in mid-2013. Furthermore, when considering that indicator over a longer time-series, it would appear to have rather weak forward-looking properties. However, in addition to assessing recent production trends, the indicator should also refer to current order book and stock levels. It should also point to expectations relating to future production, selling prices and employment. None the less, the general trend seems to 'point north'.

Figure 17 / CESEE gross industrial production and industrial confidence indicator, production change in % against preceding year / industrial confidence in pp.



Remark: Average over available countries.
Source: wiiw Monthly Database incorporating national and Eurostat statistics for industrial production. Eurostat and national statistics for industrial confidence.

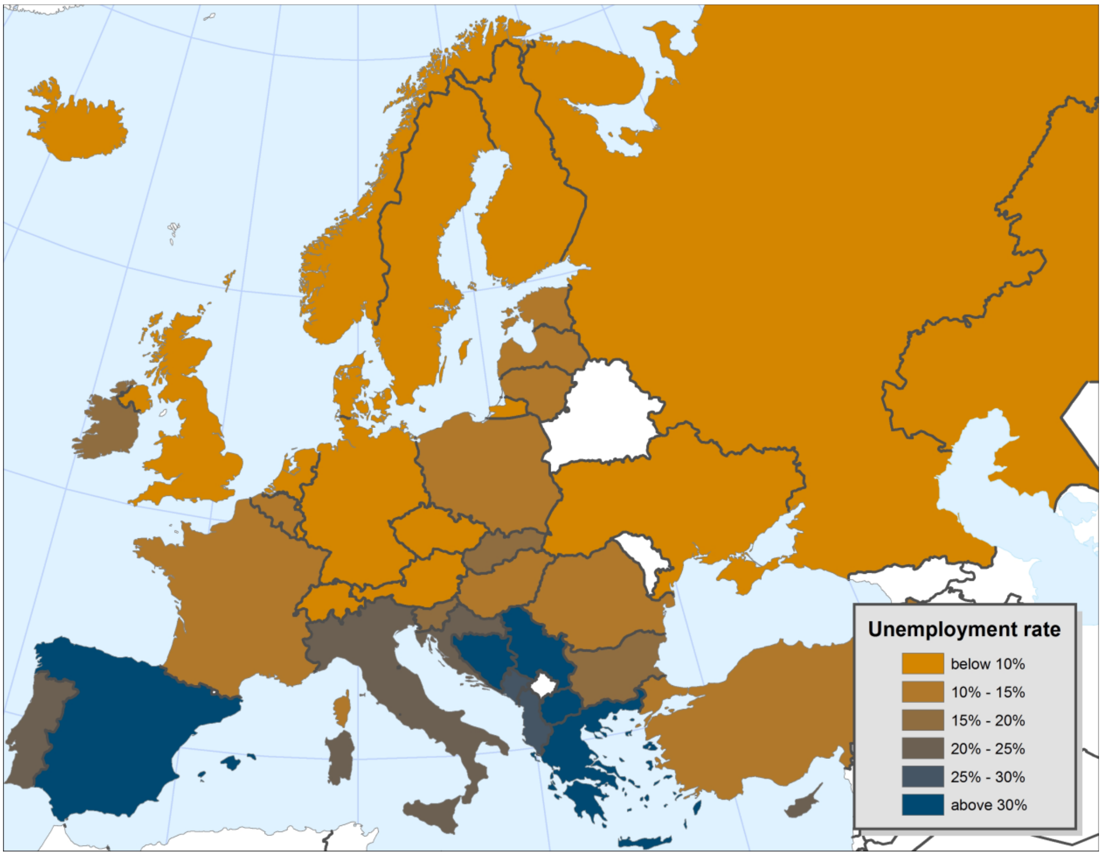
Anecdotal evidence suggests that in several CESEE economies major infrastructure projects are being initiated or planned. They include traditional public transport infrastructure such as modern motorways, typically financed from the state budget with support from the EU Trans-European Transport Networks (TEN-T) initiative. In Romania several motorway projects are scheduled for completion by 2018. In March 2013 Slovakia announced five new motorway tenders worth EUR 1.2 billion. Furthermore, in Montenegro a 170 km motorway programme valued at EUR 2 billion should get underway this spring - with substantial Chinese involvement.

Chinese construction companies together with Chinese investment banks are also building several coal-fired power plants across the Balkans. These include the 300 MW plant in Stanari in Bosnia and Herzegovina, the 350 MW unit Kostolac B3 in Serbia and the new 500 MW block in Rovinari in Romania. The Chinese are also mooting plans to build a 500 MW unit in Osijek, Eastern Croatia, but these are as vague as those for another 500 MW thermal power plant in Plomin in Western Croatia. Moreover, in Montenegro a tender has been issued for a second block with a capacity of with 300 MW at the thermal power plant in Pljevlja, while in March 2014 a tender for the new 600 MW plant in Kosovo can be expected. The largest coal-fired power plant project in the region is probably the project in Opole, Poland, where a consortium, including the major participation of French Alstom, has recently started building two units with a combined capacity of 900 MW at a cost of EUR 1.3 billion. A number of the projects listed above have to be seen as replacement investments as the older units approach the end of their current life cycle. The Balkans also dispose of a number of smaller hydro-power projects. One of the larger projects is the construction by Norway's Statkraft of the Devoll Cascade 240 MW hydropower plant. Scheduled for completion by 2018 at a cost of some EUR 500 million, the project is being executed under a build, own, operate and transfer (BOOT) concession agreement.

Moreover, several nuclear power stations are being planned in the region. In Bulgaria discussion revolves around either extending the existing plant in Kozloduy or building a new complex in Belene.

Similarly in Romania, there are plans afoot to complete a third and fourth block at the Cernavoda nuclear power plant. Poland also envisages building two new plants with a capacity of 3,000 MW each at a cost of some EUR 11.8 billion. The obsolescent Soviet-type nuclear reactors in Paks in Hungary will have to be shut down in some twenty years. The Hungarian government has thus signed a contract with Russia's Rosatom for the construction of two new blocks starting in 2015. 80% of the total costs will be covered by a EUR 10 billion credit line from Russia. In Slovakia, a third and fourth block (each with a net capacity of 440 MW) at the Mochovce nuclear power station are already under construction. Estimated to cost EUR 3.8 billion, the project is scheduled for completion by 2015. Blocks 1 and 2 are to be shut down some time around 2030.

Figure 18 / Youth unemployment rate for age group 25-29, %, avg. 1-3q 2013



Source: wiiw calculation incorporating national and Eurostat statistics.

A boost in investment is essential to higher GDP growth, which, in turn, is desperately needed, if the inordinately high unemployment rates are to be reduced. In many CESEE economies youth unemployment is at an unacceptable level. The situation is particularly critical in the Western Balkans, where among those who have completed their schooling (age group 25-29), current unemployment rates range between 20% and 40% − and even higher. Those levels are comparable to the levels prevailing in the southern EU economies. NMS youth unemployment rates hover around 10% and 20%, which is in the median range by European standards. Similar to the countries in Northern and Central Europe, a number of CIS economies and the Czech Republic display unemployment rates of less than 10%. It is important to note that youth unemployment is not the sole reason for social conflict in the region, the lack of jobs for the young can certainly act as a catalyst, as evidenced by the recent outbreak of social unrest in Bosnia and Herzegovina (for a statement on democracy, legitimacy and society in crisis in the CESEE countries, see our special section III).

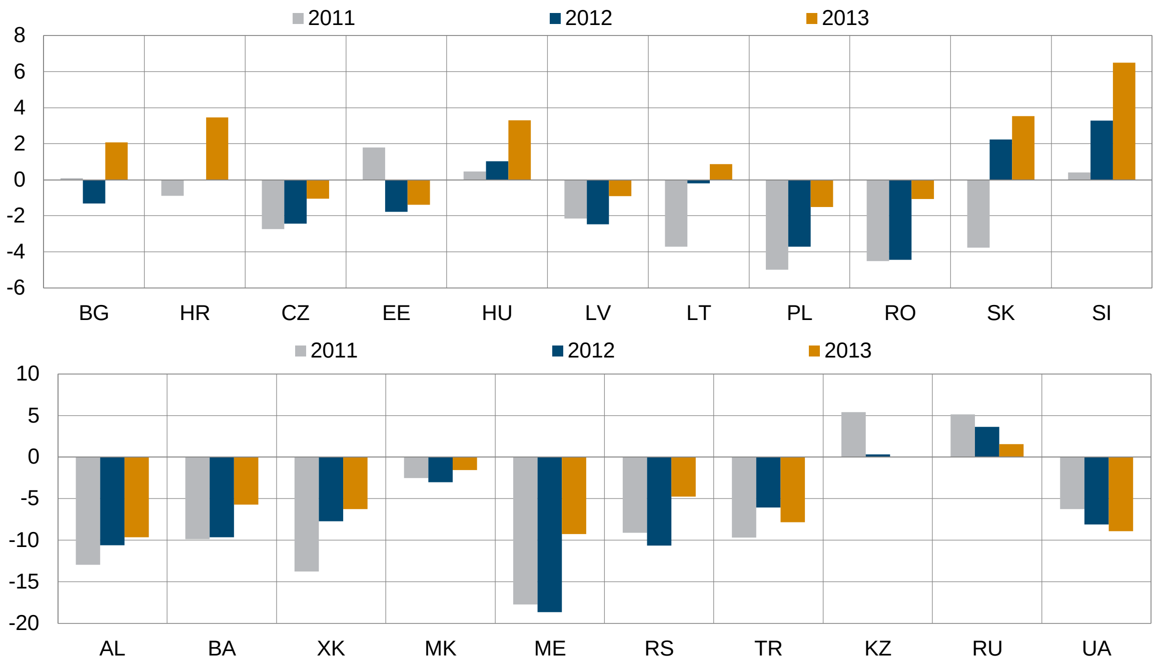
Overall, wiiw expects GDP in the CESEE countries to pick up speed and grow on average by 2-3% over the forecast period 2014-2016: a major driving force rooted in an upward reversal of public and private investment. The question remains, however, whether investment-led growth in the CESEE countries is merely a base effect of a few replacement investments or an indication of a profound paradigmatic shift. Increasing evidence suggests the latter for a number of reasons. During the ongoing economic crisis, public investment was severely reduced. However, in times of extreme uncertainty, the private sector is hesitant to invest. Hence, the public sector has to take the lead. It seems that the time for action has now come. This holds especially true for the NMS, where towards the end of the previous year additional efforts were made to raise the absorption rate of the funds allocated within the context of the EU MFF for 2007-2013 that was about to come to a close. Over the remaining disbursement period of the biennium 2014-2015 substantially higher amounts of EU-funded investment are to be expected. Given that, in most cases, national co-financing is also required, CESEE public capital investment will increase. Apart from a number of transport infrastructure projects, a host of thermal power plant projects are in the pipeline, as are several major investments in the construction and expansion of nuclear power plants across the region. Apart from public and semi-public infrastructure investment initiatives that have the potential to spur subsequent private investment, improving growth prospects in the euro area, the CESEE economies' main trading partner, are likely to encourage export industries in the region to modernise and increase their capital stock. This should help avert a lapse into a deflationary spiral and foster a shift towards better equilibrium with lower unemployment rates over the medium term. However, substantial downward risks include possible effects from the current Russia-Ukraine conflict; in particular the interruption of energy supplies, potential trade embargoes or additional interest rate risk premia. All this could adversely affect investment-led growth in CESEE.

Special Section I: Adjustments to the balances of payments

GÁBOR HUNYA

Major rebalancing, even large surpluses were the outcome of stagnating consumption and a decline in capital inflows in 2013. The turnaround in emerging markets of international capital flows that took on most serious proportions in early 2014 dated back to mid-2013 and bore palpable repercussions for the countries in Central, East and Southeast Europe (CESEE). In terms of exports, current account adjustments were helped by the onset of recovery in major EU markets. In terms of imports, a restrictive fiscal stance and conservative wage policies depressed domestic demand, which, in tandem with lower food, commodity and energy prices, kept down the bills. This pattern was characteristic of most New Member States (NMS), while other countries, such as energy exporters, took a different course (Figure 19).[1]

Figure 19 / Current account (net), in % of GDP



Remark: HR, CZ, HU, SK, AL, BA, XK, MK, ME, RS: 2013 data for 3 quarters. BA, KZ and RU: already reporting according to BOP 6th edition.
Source: wiiw Databases incorporating national statistics and Eurostat.

1 The CESEE authorities publish their balance of payments according to the IMF Balance of Payments (BOP) Manual 5th edition, while three countries, Bosnia and Herzegovina, Kazakhstan and Russia, have already switched to the BOP Manual 6th edition (BOP-M6). The data of the latter have been adjusted to match Rev. 5. We use the terminology of Rev. 5 throughout this chapter. The main subject of the analysis is 2013 against 2012 while the comparison with 2011 shows whether recent developments fit the longer trend. We use data for the first nine months in those instances where no data for 2013 are available. All data are preliminary and subject to revision.

The current account balance improved in all eleven NMS. Five of the countries reduced their deficits and another five increased their surpluses, while one country switched from a deficit to a surplus. The trade balance contributed the bulk of the adjustments, primarily through higher exports, the main countries being Romania, Bulgaria, Poland and Slovenia. Expanding current account surpluses in Bulgaria, Croatia, Hungary, Slovakia and Slovenia also set in as a result of economic stagnation or decline. The vulnerability to international capital flows diminished: a development that has been of especial benefit to Hungary with its high debt-financing requirements. Of all CESEE countries, Slovenia achieved the highest surplus: very much in keeping with its reliance on domestic means in its efforts to emerge from a financial crisis. Rebalancing went to such lengths that even the highest current account deficit among the NMS (1.5% of GDP in Poland) can be considered rather low by international standards.

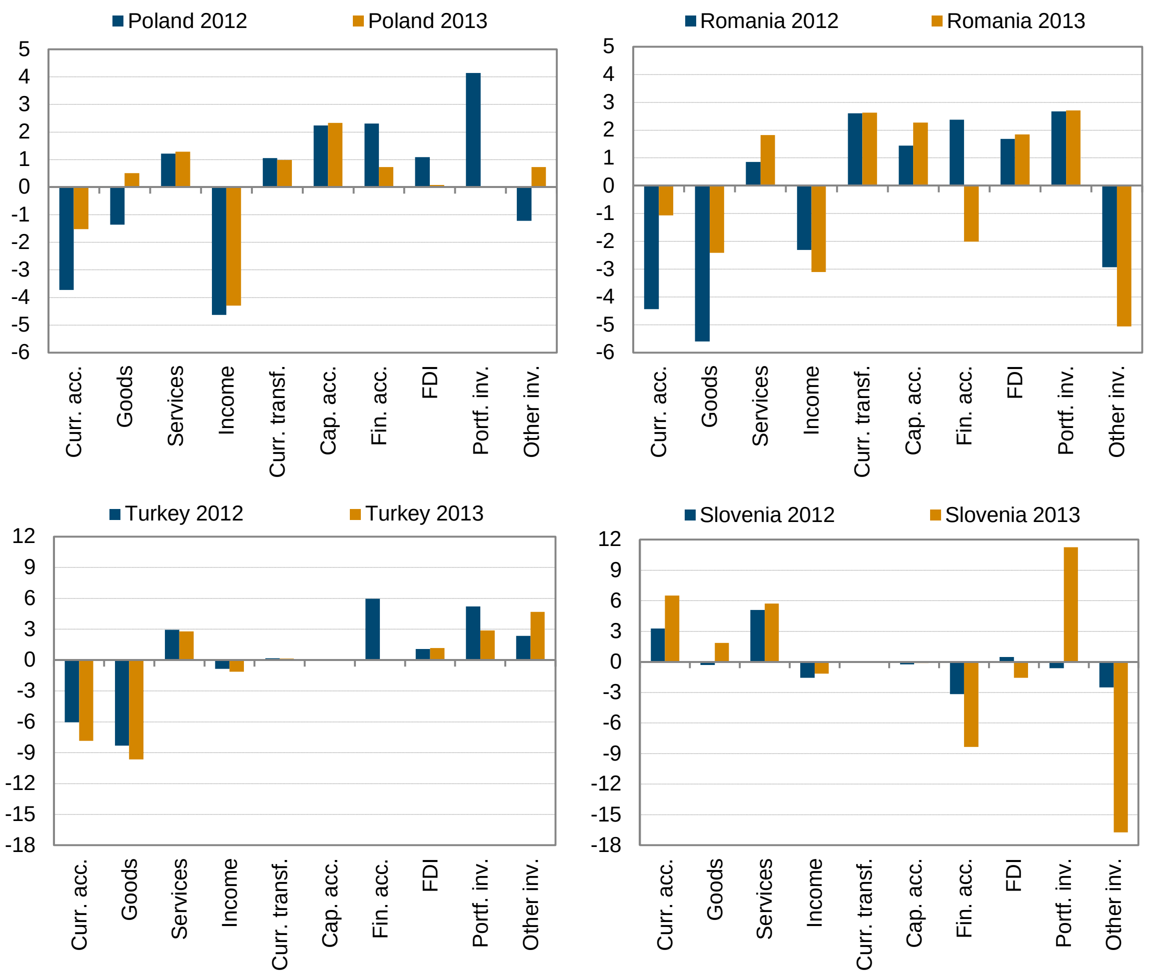
The Western Balkan countries improved their current account positions although, with the exception of Macedonia, they still display relatively high deficits in the range of 5-10% of GDP. The composition of flows in those countries differs from those in the NMS as transfers, not trade, comprise the main item in the current account (accounting for more than 20% of GDP in the case of Bosnia and Herzegovina and Macedonia). Whereas most Western Balkan countries have had notoriously high foreign trade deficits with no improvement visible over the years, Serbia and Albania were able to export more and import less, thus reducing their trade deficits in 2013. The inflow of portfolio and/or other investments declined only slightly, while it proved possible to maintain FDI largely at the level of the previous year. In Montenegro and Albania FDI was especially important as both countries received inflows equivalent to about 10% of GDP.

The two energy exporters, Russia and Kazakhstan, registered small and decreasing current account surpluses. Owing to relatively low international commodity prices, export revenues declined. However, both countries still have foreign trade surpluses as well as high net income outflows. Net FDI was positive in both countries, while other financial account items changed only marginally.

Turkey and Ukraine constitute a crisis-ridden group. In both countries the current account deficits that were already high surged upwards in 2013, thus heightening the countries' vulnerability to changes in international capital flows. Weak fundamentals led to capital flight and currency depreciation. Whereas it proved possible to stabilise the Turkish lira by drastically increasing the central bank rate in January 2014, a move which should trigger improvement in the current account, the spreading political instability in Ukraine may well aggravate international imbalances. The cases of Poland and Turkey are cited below as examples of: (a) an NMS (Poland) in the process of current account rebalancing; and (b) an emerging market country (Turkey) facing mounting difficulties in its balance of payments in 2013. Figure 20 shows the main components of the balance of payments for both countries together with two other countries for which annual data are available.

Poland's current account deficit contracted in 2012 and underwent even more rebalancing in 2013. Improvement was mainly achieved via trade in goods. Exports expanded while imports stagnated, culminating in a trade surplus in 2013 for the first time in recent history. The services account also made a positive, albeit minor contribution. The income account was the main item on the outflow side both in the form of the foreign investors' income and interest revenue. Similar to other NMS that have accumulated high stocks of FDI, foreign investor income constitutes the main component in Poland's net current account outflows. Of the NMS, only Croatia and Slovenia are exceptions; their FDI stocks and related earnings have been relatively low, on a par with some other countries in Southeast Europe (SEE). On average, 60-80% of foreign investors' income has been repatriated in recent years, while the residual amount has been reinvested and thus constitutes part of the FDI inflow. Current transfers are an item that has proven beneficial in Poland. Both private transfers, which include remittances from nationals working abroad, and official transfers, which are the balance of contributions to the EU and transfers from the EU (mainly within the framework of the common agricultural policy), have been positive. In this respect other NMS are similar to Poland, but some of them – especially Latvia and Lithuania – have recorded much higher levels of transfers in terms of GDP percentage (about 4% private and 3% official). Romania is in many respects similar to Poland, but its net income outflows are smaller due to the uneven profitability of recently established foreign subsidiaries and current transfers are higher due to more significant remittances.

Figure 20 / Balance of payments net positions, in % of GDP



Source: wiiw Databases incorporating national statistics and Eurostat.

The Polish capital account shows a stable surplus of more than 2% of GDP, the main component being EU investment support. In the other NMS, the structural funds also exert a similar stabilising effect on the balance of payments and represent an important source of investment financing.

Poland's financial account has been markedly volatile. The pronounced decline in the surplus in 2013 was the result of meagre net FDI and negative net portfolio investments. Net FDI also declined in many other NMS. Poland, however, is a special case as inflows were negative while outflows were positive, thus reflecting capital withdrawals in both directions[2]. FDI inflows were negative not only in Poland, but also in Hungary and Slovenia. Withdrawals occurred mostly within the context of inter-company loans (FDI in the form of 'other capital') implying a repatriation of capital reserves that had accrued in the subsidiaries or their re-categorisation as 'other investments' (Slovenia). Equity FDI remained positive as new subsidiaries were set up and closures hardly ever occurred. Furthermore, banking subsidiaries stocked up their capital. As for the financial account position 'other investments', which mainly comprise short-term capital flows, Poland proved an exception to the general NMS pattern as it was in receipt of a slight increase in inflows. In other NMS, especially Hungary, Romania and Slovenia, the balance of other investments was conspicuously negative as capital fled the country, making an improvement in the current account a pressing necessity.

Turkey's main current account problem lies in the goods account. After some improvement in 2012, the foreign trade deficit increased again in 2013. Contrary to most NMS, exports contracted while imports increased, mostly as a result of rapidly expanding private consumption. The positive balance in services trade could not be improved. The other current account items as well as the capital account are of marginal importance to Turkey. FDI stocks and related incomes are small compared to the size of the economy, while remittances do not show up in significant amounts either. Neither an EU member nor a recipient of foreign aid like Bosnia and Herzegovina, Turkey's official inflows and the capital account are negligible. In the financial account, net FDI was only about 1% of GDP and portfolio investments, although higher than FDI, declined in 2013. As a result, other investments, mainly short-term money, had to plug the holes in the main part of the current account deficit. While saving the country from immediate adjustment, those very inflows also increased its vulnerability.

In conclusion, the CESEE region has been able to adjust its current account to international capital flows for a second time in recent years after even harsher adjustments in 2008-2009. While improving net exports supported economic growth in the NMS and some SEE countries, depressed private demand and investments also facilitated matters, resulting overall in a meagre expansion in GDP. Other (short-term) capital was swiftly deleveraged. A slowdown in capital inflows, especially FDI, will hamper further recovery. Two major countries, Turkey and Ukraine, buck the trend in the NMS. For both countries, 2014 will be a year where major adjustments will feature prominently on their agendas.

[2] A large part of the FDI in Poland and Hungary is attributed to special purpose entities (SPEs). These generate large flows but have no economic activity in the country. The wiiw FDI Database contains data for FDI without the flows and stocks generated by SPEs. See for detailed explanations the *wiiw FDI Report 2013.*

Special Section II: Loans stagnating throughout most of the region

OLGA PINDYUK

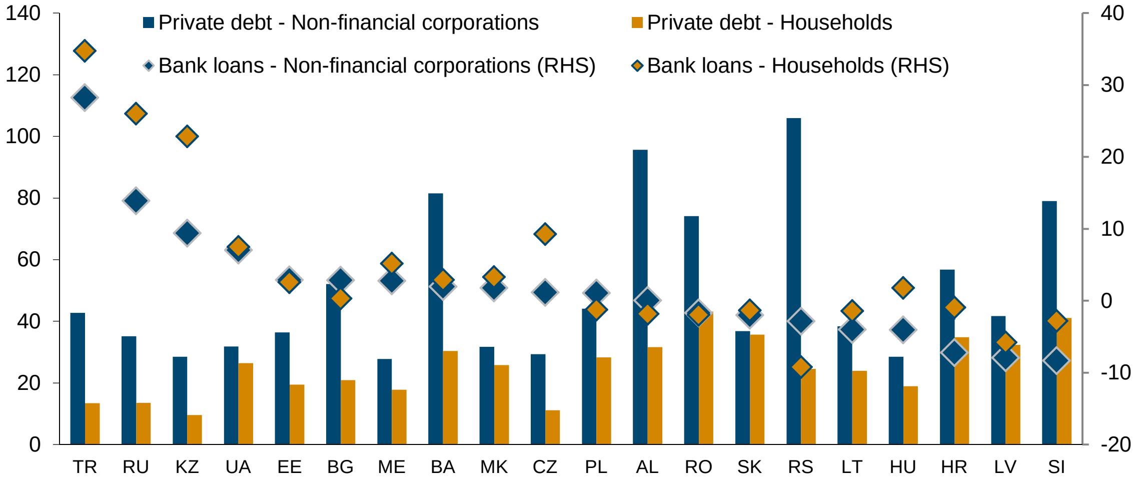
In 2013, the dynamics of loans to non-financial corporations was either anaemic or negative in most of the countries in the region, with the exception of Turkey and the CIS countries. Latvia, Slovenia and Croatia performed worst; their loans stocks fell on average by 7% to 8% year-on-year over the period December 2012 to November 2013. At the end of November 2013, loans to non-financial corporations in nine of the twenty countries analysed displayed negative growth in year-on-year terms. During 2013, loan dynamics in Serbia, Romania, Bulgaria, and Slovenia decelerated significantly, whereas Croatia and Hungary registered an improvement in the performance of loans to non-financial corporations[3].

In most countries in the region household loans have on average grown more rapidly or decreased more slowly than corporate loans – with the exception of Latvia, Albania, Ukraine, Croatia, and Poland. Over the period December 2012 to November 2013 the most dramatic decline in the stock of household loans occurred in Latvia and Hungary; on average, they slumped by 9 % and 6% year-on-year, respectively. Russia, Serbia, Romania, Slovenia, Albania and Croatia recorded a deceleration of growth or acceleration of decline. Kazakhstan and Turkey registered double-digit growth rates throughout the same period, in addition to the growth of household loans picking up speed in both countries.

Countries with lower levels of private debt tend to have their loans stock growing at higher rates. As can be seen from Figure 21 this holds especially true for household loans. Over the period December 2012 – November 2013 the coefficient of correlation between the share of private debt in GDP in 2012 and average year-on-year growth rate of loan stocks was -0.7. As for loans to non-financial corporations, the coefficient of correlation was also negative, albeit much lower (-0.3). The share of private household debt in GDP is significantly lower than that of corporate debt, as a result of which banks currently consider the household loan market to be much safer than the corporate loan market. Turkey and the three CIS countries display one of the lowest levels of private debt in the region, while Serbia, Albania, Bosnia and Herzegovina, and Slovenia lead the region in terms of the share of non-financial corporate debt in GDP (in Serbia the indicator exceeds 100%). Private household debt as a share of GDP was highest in Romania and Slovenia – but even there it only stood at around 40% of GDP in 2012.

3 In November 2013, year-on-year growth rates of loan stocks in Serbia, Romania, Bulgaria, and Slovenia fell by 20 p.p., 9 p.p., 5 p.p., and 3 p.p. respectively compared to December 2012. In Croatia and Hunga-ry, they increased by 8 p.p. and 12 p.p., respectively.

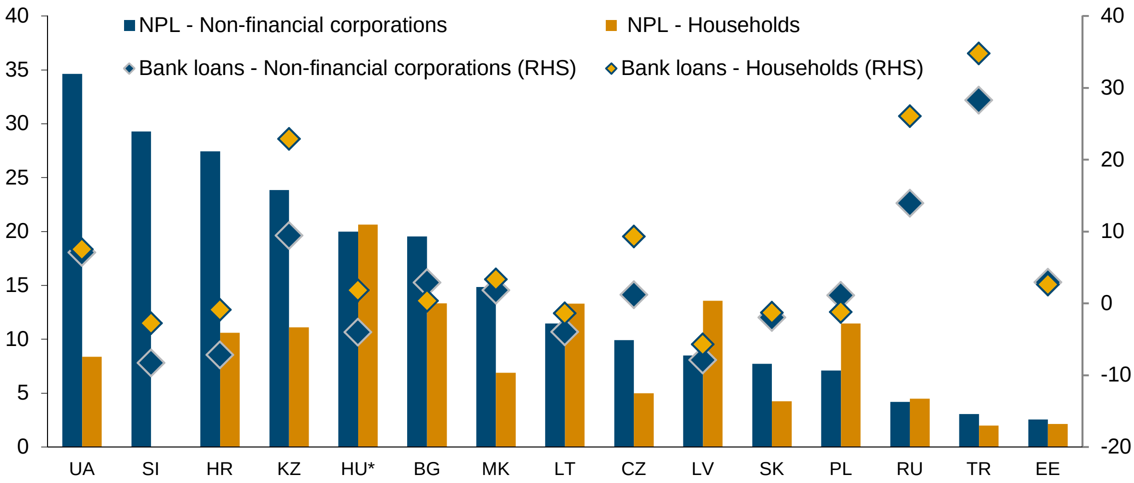
Figure 21 / Private debt in % of GDP 2012 and stock of loans to the non-financial sector, change in % against preceding year (avg. Dec. 2012 – Nov. 2013)



Source: National Bank and Eurostat statistics, wiiw own calculations.

Loan dynamics is also negatively correlated with the level of non-performing loans (NPLs) in the total loan stock. In many of the countries analysed, the share of NPLs in the total loan stock (see Figure 22) tends to be higher for corporate loans than for household loans. In the 15 countries analysed, the average share of NPLs in corporate loans in September 2013 was 15% as against a 9% share of NPLs in household loans. Particularly striking are the shares of NPLs in non-financial corporate loans in Ukraine, Slovenia, Kazakhstan, Croatia and Hungary: 20% and higher. Hungary also managed to exceed a 20% share of NPLs in its household loan stock. That would appear to reflect the impact of the national currency having been devalued recently (more than 50% of the household loans in Hungary are denominated in foreign currencies).

Figure 22 / Non-performing loans in % of total loans (Sept. 2013) and stock of loans to the non-financial sector change in % against preceding year (avg. Dec. 2012 – Nov. 2013)

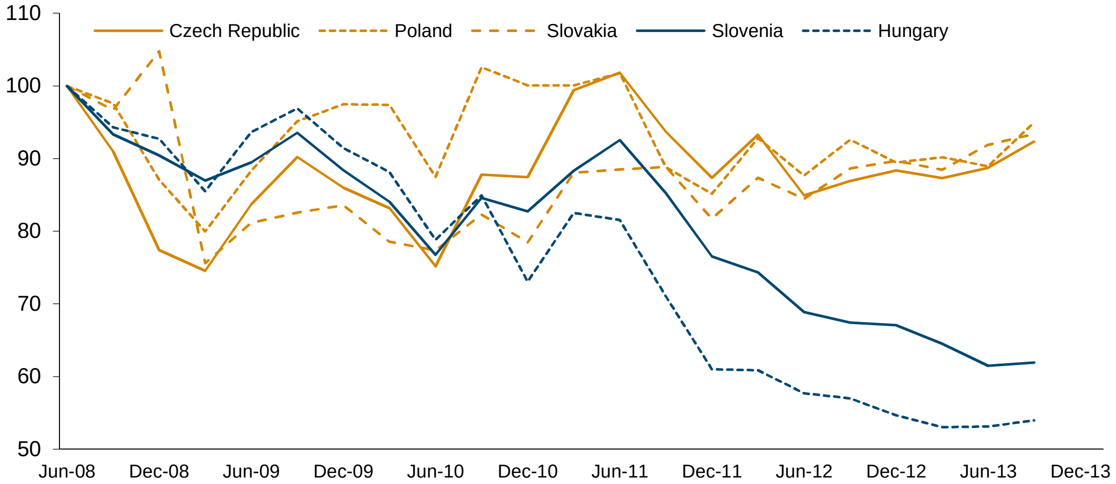


*Non-performing loans data for Hungary are for June 2013.
Source: National Bank and Eurostat statistics, wiiw own calculations.

Over the period September 2012 to September 2013, Western European banks adopted different strategies with respect to their exposure to the countries in the CESEE region. The Bank of International Settlements (BIS) data show that in some countries European banks continued to decrease their exposure, whereas in others they would appear to have stopped reducing their external positions – in certain instances they even increased them somewhat.

Hungary and Slovenia are the countries most affected by the Western European banks reducing their exposure in Central and Eastern Europe (CEE). Figure 23 compares the indices of the Western European banks' foreign claims on five CEE countries. In the recent past, Slovenia appears to have been the worst performer in the CEE region in terms of the external positions of Western European banks, closely followed by Hungary. Over the period September 2012 – September 2013, the Western European banks' foreign claims on those countries decreased by 8% and 5%, respectively. The other three countries in the region recorded moderate growth in the Western European banks' foreign claims over the same period.

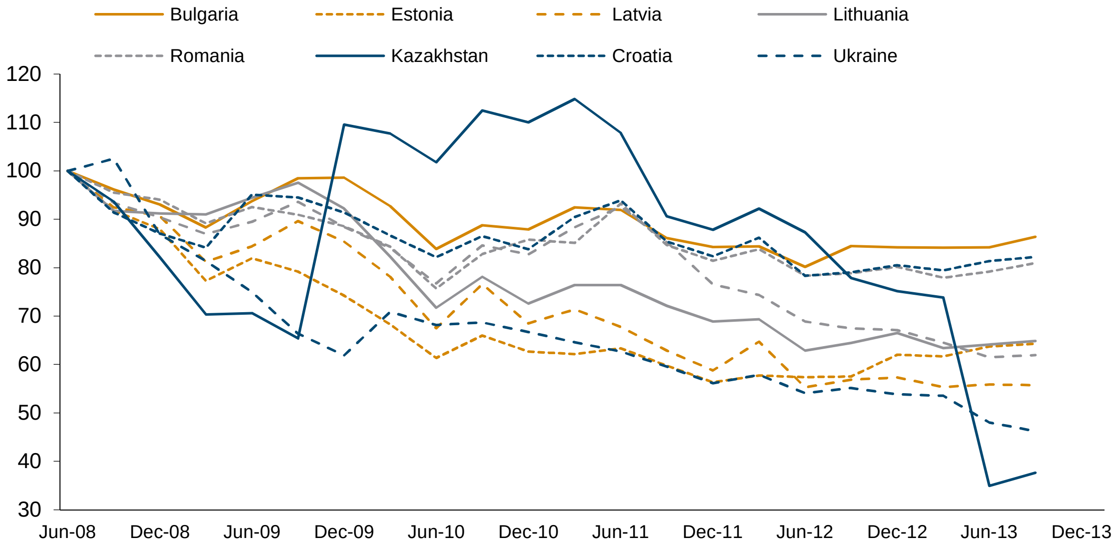
Figure 23 / Indices of foreign bank claims of Western European banks to CEE on ultimate risk basis, January 2008 = 100



Source: BIS.

Of the countries in the CESEE region that had been accumulating Western European bank claims at the highest rate prior to the crisis, Ukraine and Kazakhstan continue to be the countries hardest hit by the withdrawal of external funds. Over the period September 2012 -September 2013, the European banks' foreign claims on both countries declined by 16% and 52%, respectively (see Figure 24). In the case of Ukraine, that drop reflects the deteriorating macroeconomic situation, while Kazakhstan is still battling with the consequences of the housing bubble having burst and the restructuring of the banking system thereafter. Slovenia and Latvia also recorded a decrease in external funding. In the other countries over the same period, the Western European banks appear to have reversed their deleveraging activities and achieved slight positive growth of foreign bank claims. Estonia stands out as the best performer among the countries compared, with the Western European banks' foreign claims on that country having increased by 12% over the period under discussion.

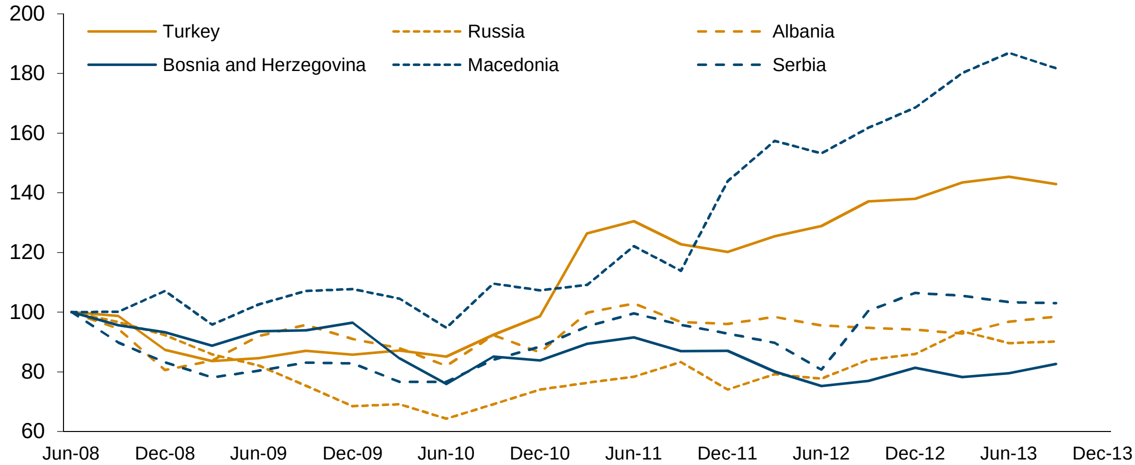
Figure 24 / Indices of foreign bank claims of Western European banks to CESEE on ultimate risk basis, January 2008 = 100



Source: BIS.

Overall, the other countries in Southeast Europe together with Russia performed better than their CEE neighbours. The largest expansion of the Western European banks' external exposure was to be observed in Macedonia, Russia and Bosnia and Herzegovina – with growth rates of around 10% (see Figure 25). Other countries also recorded positive growth in external funding by Western European banks.

Figure 25 / Indices of foreign bank claims of Western European banks to SEE countries and Russia on ultimate risk basis, January 2008 = 100



Source: BIS.

Special Section III: Democracy, legitimacy, and society in crisis

VLADIMIR GLIGOROV

Can democracies ride out a legitimation crisis? That very issue emerged in the wave of protests in 1968.[4] It became clear that the answer is in the affirmative, the reason being that even democratic regimes may not be transparent and responsive and thus may lose their essential legitimacy. Furthermore, shortcomings in the process of democratisation may have to be remedied by means of various types of social conflicts, ranging from strikes through demonstrations to the emergence of rival political structures.[5] Two hypotheses address the crises surrounding legitimacy and the rise in social conflict.

The first hypothesis suggests that deficiencies in terms of transparency and responsiveness may delegitimise an otherwise democratically elected government; t**he second hypothesis suggests that democratisation may act as a substitute for other ways of expressing social dissatisfaction.** Both hypotheses would seem to fit some of the data pertaining to the past history of the transition countries, as well as the data relating to the current political and social turmoil in a number of those countries. They may also provide some basis for forecasting the eventual outcome of recent developments, which may well vary across countries.

How is it possible to identify the lack of responsiveness and transparency? One way is to compare pre-election expectations with post-election performance. Another is to establish whether the political decisions taken are rooted in an electoral mandate. In other words, a government may be seen to be acting in a manner that: (a) was not discussed prior to the elections; and (b) may, in fact, conflict with the public perception of the problems and solutions. This discrepancy between electoral mandate and actual political decisions can be particularly pronounced in the event of an unanticipated economic crisis.

How can democratic participation be seen as a substitute for social unrest? One indicator is a government's readiness to call for early elections and the frequency with which government resorts to this tactic when faced with a potential threat to its legitimacy. Another indicator of participation and inclusiveness is the election and establishment of coalition governments.

Hungary provides an example of an otherwise democratically elected government being delegitimised; it occurred in 2006. At the time, a re-elected party admitted to having lied 'day and night'. It made the additional mistake of not calling for early elections, as a result of which the opposition party won a landslide victory in 2010. With the collapse of the former parties in power, the political arena

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4 One important contribution was J. Habermas, *Legitimationsprobleme im Spätkapitalismus*, Suhrkamp, 1973; *Legitimation Crisis*, Beacon Press, 1975.

5 On social conflicts and democratisation see A. Przeworski, 'Conquered or Granted? A History of Suffrage Extensions', *British Journal of Political Science*, Vol. 39, pp. 291-321.

was devoid of a viable opposition over the period 2010-2014; such a state of affairs invariably offers a temptation to resort to authoritarian rule. Once a government has secured an overwhelming majority and the opposition has been delegitimised, the constitution and electoral laws can be amended with impunity, and control assumed over the economic resources with the aim of secluding the party in power from democratic scrutiny. Similar autocratic aspirations are to be discerned in a number of Balkan countries, although the conditions conducive to such moves are for the most part not yet in place.

The current turmoil in Ukraine offers an example of a government radically changing its course without seeking the authority or mandate to do so. This indicates a lack of transparency, which may be remedied ex post by initiating a referendum or early election. This remedy was not resorted to and was rather resisted. The failure to act transparently is tantamount to extending an invitation to settle the issue on the streets. If the issue is important enough and the country is split, however unequally, on the matter, that could well happen. Two courses of action might ensue. In the first instance, the crisis is brought to an end by democratic means, with those who took the delegitimising decision – in this case, the president, the government and parliament – calling for an early election. In the second instance, the alternative is authoritarian rule, which cannot count on any legitimacy in the aftermath of such a violent confrontation. The attempt to go down the latter course led to an uprising with far-reaching consequences.

A third example is to be found in Bosnia and Herzegovina where to all intents and purposes the lack of legitimation is enshrined in the constitution. Based as it is on ethnic representation at all levels of government, democratic legitimacy is essentially subordinate to ethnic legitimacy. That restricts or effectively rules out any responsiveness on the part of the elected officials. It also reduces elections to a mere routine, as the voter can change neither the governing parties nor their policies. That, again, means that the streets are the sole fora where pressures of any kind can be exerted. Currently, attempts are being made to seize power and create so-called 'plena', which will take decisions on behalf of the elected officials. Under such circumstances, democratic legitimacy can be restored in a number of ways. Some of the methods used in the early stages of transition might prove appropriate, such as round-table talks on future elections being held under changed electoral laws to be followed by constitutional talks on unblocking the process of democratic legitimation.

Although the above instances of political instability are clearly influenced by worsening economic and social developments, they are primarily driven by the crisis of democratic governance or rather the lack thereof. On the other hand, some countries have relied on early elections and coalition governments in their efforts to preserve political and social stability under adverse economic circumstances.

One such case is Montenegro; it has held two early elections since the eruption of the current crisis in late 2008. The first such election was held quite early on in spring 2009, while the second took place in 2012, a year ahead of schedule. Given that issues of legitimacy had been coming to the fore amidst an economic downturn and a rise in social unrest that was also loudly proclaimed in street protests, resorting to early elections proved a successful ploy in preserving stability. Furthermore, the government comprises a coalition of a number of smaller parties, some of which represent ethnic minorities. Given that there has been no overall change in government, one of the criteria for defining democratic stability, democratic legitimacy is still an issue and continues to impact on political stability. In the ultimate analysis, however, social stabilisation seems to have been achieved through frequent reliance on early elections.

The other case is Macedonia; it too responded to political and social challenges with a call, albeit under duress, for an early general election in 2011. The country has been relying on varying coalitions of two ethnic parties, one Macedonian, the other Albanian, with some participation on the part of other ethnic minority parties. This structure ensures that political rivalry ensues within rather than between the two largest ethnic groups. That has proven to have a stabilising effect. Social protests have become less frequent, attributable in part to a slightly better economic performance during the current crisis. GDP has posted overall growth and employment levels have improved.

Greece is another example of a country that has used early elections to secure political stability. That notwithstanding, social protests have at times been both severe and prolonged. However, the legitimacy of the government has been basically preserved despite a relatively severe economic downturn. Similarly, early elections in Slovenia have proven to be a stabilising factor, even though the coalition government does not enjoy strong electoral support. Thus, in both cases, early elections and coalition governments have helped to stabilise matters, despite a relatively high degree of social dissatisfaction.

Rather than opting immediately for early elections or in some cases not at all, a number of countries have resorted to an interim solution: the election of a technocratic government or the designation of a technocrat to head an existing government. This strategy has been pursued in Hungary, the Czech Republic and Romania, as well as in Italy. Usually, some kind of consensus is needed; something that proves stabilising both in and of itself. The technocrats are expected to draft and, it is hoped, pass legislation that would otherwise have been difficult to accomplish, had political rivalry not been suspended. Furthermore, as long as a technocratic government is in place, social unrest appears rather futile, thus explaining the apparent success of this approach to political and social stabilisation. Obviously, this only holds true as long as the approach leads relatively quickly to a general election.

It can thus be concluded that a crisis of democratic legitimation can be averted by democratic means, which of themselves also tend to contribute to social stability. Even in times of comparatively severe economic downturn, culminating in major losses in terms of employment and welfare, democratic means still play a positive role. The remarkable fact is that in practically none of the cases, where elections and policies conducive to coalitions were relied on, was there any noticeable change in strategic policy choices. This stands in marked contrast to the significant policy shifts that are to be detected in countries that have gone through a legitimation crisis, such as Hungary and Ukraine.

Finally, what role does the European Union assume in securing political and social stabilisation? Its basic contribution to stability is not to be found in the Union's widely criticised policy response to the crisis. It is to be found primarily in the policy alternatives that membership rules out. Membership in the EU excludes trade policy, thus guarding against the possible appeal of introducing protectionist measures. As such measures are usually advocated by parties on both fringes of the political spectrum that tend to draw their support from social hardship and political impotence, those parties' advance to power depends on the electorate's readiness to vote in favour of leaving the EU. As long as that option is ruled out, the political centre is stabilised. Social unrest can be addressed by applying all democratic means available, such as elections and coalition governments, or by initiating a process of democratisation, should a legitimation crisis occur. This clearly does not apply to the same extent and with the same force in either of the candidate countries nor among any of their neighbours. It is, however, visible in the Union's sorry record in the Arab Spring. It is also apparent in the equally sorry record in Ukraine and some other CIS countries, as well as in Serbia, where the protectionist lobby, both economic and political, is firmly ensconced.

The EU political system is obviously vulnerable to the same legitimation problems and could be brought down by an EU-wide coalition set upon dissolving the Union. That could come to pass, were anti-EU parties to win in the European Parliament elections or were authoritarianism to rise. To date, both threats are not strong enough to countervail the stabilising influence of EU membership. Nonetheless, the Union's lack of democratic legitimacy certainly constitutes a liability.

Country Reports

Table 4 / Bulgaria: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	7444.4	7395.6	7348.3	7305.9	7300.0	7270	7250	7230
Gross domestic product, BGN mn, nom.	68322	70511	75308	77582	78400	80700	84200	88200
annual change in % (real)	-5.5	0.4	1.8	0.8	0.7	1.5	2.3	2.7
GDP/capita (EUR at exchange rate)	4600	4800	5200	5400	5500	5700	5900	6200
GDP/capita (EUR at PPP)	10500	11000	11700	12000	12300	.	.	.
Consumption of households, BGN mn, nom.	42942	43990	46725	49595	50200	.	.	.
annual change in % (real)	-7.6	0.0	1.5	2.5	0.3	2.0	3.0	3.5
Gross fixed capital form., BGN mn, nom.	19724	16077	16225	16600	16400	.	.	.
annual change in % (real)	-17.6	-18.3	-6.5	0.8	0.0	3.0	5.0	7.0
Gross industrial production 3)								
annual change in % (real)	-18.2	2.1	5.8	-0.3	-0.4	2.0	4.0	6.0
Gross agricultural production								
annual change in % (real)	-1.6	-6.0	-2.5	-10.0	0.4	.	.	.
Construction industry 4)								
annual change in % (real)	-14.5	-14.9	-12.8	-0.7	-5.5	.	.	.
Employed persons, LFS, th, average 5)	3253.6	3052.8	2949.6	2934.0	2934.9	2940	2950	2960
annual change in % 5)	-3.2	-6.2	-3.4	-1.1	0.0	0.3	0.4	0.5
Unemployed persons, LFS, th, average 5)	238.0	348.0	372.3	410.3	436.3	420	400	380
Unemployment rate, LFS, in %, average 5)	6.8	10.2	11.2	12.3	12.9	12.5	12.0	11.5
Reg. unemployment rate, in %, end of period 2)	9.1	9.2	10.4	11.4	11.8	.	.	.
Average monthly gross wages, BGN	609.1	648.1	685.8	731.1	760.0	.	.	.
annual change in % (real, gross)	8.8	3.9	1.5	3.5	4.5	.	.	.
Consumer prices (HICP), % p.a.	2.5	3.0	3.4	2.4	0.4	1.5	2.0	2.0
Producer prices in industry, % p.a.	-5.9	8.5	9.2	4.4	-1.5	.	.	.
General governm.budget, EU-def., % of GDP								
Revenues	37.1	34.3	33.6	35.2	37.0	.	.	.
Expenditures	41.4	37.4	35.6	35.9	38.5	.	.	.
Net lending (+) / net borrowing (-)	-4.3	-3.1	-2.0	-0.8	-1.5	-1.5	-1.0	-1.5
Public debt, EU-def., % of GDP	14.6	16.2	16.3	18.5	20.0	20.7	20.9	21.4
Central bank policy rate, % p.a., end of period 6)	0.55	0.18	0.22	0.03	0.02	.	.	.
Current account, EUR mn	-3116	-534	33	-521	831	400	0	-600
Current account, % of GDP	-8.9	-1.5	0.1	-1.3	2.1	1.0	0.0	-1.3
Exports of goods, BOP, EUR mn	11699	15562	20265	20771	22200	23300	24300	25500
annual change in %	-23.0	33.0	30.2	2.5	6.9	5.0	4.3	4.9
Imports of goods, BOP, EUR mn	15874	18326	22421	24231	24535	25650	27000	29000
annual change in %	-33.3	15.4	22.3	8.1	1.3	4.5	5.3	7.4
Exports of services, BOP, EUR mn	4916	5012	5354	5740	5642	5800	6000	6300
annual change in %	-8.2	2.0	6.8	7.2	-1.7	2.8	3.4	5.0
Imports of services, BOP, EUR mn	3617	3143	3037	3412	3572	3750	3900	4100
annual change in %	-10.6	-13.1	-3.4	12.3	4.7	5.0	4.0	5.1
FDI inflow, EUR mn	2438	1152	1330	1480	1229	1200	1500	1500
FDI outflow, EUR mn	-68	174	117	271	114	.	.	.
Gross reserves of NB excl. gold, EUR mn	11943	11612	11788	13936	13303	.	.	.
Gross external debt, EUR mn	37816	37026	36295	37635	37500	.	.	.
Gross external debt, % of GDP	108.3	102.7	94.3	94.9	93.5	.	.	.
Average exchange rate BGN/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Purchasing power parity BGN/EUR	0.8753	0.8680	0.8777	0.8816	0.8708	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census February 2011. - 3) Enterprises with 10 and more employees. - 4) All enterprises in public sector, private enterprises with 5 and more employees. - 5) From 2012 according to census February 2011. - 6) Base interest rate. This is a reference rate based on the average interbank LEONIA rate of previous month (Bulgaria has a currency board).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

BULGARIA: Economy seeking direction

RUMEN DOBRINSKY

Economic activity in Bulgaria was anaemic in 2013, for the second year in a row, curbed by weak domestic and external demand. The signs of a possible upturn that are observable at present in the main reflect the shift towards a more proactive policy stance undertaken by the current government. In particular, the government envisages a sustained rise in public capital expenditure as well as support to low-income earners. However, these impulses are relatively modest and will take time to feed into the economy. In the absence of a more notable upturn in export demand, economic growth is expected to remain moderate in 2014 and the following years.

After a weak first semester, a modest economic upturn was registered in the second half of 2013. However, on the whole, economic activity in Bulgaria remained subdued in 2013: average annual GDP growth for the year as a whole comes to below 1%. Bulgaria's economy remains in a limbo, lacking a visible growth momentum after the global 2008-2009 financial turmoil and without a clear direction even for the short-term future.

Net exports made a positive contribution to growth through 2013 thanks to the relatively good export performance while the recovery of imports was lagging behind. Signs of a moderate upturn in domestic demand were observable in the second half of the year thanks to a more proactive fiscal policy stance by the new government. The most significant change in this direction was the rise in public capital expenditure as well as an increase in social spending.

Another major departure from the past was the settlement of public sector arrears to the business sector. The GERB[6] government, which ruled until February 2013, tended to delay significantly payments due for services provided by businesses in an ill-fated strife to reduce cash deficit – with no effect on the ESA'95 deficit. By the end of 2013 the accumulated arrears that had kept piling up in the previous three years were basically cleared. The real effects of the easing of this financial pressure on business sector activity are yet to be seen but this measure already contributed to rising business confidence.

Despite some positive symptoms, on balance, the economic situation in Bulgaria remains precarious. Even though exports rose, gross manufacturing output for the year as a whole stagnated and the trends in the last months of the year were even negative. While domestic demand started recovering in the second half of the year, this could not fully compensate the negative trends of the first semester. Another

[6] The Bulgarian acronym for the name of the party 'Citizens for European Development in Bulgaria'.

indication of stagnation was the standstill in credit activity: at the end of December 2013, the stock of outstanding credit to both the corporate and the household sectors was virtually unchanged from a year earlier. At the same time, household deposits increased by almost 9% year on year.

The price dynamics in 2013 basically mirrored the weak domestic environment: in average annual terms, consumer prices grew by a mere 0.4% while producer prices even retracted. The labour market was equally stagnant: the average annual LFS measure of total employment remained virtually unchanged as against 2012 while there was a slight further increase in the rate of unemployment.

The good export performance was among the few positive economic outcomes in 2013. According to preliminary data, the growth of exports (both in real and in nominal terms) outpaced significantly that of imports, contributing to a sizeable surplus in the current account balance for the year as a whole. As another noteworthy result, for the first time in the past more than two decades since the start of economic transformation, Bulgaria recorded a positive merchandise trade balance (CIF-FOB) vis-à-vis its largest trading partner, Germany. The latest published surveys also provide some grounds for a more optimistic outlook: according to those, both business and consumer sentiment were on the rise.

The current centre-left government is implementing at present important changes in the course of public policy that were declared already when the government took office in mid-2013. The policy changes are reflected both in the 2014 budget and in some programmatic documents with medium-term orientation that have been adopted in recent months.

One of the immediate shifts in the policy priorities of the current government was the emphasis towards greater social orientation of fiscal policy. Some first measures were introduced already in the amendments to the 2013 budget, while the 2014 budget made further steps in this direction. Thus minimum wages were increased by 10% effective 1 January 2014 as a preparatory step towards an overall increase of public sector wages (an average rise of 8% is being discussed at present). Indexation of pensions was also reintroduced in the context of the so-called ‘Swiss rule’ (with pensions rising by a weighted average of productivity and inflation changes) which had been abandoned by the previous government. A range of additional measures were adopted that target increased levels of social protection of different segments of society.

The government has declared that it will rely on exports and investment as the key growth drivers. One of the most significant departures from the past is the great priority that the government assigns to public investment. Thus, according to a recent statement by Prime Minister Oresharski, the government will target the doubling of public capital expenditure in 2014-2016 as compared to the previous three-year period. As regards the investment priorities, the current government will seek a more balanced investment portfolio supporting its policy objectives across the board. This is also in contrast to the policy of the GERB government which was almost exclusively focused on highway construction.

However, it remains to be seen whether these rather ambitious goals are achievable in view of the actual absorptive capacity of the economy. Moreover, the above targets are still more like policy intentions that have not been translated into concrete investment programmes yet. Among the new steps already taken in early 2014 was the early disbursement of budgetary allocations for capital investment from the central budget to municipalities to ensure the local co-financing of EU-funded projects. These disbursements were on average 20% higher than in 2013 and were allocated with priority to regions with high unemployment. However, the government still has not come up with targeted policy efforts to improve the investment climate with a view to stimulating private investment.

Regarding the reliance on exports, the new policy places key emphasis on competitiveness as the basis for raising the export potential of the economy. In this regard, a range of medium-term measures are envisaged targeting education and vocational training, resource efficiency, improvements in infrastructure and in the framework conditions for innovation activity. The government has also developed a medium-term programme in support of SMEs, with a particular focus on export-oriented and high-tech/knowledge-intensive innovative SMEs.

It should be noted that all these policy programmes are rather modest in scope and, in accordance with the government's medium-term fiscal framework, they would be implemented within the Maastricht fiscal limits. In any case, they represent a major shift as compared to the policy stance of the previous government, which did not engage in any proactive measures in support of the economy. There are no plans to raise taxes yet and the authorities have stated that they will mostly rely on improved efficiency of tax collection to support the envisaged higher public spending.

As soon as the envisaged policy support measures start feeding into the economy, they should provide support to domestic demand and could therefor contribute to a gradual strengthening of economic activity. The current context thus suggests that even in the absence of a strong external export pull, the economy could embark on a path of gradual recovery, backed by a modest domestic demand pull. As regards export demand, it is expected to remain moderate in 2014 with a gradual further improvement in the years after.

In view of the above, the current forecast envisages a moderate recovery in 2014 and a certain further acceleration of GDP growth in 2015-2016, depending on the effect of the external environment and the strength of the export pull. Throughout this forecast period, growth is expected to remain predominantly driven by domestic demand. The implied policy shifts will be moderate in relative size and within the scope of prudent macroeconomic management. The situation in the labour market will only be improving marginally and inflation will remain low. While the current account balance would shift to negative values, no major external imbalances are expected.

Table 5 / Croatia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	4306.3	4296.4	4282.9	4269.1	4260.0	4260	4260	4260
Gross domestic product, HRK mn, nom.	328672	323807	328737	328562	333200	338200	346700	357200
annual change in % (real)	-6.9	-2.3	-0.2	-1.9	-0.9	0.0	1.0	1.5
GDP/capita (EUR at exchange rate)	10400	10300	10300	10200	10300	10400	10700	11000
GDP/capita (EUR at PPP)	14900	14700	15200	15700	15800	.	.	.
Consumption of households, HRK mn, nom.	188859	189314	194518	195355	198500	.	.	.
annual change in % (real)	-7.6	-1.3	0.3	-3.0	-0.7	0.0	0.5	1.0
Gross fixed capital form., HRK mn, nom.	80367	67254	64444	61119	62400	.	.	.
annual change in % (real)	-14.2	-15.0	-3.4	-4.7	-0.3	1.0	3.0	3.5
Gross industrial production 3)								
annual change in % (real)	-9.2	-1.4	-1.2	-5.5	-1.8	1.5	2.0	2.5
Gross agricultural production								
annual change in % (real)	-0.8	-8.2	-1.0	-9.9	1.4	.	.	.
Construction output 3)								
annual change in % (real)	-6.6	-15.8	-8.5	-11.1	-4.5	.	.	.
Employed persons, LFS, th, average	1605	1541	1493	1446	1380	1400	1400	1400
annual change in %	-1.8	-4.0	-3.2	-3.1	-4.6	-1.0	0.0	0.5
Unemployed persons, LFS, th, average	160	206	232	272	293	.	.	.
Unemployment rate, LFS, in %, average	9.1	11.8	13.5	15.9	17.5	17.5	17.5	17.0
Unemployment rate, reg., in %, end of period	16.7	18.8	18.7	21.1	21.6	21.5	21.5	21.0
Average monthly gross wages, HRK	7711	7679	7796	7875	7900	.	.	.
annual change in % (real, gross)	-0.2	-1.5	-0.8	-2.3	-1.8	.	.	.
Average monthly net wages, HRK	5311	5343	5441	5478	5500	.	.	.
annual change in % (real, net)	0.2	-0.5	-0.4	-2.6	-1.8	.	.	.
Consumer prices (HICP), % p.a.	2.2	1.1	2.2	3.4	2.3	1.5	1.5	1.5
Producer prices in industry, % p.a. 4)	-0.4	4.3	7.0	5.4	-0.3	1.0	1.0	1.0
General governm.budget, EU-def., % of GDP 5)								
Revenues	40.8	40.5	40.3	40.8	40.3	.	.	.
Expenditures	46.1	46.9	48.1	45.7	45.8	.	.	.
Net lending (+) / net borrowing (-)	-5.3	-6.4	-7.8	-5.0	-5.5	-5.0	-4.5	-3.5
Public debt, EU-def., % of GDP	36.6	44.9	51.9	55.8	62.0	65.0	67.0	70.0
Central bank policy rate, % p.a., end of period 6)	9.0	9.0	7.0	7.0	7.0	.	.	.
Current account, EUR mn	-2334	-523	-392	-13	600	400	350	320
Current account, % of GDP	-5.2	-1.2	-0.9	0.0	1.4	0.9	0.8	0.7
Exports of goods, BOP, EUR mn	7675	9064	9774	9811	9200	9500	9800	10000
annual change in %	-21.3	18.1	7.8	0.4	-6.2	3.5	3.5	2.5
Imports of goods, BOP, EUR mn	14882	14809	15922	15856	15500	15800	15900	16000
annual change in %	-27.0	-0.5	7.5	-0.4	-2.2	2.0	0.5	0.5
Exports of services, BOP, EUR mn	8695	8651	8992	9316	9500	9600	9800	9900
annual change in %	-14.2	-0.5	3.9	3.6	2.0	1.5	2.0	1.5
Imports of services, BOP, EUR mn	3046	2876	2793	2856	2800	2900	3000	3100
annual change in %	-7.1	-5.6	-2.9	2.3	-2.0	2.0	3.0	3.0
FDI inflow, EUR mn	2567	389	1087	1066	700	.	.	.
FDI outflow, EUR mn	896	-114	38	-28	150	.	.	.
Gross reserves of NB excl. gold, EUR mn	10376	10660	11195	11236	12908	.	.	.
Gross external debt, EUR mn	43928	46685	46059	45019	44600	.	.	.
Gross external debt, % of GDP	98.1	105.0	104.2	103.0	101.4	.	.	.
Average exchange rate HRK/EUR	7.3396	7.2862	7.4339	7.5175	7.5737	7.6	7.6	7.6
Purchasing power parity HRK/EUR	5.1255	5.1340	5.0546	4.9163	4.9530	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census April 2011. - 3) Enterprises with 20 and more employees. - 4) Until 2010 domestic output prices. - 5) According to ESA'95, excessive deficit procedure. - 6) Discount rate of NB.
Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

CROATIA: Economic recovery further delayed

HERMINE VIDOVIC

Economic recovery in Croatia will be delayed by another year due to fiscal consolidation efforts. GDP growth should rebound only in 2015, provided investments pick up and external demand strengthens. Private consumption will remain suppressed due to high and persistent unemployment as well as household and enterprise deleveraging. Benefits of EU membership can be expected only in the medium run.

Croatia's GDP, declining since 2008, dropped by another 0.9% in 2013. This was largely due to a fall in foreign demand and, to a lesser extent, caused by a decline in domestic demand. Gross fixed capital formation continued to shrink, but at a slower pace than in the years before. Household consumption dropped as a result of diminishing disposable income due to rising unemployment and household deleveraging. Industrial output contracted for the fifth consecutive year. In manufacturing, the worst drop in output occurred in shipbuilding – Croatia's single most important export sector – with production down by 45% as compared to 2012. On the positive side, the manufacturing of basic metals grew most, by 16%. Owing to continued lay-offs in industrial enterprises, labour productivity increased by 3%.

In order to boost Croatia's underperforming industrial sector, the long-awaited industrial strategy for the period 2014-2020 was presented in February 2014. The very ambitious (draft) strategy – still a basis for discussion among major stakeholders – envisages an annual growth of industrial production by 2.85%, the creation of 85,600 new jobs (of which at least 30% highly educated) in the period under consideration, an increase in productivity of close to 70%, export growth of 30% as well as the development of high value added products. Among strategic industries the document lists the pharmaceutical industry, production of computers, electronic devices, metal production as well as computer programming.

External trade contracted significantly in 2013 with exports of goods shrinking by 6% and imports by 2% in nominal terms. The resulting trade deficit increased by about EUR 200 million (to EUR 6.3 billion) compared to a year earlier. Services trade reported a rising surplus due to enhanced earnings from tourism and a significant reduction of the deficit in the income balance resulting from a decline in profits of economic entities owned by non-residents. As a result the current account turned positive in 2013. Goods exports were negatively affected by the restructuring of the shipbuilding industry (one of the preconditions for EU membership), dropping by almost half as compared to a year earlier, as well as by the restructuring of the petrochemical industry. Moreover, trade with the CEFTA countries contracted (exports: -7%) not least because of the abolishment of preferential treatment after EU accession, while imports from other EU members face no barriers any more.

At the end of 2013 foreign debt stood at EUR 44.6 billion, by EUR 400 million less than a year earlier. FDI was lower than in the two preceding years when an annual inflow of about EUR 1 billion had been recorded; most of FDI was directed towards real estate, the production of food and beverages and trade. In January 2014 Standard & Poor's downgraded Croatia's long-term foreign and local currency sovereign ratings from BB+ to BB, while rating the outlook from negative to stable. The downgrade was explained by the fact that 'economic and budgetary policy measures so far have been insufficient to foster economic growth and place public finances on a more sustainable path'. Furthermore it highlighted Croatia's weak competitiveness.

Labour market conditions have further deteriorated during 2013: the number of employed fell by close to 5%. Registered unemployment soared to about 22% at the end of December, while preliminary labour force survey data provided by Eurostat indicate an unemployment rate of some 18%. The incidence of unemployment is particularly high for young people with their unemployment rate ranking among the highest in the EU.

Budgetary statistics were adjusted to European standards (ESA 95) in September 2013, resulting in higher deficits than reported for previous years. Those deficits were primarily caused by obligations under guaranteed debts of public enterprises (shipbuilding in particular). According to preliminary data, the general government deficit in 2013 amounted to 5.5% of the GDP and the general government debt stood at 62% of GDP. The increase is due to a shortfall in tax revenues and the covering of debts in the health care sector. Since the country's deficit has been exceeding the budgetary deficit ceiling imposed by the EU's stability and growth pact legislation, an excessive deficit procedure (EDP) was launched by the European Commission in January 2014. Accordingly Croatia should meet deficit targets of 4.6% of GDP in 2014, 3.5% of GDP in 2015 and 2.7% of GDP in 2016.

In an immediate response the Croatian Minister of Finance announced a revision of the 2014 budget by the end of February, envisaging to cut spending and increase revenues. On the expenditure side it is planned to cut spending on intermediate consumption (use of goods and services), to reduce the public sector wage bill[7], lower agricultural, traffic and other subsidies and to reduce spending for health care and some capital investment projects. Revenues should come from transferring funds from the second to the first pension pillar of those with early reduced retirement rights such as army and police employees and fire-fighters; additional revenues are expected from taxing lottery profits, raising concession fees and collecting parts of the profits from public companies.

The budget revision will account for an expected 0.2% GDP growth forecast instead of the earlier 1.3% that is based on the assumption of lower public and household spending. Earnings from privatisation will be used for public debt reduction and will not go into the budget. Moreover, the Minister of Finance stated that the budgets for 2015 and 2016 will be revised as well and will be different from those presented earlier by the government in the economic policy guidelines. It is not clear yet whether or which public investment will be postponed as a consequence of these cost cutting measures. Earlier announced public sector investment plans included among others improvements in Croatia's infrastructure such as increasing the capacity of Zagreb airport or building two thermal power plants.

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[7] According to the Minister of Finance salaries will not be reduced and there will be no dismissals, but better controls of overtime work and other benefits (*Privredni Vjesnik*, No. 233, p. 4). By contrast, Prime Minister Milanović announced the downsizing of personnel in public companies by 2000 employees in 2014.

Considering the poor outlook for GDP growth, uncertainties with regard to the actual amount of interest payments as well as the possible activation of state guarantees and, last but not least, the upcoming parliamentary elections in 2015, it will be difficult to achieve the Commission targets.

Although Croatia has a stable banking sector – the capital adequacy ratio is high by European standards – Croatian banks experienced significant declines of profitability and problems with the recapitalisation and bankruptcy of small banks in 2013. Data available for the first eleven months of the year show that both loans to households and non-financial corporations continued to decline by 2% and 3% respectively.[8] At the end of September 2013 the ratio of non-performing loans to total loans was 15% (up from 14% in September 2012). Out of loans provided to the corporate sector, 27% were categorised as non-performing. The ratio of bad loans in total household loans was 11%. On 1 January 2014 two new laws with regard to banking came into force: the Act on Consumer Credits and the Act on Credit Institutions. The most important change of the Consumer Credit Law is the reduction of interest rates to 3.23% for housing loans pegged to the Swiss franc. The reduction of the interest rate will be applied if the currency in question appreciated by over 20% from the day when the loan was taken. Currently there are 55,800 housing loans pegged to the Swiss franc. The Act on Credit Institutions harmonises Croatian regulations with EU regulations with regard to capital maintenance and the criteria for the management and supervision of credit institutions.

Given the announced budget consolidation measures, wiiw expects Croatia’s GDP to further decline or stagnate at best in 2014. Public investment will still not be sufficient to boost economic recovery and drawing EU funds will take some time. In view of this, an improvement on the labour market has moved into the far distance. Thus, household consumption will remain suppressed due to high and still growing unemployment as well as ongoing household deleveraging. A slight recovery assuming the realisation of planned investment projects and increasing net transfers from the EU budget may start only in 2015 and continue in 2016. That recovery, however, will be too low to generate new jobs, and thus unemployment is bound to remain at high levels.

[8] By contrast, the Croatian National Bank, using a broader definition (claims), reports an increase of loans to corporations (2%) and a decline in household loans by 1.6%.

Table 6 / Czech Republic: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	10444	10474	10496	10511	10514	10550	10580	10610
Gross domestic product, CZK bn, nom.	3759.0	3790.9	3823.4	3845.9	3830.0	3920	4070	4240
annual change in % (real)	-4.5	2.5	1.8	-1.0	-1.4	1.4	2.4	3.0
GDP/capita (EUR at exchange rate)	13600	14300	14800	14600	14100	.	.	.
GDP/capita (EUR at PPP)	19500	19800	20300	20700	20700	.	.	.
Consumption of households, CZK bn, nom.	1874.4	1889.2	1907.7	1916.2	1940.0	.	.	.
annual change in % (real)	0.2	1.0	0.5	-2.1	-0.3	1.0	2.0	2.0
Gross fixed capital form., CZK bn, nom.	926.1	930.5	922.6	887.9	850.0	.	.	.
annual change in % (real)	-11.0	1.0	0.4	-4.5	-4.8	1.0	3.0	3.0
Gross industrial production								
annual change in % (real)	-13.6	8.6	5.9	-0.9	0.5	2.5	4.0	5.0
Gross agricultural production								
annual change in % (real)	-3.6	-7.0	8.6	-5.8	6.9	.	.	.
Construction industry								
annual change in % (real)	-0.8	-7.4	-3.6	-7.7	-8.2	2.0	4.0	.
Employed persons, LFS, th, average 3)	4934.3	4885.2	4904.0	4890.1	4937.1	4950	4960	4970
annual change in % 3)	-1.4	-1.0	0.4	0.4	1.0	0.2	0.2	0.2
Unemployed persons, LFS, th, average 3)	352.2	383.5	353.6	366.8	368.9	.	.	.
Unemployment rate, LFS, in %, average 3)	6.7	7.3	6.7	7.0	7.0	7.7	7.3	7.0
Reg. unemployment rate, in %, end of period 4)	9.2	9.6	8.6	9.4	8.2	9.5	9.0	.
Average monthly gross wages, CZK	23344	23864	24455	25112	25260	.	.	.
annual change in % (real, gross)	2.3	0.7	0.6	-0.6	-0.8	1.0	2.0	1.5
Consumer prices (HICP), % p.a.	0.6	1.2	2.2	3.5	1.4	1.7	1.8	1.5
Producer prices in industry, % p.a.	-1.5	0.1	3.7	2.3	0.4	1.5	1.5	.
General governm. budget, EU-def., % of GDP								
Revenues	38.9	39.1	40.0	40.1	40.5	40.3	40.1	40.6
Expenditures	44.7	43.7	43.2	44.5	43.0	43.2	43.1	43.5
Net lending (+) / net borrowing (-)	-5.8	-4.7	-3.2	-4.4	-2.5	-3.0	-3.0	-2.9
Public debt, EU-def., % of GDP	34.6	38.4	41.4	46.2	49.0	50.6	52.3	52.0
Central bank policy rate, % p.a., end of period 5)	1.00	0.75	0.75	0.05	0.05	0.25	0.50	.
Current account, EUR mn	-3428	-5894	-4247	-3735	-1800	-2100	-2500	-2800
Current account, % of GDP	-2.4	-3.9	-2.7	-2.4	-1.2	-1.5	-1.6	-1.7
Exports of goods, BOP, EUR mn	70983	86083	97972	102484	104530	109000	116000	123000
annual change in %	-16.3	21.3	13.8	4.6	2.0	4.0	6.0	6.0
Imports of goods, BOP, EUR mn	67684	83991	94298	96686	96690	101000	105000	109000
annual change in %	-19.2	24.1	12.3	2.5	0.0	4.0	4.0	4.0
Exports of services, BOP, EUR mn	13924	15812	16646	17174	17170	18000	19000	.
annual change in %	-6.6	13.6	5.3	3.2	0.0	3.0	5.0	.
Imports of services, BOP, EUR mn	11126	12839	14262	15191	15190	16000	17000	.
annual change in %	-6.9	15.4	11.1	6.5	0.0	3.0	5.0	.
FDI inflow, EUR mn	2082	4644	1632	8244	4000	6000	.	.
FDI outflow, EUR mn	685	882	-231	1044	2000	1300	.	.
Gross reserves of NB excl. gold, EUR mn	28556	31357	30675	33550	40405	.	.	.
Gross external debt, EUR mn	61940	70498	72770	77205	75600	.	.	.
Gross external debt, % of GDP	43.6	47.0	46.8	50.5	51.3	.	.	.
Average exchange rate CZK/EUR	26.44	25.28	24.59	25.15	25.98	27.25	26.75	26.00
Purchasing power parity CZK/EUR	18.49	18.30	17.90	17.70	17.61	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census March 2011. - 3) From 2012 according to census March 2011. - 4) From 2013 available job applicants 15-64 in % of working age population 15-64, available job applicants in % of labour force before. - 5) Two-week repo rate.
Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

THE CZECH REPUBLIC: A change (for the better?)

LEON PODKAMINER

Recession is likely to come to an end in 2014, mostly on account of the discontinuation of negative developments such as fiscal consolidation (whose chief aims have already been realised) and contraction of inventories (which have been reduced in 2012-2013). Competitive devaluation will help preserve positive impulses from external trade. A very weak recovery in 2014 is likely to follow primarily from a slight strengthening of private and public consumption. But fixed capital formation is not likely to rebound strongly before 2015. Only in 2015-2016 growth can become adequate.

The early parliamentary elections held in October 2013 failed to give a strong political mandate to any of the contesting parties. The disgraced conservative-liberal parties ruling since 2006 were voted out of power but the Social Democrats' victory proved to be Pyrrhic. Unwilling to form an alliance with smaller parties (including the Communists), the Social Democrats (SD) entered, after three months' negotiation marathon, a coalition with ANO. ANO, formed and led (or perhaps owned) by Andrej Babiš, a wealthy businessman of Slovak origin active in food processing and the manufacture of chemicals, is generally characterised as a right-wing populist movement. Moreover, while Bohuslav Sobotka, the SD leader, has assumed the post of Prime Minister, it is Mr. Babiš in his capacity as the new Finance Minister and Deputy Prime Minister who can be expected to wield the real power. Whether the partnership of Social Democracy with ANO can be sustained for a meaningful period of time remains to be seen. Mr. Babiš has declared an intention to run the state finances as an ordinary private company's. But business tycoons usually fail as politicians. Probably running a private business enterprise – no matter how large and complex – requires qualities different from those needed for running a state. What is good for a single business need not be good for a whole economy (or even for the business sector). Of course, it is much too early to assess the performance of public finances under the new brush. The course of fiscal policy in 2014 has already been largely predetermined by previous governments. The new ideas (if any) will become identifiable only as the Finance Ministry works out 'further reform plans' and the new budget for 2015. Still, one important change has occurred. The new President, Miloš Zeman, and also the new government are – despite their otherwise tense relations – more 'pro-European' than used to be the case in the past. The forthcoming changes in the composition of the Board of the Czech National Bank can also change the CNB sceptical views on the advantages of giving up the national currency. Eventually, all this could lead to an initiation of a process leading to the adoption of the euro.

The prolonged (carried out since 2010) fiscal consolidation operation has ended in 2013 with a success: according to the Finance Ministry's recent provisional reports the fiscal deficit of the general government was suppressed to about 2.5% of the GDP. The success on the consolidation front (achieved at the expense of recession in 2012-2013) has opened the door to a modest fiscal expansion in 2014-2015. Such an expansion could help support recovery. Further austerity is unlikely to be pursued by the government in 2014-2016.

The provisional data on the real economy in 2013 are not looking good. Private consumption was essentially flat while gross fixed investment continued to fall like a stone. Even foreign trade did not excel: the contribution of trade to GDP growth must have been close to zero. Although a number of detailed indicators for December 2013 suggest a possibility of a rebound (e.g. retail trade rising by 3.6% year-on-year, industrial production by 6.7%, new export orders jumping by over 28%) some others remain depressed (e.g. construction output remained flat, as did employment in industry and construction).

The rather modest recovery in 2014 is generally expected to be based primarily on a somewhat faster rise in public and private consumption which will be coupled with a replenishment of inventories (that have been reduced in 2012-2013). The revival of gross fixed capital formation will still be rather weak. Public investment (into transport infrastructure) which is cofinanced out of EU funds is likely to be increased (although the size of that investment in 2014 is difficult to assess at the moment: the absorption capacity remains low while the selection and implementation of projects is plagued by corruption). Given the depressed incomes of the household sector, investment into housing is unlikely to rise significantly. Ultimately, it is the business sector investment which must lead the recovery of gross fixed capital formation – and of GDP at large in 2014. The monetary conditions continue to be conducive to the recovery of business investment. Domestic interest rates on loans to business are quite low, and so are the levels of the business sector's indebtedness. Also commercial banks continue to be in a fairly comfortable position. But loans to the domestic-owned non-financial corporate sector remained flat while loans to foreign-owned non-financial firms have been contracting[9]. Overall the stock of bank liabilities of the non-financial non-government sector rose 3.7% throughout 2013: the accrual in the stock was smaller than the interest charged by banks on those liabilities. The nominal stock of longer-term loans to the corporate sector fell about 1% in 2013.

The policy interest rates administered by the Czech National Bank are practically zero while a 'quantitative monetary easing' of the type applied in the UK or US could not make much of a difference (as neither the banking nor the corporate sectors are short of liquidity). Instead, the idea of exchange rate intervention aimed at weakening the Czech currency has been implemented (as of early November 2013). The goal is to keep the exchange rate at a level in excess of 27 CZK/EUR. So far this goal has been achieved (at a cost that is hard to assess). The CNB suggests it will stick to its exchange rate target throughout 2014. The record on the effectiveness of earlier interventions – which took place in 1998, 2000 and 2002 – is rather mixed, with the interventions in 2000 clearly failing to make any impact on the exchange rate dynamics and the interventions in 1998 and 2002 having rather short-lived desired effects.

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[9] It may be remembered that much of the Czech business sector (and most of its commercial banking) is actually in foreign hands. The investment motives of the captains of 'Czech business' need not have much to do with the developments obtaining in the Czech economy. The most recent Inflation Report of the CNB (issue IV/2013) suggests (pp. 42-43) that the share of profits reinvested by the foreign-owned companies may have been low, with the sector contributing rather strongly not only to the decline in investments, but also in employment.

The strange thing about the new exchange rate policy is that it is justified by the concerns about too low inflation. In the words of the CNB Governor, ‘a weaker koruna will simply import inflation’. However, this does not seem to be a valid justification for intervention even if higher import prices are actually passed through on the domestic ones. Higher import prices disassociated from higher activity levels actually represent a further drag on disposable income, not very different in consequences from e.g. higher indirect tax rates. In effect, they may – ceteris paribus – weaken domestic demand still further and thus strengthen rather than help stop the deflationary tendency.

Of course, a weakening currency may well help the real economy via higher exports and/or lower imports, though this does not seem to be an openly declared objective of the CNB, which – in the words of the CNB Governor – ‘is not here to help exporters’. It is the foreign trade performance which prevents the current Czech recession from assuming dismal proportions. Given this fact it is neither surprising nor disturbing that the CNB implements a policy of classical competitive devaluation.

In 2011-2013 the exclusive reliance on foreign trade was a matter of limiting losses – currently it is becoming a matter of bare survival. Should investment remain flat in 2014, it is foreign trade that should carry the day. Given the forced devaluation of the domestic currency, this expectation is now more likely to be met already in 2014 – provided the business climate in the euro area (and in Germany in particular) does not deteriorate. Changes in the orientation of fiscal policy, made possible by earlier consolidations, will be equally important.

All in all, the recession is likely to come to an end in 2014, most on account of the discontinuation of negative developments such as fiscal consolidation (whose chief aims have already been realised) and contraction of inventories (which have been reduced in 2012-2013). Competitive devaluation will help preserve positive impulses from external trade. A very weak recovery in 2014 is likely to follow primarily from a slight strengthening of private and public consumption. But fixed capital formation is not likely to rebound strongly before 2015. Only in 2015-2016 growth can become adequate.

Table 7 / Estonia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	1334.5	1331.5	1327.4	1322.7	1316.0	1310	1305	1300
Gross domestic product, EUR mn, nom.	13970	14371	16216	17415	18100	19000	20100	21400
annual change in % (real)	-14.1	2.6	9.6	3.9	0.7	2.6	3.0	3.2
GDP/capita (EUR at exchange rate)	10500	10800	12200	13200	13800	.	.	.
GDP/capita (EUR at PPP)	15000	15700	17500	18500	18900	.	.	.
Consumption of households, EUR mn, nom.	7334	7310	7964	8662	9300	.	.	.
annual change in % (real)	-15.2	-2.7	3.8	4.9	4.5	4.4	4.2	4.0
Gross fixed capital form., EUR mn, nom.	2960	2726	3825	4392	4600	.	.	.
annual change in % (real)	-39.0	-7.2	37.6	11.0	1.0	2.5	5.0	6.0
Gross industrial production								
annual change in % (real)	-24.0	23.6	19.9	-0.2	3.4	5.0	7.0	9.0
Gross agricultural production								
annual change in % (real)	2.8	-4.0	9.7	5.6	2.3	.	.	.
Construction industry								
annual change in % (real)	-29.8	-8.5	27.3	18.4	1.9	.	.	.
Employed persons, LFS, th, average 3)	595.8	570.9	609.1	614.9	621.3	630	635	640
annual change in % 3)	-9.2	-4.2	6.7	1.9	1.0	1.4	0.8	0.8
Unemployed persons, LFS, th, average 3)	95.1	115.9	86.8	68.5	58.7	53.3	49.3	46.7
Unemployment rate, LFS, in %, average 3)	13.8	16.9	12.5	10.0	8.6	7.8	7.2	6.8
Reg. unemployment rate, in %, end of period	13.3	10.1	7.3	6.1	5.1	.	.	.
Average monthly gross wages, EUR	784	792	839	887	952	.	.	.
annual change in % (real, gross)	-4.9	-1.8	0.9	1.7	4.0	.	.	.
Average monthly net wages, EUR	637	637	672	706	764	.	.	.
annual change in % (real, net)	-4.9	-2.9	0.5	1.1	4.9	.	.	.
Consumer prices (HICP), % p.a.	0.2	2.7	5.1	4.2	3.2	2.5	2.8	3.2
Producer prices in industry, % p.a.	1.0	3.2	4.2	2.6	7.3	.	.	.
General governm. budget, EU-def., % of GDP								
Revenues	42.8	40.6	38.7	39.2	38.0	37.5	37.0	36.5
Expenditures	44.7	40.5	37.5	39.5	38.5	37.9	37.2	36.6
Net lending (+) / net borrowing (-)	-2.0	0.2	1.1	-0.2	-0.5	-0.4	-0.2	-0.1
Public debt, EU-def., % of GDP	7.1	6.7	6.1	9.8	10.2	10.0	9.7	9.4
Central bank policy rate, % p.a., end of period 4)	2.83	0.92	1.00	0.75	0.25	.	.	.
Current account, EUR mn	382	408	291	-311	-250	-300	-400	-600
Current account, % of GDP	2.7	2.8	1.8	-1.8	-1.4	-1.6	-2.0	-2.8
Exports of goods, BOP, EUR mn	6354	8770	12049	12587	12249	12700	13600	15000
annual change in %	-25.2	38.0	37.4	4.5	-2.7	4.0	7.0	10.0
Imports of goods, BOP, EUR mn	7051	9039	12378	13363	13078	13900	15000	16400
annual change in %	-33.0	28.2	36.9	8.0	-2.1	6.0	8.0	9.0
Exports of services, BOP, EUR mn	3220	3442	3987	4256	4404	4750	5180	5440
annual change in %	-10.6	6.9	15.8	6.7	3.5	8.0	9.0	5.0
Imports of services, BOP, EUR mn	1809	2102	2665	3043	3238	3600	4030	4550
annual change in %	-20.9	16.2	26.8	14.2	6.4	11.0	12.0	13.0
FDI inflow, EUR mn	1325	1207	245	1180	837	.	.	.
FDI outflow, EUR mn	1115	106	-1046	740	433	.	.	.
Gross reserves of NB excl. gold, EUR mn 5)	2758	1904	150	218	222	.	.	.
Gross external debt, EUR mn	17204	16420	15250	16622	16000	.	.	.
Gross external debt, % of GDP	123.2	114.3	94.0	95.4	88.4	.	.	.
Purchasing power parity EUR/EUR	0.6978	0.6871	0.6967	0.7136	0.7269	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census March 2011. - 3) From 2012 according to census March 2011. - 4) From 2011 official refinancing operation rates for euro area (ECB), TALIBOR one-month interbank offered rate before (Estonia had a currency board). - 5) From January 2011 (euro introduction) only foreign currency reserves denominated in non-euro currencies.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

ESTONIA: Waiting for Scandinavian neighbours to revive

SEBASTIAN LEITNER

The end of stagnation in Northern Europe will allow the Estonian GDP to grow by 2.6% in 2014. Strong increases in real wages coupled with still substantial employment growth will further support the upswing. A stronger revival in private and public investment activity should lift GDP growth to 3% in 2015 and 3.2% in 2016.

The development of Estonia's economy, with a ratio of exports to GDP of about 90%, is highly dependent on the evolution of external markets. In 2013 Finland was in recession with a GDP decline of 1.8% and in Sweden growth was rather sluggish at 1% per annum. At the same time also Russian economic activity decelerated remarkably. The effect for Estonia was a contraction of goods and services exports by about 2% in nominal terms last year. Particularly transit volumes to and from Russia declined. Prospects for the Scandinavian economies for 2014 are rather positive, with Finland escaping recession and an upswing in Sweden driven by household consumption and investment. Thus we expect Estonian exports to revive, although the drag of Russia's growth remaining subdued will further have a negative impact. Industry confidence indicators have improved at the beginning of this year, producers becoming particularly more confident about export volumes to increase in the coming months.

The stagnation in gross fixed capital investment last year was to a large extent due to the cut of public outlays for infrastructure projects compared to 2012. For 2014 the budget plan of the government foresees real estate investments to increase by 10%. However, only in 2015-2016 a stronger rise is to be expected when EU funds become gradually available for the government. Enterprise investments in construction and repair of buildings increased by about 15%, whereas outlays for machinery and equipment remained stagnant in the total economy and fell by almost 20% in manufacturing, influenced by the decline in exports. In addition, enterprises significantly reduced the level of inventories last year. Accordingly, the rise in the stock of loans to enterprises slowed down in 2013. At the same time deleveraging of households has come to an end, the stock of housing loans started to increase slightly. Based on the allocation of building permits in past quarters we expect a slight increase in the construction of dwellings in 2014. The upswing of exports and further growth of industrial production for domestic consumption should result in increasing investments into machinery.

Employment kept on growing also in 2013 at a high pace with 2% annually. Additional jobs were created particularly in tourism, trade and public administration. Also in manufacturing employment grew by more than 2%, while the transport sector has been gradually losing jobs over the past years due to falling transit with Russia that widens the capacity of its own ports. For 2014 and thereafter we expect employment growth to decline since the employment rate of the population aged 15-64 has regained, with close to 70%, almost the pre-crisis level. Vacancies remained at the same level throughout last year compared to 2012, while the unemployment rate fell to 8.6%.

Average wage growth amounted to 4% in real terms in 2013. Unit labour costs in the manufacturing sector started to rise substantially faster than in the West and North European trading partners, a development exporting firms should keep an eye on. The amelioration of the labour market situation will keep wages growing at a high pace in the total economy. In order to lower wage inequality the government increased the minimum wage by 10% from January 2014 onwards. At the beginning of 2015 a further increase of the same amount will lift the minimum monthly salary to EUR 390, i.e. 40% of the average wage.

Despite the sluggish developments in overall economic activity, retail volumes kept on growing swiftly throughout 2013. Surveys show that expectations of households are increasingly positive at the beginning of 2014. Private consumption, which kept GDP growth alive in 2013, will still increase strongly in the coming years. However, due to employment rising at a slower pace in the coming years the contribution to overall GDP growth will decline slightly.

Although GDP growth decreased markedly in 2013, the budget deficit remained almost balanced. The Estonian government refrained from pursuing countercyclical fiscal policies. In March 2015 the next parliamentary elections will take place. Most recent polls show that it will be difficult for the Reform Party of Prime Minister Andrus Ansip to win the relative majority again. Hence, for 2014 the coalition government stipulated in its budget plan to increase not only the minimum wages but also pensions by 5.8% on average. Moreover, wages of public employees are to be lifted by about 5%.

Inflation still amounted to 3.2% in 2013 although commodity prices, particularly of fuels, were on the decline. The opening-up of the electricity market led to a hike in prices for households and rising labour costs pushed up core inflation. In 2014 and 2015 the increase of consumer prices should fall below 3%, the one-off effect of electricity price liberalisation will abate. Nevertheless, the wage growth particularly in the labour-intensive services sectors will keep inflation rates above those in most other EU countries.

In 2014 a revival of growth in the North European countries will pull the Estonian economy out of stagnation, rising by 2.6% p.a. Strong increases of average incomes and particularly minimum wages will in the two years thereafter result in household consumption remaining the main driver of economic activity. However, employment growth will slowly abate. In 2015 and 2016 an upswing in investment activity will be caused by rising capacity utilisation rates in the enterprise sector. In addition, public outlays for infrastructure will increase with EU funds becoming gradually available in this period. In real terms GDP growth will attain 3% in 2015 and 3.2% in 2016.

HUNGARY: Moderate growth in 2013, moderate acceleration in 2014

SÁNDOR RICHTER

The Hungarian economy attained moderate growth in 2013, to a large extent due to the outstanding agricultural output related to favourable weather. In the last months of 2013 investments began to recover from hibernation but consumption remained flat. 2014 will bring about a modest acceleration of GDP growth driven by an upturn of primarily EU co-financed investments and net exports. Institutional conditions for a more robust economic growth will likely remain unfulfilled.

With the general elections to be held on 6 April 2014, the Orbán government will soon complete its four-year legislation period. By the end of the election cycle, very little has been achieved of the spectacular targets which helped Orban's Fidesz party achieve a super majority in the Hungarian parliament in 2010. The envisaged spectacular take-off in the economy with a 5% to 7% annual GDP growth rate turned out to be a half per cent average annual growth over the legislation period. Out of 400,000 promised new jobs, 158,000 have been realised, in a statistical sense. Public works schemes, employees appearing in domestic employment statistics though working abroad and a modest increase in other public sector employment are behind the proudly presented employment statistics, while the expansion was negligible in the business sector.

The promised reduction in bureaucracy, symbolised by a new, simplified tax report form to be introduced which is not bigger than a beer mat, has given way to overall and extreme centralisation of decisions and an increasing role of the executive power in the economy, education, arts and the private sphere of the citizens. Autonomous social bodies, both professional and civil ones, have been marginalised in decision-making processes. Declaring war against corruption was an ace in the hand of Fidesz four years ago when winning the elections. Nothing has changed here, if not to the worse: in the latest Eurobarometer survey 89% of Hungarians think that corruption is a widespread phenomenon in their country. Government-loyal firms and individuals win bids from tobacco concessions to state-owned arable land leasing.

Despite failing conspicuously on their promises and instead harming and offending several strata and groupings of Hungarian society, Orbán's Fidesz party managed to preserve a decisive part of its pre-2010 popularity. With the latest coup, a stepwise reduction of public utility tariffs for households and the related propaganda campaign, Orbán seems to keep a sufficient number of voters in his spell to win the forthcoming elections. Without doubt, in early 2014 the Hungarian economy displays features which, without being put into context, may give the impression of a successful development - very low inflation,

Table 8 / Hungary: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	10023	10000	9948	9920	9870	9850	9830	9810
Gross domestic product, HUF bn, nom.	25626	26513	27635	28048	29300	30500	32000	33500
annual change in % (real)	-6.8	1.1	1.6	-1.7	1.1	1.4	2.1	2.0
GDP/capita (EUR at exchange rate)	9100	9600	9900	9800	10000	.	.	.
GDP/capita (EUR at PPP)	15300	16100	16900	17000	17500	.	.	.
Consumption of households, HUF bn, nom.	13551	13665	14287	14903	15500	.	.	.
annual change in % (real)	-6.8	-3.0	0.3	-1.8	0.6	0.8	1.0	1.0
Gross fixed capital form., HUF bn, nom.	5302	4920	4950	4881	5200	.	.	.
annual change in % (real)	-11.1	-8.5	-6.0	-3.6	3.0	3.0	6.0	5.0
Gross industrial production								
annual change in % (real)	-17.6	10.5	5.6	-1.8	1.4	3.0	6.0	6.0
Gross agricultural production								
annual change in % (real)	-10.6	-11.1	11.1	-9.8	11.6	.	.	.
Construction industry								
annual change in % (real)	-4.3	-10.4	-8.0	-6.7	9.7	5.0	5.0	7.0
Employed persons, LFS, th, average	3781.8	3781.2	3811.9	3877.9	3938.5	3980	4020	4060
annual change in %	-2.5	0.0	0.8	1.7	1.6	1.0	1.0	1.0
Unemployed persons, LFS, th, average	420.7	474.8	467.9	475.6	448.9	.	.	.
Unemployment rate, LFS, in %, average	10.0	11.2	10.9	10.9	10.2	10.0	9.0	8.5
Reg. unemployment rate, in %, end of period	13.6	13.3	12.4	12.8	9.3	.	.	.
Average monthly gross wages, HUF 3)	199837	202525	213094	223060	231540	.	.	.
annual change in % (real, gross)	-3.5	-3.4	1.3	-1.0	1.8	.	.	.
Average monthly net wages, HUF 3)	124116	132604	141151	144085	151580	.	.	.
annual change in % (real, net)	-2.3	1.8	2.4	-3.5	3.3	.	.	.
Consumer prices (HICP), % p.a.	4.0	4.7	3.9	5.7	1.7	2.9	3.0	3.0
Producer prices in industry, % p.a.	4.4	4.0	4.1	4.1	0.6	.	.	.
General governm.budget, EU-def., % of GDP								
Revenues	46.9	45.6	54.3	46.6	46.9	.	.	.
Expenditures	51.4	50.0	50.0	48.7	49.6	.	.	.
Net lending (+) / net borrowing (-) 4)	-4.6	-4.4	4.2	-2.1	-2.7	-3.0	-3.0	-3.0
Public debt, EU-def., % of GDP	79.8	82.2	82.1	79.8	79.7	79.5	79.0	78.5
Central bank policy rate, % p.a., end of period 5)	6.25	5.75	7.00	5.75	3.00	.	.	.
Current account, EUR mn	-176	204	452	999	2000	1300	1000	700
Current account, % of GDP	-0.2	0.2	0.5	1.0	2.0	1.3	0.9	0.6
Exports of goods, BOP, EUR mn	57397	66912	74475	75630	78500	84500	93800	106000
annual change in %	-20.3	16.6	11.3	1.6	3.8	7.7	11.0	13.0
Imports of goods, BOP, EUR mn	55028	64468	71356	72099	74260	79700	88700	100200
annual change in %	-24.9	17.2	10.7	1.0	3.0	7.3	11.3	13.0
Exports of services, BOP, EUR mn	13305	14578	15800	15868	15870	17500	19400	21900
annual change in %	-3.6	9.6	8.4	0.4	0.0	10.0	11.0	13.0
Imports of services, BOP, EUR mn	11319	11704	12630	12459	12460	13500	15000	17000
annual change in %	-7.9	3.4	7.9	-1.4	0.0	8.0	11.0	13.0
FDI inflow, EUR mn	1475	1655	3840	10708	-2000	.	.	.
FDI outflow, EUR mn	1365	881	3124	8621	-600	.	.	.
Gross reserves of NB, excl. gold, EUR mn	30648	33667	37242	33783	33696	.	.	.
Gross external debt, EUR mn	137120	138343	132638	124153	115000	.	.	.
Gross external debt, % of GDP	150.0	143.7	134.1	128.0	116.5	.	.	.
Average exchange rate HUF/EUR	280.33	275.48	279.37	289.25	296.87	300	295	285
Purchasing power parity HUF/EUR	167.06	164.54	164.38	166.34	169.25	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to census October 2011. - 3) Enterprises with 5 and more employees. - 4) In 2011 including one-off effects. Without those effects general government budget balance is estimated to have attained -4.6% of GDP (Source: Portfolio.hu). - 5) Base rate (two-week NB bill).
Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

growing investment, a lasting surplus in the trade balance, improving employment data. A closer look at these indictors' background, however, gives reason for concern.

The low inflation, at a level unprecedented since 1989, is to a large extent explained by the decrease of centrally regulated tariffs for electricity, gas, district heating and other public utilities for households in the last more than one year. The energy price cuts are only to a smaller part supported by a general decline in energy prices in the world market. They are to a large extent covered by an increased burden on producers and distributors. These were initially only multinational firms, but with widening the range of reduced prices to water, sewage, waste collection and canned gas, a growing number of smaller local government-owned suppliers are getting into financial difficulties as well. The question is left open how, under these conditions, daily operations and maintenance can be financed in these sectors in the medium term. While huge national and regional projects creating new facilities are often financed by EU resources, the latter are not available for the not less important maintenance investment, not to mention daily operation.

The collateral damage done by the Orbán government's innovation of sector-specific taxes (on energy, telecommunications, large retail trade businesses and, most prominently, financial institutions) is clearly seen in the investment statistics. While in the second and third quarters of 2013 overall investment took off, there was a considerable decline in the telecommunications, electricity, gas and steam supply sector and in financial intermediation. Beyond the sectors involved in the specific taxation, investment also declined in human health and social work activities, arts and recreation. It is remarkable that investment growth, from very low levels, was confined to specific areas of the economy. An especially strong expansion was recorded in water supply, sewerage, waste management, professional and scientific activities, road and railway construction and reconstruction, flood prevention, and public administration − i.e. areas where transfers from the EU's Cohesion Fund and the Structural Funds typically play a decisive role. In the manufacturing sector investment grew only marginally, within this segment, however, projects realised by the automotive cluster and the food industry resulted in an expansion of investment.

EU co-financed projects have played a prominent role in the recent upturn in investment and this will remain so this year and the next as well. Hungary is in delay with drawing the available cohesion policy related transfers from the 2007-2013 Multi-annual Financial Framework (MFF), and in order to avoid the final loss of huge potentially available EU resources an accelerated authorisation and implementation will be required. Payments from the 2007-2013 MFF will be possible until the end of 2015, and due to permanent reorganisation and poor management 38% of the total sum will have to be allocated in the remaining two years. From 2016 on only resources from the new 2014-2020 MFF will be available, but traditionally realised transfers drop after the closure of transfers from an outgoing financial framework period.

With a fiscal policy focused on observing the less than 3% GDP proportional budget deficit, economic growth stimulation has been delegated to the monetary policy, which is pursued by a government-dependent monetary council and central bank management. The central bank's policy rate has been cut in several steps to its historically lowest level of 2.7% on 19 February. Simultaneously the central bank launched its Funding for Growth Scheme, a project pumping, with the mediation of the commercial banks, credits to the SME sector with a subsidised fixed low interest rate. This tool in itself is a step into the right direction; nevertheless, without a growing domestic market plus a stable and foreseeable regulatory and taxation environment the impact may be much smaller than hoped for by the central bank and the government.

It is not at all obvious that the current low policy rate can be maintained. With the beginning tapering of the US Fed the risk appetite of investors may decrease, and in an environment turning less friendly to the emerging markets the exchange rate of the Hungarian currency may be weakened to such an extent that raising the policy rate may become unavoidable. High public and external debt, elements with questionable sustainability in the hardly achieved fiscal consolidation, a high share of non-performing loans and, last but not least, an even in the best case mixed reception of the Orbán government's 'unorthodox' economic policy all make Hungary's situation extremely fragile.

Hungary's total external debt further diminished last year, but partly due to the financial sector's deleveraging which negatively affects economic growth. The public debt to GDP ratio hardly dropped in the legislation period (from 82.2% in 2010 to an estimated 79.7% end of last year). That is all the more remarkable as the nationalisation of the obligatory private pension funds' assets, amounting to about 9% of the GDP, would have secured the means for a spectacular reduction. The reason why this did not happen is that a part of the confiscated resources was used to finance current fiscal expenditures; furthermore, the fiscal expansion in 2011 (without the one-off elements) negatively affected the debt/GDP ratio. A new EUR 10 billion credit planned to be raised in Russia for the financing of the refurbishment/enlargement of Hungary's ageing nuclear power plant Paks will not allow a decreasing public debt path in the years beyond our forecast horizon 2016 either. This coup of the government is a blow to Orbán's much-advertised war against indebtedness and also to the verbal 'freedom fight' fought, not so long ago, against Russia.

The modest GDP growth attained last year will somewhat accelerate in 2014 and 2015. This will mainly be the result of the climax of EU co-financed public investment projects and, to a diminishing extent, of net exports. By 2016 EU transfers from the previous financial framework will no longer be available while payments from the new 2014-2020 framework will not have a real momentum yet and this will be reflected in a slightly deteriorating growth performance. With no change likely in the economic policy pursued, the fundaments of a more robust growth such as legal security, a transparent and reliable institutional environment, fair competition and a take-off in business sector investment and employment will not be available.

LATVIA: Consumers in excellent mood

SEBASTIAN LEITNER

In the first year of Latvia's accession to the euro area we expect a slight upswing of economic growth to 4.2% driven by improving conditions in the main trading partners and rising investment in machinery and equipment. The government reshuffle at the beginning of this year will not result in a change of economic policies pursued so far. Also in 2015 and 2016 GDP growth will amount to about 4% since household consumption will be supported by strongly rising wages.

Latvia's economy continued to grow at a surprisingly high pace of 4% in 2013. The strong increase of household consumption counterbalanced the weaknesses of external demand and investment activities. The decline in overall industrial production last year was strongly influenced by the insolvency of Liepajas metalurgs, the only metallurgical plant in the Baltics. Production was halted and the majority of employees laid off. Moreover, the avoidance of bankruptcy burdened the government deficit by 0.3% of GDP last year. A purchase agreement with a bidder is not to be expected before the summer term 2014.

Accordingly, trade developments were driven by the slump in the production of iron and steel and a decrease of the cereal harvest in 2013. By contrast, in other commodity groups, particularly in machinery and wood being the most important traded products, exports increased rather swiftly. However, trade developments were also negatively influenced by the abating demand developments in neighbouring Estonia and Russia. The decrease in industrial production, low investment and the decline in commodity prices, in particular of crude oil, resulted in a stagnation of nominal goods imports and thus still a positive contribution of net exports to GDP growth. In the first half of 2014 the negative impact of the halt in the production of Liepajas metalurgs will still influence overall export growth. Thereafter, we expect an upswing in goods trade driven by stronger demand developments in Estonia and West and North European trading partners.

Investments in machinery and equipment declined by almost 30% in the total economy and by even 40% in the manufacturing sector in the first three quarters of 2013. Apart from that, low overall export growth resulted in producers reducing their inventories. Construction activity continued to develop at a good pace driven by investment in new residential buildings and repair works. This is also due to the Latvian system of allocation of temporary residence permits to third-country citizens in exchange for real estate investments, which was introduced in 2010. At the same time Latvian households and non-financial enterprises are continuing to deleverage. While this process is expected to come to an end for the companies towards the end of this year, in the case of the households the amount of new loans is likely to surpass repayments and write-offs of non-performing loans not before 2016.

Table 9 / Latvia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	2141.7	2097.6	2059.7	2034.3	2015.0	2005	1995	1987
Gross domestic product, EUR-LVL mn, nom.	18598	18190	20312	22083	23000	24400	26000	27700
annual change in % (real)	-17.7	-1.3	5.3	5.2	4.0	4.2	4.1	3.9
GDP/capita (EUR at exchange rate)	8600	8600	9800	10900	11400	12200	13000	13900
GDP/capita (EUR at PPP)	12700	13500	15000	16400	17500	.	.	.
Consumption of households, EUR-LVL mn, nom.	11225	11308	12415	13511	14300	.	.	.
annual change in % (real)	-22.8	2.5	4.7	5.5	6.0	5.5	5.2	4.6
Gross fixed capital form., EUR-LVL mn, nom.	4013	3315	4332	5033	5000	.	.	.
annual change in % (real)	-37.4	-18.1	27.9	8.7	-1.3	3.0	8.0	9.0
Gross industrial production 3)								
annual change in % (real)	-18.1	14.9	9.0	6.1	-0.8	4.0	6.0	7.0
Gross agricultural production								
annual change in % (real)	-0.7	-2.4	2.8	17.4	-3.0	.	.	.
Construction industry								
annual change in % (real)	-34.9	-23.4	12.5	13.5	6.9	.	.	.
Employed persons, LFS, th, average 4)	983.1	940.9	970.5	875.6	900.0	918	930	940
annual change in % 4)	-12.6	-4.3	3.1	1.6	2.8	2.0	1.3	1.1
Unemployed persons, LFS, th, average 4)	203.2	216.1	176.4	155.1	120.0	100	90	80
Unemployment rate, LFS, in %, average 4)	17.1	18.7	15.4	15.0	11.7	10.2	9.0	8.0
Reg. unemployment rate, in %, end of period 4)	16.0	14.3	11.5	10.5	9.5	.	.	.
Average monthly gross wages, EUR-LVL	656	633	660	684	719	.	.	.
annual change in % (real, gross)	-7.0	-2.4	-0.1	1.4	5.0	.	.	.
Average monthly net wages, EUR-LVL	487	450	470	488	516	.	.	.
annual change in % (real, net)	-5.6	-6.5	0.1	1.6	5.0	.	.	.
Consumer prices (HICP), % p.a.	3.3	-1.2	4.2	2.3	0.0	1.8	2.2	2.6
Producer prices in industry, % p.a.	-3.1	2.4	7.7	4.1	1.7	.	.	.
General governm.budget, EU-def., % of GDP								
Revenues	34.0	35.3	34.9	35.1	35.2	34.7	34.4	34.0
Expenditures	43.7	43.4	38.4	36.5	36.5	35.6	35.3	34.8
Net lending (+) / net borrowing (-)	-9.7	-8.1	-3.6	-1.4	-1.3	-0.9	-0.9	-0.8
Public debt, EU-def., % of GDP	36.9	44.4	41.9	40.6	41.0	38.0	35.5	33.0
Central bank policy rate, % p.a., end of period 5)	4.00	3.50	3.50	2.50	0.25	.	.	.
Current account, EUR mn	1598	532	-434	-552	-210	-350	-600	-900
Current account, % of GDP	8.6	2.9	-2.1	-2.5	-0.9	-1.4	-2.3	-3.2
Exports of goods, BOP, EUR mn	5253	6813	8578	10017	10080	11000	12100	13300
annual change in %	-19.6	29.7	25.9	16.8	0.6	9.1	10.0	9.9
Imports of goods, BOP, EUR mn	6575	8084	10765	12322	12172	13250	14700	16400
annual change in %	-38.0	23.0	33.2	14.5	-1.2	8.9	10.9	11.6
Exports of services, BOP, EUR mn	2747	2754	3181	3554	3668	4000	4200	4500
annual change in %	-11.0	0.3	15.5	11.7	3.2	9.1	5.0	7.1
Imports of services, BOP, EUR mn	1625	1647	1868	2048	2034	2100	2200	2400
annual change in %	-25.1	1.4	13.4	9.6	-0.7	3.2	4.8	9.1
FDI inflow, EUR mn	68	284	1039	871	632	.	.	.
FDI outflow, EUR mn	-44	14	44	150	233	.	.	.
Gross reserves of NB excl. gold, EUR mn	4572	5472	4666	5412	5565	.	.	.
Gross external debt, EUR mn	29097	29978	29459	30113	31000	.	.	.
Gross external debt, % of GDP	157.1	166.2	145.8	135.3	134.5	.	.	.
Average exchange rate EUR-LVL/EUR	1.0041	1.0084	1.0050	0.9922	0.9981	1.0000	1.0000	1.0000
Purchasing power parity EUR-LVL/EUR	0.6858	0.6441	0.6565	0.6628	0.6529	.	.	.

Note: Latvia has introduced the euro from 1 January 2014. Up to and including 2013 all time series in LVL as well as the exchange rates and PPP rates have been divided for statistical purposes by the conversion factor 0.702804 (LVL per EUR) to achieve euro-fixed series (EUR-LVL).

1) Preliminary and wiiw estimates. - 2) According to census March 2011. - 3) Enterprises with 20 and more employees. - 4) From 2012 according to census March 2011. - 5) Refinancing rate of National Bank.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

In November 2013 Valdis Dombrovskis, who had been Prime Minister from 2009 onwards, resigned. He took political responsibility after the collapse of a supermarket in Riga, which killed 54 people. The austerity measures enacted under Valdis Damobrovskis in 2009 had comprised the abolishment of the national building inspectorate which led to a more lax oversight of construction projects.

In January 2014 a new government led by Laimdota Straujuma, the former minister of agriculture, was enacted. The centre-right wing coalition government comprises the former three partners ‘Unity’, ‘Reform Party’ and ‘National Alliance’ and the newly joined ‘Union of Greens and Farmers’. Thus the left-wing ‘Harmony Centre’ remains the only opposition party until the regular parliamentary elections in October this year.

The coalition partners agreed to refrain from amending the 2014 state budget. The budget plan, being the first enacted under the fiscal discipline law, foresees a reduction of the government deficit to 0.9% this year. On the revenue side, social security contributions were reduced by 1.5 percentage points and the non-taxable threshold in income taxation increased somewhat, while taxation of natural resources has been broadened and raised. An increase of expenditures is stipulated by the indexation of small pensions from September 2013 onwards and a rise in the public wage bill by 9% in 2014. The latter is a result of an increase in the minimum wage by about 10% to EUR 320 and an unfreezing of wages of public employees, who experienced substantial cuts during the economic crisis.

The medium-term budget plan comprises a reduction of the flat personal income tax rate by 1 percentage point both in 2015 and 2016. The installed debt brake will lead to a gradual decline of the structural deficit towards 0.5% by the end of the decade.

In January of this year the Latvian treasury successfully sold a seven-year bond amounting to one billion euros with a fixed interest rate of 2.625% p.a. Thus the second instalment of the EC’s rescue loan can easily be repaid in March 2014, lowering the total interest burden of the government debt at the same time. A second emission of about the same amount is planned for the second half of 2014 in order to arrange for repayment of the third instalment of the EC loan due in 2015. Thereafter the treasury plans to reduce its cash buffers which are still held in order to guarantee timely repayment of loans irrespective of market conditions. The effect will be a substantial decline of the public debt burden.

Employment growth continued in 2013 even at a higher pace compared to the year before. New jobs were created particularly in manufacturing, trade and due to a revival in the construction sector. The level of unemployment fell considerably by a fifth to 11.7% last year. Nevertheless, the unemployment rate of youngsters (15-24) remains well above 20% and also much above the country average in the eastern parts of Latvia. For 2014 we expect annual job growth to attain still about 2%. Since the employment rate will have reached almost the pre-crisis level of 70% of the working-age population, job growth will decelerate thereafter. Although emigration slowed down considerably from its peak in the three years after the start of the economic crisis, the resident population of Latvia still fell by 1% in 2013, driven also by a strong natural decrease.

After five years of declining or stagnating remuneration, average real wage growth increased considerably in 2013 by about 5% per annum. For 2014 an even stronger upswing will be driven by the increase of the minimum wage by more than 10%, the unfreezing of the public wage bill and in general by the amelioration of the labour market situation.

Employment and wage developments pushed household consumption, which was the main driver of growth in 2013. This was also influenced by high inflows of personal remittances attaining 2.5% of GDP from 2010 onwards. Euro area accession seems to have improved consumer sentiments further. For 2014 and 2015 we expect that the spending mood of households will continue to enhance and banks shall be ready to provide more new loans for consumer durables.

During 2013 the consumer price index fell to zero. Deflationary developments during the year were particularly caused by the price decline of imported oil products. In 2014 overall price developments will be influenced by the liberalisation of the electricity market, which is expected to cause on average a 10% increase in the bill of the households. Stronger wage growth will also cause the core inflation to rise.

For the years 2014 to 2016 we expect GDP to continue growing at a high pace of about 4% annually. Internal demand will be pushed by rising employment levels, growing inventories and a revival of investments of private enterprises in machinery and equipment. The latter will be driven by a rebound in external demand in Northern Europe and neighbouring Estonia. However, growth in the most important trading partner Russia will remain subdued. From 2015 onwards also EU funds will become available for an increase of public investments in infrastructure. The rise in household consumption will also increase import activity, thus net exports will start to contribute negatively to GDP growth from 2014 onwards. A peril to a medium-term balanced growth path may be continuing wage growth above productivity growth which could lead to another boom-bust cycle. However, given the experience of past years, the banking sector will refrain from moving to laxer lending standards in the coming years.

LITHUANIA: Euro area within reach

SEBASTIAN LEITNER

In July 2014 the EU Council will most likely approve Lithuania's admission to the euro area, since the country fulfils all Maastricht criteria. For 2014 we expect GDP growth to rise to 3.6% and to further accelerate slightly in 2015 and 2016. An upswing of external demand this year and in 2015 and ongoing flourishing household consumption driven by strong wage developments bolster economic activity. From 2015 onwards public investments will provide for an additional impulse.

The pace of economic activity slowed down in the second half of 2013. Lithuanian firms face, after three years of high export growth, abating external demand developments. The reasons for that are manifold. The demand for two of the most important export commodities, fertilisers and oil products, slowed down remarkably last year and prices of the latter were on decline. The slowdown of GDP growth of Lithuania's main trading partner Russia and the import ban of Russian authorities on Lithuanian dairy products lasting from October last year to January 2014 both had a sizable negative impact.

Also the decline in industrial production was mainly affected by the output developments of Lithuania's refinery Mazeiku Nafta, the largest exporting firm in the country. Other sectors, particularly the wood industry, even showed an upswing in production in the second half of 2013. For 2014 we expect export demand to increase only slightly compared to last year. Oil prices are likely to fall further this year. However, an increase in the quantity of exported oil products is to be expected. The forecasts for growth developments in the North European trading partners are rosier for 2014 compared to last year and even for Russia a slight upswing is possible.

Although imports contracted in line with abating export growth, the contribution of net exports declined substantially last year compared to 2012. From 2014 onwards we expect that domestic demand will grow more strongly compared to that of Lithuania's trading partners except for neighbouring Latvia. Thus the current account balance will turn slightly negative again.

Public and private gross fixed investments developed well last year. In 2014 we expect them to grow slightly less vibrantly, since one-off effects provided in 2013 by construction and refurbishment relating to Lithuania's Presidency of the Council of the EU and high investments into transport equipment cease. However, construction activity will continue to increase given the plan of the government to renovate old Soviet-style dwelling houses. For the years 2015 and 2016 both private and public investment should gain more momentum, when EU structural funds of the new programming period 2014-2020 become available.

Table 10 / Lithuania: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015	2016
							Forecast	
Population, th pers., average 2)	3162.9	3097.3	3028.1	2987.8	2958.0	2928	2900	2875
Gross domestic product, LTL mn, nom.	92032	95676	106893	113735	119000	125100	133500	143000
annual change in % (real)	-14.8	1.6	6.0	3.7	3.4	3.6	3.8	4.0
GDP/capita (EUR at exchange rate)	8400	8900	10200	11000	11700	.	.	.
GDP/capita (EUR at PPP)	13600	15100	16900	18300	19400	.	.	.
Consumption of households, LTL mn, nom.	62807	61285	66894	71709	76200	.	.	.
annual change in % (real)	-17.8	-3.7	4.8	3.9	5.0	4.6	4.3	4.0
Gross fixed capital form., LTL mn, nom.	15807	15589	19270	18934	21500	.	.	.
annual change in % (real)	-39.5	1.9	20.7	-3.6	12.0	10.0	12.0	14.0
Gross industrial production (sales)								
annual change in % (real)	-13.8	6.4	6.4	3.7	3.4	5.0	8.0	7.0
Gross agricultural production								
annual change in % (real)	1.0	-7.2	10.3	14.2	-3.3	.	.	.
Construction industry								
annual change in % (real)	-48.3	-7.3	22.1	-7.3	8.5	.	.	.
Employed persons, LFS, th, average 3)	1415.9	1343.7	1370.9	1275.7	1292.8	1305	1312	1318
annual change in % 3)	-6.8	-5.1	2.0	1.8	1.3	0.9	0.5	0.5
Unemployed persons, LFS, th, average 3)	225.1	291.1	248.8	196.8	173.0	155	141	130
Unemployment rate, LFS, in %, average 3)	13.7	17.8	15.4	13.4	11.8	10.6	9.7	9.0
Reg. unemployment rate, in %, end of period 3)4)	12.5	14.4	11.0	11.4	11.1	.	.	.
Average monthly gross wages, LTL 5)	2056.0	1988.1	2045.9	2123.8	2234.0	.	.	.
annual change in % (real, gross)	-8.5	-4.6	-1.2	0.7	4.0	.	.	.
Average monthly net wages, LTL 5)	1602.0	1552.4	1594.6	1651.4	1732.0	.	.	.
annual change in % (real, net)	-7.2	-4.3	-1.4	0.5	3.7	.	.	.
Consumer prices (HICP), % p.a.	4.2	1.2	4.1	3.2	1.2	1.5	2.8	3.0
Producer prices in industry, % p.a.	-13.5	10.3	13.9	5.0	-2.4	.	.	.
General goverm.budget, EU-def., % of GDP								
Revenues	35.5	35.0	33.2	32.7	32.2	32.0	31.5	31.3
Expenditures	44.9	42.3	38.7	36.1	35.0	34.2	33.5	33.0
Net lending (+) / net borrowing (-)	-9.4	-7.2	-5.5	-3.3	-2.8	-2.2	-2.0	-1.7
Public debt, EU-def., % of GDP	29.3	37.8	38.3	40.5	41.5	41.2	40.3	39.3
Central bank policy rate, % p.a., end of period 6)	1.57	1.07	1.24	0.52	0.27	.	.	.
Current account, EUR mn	996	20	-1151	-68	299	-100	-150	-200
Current account, % of GDP	3.7	0.1	-3.7	-0.2	0.9	-0.3	-0.4	-0.5
Exports of goods, BOP, EUR mn	11797	15651	20151	23048	24528	27200	30500	33600
annual change in %	-26.6	32.7	28.8	14.4	6.4	10.9	12.1	10.2
Imports of goods, BOP, EUR mn	12688	16990	21958	23960	25575	28400	32000	35700
annual change in %	-37.4	33.9	29.2	9.1	6.7	11.0	12.7	11.6
Exports of services, BOP, EUR mn	2629	3088	3738	4589	5329	6140	7310	8630
annual change in %	-18.9	17.5	21.0	22.8	16.1	15.2	19.1	18.1
Imports of services, BOP, EUR mn	2192	2274	2742	3358	4000	4670	5510	6390
annual change in %	-22.7	3.7	20.6	22.5	19.1	16.8	18.0	16.0
FDI inflow, EUR mn	-9	604	1040	545	675	.	.	.
FDI outflow, EUR mn	143	-4	40	305	-78	.	.	.
Gross reserves of NB excl. gold, EUR mn	4472	4788	6120	6203	5705	.	.	.
Gross external debt, EUR mn	22363	22976	23976	24830	23600	.	.	.
Gross external debt, % of GDP	83.9	82.9	77.4	75.4	68.5	.	.	.
Average exchange rate LTL/EUR	3.4528	3.4528	3.4528	3.4528	3.4528	3.45	3.45	3.45
Purchasing power parity LTL/EUR	2.1399	2.0416	2.0838	2.0814	2.0715	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census March 2011. - 3) From 2012 according to census March 2011. - 4) In % of working-age population. - 5) Including earnings of sole proprietors. - 6) VILIBOR one-month interbank offered rate (Lithuania has a currency board).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

The final budget deficit figure is expected to amount to 2.8% for 2013. Although expenditures increased more strongly than planned by the former government last year, higher than envisaged revenues, particularly from income taxes, allowed the government to attain the 3% deficit criterion. The budget plan for 2014, a reduction of government net lending to 1.9%, seems to be slightly overambitious, but a substantial decline is possible if economic activity and thus revenues evolve as expected. Additional expenditures will be allocated for regional development, and the compensation of pensioners that suffered from income cuts in 2010 and 2011 will amount to 1% of GDP in the coming three years. From January 2014 onwards the non-taxable minimum income has been increased by about 20% and it is planned to be raised by another 20% in January 2015. The non-taxable amount for each child has also been doubled at the beginning of this year. The IMF highlighted in a report last year that the consolidation of the budget deficit conducted in the course of the economic crisis heavily relied on expenditure cuts in Lithuania while the tax structure remained almost unchanged. In the phase of the rebound thereafter the share of revenues is gradually declining, being already the lowest in the EU. The IMF recommends increasing taxes on capital and wealth and raising the progressivity of income taxation for the upper income deciles of the population.

Lithuania is most likely to become the 19th member of the euro area given that all Maastricht criteria will be met. In January this year Prime Minister Algirdas Butkevičius reiterated that if meeting the goal should fail, he and the government would take responsibility and resign. Public support for the euro introduction is however still quite low; a poll in November 2013 showed that 40% of the public is in favour of the accession while 49% oppose it.

Employment growth further slowed down last year while the construction sector experienced a revival in jobs. Although economic activity will develop at a good pace also in the coming years, job growth will abate due to a declining labour force. Figures of the Lithuanian statistical office indicated that return migration has increased, but net outflows still amounted to about 0.6% of the population in 2013. Last year gross wages started to rebound markedly in real terms. Given the amelioration in the labour market we expect incomes to increase more swiftly in 2014. Moreover, Finance Minister Šadžius announced the plan to raise minimum wages by 5% in January 2015. With the outbreak of the economic crisis the emigration of a substantial part of the workforce caused a significant increase of personal remittances inflows. With a most recent value of 3.5% of GDP Lithuania overtakes countries such as Bulgaria and Romania. However, these high inflows are likely to decline, particularly when young migrants start to settle down permanently in the host countries and start a family of their own.

The growth of consumer prices abated throughout 2013 to 0.4% in December. Apart from crude oil also administered prices declined in the second half of last year, showing the will of the Lithuanian government to fulfil the Maastricht criteria.

The above-mentioned factors, rising employment and wages, a decline in inflation and high remittance inflows substantially increased the purchasing power of households and their spending mood. Thus private consumption became the main driver of economic activity last year. This trend will continue in the forecast period. For the coming years we expect GDP growth to increase slightly to 3.6% in 2014, 3.8% in 2015 and 4% in 2016. The forecast is underpinned by the assumptions of a slight acceleration in external demand, ongoing stable investment activity first of all in the construction sector and an upswing of the latter in late 2015 and particularly 2016 when EU funds become available. Household consumption will further reinforce high grow rates.

Table 11 / Poland: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015	2016
							Forecast	
Population, th pers., average 2)	38152	38184	38534	38536	38507	38530	38525	38500
Gross domestic product, PLN bn, nom.	1344.5	1416.6	1528.1	1595.2	1630.0	1700	1790	1880
annual change in % (real)	1.6	3.9	4.5	1.9	1.6	2.4	3.2	3.1
GDP/capita (EUR at exchange rate)	8100	9200	9600	9900	10100	.	.	.
GDP/capita (EUR at PPP)	14200	15400	16400	17100	17700	.	.	.
Consumption of households, PLN bn, nom.	809.7	856.2	921.6	967.4	980.0	1020	1070	1120
annual change in % (real)	2.1	3.1	2.7	1.2	0.8	1.9	3.0	3.0
Gross fixed capital form., PLN bn, nom.	284.6	281.3	308.7	305.4	300.0	310	330	350
annual change in % (real)	-1.3	-0.4	8.5	-1.7	-0.4	2.0	5.0	5.0
Gross industrial production (sales) 3)								
annual change in % (real)	-3.8	11.1	6.7	1.2	2.4	3.5	4.5	5.0
Gross agricultural production								
annual change in % (real)	6.0	-3.2	0.1	1.2	-0.5	.	.	.
Construction industry 3)								
annual change in % (real)	4.7	3.9	15.3	-5.3	-10.2	.	.	.
Employed persons, LFS, th, average 4)	15868.0	15960.5	16130.5	15590.7	15530.0	15560	15640	15720
annual change in % 4)	0.4	0.6	1.1	0.2	-0.4	0.2	0.5	0.5
Unemployed persons, LFS, th, average 4)	1411.1	1699.3	1722.6	1749.2	1840.0	1780	1750	1700
Unemployment rate, LFS, in %, average 4)	8.2	9.6	9.7	10.1	10.6	10.8	10.5	10.0
Reg. unemployment rate, in %, end of period	11.9	12.3	12.5	13.4	13.4	13.3	13.0	12.5
Average monthly gross wages, PLN	3101.7	3224.1	3403.5	3530.5	3650.1	3790	3940	4100
annual change in % (real, gross)	2.0	1.4	1.4	0.1	2.5	2.0	2.0	2.0
Consumer prices (HICP), % p.a.	4.0	2.7	3.9	3.7	0.9	1.8	2.0	2.0
Producer prices in industry, % p.a.	3.1	1.8	7.3	3.3	-1.2	1.0	1.5	2.0
General governm.budget, EU-def., % of GDP								
Revenues	37.2	37.5	38.4	38.3	36.7	38.0	36.9	37.0
Expenditures	44.6	45.4	43.4	42.2	41.5	41.5	40.3	40.0
Net lending (+) / net borrowing (-)	-7.5	-7.9	-5.0	-3.9	-4.8	-3.5	-3.3	-3.0
Public debt, EU-def., % of GDP	50.9	54.9	56.2	55.6	58.2	52.0	52.5	52.0
Central bank policy rate, % p.a., end of period 5)	3.5	3.5	4.5	4.3	2.5	2.5	2.5	2.5
Current account, EUR mn 6)	-12153	-18121	-18516	-14190	-5906	-10300	-13000	-14000
Current account, % of GDP 6)	-3.9	-5.1	-5.0	-3.7	-1.5	-2.5	-3.0	-3.1
Exports of goods, BOP, EUR mn 6)	101715	124998	140137	148482	155145	163400	175700	188000
annual change in %	-15.9	22.9	12.1	6.0	4.5	5.3	7.5	7.0
Imports of goods, BOP, EUR mn 6)	107140	133893	150193	153656	153165	162400	174600	186800
annual change in %	-24.5	25.0	12.2	2.3	-0.3	6.0	7.5	7.0
Exports of services, BOP, EUR mn 6)	20717	24718	26950	29517	30366	32200	34100	36100
annual change in %	-14.4	19.3	9.0	9.5	2.9	6.0	6.0	6.0
Imports of services, BOP, EUR mn 6)	17294	22381	22905	24873	25363	26900	28500	30200
annual change in %	-16.6	29.4	2.3	8.6	2.0	6.0	6.0	6.0
FDI inflow, EUR mn 6)	9339	10518	14896	4763	-2991	.	.	.
FDI outflow, EUR mn 6)	3331	5489	5936	607	-3308	.	.	.
Gross reserves of NB excl. gold, EUR mn	52734	66253	71028	78403	74257	.	.	.
Gross external debt, EUR mn	194396	237359	250138	277300	280000	288000	305000	.
Gross external debt, % of GDP	62.6	66.9	67.4	72.7	72.1	.	.	.
Average exchange rate PLN/EUR	4.3276	3.9947	4.1206	4.1847	4.1975	4.20	4.15	4.15
Purchasing power parity PLN/EUR	2.4809	2.3872	2.4241	2.4197	2.3944	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to census March 2011. - 3) Enterprises with 10 and more employees. - 4) From 2012 according to census March 2011. - 5) Reference rate (7-day open market operation rate). - 6) Including Special Purpose Entities (SPEs).
Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

POLAND: A sigh of relief

LEON PODKAMINER

Improving sentiments support recovery of private sector investment and faster GDP growth in 2014 while political expediency will dictate a measured relaxation of fiscal policy. In 2015-2016 investment and GDP growth will be even higher than in 2014, also on account of the initiation of a public programme supporting a number of larger-scale investment projects.

After a rather feeble performance in the first half of 2013, GDP growth accelerated in the third and fourth quarters of the year (by 1.9%, year-on-year, and an estimated 2.7% respectively). After remaining essentially flat in the first half of the year, private consumption increased by 1% in the third quarter and by 1.9% in the fourth. Also public consumption shows signs of recovery. The decline in gross fixed capital formation seems to have stopped: in the fourth quarter of 2013 it rose by over 1% – still leaving the whole year's GFCF volume about 0.5% lower than the year previous. With domestic demand roughly unchanged, the whole year's GDP growth (provisionally estimated at 1.6%) has been due to external trade in goods and non-factor services. It is estimated that in 2013 the volume of imports increased by about 1% while the volume of exports rose about 4%. However, the positive contribution of external trade to GDP growth has been diminishing throughout 2013.

Fast disinflation continued: consumer prices rose by a mere 0.9% in 2013. The outright deflation in industrial producer prices (a drop by 1.2% in 2013) supports low consumer price inflation. Low inflation has proved helpful in raising the real value of the wage bill. This transitory development helped to ignite growth in household consumption (while, at the same time, possibly suppressing growth of income of the corporate sector). It is quite likely that the revival of growth in domestic demand will release, gradually, some moderate inflation pressures. Given the conservative attitudes prevailing at the National Bank of Poland – and the continuing strength of the Polish currency – inflation will remain quite low yet in 2014.

The financial situation of the non-financial enterprise sector which had been progressively worsening since the second quarter of 2012 markedly improved in the third quarter of 2013. This is primarily due to rising revenue from a higher volume of sales. The entire net (post-tax) profit of the sector earned in the first three quarters of 2013 reached PLN 70.3 billion (approximately EUR 16.7 billion), up from PLN 67.2 billion earned during the first three quarters of 2012. Net profits of the banking sector earned during the first three quarters of 2013 stood at PLN 11.8 billion (approx. EUR 2.8 billion): some 2.5% less than a year earlier. Within the year (ending 30 September 2013) the non-financial sector (firms and households) increased the stock of its bank deposits by 7.2% while the stock of bank loans extended to that sector rose by 3.1%. Clearly, the idle financial resources of firms and commercial banks could support a swift recovery in the private sector's fixed investment. The existing financial potential can be mobilised soon when the prevailing sentiments change – which seems to be the case in early 2014[10].

The popularity of the government of Donald Tusk (and his personnel) has been plummeting while the populist-nationalistic 'Law and Justice' Party of the former Prime Minister Jarosław Kaczynski is re-gaining popular support. After 6.5 years at the helm of government, Mr. Tusk has lost much of his erstwhile charisma, not least on account of increasingly clumsy responses to a number of purely administrative or political challenges. Primarily though, the government pays now a rather high price for the years of attempted fiscal austerity, wrong public spending priorities (e.g. massive investments into infrastructure serving the 2012 European football championship), neglect of vital social issues (lame public health and education services, nonexistent support to public housing), rise in hardly acceptable income disparities, official encouragement of XIXth century-style labour market relations ('flexibilisation'), etc. In such circumstances the defections from the ruling Civic Forum Party further weaken the parliamentary majority behind Mr. Tusk's government. Consequently, early general elections (ahead of the statutory ones which are due in autumn 2015) cannot be ruled out completely. As things stand now, these elections could well be won by Mr. Kaczynski. While the Polish economy need not be negatively affected by Mr. Kaczynski's return to power, Polish internal politics definitely might. The European Union would then have to accommodate another 'strong patriotic leader' à la Hungary's Viktor Orbán.

Political necessity dictates urgent relaxation of the fiscal policy in 2014. The government will attempt to regain public support by correcting the effects of its own earlier actions (and inactions). Some signs of this show up in the recent national accounts data. After falling (or stagnating) throughout 2011 and 2012, public consumption has at last risen in 2013. (However, at the same time the Finance Ministry intends to keep the VAT rates – 'temporarily increased' in 2010 – at unchanged levels for another two or three years.) The much needed (and long overdue) downscaling of the second pillar of the public pension system which is pursued by the government will lower the burden of public debt and facilitate a relaxation of fiscal policy.[11] Whether or not the government manages to change the course – and retain the public support – remains to be seen. Even if the government fails to achieve its political goals, the changes themselves (definitely higher and more focused social spending, among others) will be supporting growth in 2014-2015 (and possibly also in 2016).

All in all, growth of the Polish economy is posed to accelerate in 2014, not only on account of changes in fiscal policy. Foreign trade developments which have proved instrumental in averting recession in 2013 could still prove helpful in 2014 especially if the national currency does not appreciate (which is rather unlikely anyway, at least as long as the major central banks attempt 'tapering'). Of course, as before, the scale of external trade's positive impulses will depend on what happens to the euro area and beyond.[12]

Firms' investment is likely to increase strongly, primarily on account of improving sentiments, while low inflation can further support growth of real disposable incomes and consumption. In addition, in 2014 the

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10 As reported by the National Bank's most recent report on the business climate. See: http://www.nbp.pl/publikacje/koniunktura/raport_1_kw_2014.pdf

11 On 3 February 2014 treasury bonds worth PLN 153 billion were 'returned', by the private firms managing the second (capital-based) pillar of the pension system, to the first (public) pillar. Thereby the 'capital' held by the second pillar was halved – while the public debt was reduced by some 7% of GDP. The law mandating the transfer, passed by the Parliament and signed by the State President, still awaits a seal of the Constitutional Court's approval.

12 The recent acceleration in exports is primarily due to a fast expansion of sales to the developing and emerging economies, with exports to the euro area rising rather sluggishly.

new state agency called Polish Development Investments (PDI, acting in tandem with the state-owned Bank Gospodarstwa Krajowego) will start supporting investment, including the private and communal sector's. The support will consist in the provision of direct cofinancing or guarantees on investment credits extended by the commercial banks. While in 2014 the scale of PDI activities will still be rather modest, it is expected to become significant in 2015-2016.[13] Large investment outlays in the power generation sector (which urgently needs modernisation and further expansion) will be at the centre of PDI activities.

[13] At present PDI has approved (provisionally) 4 large investment projects – 47 are under review.

Table 12 / Romania: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	20367	20247	20148	20077	20000	20000	20000	20000
Gross domestic product, RON mn, nom.	501139	523693	557348	586750	626300	660600	698800	741400
annual change in % (real)	-6.6	-1.1	2.2	0.7	3.5	2.4	2.7	3.0
GDP/capita (EUR at exchange rate)	5800	6100	6500	6600	7100	.	.	.
GDP/capita (EUR at PPP)	11700	12400	12900	13500	14300	.	.	.
Consumption of households, RON mn, nom.	304667	327242	345047	358514	371100	.	.	.
annual change in % (real)	-10.4	-0.3	1.2	1.0	0.5	1.0	1.5	2.0
Gross fixed capital formation, RON mn, nom.	122442	129422	144558	156928	156800	.	.	.
annual change in % (real)	-28.1	-1.8	7.3	5.0	-3.0	4.0	3.5	5.0
Gross industrial production 3)								
annual change in % (real)	-5.5	5.5	7.4	2.4	7.8	5.0	5.0	5.0
Gross agricultural production								
annual change in % (real)	-2.2	1.0	8.9	-21.9	24.9	.	.	.
Construction industry 3)								
annual change in % (real)	-15.0	-13.2	2.8	1.2	-0.4	.	.	.
Employed persons, LFS, th, average	9243.5	9239.4	9137.7	9262.8	9300.0	9300	9400	9500
annual change in %	-1.3	0.0	-1.1	1.4	0.4	0.0	1.1	1.1
Unemployed persons, LFS, th, average	680.7	725.1	730.2	701.2	740.0	.	.	.
Unemployment rate, LFS, in %, average	6.9	7.3	7.4	7.0	7.4	7.3	7.0	7.0
Reg. unemployment rate, in %, end of period	7.8	7.0	5.2	5.5	5.7	.	.	.
Average monthly gross wages, RON	1845	1902	1980	2063	2166	.	.	.
annual change in % (real, gross)	-0.8	-2.8	-1.6	0.8	1.0	.	.	.
Average monthly net wages, RON	1361	1391	1444	1507	1579	.	.	.
annual change in % (real, net)	-1.5	-3.7	-1.9	1.0	0.8	.	.	.
Consumer prices (HICP), % p.a.	5.6	6.1	5.8	3.4	3.2	2.5	3.0	3.5
Producer prices in industry, % p.a.	2.4	4.4	7.1	5.3	2.0	.	.	.
General governm.budget, EU-def., % of GDP								
Revenues	32.1	33.3	33.9	33.6	32.0	.	.	.
Expenditures	41.1	40.1	39.5	36.6	34.5	.	.	.
Net lending (+) / net borrowing (-)	-9.0	-6.8	-5.6	-3.0	-2.5	-2.4	-2.2	-2.0
Public debt, EU-def., % of GDP	23.6	30.5	34.7	37.9	38.0	38.0	39.0	40.0
Central bank policy rate, % p.a., end of period 4)	8.00	6.25	6.00	5.25	4.00	.	.	.
Current account, EUR mn	-4938	-5476	-5921	-5851	-1506	-3000	-4700	-5000
Current account, % of GDP	-4.2	-4.4	-4.5	-4.4	-1.1	-2.0	-3.0	-3.0
Exports of goods, BOP, EUR mn	29091	37333	45281	45022	49563	53000	56700	60700
annual change in %	-13.6	28.3	21.3	-0.6	10.1	7.0	7.0	7.0
Imports of goods, BOP, EUR mn	35959	44901	52664	52393	52986	56200	59600	63200
annual change in %	-31.8	24.9	17.3	-0.5	1.1	6.0	6.0	6.0
Exports of services, BOP, EUR mn	7061	6622	7253	8395	10327	10900	11600	12300
annual change in %	-19.3	-6.2	9.5	15.7	23.0	6.0	6.0	6.0
Imports of services, BOP, EUR mn	7352	6216	6911	7264	7740	8200	8700	9200
annual change in %	-9.1	-15.5	11.2	5.1	6.6	6.0	6.0	6.0
FDI inflow, EUR mn	3490	2227	1798	2127	2713	2500	3000	3000
FDI outflow, EUR mn	-61	-12	-25	-88	100	.	.	.
Gross reserves of NB excl. gold, EUR mn	28249	32606	33166	31206	32525	.	.	.
Gross external debt, EUR mn	81206	92458	98724	99681	96442	.	.	.
Gross external debt, % of GDP	68.7	74.4	75.1	75.8	68.0	.	.	.
Average exchange rate RON/EUR	4.2399	4.2122	4.2391	4.4593	4.4190	4.47	4.45	4.45
Purchasing power parity RON/EUR	2.1082	2.0873	2.1466	2.1574	2.1904	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census October 2011. - 3) Enterprises with 4 and more employees. - 4) One-week repo rate.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

ROMANIA: After export boom in 2013 recovery of consumption and investments expected

GÁBOR HUNYA

Romania was one of the fastest growing European economies in 2013, driven by soaring exports of goods and services. One-time factors of growth such as the bumper harvest are expected to expire in 2014, reducing the rate of growth which may recover again in 2015 and 2016. The expanding, competitive manufacturing sector can drive further growth if external demand improves, FDI keeps flowing in and current infrastructure investment projects are finalised. While an IMF precautionary agreement anchors fiscal policy also in 2014, structural reforms and legislative improvements are expected to proceed sluggishly due to political crisis at the government level and the upcoming presidential elections.

Romania was one of the fastest growing European economies in 2013, with GDP up by about 3.5%. Growth was the result of improving net exports first of all, while consumption grew only marginally and gross capital formation declined. Manufacturing production and exports were robust especially in the sectors of transport equipment, electrical appliances and chemical products. Also other sectors of the economy including agriculture, communication and services showed upward trends. The setback of investment mirrored the government's efforts to terminate some costly projects and also the ongoing credit squeeze in the private sector. One-time factors of growth such as the bumper harvest or the success of a new Dacia model are expected to expire in 2014, reducing the rate of growth which may recover again in 2015 under normal external and internal conditions.

Economic policy has been firmly anchored in the IMF stand-by agreement. This stipulates prudent fiscal policy, accelerating structural reforms and diminishing fiscal arrears. As a precautionary agreement with quarterly assessments, it provides for the main components of economic policy and lends it political credibility. At the same time, it relieves the government of some of its responsibility and allows for half-hearted ownership reforms. Reforms important for strengthening democracy suffer delays and contain inconsistencies due to weak administrative capacity and governance (civil code, territorial re-organisation, constitutional amendments). In a wider context, 2014 is the year of European and, more importantly, presidential elections and all political forces are eager to improve their positions. It is part of this game that the liberals left the governing coalition in late February, while the Social Democrats have maintained a parliamentary majority. The outgoing President Traian Băsescu is active stirring conflict while playing the role of an anti-corruption champion. All these recent events signal increasing political uncertainty, but economic policy is not a disputed issue.

Public demand stagnated in 2013 as fiscal austerity continued with both revenues and expenditures being below the previous year in real terms. Collection of VAT and excises fell short of schedule due to sluggish consumption of the population. The budget rectification of October cut back expenditures in order to achieve the deficit target. On the positive side, fiscal discipline of local authorities improved, their payment arrears almost disappeared. The structure of fiscal outlays changed, lower investment outlays were offset by an expanding wage bill. Several construction projects were halted as the government focused on fewer but more realistic motorway projects as well as on accessing EU funds. The absorption rate doubled to 33% and the application rate finished at 92% at the end of the last eligible year. The country has now three years left to realise the EU-funded projects and to spend the allocated funds. The budget law stipulates further deficit contraction in 2014 (the medium-term target is a 1% of GDP deficit in 2017), allowing for some expansion of expenditures in real terms if adequate revenues can be collected. The government will continue the policy of raising excise taxes and increasing the royalties from oil and gas extraction, while the minimum wage goes up in two steps to RON 900 by the middle of the year.

In its national investment and job plan the government supports higher energy independence, discovery of new resources and new projects with high environmental standards, rural development, and farm modernisation. The development of industrial parks and assistance to SMEs are also on the agenda. The main projects are either privately or EU financed. The gold mining project at Roşia Montană was stalled in 2013 but not taken off the agenda. The oil and gas explorations in the Black Sea continue and exploitation has started. OMV Petrom will continue its almost EUR 1 billion investment in the development of new extraction projects. Two thermal power stations are under construction. The government plans to complete blocks 3 and 4 of the Cernavodă nuclear power station but has not found adequate funds and contractors yet. The investment projects in industry are more concrete as the major international companies such as Dacia, Ford, Daimler and Oracle continue expanding their facilities. The extension of the highway network is a priority of the infrastructure projects. About 230 km has been completed and this length should double by 2018 in the framework of EU-financed TEN-T projects. The main aim is to establish a connection between the Western border and Bucharest (the section to the seaport Constanţa is in use).

Wage increases in 2013 were modest in the private sector and unit labour costs in industry diminished for the first time in two years. Nominal wage growth was to a large extent compensated by inflation. Consumer prices increased in comparison with the previous year, first of all due to the carry-over effect of food price rises. By the end of 2013 inflation came down to below 2% annually but may have been boosted by currency weakening in the subsequent month. Excise duties and gas prices were repeatedly increased in 2013 and administrative price adjustments continue in 2014. There is a 4% pension and public sector wage fund indexation for 2014 which allows for a modest increase in the real disposable income.

The National Bank of Romania (BNR) started a period of rate cuts in mid-2013, bringing down the policy rate to 4.25% as of October and 3.5% in February 2014. It may stop at this point and the policy rate may remain positive in real terms to buffer capital inflow volatility. It seems that this threat is diminishing as the current account has become almost balanced and central bank reserves stocked up after depletion in the previous year. Monetary easing has lowered the cost of borrowing but banks have become more prudent in selecting customers, due to high and still rising non-performing loans rates. The government started a new loan guarantee programme to lower the risk and make new loans more easily accessible, at least for financially sound companies. A relief to households indebted in foreign currency may be introduced after a political agreement on its terms has been reached.

The nearly balanced current account is a novelty in Romania. This development is due to sweeping changes in several of its positions. Exports of goods and services increased at a double-digit rate while imports stagnated in 2013. The improved trade balance indicates that sales of Romanian products responded well to external market conditions while subdued domestic demand kept down imports. Services exports boomed exceptionally strongly and unprecedented surpluses were achieved in transports, partly due to changes in the reporting methodology.

The government continued its hesitant approach to the privatisation of state-owned companies. Several attempts have failed in recent years due to inadequate preparation of the privatisation process. More success was achieved by stock exchange listings of minority shares in state-controlled companies: 15% of Transgaz shares and 10% Nuclearelectrica. Further listings are planned for 2014, including the electricity companies Electrica and Hidroelectrica and the power complexes Oltenia and Hunedoara. Still there remain a number of state-owned companies which make losses and are in arrears with paying their suppliers.

Business sentiments have improved in recent months and foreign demand also seems to strengthen. Beyond exports, some of the factors of domestic demand are bound to improve in 2014. But agricultural production and rural consumption are to return to normal which is below the level of the previous year causing a setback in the rate of economic growth. The wiiw GDP forecast reckons with substantial risks both concerning external and domestic demand. The primary reason is that the current growth path is very narrowly based; it is a handful of foreign subsidiaries (beyond agriculture) which are responsible for the 2013 take-off, while insolvency and non-performing loan exposure depress the SME sector. Only a relief in the latter field would allow economic growth to rise again beyond 3%.

Table 13 / Slovakia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	5386.4	5391.4	5398.4	5407.6	5412.0	5420	5430	5440
Gross domestic product, EUR mn, nom.	62794	65897	68974	71096	72800	76000	80600	85700
annual change in % (real)	-4.9	4.4	3.0	1.8	0.9	2.4	3.0	3.2
GDP/capita (EUR at exchange rate)	11600	12100	12800	13200	13500	14000	14800	15800
GDP/capita (EUR at PPP)	17100	18300	18900	19400	19900	.	.	.
Consumption of households, EUR mn, nom.	37637	37757	39025	40307	40900	.	.	.
annual change in % (real)	0.1	-0.7	-0.5	-0.2	0.0	1.0	3.0	3.5
Gross fixed capital form., EUR mn, nom.	13025	13851	15957	14298	13490	.	.	.
annual change in % (real)	-19.7	6.5	14.3	-10.5	-7.0	3.0	4.0	4.5
Gross industrial production								
annual change in % (real)	-15.5	8.2	5.3	7.9	5.1	5.0	5.0	4.0
Gross agricultural production								
annual change in % (real)	-12.3	-8.2	8.7	-5.7	2.0	.	.	.
Construction industry								
annual change in % (real)	-11.3	-4.6	-1.8	-12.6	-5.2	.	.	.
Employed persons, LFS, th, average 3)	2366.3	2317.5	2351.4	2329.0	2330.0	2350	2390	2430
annual change in % 3)	-2.8	-2.1	1.5	0.6	0.0	1.0	1.5	1.5
Unemployed persons, LFS, th, average 3)	323.5	389.2	368.3	378.0	392.0	.	.	.
Unemployment rate, LFS, in %, average 3)	12.0	14.4	13.5	14.0	14.4	14.0	13.0	12.0
Reg. unemployment rate, in %, end of period	12.7	12.5	13.6	14.4	13.5	13.0	12.0	11.0
Average monthly gross wages, EUR	745	769	786	805	824	.	.	.
annual change in % (real, gross)	1.4	2.2	-1.6	-1.2	1.0	.	.	.
Consumer prices (HICP), % p.a.	0.9	0.7	4.1	3.7	1.5	2.0	3.0	3.0
Producer prices in industry, % p.a.	-6.9	0.4	4.5	1.9	-1.0	1.0	2.0	2.0
General governm.budget, EU-def., % of GDP								
Revenues	33.5	32.3	33.3	33.2	32.9	34.0	31.6	31.2
Expenditures	41.6	40.0	38.4	37.8	35.9	36.8	34.8	33.8
Net lending (+) / net borrowing (-)	-8.0	-7.7	-5.1	-4.5	-3.0	-2.8	-3.2	-2.6
Public debt, EU-def., % of GDP	35.6	41.0	43.4	52.4	54.3	56.8	56.4	55.7
Central bank policy rate, % p.a., end of period 4)	1.00	1.00	1.00	0.75	0.25	.	.	.
Current account, EUR mn	-1627	-2454	-2597	1593	2350	2265	2000	1800
Current account, % of GDP	-2.6	-3.7	-3.8	2.2	3.2	3.0	2.5	2.1
Exports of goods, BOP, EUR mn	39721	48273	56783	62782	65100	68000	71000	74000
annual change in %	-19.8	21.5	17.6	10.6	3.7	5.0	4.0	4.0
Imports of goods, BOP, EUR mn	38775	47494	55768	59196	60700	64000	67000	71000
annual change in %	-22.9	22.5	17.4	6.1	2.5	5.0	5.0	5.5
Exports of services, BOP, EUR mn	4342	4396	4749	5570	5570	5800	6100	6500
annual change in %	-27.6	1.2	8.0	17.3	0.0	5.0	5.0	7.0
Imports of services, BOP, EUR mn	5367	5140	5121	5263	5320	5700	6100	6500
annual change in %	-17.3	-4.2	-0.4	2.8	1.1	7.0	7.0	7.0
FDI inflow, EUR mn	-4	1336	2511	2199	200	.	.	.
FDI outflow, EUR mn	652	715	513	-58	80	.	.	.
Gross reserves of NB excl. gold, EUR mn	481	541	659	620	676	.	.	.
Gross external debt, EUR mn	45338	49262	52934	53755	62000	.	.	.
Gross external debt, % of GDP	72.2	74.8	76.7	75.6	85.2	.	.	.
Purchasing power parity EUR/EUR	0.6801	0.6691	0.6760	0.6775	0.6770	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census May 2011. - 3) From 2012 data according to census May 2011. - 4) Official refinancing operation rates for euro area (ECB).
Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

SLOVAKIA: Better growth prospects ahead

DORIS HANZL-WEISS

The forecast for Slovakia for the period 2014-2016 is quite positive. We expect the Slovak economy to grow by 2.4% in 2014, 3% in 2015 and 3.2% in 2016. All components of GDP should contribute to this hike in 2014, including net exports, gross capital formation and final consumption. The latter two categories should increasingly contribute to growth in the two consecutive years. This is based on the assumption that growth occurs in Slovakia's main trading partners, foremost Germany and the Czech Republic, and that the investment climate improves.

In 2012, Slovakia had experienced a successful year due to the expansion of car production and exports. Because of this base effect economic growth was lower in 2013 and reached about 0.9%. GDP growth continued to be driven by net exports, with exports rising by 3.7% in the first three quarters of 2013 and imports by 1.3% only. Exports to Slovakia's main markets – Germany and the Czech Republic, accounting for 35% of total exports – grew slightly. Exports to Poland, the UK and China grew more vividly. Overall, the trade surplus reached an all-time high that year (EUR 4.4 billion or 6% of GDP). Household consumption remained flat due to a still high unemployment rate and marginally rising wages. Final consumption of the government increased by 1%. Gross capital formation as well as gross fixed capital formation showed a substantial decline of nearly 9% and 8% respectively.

Looking at the branch structure, industrial production rose by 5% in 2013. Again, the important transport equipment industry, which had spurred growth in 2012, was the main growth driver, followed by the electrical equipment industry. Also basic metals and fabricated metal products, rubber and non-metallic mineral products, and textiles and wearing apparels contributed to growth in industry. Construction declined in 2013 for the fifth year in a row. In November, however, construction production turned positive for the first time since December 2011. Value added of the services sector slightly increased during the first three quarters of 2013.

Concerning the labour market, GDP growth was too small to have a positive effect in 2013 – employment remained constant, the unemployment rate (LFS) rose slightly and thus remained on a high level. Real wages increased by 1% in 2013. As of January 2014, the minimum monthly wage increased by 4.2% to EUR 352. Regional disparities are pronounced and reflected in unemployment as well as wage figures: Median wages were highest in the Bratislava region in 2012 (125% of the Slovak average), around the average in the regions of Trnava, Žilina and Košice and lowest in the Prešov region in the East (87%). This is because large foreign-owned car companies (VW, Peugeot-Citroën, KIA) are located in the West, while there is less FDI in the East (except, for instance, U.S. Steel in Košice).

In 2013, the budget deficit is expected to remain slightly below the threshold of 3% of GDP, thus allowing for the abrogation of the EU's Excessive Deficit Procedure. The debt level has reached about 54% of GDP – up from some 52% in 2012 – thus surpassing the second threshold of the country's Fiscal Responsibility Act ('debt brake law'). As a consequence, wages of government members are frozen in the 2014 budget. This year's fiscal discipline is eased, deficit targets fluctuate between 2.64% (most recent figure from December 2013) and 2.83%. The 2014 budget consolidation is mainly based on the revenue side and one-off measures, including the extended bank levy or the levy on regulated industries introduced in September 2012. The corporate income tax rate (increased from 19% to 23% as of January 2013) is being cut to 22%, instead a so-called 'tax licence' is introduced. On the expenditure side, salaries for public employees increase by 2% this year, teachers get a pay rise of 5%. Also doctors receive a higher salary, while nurses miss out despite their protests. Thus, the debt level will climb to close to 57% of GDP this year, exceeding the next threshold of the Fiscal Responsibility Act: at 55%, state budget expenditure has to be reduced by 3% (surpassing 57%, the general government budget has to be balanced or in surplus). The deficit targets for 2015 and 2016 are at -2.6% and -1.5%; however, considerable consolidation efforts are needed in order to reach these objectives. Thus, the space of manoeuvre is narrowing conspicuously because of the debt to GDP level coming closer to the 60% Maastricht limit. Public investment projects continue targeting highway construction, including that to Košice. In March 2013 five highway tenders were announced worth EUR 1.2 billion.

Looking at investment in 2013, the Slovak Investment Agency (SARIO) reported some 50 unfinished investment projects worth EUR 1.4 million and possible job creation of 11,000. The main areas were: production of tires, automobile components, construction of shared services centres, metal processing, and manufacturing of electronic products, machinery, sanitary products and plastic products.[14]

Over the years, the foreign-owned car industry has been a main growth driver in Slovakia and companies continue to invest in modernisation or new technology (hybrid electric car). As 2012 was a very successful year for automobile production in Slovakia – car production increased by an enormous 45% due to the launch of new models and the introduction of a third shift by all three main car manufacturers – 2013 figures were lower because of the base effect and adverse conditions on the West European car markets. Nonetheless, car production in Slovakia is reported to have again increased in 2013, by almost 6%. Kia produced 7% more cars in 2013, PSA Peugeot even 15.5% more and VW increased production by nearly 5% in the first half of 2013. Overall, more than 980,000 passenger cars were manufactured in 2013. For this year, the number of cars produced may slightly decline due to a change in models.

Looking at another major investment, the completion of the third and fourth units of the nuclear power plant in Mochovce will cost EUR 1 billion more than expected (total costs of EUR 3.8 billion) due to meeting increased security standards following the accident in Fukushima. Construction started in 2008 and should finish at the end of 2014 and 2015 respectively. The main shareholders of Slovenské Elektrárne, the owner of the power plant, are Italy's Enel (66%) and the Slovak National Property Fund (34%). Companies from the Czech Republic, Russia, Slovakia and Italy are involved in the construction.

[14] SARIO Newsletter January 2014.

The forecast for 2014 is quite positive. We expect the Slovak economy to grow by 2.4% in 2014, 3% in 2015 and 3.2% in 2016. All components of GDP should contribute to this hike in 2014, including net exports, gross capital formation and final consumption. The latter two categories should increasingly contribute to growth in the two consecutive years. This is based on the assumption that Germany – Slovakia's main trade partner – will show a robust growth performance, forecasted by the German Bundesbank to reach 1.7% in 2014 and 2% in 2015 (the respective wiiw forecasts for the Czech Republic are 1.4% and 2.4%). In addition, the sentiment indicator improved continuously during 2013 and in January as well. 2014 is an election year for Slovakia (presidential, European parliament, municipal elections), with Prime Minister Robert Fico among the candidates for the new president. With fiscal consolidation being eased, household consumption is assumed to contribute to growth for the first time since the crisis. However, downside risks remain to this overall scenario: gross fixed capital formation has dropped sharply last year and a reversal of this trend will depend on the overall investment climate in Europe and the European growth performance.

Table 14 / Slovenia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	2039.7	2048.6	2052.8	2057.2	2058.8	2058	2058	2058
Gross domestic product, EUR mn, nom.	35420	35485	36150	35319	35275	35410	36080	37100
annual change in % (real)	-7.9	1.3	0.7	-2.5	-1.1	-0.5	0.5	1.4
GDP/capita (EUR at exchange rate)	17300	17300	17600	17200	17100	17200	17500	18000
GDP/capita (EUR at PPP)	20200	20600	21200	21400	21300	.	.	.
Consumption of households, EUR mn, nom.	19411	20004	20534	19873	19524	.	.	.
annual change in % (real)	-0.2	1.6	0.9	-4.7	-2.7	-2.0	0.0	0.5
Gross fixed capital form., EUR mn, nom.	8167	6993	6719	6274	6304	.	.	.
annual change in % (real)	-23.8	-15.3	-5.4	-8.2	0.2	0.0	1.0	2.0
Gross industrial production								
annual change in % (real)	-17.3	7.2	1.3	-1.1	-0.5	1.5	2.0	2.0
Gross agricultural production								
annual change in % (real)	0.0	0.1	0.3	-10.5	-3.2	.	.	.
Construction industry 3)								
annual change in % (real)	-20.9	-16.9	-24.9	-16.9	-3.0	.	.	.
Employed persons, LFS, th, average	981	966	936	924	906	880	870	870
annual change in %	-1.5	-1.5	-3.1	-1.3	-1.9	-2.0	-1.0	0.0
Unemployed persons, LFS, th, average	61	75	83	90	102	.	.	.
Unemployment rate, LFS, in %, average	5.9	7.3	8.2	8.9	10.1	11.5	11.5	11.0
Unemployment rate, reg., in %, end of period	10.3	11.8	12.1	13.0	13.5	14.0	14.0	13.5
Average monthly gross wages, EUR	1439	1495	1525	1525	1523	.	.	.
annual change in % (real, gross)	2.5	2.1	0.2	-2.4	-1.9	.	.	.
Average monthly net wages, EUR	930	967	987	991	997	.	.	.
annual change in % (real, net)	2.5	2.1	0.3	-2.1	-1.2	.	.	.
Consumer prices (HICP), % p.a.	0.9	2.1	2.1	2.8	1.9	1.9	1.9	1.8
Producer prices in industry, % p.a.	-1.4	2.0	4.6	0.9	0.0	0.5	0.5	1.0
General governm.budget, EU-def., % of GDP								
Revenues	42.3	43.6	43.6	44.2	43.0	.	.	.
Expenditures	48.7	49.4	49.9	48.1	58.0	.	.	.
Net lending (+) / net borrowing (-)	-6.3	-5.9	-6.3	-3.8	-15.0	-6.0	-4.5	-3.5
Public debt, EU-def., % of GDP	35.2	38.7	47.1	54.4	75.0	79.0	81.5	83.0
Central bank policy rate, % p.a., end of period 4)	1.00	1.00	1.00	0.75	0.25	.	.	.
Current account, EUR mn	-173	-50	145	1159	2279	1900	1800	1700
Current account, % of GDP	-0.5	-0.1	0.4	3.3	6.5	5.4	5.0	4.6
Exports of goods, BOP, EUR mn	16585	18973	21450	21631	22080	22600	23200	24000
annual change in %	-19.2	14.4	13.1	0.8	2.1	2.5	2.5	3.5
Imports of goods, BOP, EUR mn	17025	19803	22406	21741	21426	21900	22300	23000
annual change in %	-24.9	16.3	13.1	-3.0	-1.4	2.0	2.0	3.0
Exports of services, BOP, EUR mn	4333	4593	4842	5166	5423	5700	6000	6400
annual change in %	-12.5	6.0	5.4	6.7	5.0	6.0	6.0	6.0
Imports of services, BOP, EUR mn	3169	3313	3366	3363	3411	3500	3600	3700
annual change in %	-10.1	4.5	1.6	-0.1	1.4	2.0	3.0	3.0
FDI inflow, EUR mn	-474	272	718	-46	-491	.	.	.
FDI outflow, EUR mn	189	-156	84	-212	54	.	.	.
Gross reserves of NB excl. gold, EUR mn	671	695	642	593	580	.	.	.
Gross external debt, EUR mn	40294	40723	40100	40849	39551	.	.	.
Gross external debt, % of GDP	113.8	114.8	110.9	115.7	112.1	.	.	.
Purchasing power parity EUR/EUR	0.8575	0.8412	0.8315	0.8029	0.8058	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to register-based census 2011. - 3) Enterprises with 20 and more employees and output of some non-construction enterprises. - 4) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.

SLOVENIA: Bailout avoided

HERMINE VIDOVIC

Slovenia could avert a bailout in 2013 but will have to continue the restructuring of its banking and corporate sectors to create the basis for sustainable growth. In addition, further fiscal consolidation can be expected. Owing to corporate deleveraging and dampened household consumption as a consequence of rising unemployment, the economy will remain in recession in 2014 and should rebound only in 2015.

Having dropped or stagnated since 2008, Slovenia's GDP continued to shrink in 2013 by 1.1%, which was less than expected at the beginning of the year. This result was mainly made possible through a slight increase in gross fixed capital formation (after four years of steady decline). By contrast, both household and government consumption continued to decline by close to 3% and 2% respectively. As in the years before, also foreign trade contributed positively to GDP growth thanks to low import growth. In the construction sector – contracting by almost 60% since the outbreak of the crisis – the output decline slowed down, showing early signs of bottoming out in the autumn months.

Industrial production continued to decline in 2013. Again the automotive sector, one of Slovenia's major export industries, was heavily affected by output contractions. Revoz, the subsidiary of car producer Renault, assembled only 93,700 cars in 2013, down from 131,000 a year earlier (record output in 2009: 200,000 cars). Only six out of 21 reporting industrial branches recorded an increase in production, the most remarkable of which in the manufacture of basic metals.

Foreign trade performed weakly in 2013, with exports of goods up by a mere 2% and imports further stagnating. As a result the trade balance turned positive for the first time since the country's gaining independence. Along with a rising surplus in services trade – services exports and imports increased by 5% and 1% respectively – the current account surplus was EUR 1.1 billion higher than in 2012. With regard to FDI, an outflow of about EUR 500 million was recorded. The majority of capital outflows resulted from the requalification of liabilities (inter-company loans) from foreign direct investment into loans from other sectors and does not indicate withdrawals from the country.

The labour market situation continued to deteriorate in 2013. Based on labour force survey (LFS) data, employment fell by 2% in 2013: employment losses were strongest in public administration, financial services and in manufacturing, while a noticeable number of jobs were created in the trade sector. The LFS unemployment rate soared to 10%, almost double the rate reported in 2008 and very high by Slovenian standards. Unemployment based on registration data increased to 13.5%, with labour offices registering strong inflows of temporary workers and first-time job seekers. Outflows of registers were mainly due to active labour market policy measures, e.g. promoting self-employment, on-the-job training and public works programmes.

In 2013 the Slovenian banks posted losses for the fourth consecutive year, amounting to over EUR 1 billion. In November 2013 the share of non-performing loans in total loans increased to 19% (from 14% in November 2012); 28% out of loans provided to the enterprise sector fell under this category. Both, loans to households and to the non-financial corporate sector declined compared to 2012, by 4% and 21% respectively.

At the beginning of December 2013 the Bank of Slovenia and the Slovenian government announced the results of the long-awaited stress tests and the asset quality review of the country's banking sector carried out by international consultants.[15] Accordingly, the shortfall at the banks reviewed was given at EUR 4.8 billion (or close to 14% of the GDP) under an adverse macroeconomic scenario; capital requirements for the largest banks (NLB, NKMB and Abanka) were put at around EUR 3 billion. As a result both the Slovenian government and the European Commission confirmed that no bailout was needed, because Slovenia was in a position to cover the capital requirements by its own.

In mid-December – immediately after the approval by the European Commission – the Slovenian government injected EUR 2.8 billion into the three banks as well as EUR 445 million into Factor banka and Probanka, the two banks in an ordinary winding-down process. Five other banks will have to provide around EUR 1 billion by the end of the first half of 2014 through a combination of asset sales and capital injections. Transfers of the first package of bad loans to the Bad Assets Management Company (BAMC) started in late December. As an immediate consequence of the stress tests and the subsequent recapitalisation of banks, the yield of ten-year government bonds slowed down from 6.8% in autumn 2013 to 4.6% in mid-January 2014. Already at the beginning of February Slovenia (through the Ministry of Finance) has raised USD 3.5 billion through a two-part US dollar bond issue. It issued a USD 1.5 billion five-year bond with a yield of 4.275% and a USD 2 billion ten-year tranche with a yield of 5.48%. Most of the borrowing will be used for the repayment of principal (EUR 3.5 billion) due in 2014. Immediately after the successful bond issue the Minister of Finance announced preparations for a fresh borrowing (possibly EUR 4.2 billion to pre-finance a portion of financing requirements in 2015 and 2016).[16]

The finally approved plans of bank restructuring also envisage the sale of NKBM by the end of 2016 and of a 75% stake of NLB by the end of 2017. The Bank of Slovenia expects the number of banks to decline from currently 20 to 15 or 16 by the end of 2015, with the size of the banking assets remaining at 140% of the GDP.

Owing to the recapitalisation of banks the general government deficit jumped to 15% of GDP in 2013 and public debt increased from 55% in 2012 to 75% of GDP. In mid-November 2013 Slovenian Prime Minister Alenka Bratušek won a vote of confidence which was linked to the adoption of the amended

15 The asset quality review included ten banks or 70% of the assets of the banking system: NLB, NKMB, Abanka Vipa, Banka Celje, Gorenjska Banka, Probanka, Factor banka, Raiffeisen banka, Hypo-Alpe-Adria-Bank and UniCredit banka. The stress tests included all these banks excluding Factor banka and Probanka, which have been undergoing an orderly wind-down process since autumn 2013.

16 See also Financing Programme of the Republic of Slovenia, Central Government Budget for the Fiscal Year 2014, 9 January 2014.

budget for 2014. Accordingly the fiscal deficit is set to decline to 3.5% of the GDP (excluding bank restructuring and recapitalisation costs).[17] Revenues are expected to come from tax increases – introduction of a property tax, suspension of the gradual reduction of the corporate income tax – and combating the grey economy. On the expenditure side, spending on goods and services in ministries will be cut across the board by 11% and on subsidies by 12%.

The short-term outlook for the country's economy remains poor. In 2014 a further contraction of GDP is expected as a consequence of the continued drop in domestic demand. The corporate sector will carry on deleveraging, and the restructuring of the banking sector and (state-owned) enterprises will have to speed up. The continuation of recession will result in a further increase in unemployment. Consequently, growth of household consumption will remain suppressed owing to the expected decline in disposable income. GDP growth may start to recover only in 2015 driven by foreign demand and continue in 2016 but at a slow pace.

[17] Data on the general government are based on IMF Country Report No. 14/11, p. 17. Official Slovenian sources refer only to the state budget (deficit 2014: 2.9% and 2015: 2.4% of the GDP).

Table 15 / Macedonia: Selected Economic Indicators

	2009	2010	2011	2012	2013 [1]	2014	2015 Forecast	2016
Population, th pers., mid-year	2050.7	2055.0	2058.5	2061.0	2070.0	2075	2080	2085
Gross domestic product, MKD mn, nom.	410734	434112	459789	458621	485600	515200	546600	579900
annual change in % (real)	-0.9	2.9	2.8	-0.4	3.0	3.0	3.0	3.0
GDP/capita (EUR at exchange rate)	3300	3400	3600	3600	3800	.	.	.
GDP/capita (EUR at PPP)	8500	8900	9000	9000	9400	.	.	.
Consumption of households, MKD mn, nom. [2]	314376	324096	345262	342809	362900	.	.	.
annual change in % (real) [2]	-4.7	2.1	2.9	-3.0	3.0	1.0	1.5	1.5
Gross fixed capital form., MKD mn, nom.	81872	82968	94698	105443	106500	.	.	.
annual change in % (real)	-4.3	-2.7	3.2	7.0	2.0	4.0	4.0	4.0
Gross industrial production [3]								
annual change in % (real)	-8.7	-4.8	6.9	-2.7	3.2	5.0	5.0	5.0
Gross agricultural production								
annual change in % (real)	-2.3	8.2	-0.5	0.0	5.0	3.0	3.0	3.0
Construction output, hours worked								
annual change in % (real)	-2.1	5.8	14.2	-11.6	20.0	5.0	5.0	5.0
Employed persons, LFS, th, average	629.9	637.9	645.1	650.6	675.0	685	695	702
annual change in %	3.4	1.3	1.1	0.8	3.8	1.5	1.5	1.0
Unemployed persons, LFS, th, average	298.9	300.4	295.0	292.5	278.0	.	.	.
Unemployment rate, LFS, in %, average	32.2	32.0	31.4	31.0	29.2	29.0	28.0	28.0
Reg. unemployment rate, in %, end of period	.	.	.	.	.	.	.	.
Average monthly gross wages, MKD	29922	30225	30602	30669	31000	.	.	.
annual change in % (real, gross)	15.0	-0.6	-2.6	-3.0	-1.7	.	.	.
Average monthly net wages, MKD	19957	20553	20847	20902	21000	.	.	.
annual change in % (real, net)	25.0	1.4	-2.4	-2.9	-2.3	.	.	.
Consumer prices, % p.a.	-0.8	1.6	3.9	3.3	2.8	3.0	3.0	3.0
Producer prices in industry, % p.a. [4]	-7.2	8.7	11.9	1.4	-1.4	.	.	.
General governm. budget, nat.def., % of GDP [5]								
Revenues	31.3	30.4	29.8	30.1	28.9	30.0	30.0	30.0
Expenditures	33.9	32.9	32.3	34.0	32.9	32.0	32.0	32.0
Deficit (-) / surplus (+)	-2.7	-2.4	-2.5	-3.9	-4.0	-2.0	-2.0	-2.0
Public debt, nat.def., % of GDP [6]	31.7	34.8	35.0	36.0	36.0	36.0	36.0	36.0
Central bank policy rate, %, p.a., end of period [7]	8.50	4.11	4.00	3.73	3.25	3.5	3.5	3.5
Current account, EUR mn	-457.1	-143.6	-189.1	-225.7	-160.0	-340	-360	-380
Current account, % of GDP	-6.8	-2.0	-2.5	-3.0	-2.0	-4.0	-4.0	-4.0
Exports of goods, BOP, EUR mn	1932.6	2530.1	3210.9	3106.9	3200.0	3360	3600	3820
annual change in %	-28.2	30.9	26.9	-3.2	3.0	5.0	7.0	6.0
Imports of goods, BOP, EUR mn	3492.2	3977.9	4859.2	4863.5	4865.0	5010	5260	5520
annual change in %	-21.6	13.9	22.2	0.1	0.0	3.0	5.0	5.0
Exports of services, BOP, EUR mn	617.6	681.4	797.2	818.9	852.0	903	975	1034
annual change in %	-10.8	10.3	17.0	2.7	4.0	6.0	8.0	6.0
Imports of services, BOP, EUR mn	601.1	644.6	700.5	772.8	811.5	836	878	922
annual change in %	-12.0	7.2	8.7	10.3	5.0	3.0	5.0	5.0
FDI inflow, EUR mn	145.0	160.0	336.8	72.1	200.0	300	300	300
FDI outflow, EUR mn	8.1	1.4	0.0	-6.0	0.0	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1429.4	1482.7	1801.9	1917.8	1802.7	.	.	.
Gross external debt, EUR mn	3780.4	4105.7	4846.6	5171.7	5500.0	.	.	.
Gross external debt, % of GDP	56.4	58.2	64.9	69.4	69.8	.	.	.
Average exchange rate MKD/EUR	61.27	61.52	61.53	61.53	61.58	61.5	61.5	61.5
Purchasing power parity MKD/EUR	23.69	23.83	24.83	24.60	24.90	.	.	.

1) Preliminary and wiiw estimates. - 2) Including NPISHs. - 3) Enterprises with 10 and more employees. - 4) Until 2010 domestic output prices. - 5) Refers to central government budget and extra-budgetary funds. - 6) In 2011-2013 wiiw estimates. - 7) Central Bank bills (28-days).

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

MACEDONIA: Steady improvement

VLADIMIR GLIGOROV

GDP growth at 3% in 2013 has exceeded expectations. The economy should continue to expand at that rate in the next few years. Acceleration is possible only if investments and exports improve significantly, substituting for the slower growth of consumption, both public and private.

Unlike other countries in the region and more generally, the Macedonian government supported employment and investments. Wages were hiked early in the crisis, in 2009, and though they have been decreasing slowly in real terms ever since, that shock seems to have been sufficient to keep private consumption on a higher level. In addition, public investments have continued, which probably accounts for growing employment. The unemployment rate is still very high and the labour market remains depressed, but the crisis has not brought mass layoffs as in some neighbouring countries.

Foreign trade follows a similar pattern to that in most countries in the region. Exports are increasing, though not dramatically, while imports are falling behind the pre-crisis levels. As in other countries, the main constraint on exports is limited supply of tradable goods. The economy is competitive in terms of wages and the exchange rate, which has been fixed at the current exchange rate to the euro since 1997, but investments seem to have been limited, especially from abroad, mainly because of a less than attractive location. Macedonia is landlocked and is a small economy with neighbouring markets either in persistently depressed state or inaccessible due to poor infrastructure. This will change only slowly and over the longer run.

The government has secured political stability by the two of its key parties, one Macedonian and the other Albanian, winning in regular and early elections. Also, this bi-ethnic coalition has been able to steadily calm down inter-ethnic conflicts even though the two communities live largely parallel lives. However, politically and possibly socially, there are more severe intra-ethnic than inter-ethnic conflicts, which is in fact conducive to overall stability even though the social situation remains grim.

The data are not altogether reliable, which is not unusual, but it seems that remittances have preserved their countercyclical character, which is to say that those have not declined and may have even increased at the height of the current crisis. This can be observed in most of the region, which indeed remains extremely dependent on these private transfers. Those also support the banking sector, as they are mostly responsible for the deposits. The country does not have a high level of private debts, corporate or that of the households, though the overall foreign debt has climbed up to about 70% of GDP. Still, there is hardly any sign of bubbles, except in the number of public monuments in and around the main square of the capital city of Skopje.

Monetary policy has been rather relaxed at least if judged by the policy rate, which is low by historical standards. Also, inflation is slowing down and the exchange rate, which is the main target variable for the central bank, has not been under pressure. Given the low reliance on debt and traditionally scarce foreign investments, the economy is insulated from the ongoing monetary turbulences in the emerging market economies.

Macedonia has been a candidate country for quite some time now. The European Commission keeps recommending the immediate start of accession negotiations, but that goes nowhere in the European Council due to the Greek veto. Similar is the situation regarding NATO. Given that progress in these two integrations is presumed on coming to terms with Greek demands, prospects for a breakthrough are slim to non-existent.

Performance has surprised on the upside for most of the crisis, which was due primarily to increased flexibility of economic and especially fiscal policy. Further acceleration is hard to expect given that some fiscal consolidation will be necessary and the contribution of net exports should turn negative. With gradual improvement of investments, GDP should continue to grow by 3% in the medium term with the unemployment rate continuing to decrease slowly albeit from a very high level.

MONTENEGRO: Slowly improving picture

VLADIMIR GLIGOROV

Last year ended with a rebound from the year before: GDP grew 2.5% mostly because of increased investments, both public and private, and improving net exports due to a continued contribution from tourism and declining imports of goods and services. Consumption stagnated and there are few signs that it will be recovering more than modestly in the medium term. As in most other countries in the Balkan region, but also elsewhere in the transition world, real growth of GDP is not expected to accelerate beyond 3%. Whether that is the new long-term growth rate is an open question.

The Montenegrin economy is slowly restructuring with the remaining heavy industry, i.e. the aluminium plant, being phased out and some small and medium-size enterprises starting to spring up. Those depend on the improvement of skills and on the development of regional industrial networks. The latter are still in an infant phase, but are in all probability the preferred way that new services-cum-industry activities can develop. This is a very small economy and is not really demand constrained, except in its main industry, which is tourism. Assuming recovery in Europe and Russia, there is plenty of room for tourism to flourish given the resources that can still be developed. In other words, there are plenty of investment opportunities once recovery in Europe and the region gets entrenched. Assuming that this is the case, construction, which has been in the doldrums throughout the crisis, should improve in the coming years.

The country has weathered political and social instability rather well, though some structural challenges remain. Although there have been regular elections, there has been no change in the government of any significance. The country has been run as if it had a presidential political system with a dominant or hegemonistic party. This development has in part been due to the inadequate policies of the opposition, which has taken time to accept the reality of Montenegro being an independent state, and has relied on ethnic, Serb vs. Montenegrin, differences, but that may be coming to an end. So, the major test of democratisation will come when there is a change in government, which does not seem to be a realistic prospect in the near future.

Social protests have also calmed down in part because those have not led to political changes in the last elections. In a country that uses a democratic procedure of decision-making, i.e. elections, social protests will either lead to a change in government or will have to transform into a social dialogue of one kind or another. The Montenegrin government has used early and regular elections quite efficiently to channel social dissatisfaction, though it has not developed institutions of social dialogue and partnership.

Table 16 / Montenegro: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015	2016
							Forecast	
Population, th pers., mid-year 2)	618.3	619.4	620.6	620.0	622.0	623	625	625
Gross domestic product, EUR mn, nom.	2981.0	3103.9	3234.1	3148.9	3200.0	3400	3600	3800
annual change in % (real)	-5.7	2.5	3.2	-2.5	2.5	2.1	2.9	3.0
GDP/capita (EUR at exchange rate)	4800	5000	5200	5100	5100	.	.	.
GDP/capita (EUR at PPP)	9900	10200	10600	10400	10800	.	.	.
Consumption of households, EUR mn, nom.	2503.7	2550.7	2667.4	2632.0	2700.0	.	.	.
annual change in % (real)	-12.9	2.0	1.9	-3.2	0.0	1.0	2.0	2.0
Gross fixed capital form., EUR mn, nom.	797.6	655.1	596.5	583.8	600.0	.	.	.
annual change in % (real)	-30.1	-18.5	-10.3	-3.3	3.0	4.0	5.0	5.0
Gross industrial production 3)								
annual change in % (real)	-32.2	17.5	-10.3	-7.1	10.6	5.0	5.0	5.0
Net agricultural production								
annual change in % (real)	2.6	-1.7	9.5	-12.7	5.0	.	.	.
Construction output 4)								
annual change in % (real)	-19.2	-7.4	15.8	-11.9	5.0	5.0	5.0	5.0
Employed persons, LFS, th, average 5)	212.9	208.2	195.4	200.0	210.0	215	220	220
annual change in % 5)	-2.7	-2.2	.	2.4	5.0	2.5	1.0	1.0
Unemployed persons, LFS, th, average	50.9	50.9	47.9	49.0	52.4	.	.	.
Unemployment rate, LFS, in %, average	19.3	19.6	19.7	19.7	20.0	19.0	19.0	19.0
Reg. unemployment rate, %, average	14.0	16.5	15.9	15.3	15.8	15.0	15.0	15.0
Average monthly gross wages, EUR	643	715	722	727	726	.	.	.
annual change in % (real, gross)	2.1	10.6	-2.1	-3.3	-0.1	.	.	.
Average monthly net wages, EUR	463	479	484	487	479	.	.	.
annual change in % (real, net)	7.6	2.9	-2.0	-3.3	-3.8	.	.	.
Consumer prices, % p.a.	3.4	0.5	3.1	4.1	2.2	3.0	3.0	3.0
Producer prices in industry, % p.a. 6)	-3.9	-0.9	3.2	1.9	1.6	.	.	.
General governm.budget, nat.def., % of GDP								
Revenues	45.8	40.9	39.7	41.2	41.0	41.0	41.0	41.0
Expenditures	49.4	43.9	45.2	45.4	45.0	44.0	43.0	43.0
Deficit (-) / surplus (+)	-3.6	-3.0	-5.4	-4.2	-4.0	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	38.2	40.9	46.0	54.0	58.5	59.0	58.0	58.0
Central bank policy rate, % p.a., end of period 7)	8.85	8.98	9.06	8.83	9.00	8	8	8
Current account, EUR mn	-830.3	-710.2	-573.4	-587.6	-480.0	-525	-555	-570
Current account, % of GDP	-27.9	-22.9	-17.7	-18.7	-15.0	-15.4	-15.4	-15.0
Exports of goods, BOP, EUR mn	296.3	356.6	476.5	391.9	410.0	430	460	490
annual change in %	-34.2	20.4	33.6	-17.8	4.6	6.0	6.0	6.0
Imports of goods, BOP, EUR mn	1617.9	1623.8	1782.8	1781.1	1730.0	1760	1830	1900
annual change in %	-34.6	0.4	9.8	-0.1	-2.9	2.0	4.0	4.0
Exports of services, BOP, EUR mn	731.5	801.0	906.1	997.6	1100.0	1210	1330	1460
annual change in %	-5.7	9.5	13.1	10.1	10.3	10.0	10.0	10.0
Imports of services, BOP, EUR mn	331.0	336.8	316.8	385.3	425.0	450	470	490
annual change in %	-18.3	1.8	-5.9	21.6	10.3	5.0	5.0	5.0
FDI inflow, EUR mn	1099.4	574.2	401.4	482.4	400.0	700	800	800
FDI outflow, EUR mn	32.9	22.1	12.3	20.8	0.0	20	20	20
Gross reserves of NB, excl. gold, EUR mn 8)	172.8	164.6	170.8	187.1	195.0	.	.	.
Gross external public debt, EUR mn	699.9	912.4	1063.7	1295.0	1433.0	.	.	.
Gross external public debt, % of GDP	23.5	29.4	32.9	41.1	44.8	.	.	.
Purchasing power parity EUR/EUR	0.4885	0.4927	0.4904	0.4893	0.4772	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census April 2011. - 3) Excluding small enterprises in private sector and arms industry. - 4) Gross value added (until 2010 NACE Rev. 1; NACE Rev. 2 thereafter). - 5) From 2011 according to census April 2011. - 6) Domestic output prices. - 7) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 8) Data refer to reserve requirements of Central Bank.
Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

The process of negotiations with the EU is progressing slowly as is that of accession to NATO. The latter will obviously happen before the completion of the former. Like other post-socialist countries, an anchor to stability, both domestic and regional, is needed and this is what the EU and NATO are providing even as a destination rather than reality. The Montenegrin public has not been among the Europe-enthusiastic ones, but it does seem to understand the EU's role as provider of security and stability.

The medium-term prospect is for slow recovery mainly based on investments and on net exports. The banking sector has stabilised, after near bankruptcy at the beginning of the crisis. The economy will take time to restructure in order to improve the services sector and to build up a small and medium-size industrial sector. That also means that the labour market will remain depressed and that social and political challenges will have to be constantly faced.

Table 17 / Serbia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th. pers., mid-year 2)	7320.8	7291.4	7234.1	7199.1	7100.0	7070	7040	7010
Gross domestic product, RSD bn, nom. 3)	2720.1	2881.9	3208.6	3348.7	3700.0	3800	4000	4200
annual change in % (real)	-3.5	1.0	1.6	-1.5	2.4	-0.5	1.0	1.9
GDP/capita (EUR at exchange rate)	4000	3800	4400	4100	4600	.	.	.
GDP/capita (EUR at PPP)	8400	8500	8900	9000	9500	.	.	.
Consumption of households, RSD bn, nom. 3)	2143.2	2282.8	2438.2	2543.5	2700.0	.	.	.
annual change in % (real) 3)	-2.7	-1.0	-1.2	-1.9	-1.0	-2.0	0.0	0.0
Gross fixed capital form., RSD bn, nom. 3)	510.2	512.3	592.8	717.2	750.0	.	.	.
annual change in % (real) 3)	-22.1	-5.5	8.4	14.4	-3.0	2.0	4.0	4.0
Gross industrial production 4)								
annual change in % (real)	-12.6	1.2	2.5	-2.2	6.3	4.0	5.0	5.0
Gross agricultural production								
annual change in % (real)	1.3	1.0	0.8	-17.3	22.1	5.0	10.0	8.0
Construction output 5)								
annual change in % (real)	-19.7	-7.1	10.4	-7.5	-5.0	3.0	5.0	5.0
Employed persons, LFS, th, average 6)	2616.4	2396.2	2253.2	2228.3	2310.7	2300	2300	2300
annual change in % 6)	-7.3	-8.4	-6.0	-1.1	3.7	0.0	1.0	1.0
Unemployed persons, LFS, th, average 6)	503.0	568.7	671.1	701.1	701.1	.	.	.
Unemployment rate, LFS, in %, average 6)	16.1	19.2	23.0	23.9	23.6	24.0	23.0	23.0
Reg. unemployment rate, in %, end of period	25.9	26.7	27.6	28.2	28.2	28.0	28.0	28.0
Average monthly gross wages, RSD 7)	44147	47450	52733	57430	60708	.	.	.
annual change in % (real, gross)	0.2	0.6	0.1	1.0	-1.9	0.0	0.0	1.0
Average monthly net wages, RSD 7)	31733	34142	37976	41377	43932	.	.	.
annual change in % (real, net)	0.2	0.7	0.2	1.1	-1.5	0.0	0.0	1.0
Consumer prices, % p.a.	8.6	6.8	11.0	7.8	7.8	4.0	4.0	3.0
Producer prices in industry, % p.a. 8)	5.6	12.7	14.2	5.6	3.6	.	.	.
General governm.budget, nat.def., % of GDP								
Revenues	42.1	42.5	40.6	42.0	39.7	.	.	.
Expenditures	46.6	47.2	45.5	48.5	44.5	.	.	.
Deficit (-) / surplus (+)	-4.5	-4.7	-4.9	-6.5	-4.8	-6.0	-5.0	-4.0
Public debt, nat.def., % of GDP	34.7	44.5	48.5	59.8	62.2	70.0	72.0	72.0
Central bank policy rate, % p.a., end of period 9)	9.50	11.50	9.75	11.25	9.50	7.0	7.0	6.0
Current account, EUR mn	-1909.9	-1887.5	-2870.0	-3155.1	-2280.0	-1950	-1950	-2100
Current account, % of GDP	-6.6	-6.7	-9.1	-10.7	-7.0	-6.0	-6.0	-6.0
Exports of goods, BOP, EUR mn	5977.8	7402.5	8439.6	8822.3	9530.0	10100	10700	11400
annual change in %	-19.4	23.8	14.0	4.5	8.0	6.0	6.0	7.0
Imports of goods, BOP, EUR mn	10924.2	11983.6	13758.0	14272.1	14560.0	15300	16100	16900
annual change in %	-31.4	9.7	14.8	3.7	2.0	5.0	5.0	5.0
Exports of services, BOP, EUR mn	2500.1	2667.1	3032.2	3091.1	3309.0	3500	3700	3900
annual change in %	-8.8	6.7	13.7	1.9	7.0	7.0	5.0	5.0
Imports of services, BOP, EUR mn	2479.4	2659.4	2869.0	2938.8	3085.0	3200	3400	3600
annual change in %	-15.3	7.3	7.9	2.4	5.0	5.0	5.0	5.0
FDI inflow, EUR mn	1410.1	1003.1	1948.9	274.1	700.0	1000	1000	1000
FDI outflow, EUR mn	37.6	143.0	122.0	42.3	100.0	100	100	100
Gross reserves of NB, excl. gold, EUR mn	10278	9555	11497	10295	10734	.	.	.
Gross external debt, EUR mn	22487	23786	24125	25721	26000	.	.	.
Gross external debt, % of GDP	77.7	84.9	76.7	86.9	79.5	.	.	.
Average exchange rate RSD/EUR	93.94	102.90	101.96	113.13	113.09	116	118	120
Purchasing power parity RSD/EUR	44.34	46.73	49.57	51.46	54.66	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to census October 2011, census March 2002 before. - 3) According to ESA'95 (FISIM not yet reallocated to industries). - 4) Excluding arms industry. - 5) According to gross value added. - 6) Extended survey as of April and October. - 7) Including wages of employees working for sole proprietors. - 8) Domestic output prices. - 9) Two-week repo rate.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

SERBIA: Early elections, then reforms

VLADIMIR GLIGOROV

Last year delivered a recovery in GDP growth, early estimate 2.4%, which can be attributed to the full rebound of agricultural production and the start of Fiat's production and export of cars. This and the next couple of years will see a slowdown of growth, with probably slight recession in 2014 and a speed-up to not more than 2% in the medium term, due to the disappearance of these one-time effects. Inflation is decelerating and positive employment effects cannot be expected.

The start of the car production is reflected also in the increase in industrial production. Construction, however, continued to decline and indeed GDP minus the two items mentioned above probably posted negative growth. On the domestic demand side, private consumption declined as well as the public one, while investments did much worse than expected. In view of that, it would not be a surprise if the preliminary GDP number were to be revised downwards.

The unemployment rate declined by 4 percentage points (to 20%) in October's labour force survey (LFS; the year average is higher), due to an increase in LFS-reported informal employment. The survey data have become quite volatile, while those of registered unemployment have been quite stagnant, so it is hard to say what is going on in the labour market. As for the financial markets, non-performing loans (NPLs) of the corporate sector continue to pile up and small state-owned banks continue to fail. NPLs are mostly concentrated in the corporate sector and are headed to the level of 30% of banks' assets. Otherwise, the central bank reports that the bulk of the banking system is stable and well capitalised, though it proceeds to deleverage towards foreign creditors. In addition, there are still some banks with significant state ownership, and if those were to get into trouble, the stability of the financial system cannot be guaranteed. Banks owned by the state or with a significant share owned by the state have suffered from oligarchic connections between the entrepreneurs and the political parties that they finance.

The main policy developments were connected with the rebooting of the government. In the middle of the last year, there was a major reshuffle of the government with new ministers – technocrats, not party people – taking the posts of finance and economy ministers. Both announced major reforms in fiscal policy and in the regulatory environment (i.e. structural reforms). However, the budget that was adopted seems destined for revision, primarily due to falling revenues, while the whole package of structural reforms, which would have targeted the corporate losses and debts as well as the labour law, was scraped partly due to the opposition from the firms and the trade unions. Indeed, the leading party in the government, the Progressive Party, decided to call for early elections expecting to take an even larger share in the government.

The promise with which the electorate is courted is that the elections will make the reforms possible. No specifics of what these reforms will look like have been disclosed so far. The elections are scheduled for 16th March, so details may surface during the campaign. The problem is that the new, old government – it is forecasted that the Progressive Party will form the bulk of the government – will have to convince the awakened interest groups and will thus fight an uphill battle. The appeal of the reforms is low because of the many failed attempts and in particular the most recent one last year.

Even with the reforms, the current government strategy calls for slow recovery in the next ten or so years due to the perceived need to engineer fiscal consolidation. In part, this is also due to the need to cut government employment and increase the private one. In the process, however, private consumption is expected to decline or stagnate at the same time when public consumption is being cut. Everything is staked on investments increasing with a view to exporting the bulk of the increased production. There are various investment projects announced, which should be financed by various investors from the countries in the Persian Gulf. Those are reportedly targeting agriculture, housing, and the IT sector. If those, public or private, investments fail to revive, not only public but also private finances will prove to be unsustainable. The risk of this disappointing outcome materialising seems to be rising.

Tax hikes tend not to increase public revenues significantly while investments, domestic and foreign, are not yet forthcoming. Not much will happen until after the early elections, scheduled for 16th March, which means that some of the possible effects of the perhaps new strategy of the new government cannot be in place much before early autumn. Prospects for this year are not very encouraging, though mild weather may boost agricultural production. In the next two years, however, some type of debt restructuring seems unavoidable with IMF conditions most probably attached to it. Those will leave little room for the recovery of growth. So, mid-term prospects are for slow recovery at best.

In view of the political and social developments in the region, it is questionable whether the upcoming early elections will provide for political and social stability. The government, which is almost certainly going to be re-elected, has already wasted almost two years. If it proves incapable of turning things around in the next year or so, the worsening social situation may prove to be challenging. The official strategy, which will almost certainly be confirmed in the expected programme with the IMF, calls for slow recovery with up to 2% growth of GDP in the medium run, due to declining or stagnating private and public consumption and stagnating employment. Possible upside risks may materialise if investment performs better than expected, though so far it has tended to disappoint. Also, net exports should contribute positively, which is hard to sustain due to the high import dependence of the exporting industries. Finally, high unemployment rates or rather low employment rates will persist.

These relatively sober expectations increase the risk of further macroeconomic destabilisation. Monetary policy is between the rock and the hard place because the central bank feels that it cannot afford fast depreciation of the currency, for fear of the stability of the banking sector, so it keeps the reference interest rate high and is running the risk of deflation. However, the prospect of low inflation and slow recovery is putting the willingness to service the public debt to a serious test. If the expected investments and reforms do not materialise and do not spur growth respectively, the prospect of debt restructuring may increase in probability.

TURKEY: 'Blowing in the wind' of international capital flows

MICHAEL LANDESMANN

Turkey is in the thrall of a renewed emerging markets volatility; in fact Turkey is one of the two economies most strongly affected by it (the other one being Argentina). The higher vulnerability of Turkey which shows up in a reversal of foreign capital flows and strong pressures on the exchange rate is the result of a history of high current account deficits, relatively low reserves, a delayed response by the Turkish Central Bank (TCB) to increase interest rates and the relatively short-term nature of foreign loans taken up over the recent period. wiiw expects the recent vigorous response by the Turkish Central Bank, which increased interest rates by roughly 400-500bp, to reduce the 2014 growth rate of GDP to 2.2% and then a gradual return to the longer-run potential growth path of 4.5% by 2016. The significant devaluation will improve the current account balance but impact negatively on inflation, which will remain higher than the TCBs target rate.

These are turbulent times for Turkey, economically and politically. Economically, we have seen the new year coming in with strong devaluation pressures on the Turkish lira and dramatic policy responses by the Turkish Central Bank (TCB) hiking up interest rates to high levels thus attempting to stem haemorrhaging capital outflows. Politically, Prime Minister Erdoğan's 10-year rule has come under strong pressure, first with very heavy-handed actions by the authorities when civil opposition groups opposed the conversion of Istanbul's Ghezi Park into a shopping mall and then when severe corruption cases were brought against some of Erdoğan's closest minsters and his son and he reacted with mass dismissals and attacks against the investigating judiciary and police. This all comes at an inopportune time for the Prime Minister as 2014 and 2015 are election years, with regional elections in March 2014, presidential elections in August 2014 and parliamentary elections in 2015 although these might be brought forward. The political turn of events has taken the international community by surprise and has also shaken somewhat the assessment of Turkey as a country following a path in which dynamic economic development combines with political moderation and democratisation.

Returning to the economy: International capital markets have been playing hot-and-cold games with a range of emerging market economies (EMEs) ever since there was a hint of phasing out the 'quantitative easing' policy by the US Federal Reserve Bank. This widely expected 'tapering' (reducing the massive liquidity injections by the Fed) caused immediate reactions on international financial markets, leading to a reversal of capital flows vis-à-vis the EMEs. During the international financial crisis EMEs had been hosts of considerable capital inflows where relatively high returns could still be obtained, while these

Table 18 / Turkey: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average	72050	73003	73950	74954	75860	76600	77400	78200
Gross domestic product, TRY bn, nom.	952.6	1098.8	1297.7	1415.8	1579.8	1710	1880	2100
annual change in % (real)	-4.8	9.0	8.8	2.2	3.8	2.2	3.5	4.5
GDP/capita (EUR at exchange rate)	6100	7500	7500	8200	8200	8800	9900	11700
GDP/capita (EUR at PPP - wiiw)	10900	12200	13400	13700	14300	.	.	.
Consumption of households,TRY bn, nom.	680.8	787.8	923.8	994.3	1119.1	.	.	.
annual change in % (real)	-2.3	6.7	7.7	-0.6	4.7	0.2	2.0	4.2
Gross fixed capital form., TRY bn, nom.	160.7	207.8	283.2	286.9	306.2	.	.	.
annual change in % (real)	-19.0	29.9	18.0	-2.7	2.6	-3.0	3.0	10.0
Gross industrial production								
annual change in % (real)	-9.8	12.8	10.0	2.4	2.5	4.5	6.5	10.0
Gross agricultural production 2)								
annual change in % (real)	3.6	2.4	6.1	3.1	3.9	.	.	.
Construction industry								
annual change in % (real)	-16.3	18.6	11.4	0.7	7.5	0.0	8.0	10.0
Employed persons - LFS, th, avg.	21271	22593	24099	24819	25700	26300	27200	28800
annual change in %	0.4	6.2	6.7	3.0	3.5	2.5	3.5	6.0
Unemployed persons - LFS, th, average	3053	2696	2324	2202	2400	.	.	.
Unemployment rate - LFS, in %, average	12.6	10.7	8.8	8.2	8.5	9.0	9.0	8.5
Reg. unemployment rate, in %, average						.	.	.
Average monthly gross wages, manuf.ind., TRY	.	.	.	.	.	.	.	.
annual change in % (real, gross)	.	.	.	.	.	.	.	.
Consumer prices (HICP), % p.a.	6.3	8.6	6.5	9.0	7.5	6.0	6.5	6.8
Producer prices in industry, % p.a. 3)	1.0	6.2	12.3	6.1	5.7	6.0	5.5	5.5
General governm. budget, EU-def., % of GDP 4)								
Revenues	36.6	37.3	36.6	36.2	37.6	37.0	37.5	.
Expenditures	43.1	40.2	37.4	38.6	39.3	40.0	39.0	.
Net lending (+) / net borrowing (-)	-6.5	-2.9	-0.8	-2.4	-1.7	-3.0	-1.5	.
Public debt, EU-def., % of GDP 4)	46.1	42.4	39.9	36.2	34.6	36.0	35.5	.
Central bank policy rate, %, p.a., end of period 5)	9.0	6.5	5.8	5.5	4.5	8.0	5.5	.
Current account, EUR mn	-8696	-34215	-53891	-37750	-48950	-24000	-42000	-59000
Current account, % of GDP	-2.0	-6.2	-9.7	-6.2	-7.9	-3.5	-5.5	-6.5
Exports of goods, BOP, EUR mn	78616	91292	103086	127050	123100	148000	170000	190000
annual change in %	-17.7	16.1	12.9	23.2	-3.1	20	15	12
Imports of goods, BOP, EUR mn	96145	133962	166978	177900	183200	192000	211000	243000
annual change in %	-26.7	39.3	24.6	6.5	3.0	5	10	15
Exports of services, BOP, EUR mn	25470	27776	29427	33550	35000	39000	44000	48000
annual change in %	1.0	9.1	5.9	14.0	4.3	12	12	10
Imports of services, BOP, EUR mn	12345	15033	15051	16000	17600	18000	19000	21000
annual change in %	-1.1	21.8	0.1	6.3	10.0	5	8	8
FDI inflow, EUR mn	6261	6803	11581	10290	9550	9000	11000	12000
FDI outflow, EUR mn	1110	1108	1710	3170	-2340	2000	3000	3000
Gross reserves of CB, excl. gold, EUR mn	49088	60411	60637	75733	84000	.	.	.
Gross external debt, EUR mn	186765	218417	235157	256757	280000	.	.	.
Gross external debt, % of GDP	42.4	39.7	42.4	42.0	44.9	.	.	.
Average exchange rate TRY/EUR	2.1631	1.9965	2.3378	2.3135	2.5335	2.53	2.45	2.30
Purchasing power parity TRY/EUR	1.2136	1.2336	1.3121	1.3745	1.4547	.	.	.

1) Preliminary and wiiw estimates. - 2) Gross value added of agriculture, forestry and fishing. - 3) Domestic output prices. - 4) According to ESA'95 excessive deficit procedure. - 5) From 2010 one-week repo rate, overnight lending rate before.
Source: National statistics (Central Bank, Turkish Statistical Institute - TSI, etc.), Eurostat. Forecasts by wiiw.

were very low in consequence of the very lax monetary policy pursued in the advanced economies which were suffering from double-dip recessions.

The announcement and then the start of ‘tapering’ led to reverse these capital movements as expectations turned towards higher yields in the United States and in due course also in the euro area. The countries amongst the EMEs most vulnerable to such swings were countries with high current account deficits which were dependent on high external financing requirements of such deficits and which had built up external debt. As is usual in such circumstances, there is a dangerous feedback loop: a reversal of capital inflows leads to changes in exchange rate movements which in turn leads to a re-pricing of foreign loans, resulting in a worry about repayment of some of these FX loans, causing an increase in interest rates on further loans, which makes the re-financing of foreign debt more costly, which worries international investors … and they run for the exit. This is what we saw happening in a range of EMEs (Argentina, South Africa, Indonesia, Turkey) towards the end of 2013 and the beginning of 2014 and Turkey is the one country which was hit particularly strongly by these developments.

Arguments why Turkey is strongly affected by the recent attacks on EMEs range from particularly high external financing needs due to persistent high current account deficits combined with a relatively low level of reserves; furthermore, an unfavourable maturity structure of foreign loans which requires a faster rolling-over, high energy import dependency which makes current account adjustments difficult and, finally, a rather late response by the Turkish Central Bank to allow interest rates to rise rather than attempt to counter exchange rate pressures through FX sales from reserves. Finally, i.e. on 28th January 2014, the TCB reacted very strongly: it increased the one-week repo rate from 4.5% to 10.0% and adjusted its overnight interest rate corridor from 3.5-7.75% to 8.0-12.0%. Also the lending rate for primary dealers was raised from 6.75% to 11.50% and the late liquidity lending rate from 10.25% to 15.0%. Hence overall interest rates tightened by as much as 450 to 550bp. Through these actions the TCB also gave a signal of independence from political interference as political pressures had been high earlier on to keep interest rates low.

However, the dramatic shift towards a tight monetary policy regime will have strong implications on GDP growth in the current year. This is not unlike the impact of restrictive monetary policy in 2012 which brought down GDP growth from 9.0% and 8.8% in 2010 and 2011 respectively to 2.2% in 2012. Both monetary policy in the first half of 2013 had been relaxed (trying to reverse the unexpected overshooting of the GDP slowdown in 2012) with real interest rates being about minus 2%, and fiscal policy provided a stimulus with nominal primary spending growing at more than 15% for most of 2013. Public investment spending in particular provided the stimulus. Apart from that there was a strong upswing in private domestic spending in the first half of 2013 especially fuelled by strong credit growth which reached a peak of close to 40% in mid-year. Corporate lending was particularly high. The consequence was deteriorating current accounts where the deficit reached EUR 43 billion in 2013 compared to EUR 37 billion the previous year (the estimate for 2013 is that the current account deficit will be close to 7.0% of GDP as against 6.1% in 2012). This deficit was financed mostly by short-term flows with little contribution by FDI flows. Inflation was also accelerating to 7.5% p.a. (January-November 2013), substantially above the TCB target of 5.5% p.a.

The general assessment is (see e.g. IMF Country Report 13/363 Article IV Consultation) that the rather unorthodox measures employed by the TCB (see wiiw Turkey analysis in the June 2013 Forecast Report) to both keep capital inflows at bay through low interest rates in the first half of 2012 and contain credit growth through a reserve requirement policy which attempted to soak up FX inflows, were not too effective. They could not contain the high increase especially of corporate FX debt which in the current context makes repayment of that debt vulnerable to exchange rate volatility. The lira-euro exchange rate jumped from a low level of 2.2 lira per euro in May 2013 to a peak of 3.12 lira per euro in January 2014. Since then it has come down somewhat (currently traded at 3.0 lira per euro) but this obviously generates a much higher burden on the corporate sector than was envisaged when loans were taken out in mid-2013.

Banks do not seem to be too vulnerable as their capital buffers are high and with a capital adequacy ratio of 16%. There is little direct FX balance sheet exposure of banks but they are exposed to the indirect risks of non-financial corporates given that their FX borrowing had jumped from USD 78 billion in 2008 to USD 165 billion by the end of 2013. A sharp downturn in growth will markedly reduce the earnings position of corporates in 2014 in the domestic market and hence their earnings will depend on the pick-up of export activity; the latter is itself dependent on the development of economic activity particularly in the EU and, of course, competitiveness where the depreciation of the currency will be of assistance.

The longer-term development of exports is favourable as export activity is based on an increasingly diversified structure of economic activity both with regards to products as well as with regards to regions and types of enterprises involved in export activity. As reported in previous wiiw country analyses, Turkey's export activity has widened to include a much wider range of enterprises in the interior of the countries which produce more traditional, labour-intensive types of products and catering also to more regional non-EU markets (as compared to the export industries located around the traditional Western export regions which have seen a significant upgrading over the recent years). These developments make Turkish exports more sensitive to exchange rate developments and hence the recent substantial devaluation will assist export activity in 2014. The lacklustre export performance in 2013 was due to earlier appreciation pressure, the low growth in the EU and to a level effect as very high gold exports in 2012 accounted for an exceptional increase in exports in that year. On the import side one has to remember that a significant share of the negative trade balance is accounted for by high net imports of energy (the current accounts in per cent of GDP without fuels amounted to +0.5% in 2012 and to -0.9% in 2013, while with fuels it was -6.2% in 2012 and -7.4% in 2013). Hence policies to reduce the high reliance on energy imports are an essential element of a longer-term strategy to reduce Turkish vulnerability on the current accounts.

Other issues long debated amongst Turkey analysts are measures to increase Turkey's savings rate which is seen by some as being causally responsible for the high current account deficits. In our opinion the low savings might be more a function of the availability of cheap foreign loans and the exceptionally low (real) interest rates over the past years. The corrections underway both on international financial markets as well as the change in TCB policy are likely to contribute to correct this situation. The impact of the change in policy on the inflation front will be double-edged: on the one hand, there will be an upward pressure on inflation as a result of the strong devaluation; on the other hand, reduced growth will dampen inflation. Overall, inflation will remain above the TCB's target rate of 5.5%. We might continue to observe some fiscal over-spend (as was the case in 2013) compared to official fiscal plans as 2014 is a multiple election year so that we might witness a restrictive monetary policy scenario combined with maintaining somewhat elevated public spending.

Summarising the growth prospects for 2014 to 2016: we expect a strong impact of the change in monetary policy, of capital flow reversals and thus of tightened credit markets on domestic demand and project GDP growth to be in the region of 2.2% in 2014 (significantly lower than the government forecasts and also those of most other forecasters). Devaluation and the expected pick-up of growth in the EU will lead to a significant improvement in the current accounts and growth will depend predominantly on more favourable net exports. For 2015 and 2016 we expect a gradual return to the potential long-term growth path of the Turkish economy of 4.5 5.0% p.a.

Table 19 / Albania: Selected Economic Indicators

	2009	2010	2011	2012	2013 [1]	2014	2015 Forecast	2016
Population, th pers., average [2]	2884.3	2856.7	2829.3	2801.7	2840.0	2850	2860	2870
Gross domestic product, ALL bn, nom. [3]	1148.1	1222.5	1282.3	1340.0	1380.0	1420	1460	1490
annual change in % (real) [3]	3.3	3.8	3.1	1.5	1.0	1.7	1.5	1.0
GDP/capita (EUR at exchange rate)	3000	3100	3200	3400	3500	.	.	.
GDP/capita (EUR at PPP)	7200	7100	7500	7800	7900	.	.	.
Consumption of households, ALL bn, nom. [3)4)]	910.0	970.0	1030.0	1060.0	1080.0	.	.	.
annual change in % (real) [3)4)]	3.0	2.5	3.0	1.0	0.0	1.0	0.5	0.5
Gross fixed capital form., ALL bn, nom. [3)4)]	430.0	400.0	420.0	380.0	360.0	.	.	.
annual change in % (real) [3)4)]	5.0	-7.0	4.8	-12.0	-6.0	2.0	1.5	2.0
Gross industrial production								
annual change in % (real)	-1.2	19.9	-10.1	16.5	-13.0	5.0	6.0	4.0
Gross agricultural production						.	.	.
annual change in % (real)	4.4	5.9	3.7	5.3	3.0	4.0	5.0	3.0
Construction output total						.	.	.
annual change in % (real)	43.7	-13.3	-1.1	-11.2	-4.0	-1.0	1.0	1.0
Employed persons, LFS, th [5]	1160.5	1167.4	1160.5	1117.1	1100.0	1150	1200	1200
annual change in %	3.3	0.6	.	-3.7	-1.5	4.5	4.3	0.0
Employment reg. total, th pers., end of period [6]	899.3	895.7	948.0	966.3	960.0	950	950	950
annual change in %	-7.7	-1.6	5.8	1.9	-0.7	-1.0	0.0	0.0
Unemployed persons, LFS, th [5]	185.0	190.7	188.5	173.4	180.0	200	210	220
Unemployment rate, LFS, in % [5]	13.7	14.0	14.0	13.4	14.0	15.0	15.0	15.5
Reg. unemployment rate, in %, end of period	13.8	13.8	13.1	12.8	13.0	14.0	14.0	14.5
Average monthly gross wages, ALL	36075	34767	36482	39284	40860	.	.	.
annual change in % (real, gross)	2.9	-7.0	1.5	5.6	2.0	1.0	1.0	1.0
Consumer prices, % p.a.	2.3	3.6	3.4	2.0	2.0	1.0	1.0	1.0
Producer prices in industry, % p.a.	-1.6	0.3	2.6	1.1	-0.5	0.0	0.0	0..0
General governm.budget, nat.def., % of GDP								
Revenues	26.1	26.6	25.8	24.7	24.0	25.0	26.0	26.0
Expenditures	33.1	29.7	29.4	28.1	30.0	28.0	27.0	28.0
Deficit (-) / surplus (+)	-7.0	-3.1	-3.6	-3.4	-6.0	-3.0	-1.0	-2.0
Public debt, nat.def., % of GDP [7]	59.3	57.8	58.6	60.9	70.0	71.0	70.1	70.7
Central bank policy rate, % p.a., end of period [8]	5.25	5.00	4.75	4.00	3.00	2.75	2.50	2.00
Current account, EUR mn	-1329.8	-1018.5	-1185.4	-1021.3	-1100.0	-950	-900	-800
Current account, % of GDP	-15.3	-11.5	-13.0	-10.6	-11.2	-9.5	-8.8	-7.8
Exports of goods, BOP, EUR mn	750.7	1171.5	1405.5	1525.6	1750.0	1850	1900	1950
annual change in %	-18.2	56.1	20.0	8.5	14.7	5.7	2.7	2.6
Imports of goods, BOP, EUR mn	3054.4	3254.2	3647.1	3524.8	3300.0	3400	3500	3500
annual change in %	-8.8	6.5	12.1	-3.4	-6.4	3.0	2.9	0.0
Exports of services, BOP, EUR mn	1771.4	1750.7	1747.4	1655.1	1550.0	1600	1750	1800
annual change in %	5.0	-1.2	-0.2	-5.3	-6.3	3.2	9.4	2.9
Imports of services, BOP, EUR mn	1597.5	1518.8	1612.4	1459.9	1600.0	1600	1650	1650
annual change in %	-1.3	-4.9	6.2	-9.5	9.6	0.0	3.1	0.0
FDI inflow, EUR mn	716.9	793.3	745.4	744.9	950.0	800	800	700
FDI outflow, EUR mn	28.2	4.8	29.9	17.7	27.5	40.0	50.0	40.0
Gross reserves of NB excl. gold, EUR mn	1607.8	1842.1	1853.1	1907.6	1970.6	.	.	.
Gross external debt, EUR mn	3591.4	4097.0	4795.8	5284.0	5500.0	.	.	.
Gross external debt, % of GDP	41.3	46.2	52.5	54.8	55.9	.	.	.
Average exchange rate ALL/EUR	132.06	137.79	140.33	139.04	140.26	142	143	145
Purchasing power parity ALL/EUR	55.55	59.94	60.32	61.17	61.41	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census October 2011. - 3) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 4) Estimated by wiiw. - 5) Until 2011 survey once a year. From 2011 according to census October 2011. - 6) From 2010 according to census October 2011, census April 2001 before. - 7) Based on IMF data. - 8) One-week repo rate.
Source: wiiw Databases incorporating national statistics and IMF. Forecasts by wiiw.

ALBANIA: INSTAT replay

MARIO HOLZNER

We expect 2014 GDP growth in Albania to slightly accelerate to 1.7%; the reason being a mix of a statistical base year effect due to weak growth in 2013 and strong foreign investment in the energy sector. However, restrictive fiscal policy and reduced lending activity owing to high levels of NPLs will likely curtail economic growth to 1.5% in 2015 and 1% in 2016. The current and expected meagre growth is not only a far cry from the pre-crisis performance but will not suffice to generate a visible income convergence.

Speculations about the trustworthiness and political instrumentalisation of Albanian national accounts data started already back in early 2012, when the country's state institute of statistics (INSTAT) was put under the exclusive control of former conservative Prime Minister Sali Berisha. After the recent change in government, the current socialist Prime Minister Edi Rama has appointed a new director who should 'turn the politically controlled INSTAT into an independent statistical institute'. Now, the current conservative opposition is accusing INSTAT of deliberately manipulating data on the country's GDP growth.

While earlier growth figures were assumed to be overrated, the estimated 2.3% GDP decline in the third quarter of 2013 should, according to the former conservative deputy Finance Minister, document alleged misgovernment of the 'ancien régime', which was still in power at that time. The same accusations expect a strong rebound of GDP in the last quarter of 2013. Indeed, GDP growth in the fourth quarter would need to reach almost 2.8% in order to leave Albania with an overall 1% GDP growth rate for the year 2013, which in fact is our estimate for 2013. Still, this would be the year with the lowest growth since the 10.8% drop of real GDP in 1997, when the collapse of a nation-wide Ponzi scheme caused a general rebellion.

Between 1998 and 2012 the average annual GDP growth rate was at 6%. However, since 2010 economic growth has been gradually decelerating. The main question is whether the Albanian economy has bottomed out or whether it continues the economic slide. Forward-looking evidence is mixed. The annualised change of the volume index of sales and repair of motor vehicles was negative in autumn 2013, indicating a loss of consumer confidence. Contrary to that, data for eleven months of 2013 show that new loans to households were increasing by 12% on the year, with even stronger growth in loans for the consumption of durable goods. However, the overall volume of new loans to the private sector was falling by 17% in the same period, as new loans to businesses dropped by 22%. New loans for investment in machinery even dropped by almost 60%.

One reason for these disappointing developments is also a tightening of lending standards to businesses, as the overall high stock of non-performing loans is above 24% of total loans. While this share is still increasing year on year, it was for the first time since the outbreak of the global financial crisis that on a quarter to quarter basis NPLs were declining in the third quarter of 2013. While there is some hope that the peak of the deleveraging process will soon be reached, the overall situation of the financial sector is still fragile as for instance the provisions coverage ratio is quickly increasing and stands at about 16%.

On the other hand, the total value of construction permits tripled in the third quarter of 2013 as compared to the same quarter a year earlier. Also, the consumption of cement, which at the beginning of 2013 was at very low levels compared to much higher values a year earlier, increased by the end of the year to levels comparable to the same period in 2012. At the same time data for the first nine months of 2013 depict a dramatic fall in remittances of 28% on the year. In the past, migrants' remittances used to fuel a substantial part of construction activities. However, in the same period foreign direct investment increased by 27%, on the year. By now, FDI inflows of about 10% of GDP make up more than double the value of remittances.

Some of the additional FDI is also related to Norway's Statkraft Devoll Cascade hydropower plant project. Over the next years Statkraft will invest more than half a billion euro in order to construct two hydropower plants with a combined capacity of 243 MW and an annual electricity production of about 700 GWh. By 2018 constructions are expected to be finalised and the additional capacity has the potential to increase the current electricity production in Albania by about 17%.

Public investment is not expected to increase substantially in the years to come. The new government has inherited a huge amount of hidden arrears which it plans to pay off over the next couple of years. At the same time a reduction of the general government deficit is aimed at. This is especially in view of the estimated 70% share of public debt in GDP.

Currently rising net exports are the dominant source of growth for the Albanian economy. In 2013 exports of goods increased in nominal lek terms by some 15%, while imports decreased by a few percentage points. One of the reasons was higher precipitation in 2013 and subsequent stronger electricity production in Albania's hydropower plants. This strongly reduced electricity imports while at the same time improving electricity exports. Also, Albanian oil exports increased further and reached more than one million tonnes per year. Rising oil exports are mainly due to the investments made by Canada's Bankers Petroleum which since 2004 develops the Patos-Marinza oilfield under a 25-year concession. This oilfield is expected to hold reserves reaching up to 400 million tonnes.

Due to the unexpected sharp fall of Albanian GDP in the third quarter of 2013, as published by INSTAT, we had to revise our estimate of the 2013 GDP growth from 2.3% to 1% only. Our forecasts for 2014 and 2015 remain unchanged at 1.7% and 1.5% respectively. The somewhat higher growth in 2014 as compared to 2013 might be related to a statistical base year effect, on the one hand. On the other hand, foreign investment in the Albanian energy sector might have a positive effect on domestic demand. However, restrictive fiscal policy and high levels of NPLs will act as a drag on the economy. Export growth is likely to level off due to mean-reverting weather conditions as well as decreasing world market prices for energy; hence the expected lower growth for 2015 and the even lower forecasted GDP growth of 1% for 2016. While downward risks are plenty, a possible official recognition of EU candidate status in June 2014 might be supporting investment mood and economic prospects.

BOSNIA AND HERZEGOVINA: Getting rid of the straitjacket

VLADIMIR GLIGOROV

On paper, Bosnia and Herzegovina has not done as badly as some other Balkan economies during the current crisis. GDP has declined by about 0.4% per year on average since 2009. Last year's growth was below 1% and the recovery over the medium term should not be much faster than 2%. Employment has been stagnant, but social sustainability has deteriorated. The upcoming general elections could provide a chance to turn things around.

Employment has not been reduced all that much and the unemployment rate has remained stable, though at a very high level. Industrial production proved to be relatively resilient, as did exports. Consumption has stagnated as has investment. However, the deterioration of public and private balance sheets has been quite moderate. Generally, this has been one stably depressed economy with grave problems in the labour market, especially when it comes to the employment of the young. As in most of the region, the probability of securing employment was fifty-fifty until the age of 30.

The country is divided into two entities (something like federal units) of which one, the Federation of Bosnia and Herzegovina, consists of ten relatively autonomous cantons. The other entity, Republika Srpska, is in effect centralised. Somewhat surprisingly, the Federation is fiscally more stable than the Republika, though the debts of the cantons are not altogether accounted for in the overall fiscal balances. Still, due to the currency board regime and the almost constant supervision by the IMF, public debt, though increasing, does not seem to be on an unsustainable trajectory. That is in great part due to relatively low interest rates paid on the accumulated debt as it is in large part non-commercial.

Somewhat more worrisome is the foreign debt, which continues to increase due to persistent current account deficits. In that, a larger share belongs to the corporations than to households. In terms of nonperforming loans, however, Bosnia and Herzegovina is not in a worse position but probably in a better one than most other neighbouring countries. Overall, financial balances are strained, but not unsustainable. Clearly, further support by the multilateral institutions will be needed because the commercial market for debt is hardly accessible due to the high interest rates they tend to charge.

The prospects are for a quite slow recovery due to depressed domestic demand and rather limited supply of tradable goods. Industrial production tends to increase, but the level is quite low. In addition, the complicated structure of fiscal centres slows down infrastructure projects and other development investments too. Though Bosnia and Herzegovina has basically a very liberal foreign trade regime, having free trade agreements with every trading partner that matters, internal barriers to increased

Table 20 / Bosnia and Herzegovina: Selected Economic Indicators

	2009	2010	2011	2012	2013 [1]	2014	2015 Forecast	2016
Population, th pers., mid-year	3843.0	3843.1	3839.7	3836.0	3832.0	3832	3832	3832
Gross domestic product, BAM mn, nom. [2]	24202	24773	25666	25804	26100	27000	28400	29800
annual change in % (real) [2]	-2.8	0.7	1.0	-1.7	0.8	1.9	3.0	3.0
GDP/capita (EUR at exchange rate)	3200	3300	3400	3400	3500	3600	3800	4000
GDP/capita (EUR at PPP)	6400	6700	7000	7100	7300	.	.	.
GDP by expend. approach, BAM mn, nom. [2]	25809	25929	26777	27199	.	.	.	.
annual change in % (real) [2]	-3.9	-0.2	1.8	-0.9	.	.	.	.
Consumption of households, BAM mn, nom. [2]	20927	21338	21927	22329	22500	.	.	.
annual change in % (real) [2]	-4.6	0.1	-0.3	-0.8	0.4	1.0	2.0	2.0
Gross fixed capital form., BAM mn, nom. [2]	4810	4299	4800	4803	5000	.	.	.
annual change in % (real) [2]	-19.5	-11.1	7.3	1.5	3.0	5.0	5.0	5.0
Gross industrial production								
annual change in % (real) [3]	-6.5	4.4	3.5	-4.4	6.4	5.0	6.0	5.0
Gross agricultural production								
annual change in % (real)	4.2	-5.3	1.8	5.0	5.0	5.0	5.0	5.0
Construction output total								
annual change in % (real) [4]	-7.2	-12.4	-5.1	-3.0	0.0	.	.	.
Employed persons, LFS, th, April	859.2	842.8	816.0	813.7	821.6	823	831	840
annual change in %	-3.5	-1.9	-3.2	-0.3	1.0	0.2	1.0	1.1
Employees total, reg., th, average	697.6	695.7	691.0	688.4	685.1	690	700	700
annual change in %	-1.1	-0.3	-0.7	-0.4	-0.5	0.7	1.4	0.0
Unemployed persons, LFS, th, April	272.3	315.1	310.9	316.6	311.5	312	311	310
Unemployment rate, LFS, in %, April	24.1	27.2	27.6	28.0	27.5	27.0	27.0	27.0
Reg. unemployment rate, in %, end of period	42.4	42.8	43.9	44.5	44.5	45.0	45.0	45.0
Average monthly gross wages, BAM	1204	1217	1273	1290	1300	.	.	.
annual change in % (real, gross)	8.6	-1.0	0.9	-0.6	0.6	1.0	1.0	1.0
Average monthly net wages, BAM	790	798	816	826	826	.	.	.
annual change in % (real, net)	5.6	-1.1	-1.4	-0.8	-0.2	1.0	1.0	1.0
Consumer prices, % p.a.	-0.4	2.1	3.7	2.0	0.2	1.5	2.0	2.0
Producer prices in industry, % p.a. [5]	-3.2	0.9	3.7	1.5	-2.6	1.0	2.0	2.0
General governm.budget, nat.def., % of GDP								
Revenues	43.0	43.8	44.2	44.7	43.5	44.0	44.0	44.0
Expenditures	47.5	46.3	45.5	46.7	46.0	46.5	46.0	46.0
Deficit (-) / surplus (+)	-4.4	-2.5	-1.3	-2.0	-2.5	-2.5	-2.0	-2.0
Public debt, nat.def., % of GDP [6]	36.2	39.3	40.5	43.9	43.0	44.0	45.0	45.0
Central bank policy rate, % p.a., end of period [7]	.	.	.	.	.	.	.	.
Current account, EUR mn [8]	-812.6	-781.7	-1295.2	-1272.9	-1200.0	-1100	-1000	-1200
Current account, % of GDP	-6.6	-6.2	-9.9	-9.6	-9.0	-8.0	-7.0	-8.0
Exports of goods, BOP, EUR mn [8]	1643.0	2189.1	2625.2	2574.8	2780.0	2900	3200	3500
annual change in %	-5.4	33.2	19.9	-1.9	8.0	5.0	10.0	8.0
Imports of goods, BOP, EUR mn [8]	5624.1	6089.8	6892.5	6892.7	6685.0	6900	7200	7600
annual change in %	-21.8	8.3	13.2	0.0	-3.0	3.0	5.0	5.0
Exports of services, BOP, EUR mn [8]	1428.0	1511.4	1485.8	1486.2	1486.0	1550	1610	1690
annual change in %	-11.6	5.8	-1.7	0.0	0.0	4.0	4.0	5.0
Imports of services, BOP, EUR mn [8]	456.2	407.9	414.4	399.9	370.0	390	410	430
annual change in %	15.1	-10.6	1.6	-3.5	-7.5	5.0	5.0	5.0
FDI inflow, EUR mn [8]	107.5	331.0	338.3	272.9	300.0	500	800	800
FDI outflow, EUR mn [8]	-68.5	58.8	-4.0	-0.3	-15.0	0	0	0
Gross reserves of NB excl. gold, EUR mn	3143.8	3267.6	3207.0	3246.4	3530.1	3500	3500	3300
Gross external public debt, EUR mn	2676.2	3215.4	3405.7	3658.5	3786.0	3900	4100	4300
Gross external debt, % of GDP	21.6	25.4	26.0	27.7	28.4	28.3	28.2	28.2
Average exchange rate BAM/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.96	1.96	1.96
Purchasing power parity BAM/EUR	0.9871	0.9686	0.9612	0.9470	0.9355	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM not yet reallocated to industries). - 3) According to NACE Rev. 2. - 4) According to gross value added. - 5) Domestic output prices. - 6) Based on IMF data. - 7) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 8) Converted from national currency with the average exchange rate. BOP 6th edition.

Source: wiiw Databases incorporating national statistics and IMF. Forecasts by wiiw.

supply of exportable goods are quite limiting. Without further and very ambitious internal liberalisation, it is hard to see that medium-term prospects will improve dramatically.

Fundamentally, the institutional-set up is the major obstacle. It is so rigid that it works for almost complete unresponsiveness of the governing bodies and fuels the feeling among the population that it is powerless, that nothing can be done. This needs to change in order for the process of integration with the European Union to progress. So far that prospect has not proved to be strong enough to make a dent in the deadlocked ethnic, business, and political interests.

The overall conception on which the institutions of Bosnia and Herzegovina were constructed was that common economic interest will eventually trump the political interests. That strategy has been failing and may be exhausted. The political straitjacket is just too tight and the country is struggling to get out of it – currently in the streets, but hopefully eventually at the ballot boxes and in representative bodies.

In the medium run, investment, mainly in industry and infrastructure, should help speed up growth. There is, however, little space for growth of consumption, both public and private. This is in part due to the policy mix with currency board and IMF oversight over the budgets. Prospects for growth of exports depend almost exclusively on industrial production and construction, which has some increased potential. A lot depends on the ability for institutional reform, which has so far been lacking.

Table 21 / Kosovo: Selected Economic Indicators

	2009	2010	2011	2012	2013 [1)]	2014	2015 Forecast	2016
Population, th pers., average	1748	1775	1800	1816	1829	1845	1861	1877
Gross domestic product, EUR mn, nom.	4008	4291	4770	4916	5200	5700	6200	6600
annual change in % (real)	3.5	3.2	4.5	2.5	4.0	5.0	4.0	4.0
GDP/capita (EUR at exchange rate)	2300	2400	2700	2700	2800	.	.	.
GDP/capita (EUR at PPP)	5000	5200	5400	5500	5600	.	.	.
Consumption of households, EUR mn, nom.	3605	3822	4220	5256	5500	.	.	.
annual change in % (real)	2.1	3.1	3.0	2.8	3.5	4.0	3.0	3.0
Gross fixed capital form., EUR mn, nom.	1027	1193	1387	1239	1300	.	.	.
annual change in % (real)	13.6	12.7	12.1	-12.4	6.0	10.0	9.0	8.0
Gross industrial production [2)]								
annual change in % (real)	-1.5	-5.6	19.2	-10.0	5.0	7.0	10.0	5.0
Gross agricultural production [2)]								
annual change in % (real)	19.3	0.5	26.3	0.0	3.0	4.0	3.0	4.0
Construction output [2)]								
annual change in % (real)	32.8	-27.7	11.2	3.0	6.0	6.0	4.0	5.0
Unemployment rate, LFS, in %, average [3)]	45.4	45.1	44.8	30.9	31.0	29.0	30.0	30.0
Reg. unemployed persons, th, end of period	339	335	325	260	268	.	.	.
Average monthly net wages, EUR	246	286	348	353	362	.	.	.
annual change in % (real, net)	22.8	12.7	14.4	-1.1	1.5	5.0	3.0	3.0
Consumer prices, % p.a.	-2.4	3.5	7.3	2.5	1.8	4.0	4.0	3.0
annual change in % (real, gross)	3.8	4.7	5.7	1.7	3.0	.	.	.
General governm.budget, nat.def., % of GDP [4)]								
Revenues	36.7	33.8	35.3	36.3	35.0	36.0	38.0	37.0
Expenditures	32.6	35.1	35.6	36.7	37.0	38.0	38.0	38.0
Deficit (-) / surplus (+)	4.1	-1.3	-0.2	-0.5	-2.0	-2.0	0.0	-1.0
Public debt, nat.def., % of GDP [4)]	6.2	6.1	5.3	5.6	6.3	7.7	7.1	7.7
Central bank policy rate, % p.a., end of period [5)]	14.1	14.3	13.9	12.9	12.2	.	.	.
Current account, EUR mn	-374.2	-515.7	-658.4	-380.2	-350.0	-700	-800	-700
Current account, % of GDP	-9.3	-12.0	-13.8	-7.7	-6.7	-12.3	-12.9	-10.6
Exports of goods, BOP, EUR mn	160.6	288.2	304.1	269.6	310.0	350	400	450
annual change in %	-16.9	79.5	5.5	-11.3	15.0	12.9	14.3	12.5
Imports of goods, BOP, EUR mn	1811.8	2033.2	2354.8	2319.3	2300.0	2600	2650	2700
annual change in %	2.5	12.2	15.8	-1.5	-0.8	13.0	1.9	1.9
Exports of services, BOP, EUR mn	517.6	573.0	618.5	635.1	650.0	660	700	750
annual change in %	31.9	10.7	7.9	2.7	2.3	1.5	6.1	7.1
Imports of services, BOP, EUR mn	285.3	386.1	352.8	288.8	300.0	450	450	500
annual change in %	18.5	35.3	-8.6	-18.1	3.9	50.0	0.0	11.1
FDI inflow, EUR mn	287.4	365.8	393.9	229.1	270.0	500	600	500
FDI outflow, EUR mn	10.5	34.7	15.7	15.8	20.0	30	40	50
Gross reserves of NB excl. gold, EUR mn	576	634	575	840	900	.	.	.
Gross external debt, EUR mn	1146	1348	1427	1518	1600	.	.	.
Gross external debt, % of GDP	28.6	31.4	29.9	30.9	30.8	.	.	.
Purchasing power parity EUR/EUR	0.461	0.463	0.488	0.493	0.500	.	.	.

1) Preliminary and wiiw estimates. - 2) According to gross value added data. - 3) From 2012 new improved sample survey based on census 2011, not comparable with previous years. - 4) National definition based on ESA'95. - 5) Average weighted lending interest rate (Kosovo uses the euro as national currency).
Source: National statistics and IMF. Forecasts by wiiw.

KOSOVO: Road to the New Kosovo

MARIO HOLZNER

The Kosovo economy is growing fast, at least by current European standards. Due to a favourable outlook for Germany and Switzerland, the prime host countries of Kosovo migrant workers and remittances senders, as well as due to higher government spending in the wake of the upcoming parliamentary elections, we expect a GDP growth rate of 5% for 2014. A number of large infrastructure projects in the transport and energy sector are being planned for the years to come, hence growth is likely to remain firm, at around 4% in both 2015 and 2016.

Compared to other countries in the region, the economy of Kosovo is developing quite vibrantly, admittedly from a very low level of economic activity. In the first three quarters of 2013 the number of newly established businesses was growing by almost 7% on the year. This was especially due to a host of new firms in real estate and business services. Also the number of companies in health services and construction increased above average. It should be mentioned that there is still no public health insurance system existing in the country. Public health care institutions, which are free of charge to pregnant women, children, elderly, families that receive social assistance and persons with disabilities, are of poor quality and hence there is a strong demand for private health care providers of all sorts.

The many new firms active in the real estate and building sector are likely related to the ongoing construction boom. Another evidence for this is a 14% increase in new household mortgage loans in 2013, year-on-year. New investment loans to non-financial corporations increased by 10%. However, most of the financing stems from diaspora workers’ remittances and foreign direct investment, rather than domestic credit. Both inflows increased strongly in the first three quarters of 2013 as compared to a year earlier. Remittances increased by 11% and will most likely reach a billion euro over the whole year (almost 20% of GDP). FDI increased by 15% and might make some 270 million euro for the year.

The largest part of the increases in FDI occurred in the transport sector. In October 2013, the new terminal and facilities of Prishtina’s International Airport, built by the Turkish-French consortium Limak-Aéroports de Lyon, was inaugurated under the auspices of the Prime Ministers of Turkey, Kosovo and Albania. The investment was worth a 140 million euro, whereby the airport’s annual passenger capacity was increased from 2 to 5 million. Further infrastructure investment was announced, such as in modern electric power grids and roads. In particular, the development of Kosovo’s highway network is being pushed by the government.

In early 2014 the US-Turkish consortium Bechtel-Enka was contracted to build a 65 km motorway from Prishtina to the Macedonian border. The consortium, which has recently completed Kosovo's first highway, from Prishtina to the Albanian border in the west, offered to build the southern motorway to Macedonia for 600 million euro within 42 months. Macedonia is expected to issue soon a tender for the smaller 13 km stretch of the highway from the border to Skopje. Macedonia is one of Kosovo's most important trading partners, both in terms of imports and exports.

However, Kosovo's overall exports are still rather small. Exports of goods make up only some 300 million euro per year. Nevertheless, they are on the rise. In the first three quarters of 2013 they increased by more than 9% in euro terms on the year. At the same time imports of goods, which account for about 2.3 billion euro, decreased by 2.5%. Customs data for most of the year 2013 show that the largest part of the exports' increase stems from additional energy exports. This is also the most important sector responsible for the decrease in imports.

Data from the Kosovo Energy Corporation (KEK) for the first nine month of 2013 show an increase of coal production in tonnes by some 4% year on year and a subsequent increase of electricity production in MWh by more than 13%, together with substantial increases in exports and import substitution. The Kosovo basin holds the world's fifth-largest proven reserves of lignite. The main sources of electricity production are hence KEK's two old, inefficient and highly polluting coal-fired power plants Kosovo A (450 MW) and Kosovo B (580 MW). As the older plant, Kosovo A (built in the 1960s), has to be closed by 2017, the government plans to announce a tender for a new thermal power plant in March 2014, still before parliamentary elections. The project title for the power plant is 'Kosova e Re' – 'New Kosovo'.

Given the urgent need for investment in modern infrastructure as well as the approaching general elections, the government is slightly increasing the so far negligible budget deficit. Until November 2013, the cumulated government deficit was almost 2 percentage points in GDP higher as compared to a year earlier. Expenditures will likely further increase as a share in GDP in 2014 and reach a level of close to 40%, while only seven years earlier it was still below 30%. The average in the EU is at about 50%.

Apart from stronger than expected government demand it is especially due to the surprisingly high inflow of remittances that we had to raise our GDP growth projection for 2013 from 3% to 4%. Growth forecasts for the following years did not change substantially. Due to the improved outlook both for the German and the Swiss economy, where most of Kosovo's diaspora is residing, as well as higher public spending before the upcoming elections, we expect 5% growth for 2014. In the subsequent years of 2015 and 2016 growth is likely to oscillate around a robust 4%, given the strong demand for infrastructure investment.

KAZAKHSTAN: Consumption boom fuelled by credit to be over soon

OLGA PINDYUK

According to the preliminary statistical report, Kazakhstan managed to achieve 6% real GDP growth in 2013, which makes it the fastest growing economy in the region we analyse. Total GDP growth is expected to remain robust during the whole forecast period of 2014-2016 at a rate of 5.5-6.5%. The oil sector will remain the main driving force of the economy, while the role of private consumption is expected to decline during that period.

Economic growth in 2013 was primarily driven by private consumption, which, according to our estimates, increased by 14% year-on-year. This remarkable dynamics was not backed by a proportionate change in household income: during 2013, real household income increased only by 3% year-on-year. It appears that the private consumption boom has been to a large extent financed through consumer loans that were rising sharply in 2013. During the last year, the value of newly issued consumer loans increased by 55% compared with 2012, and the share of this type of loans in the total loans issued by banks during 2013 went up by 6 percentage points to 23% compared with 2012. At the same time, overdue consumer loans have been accumulating, rising by 45% year-on-year in December 2013. These developments signal a possible build-up of a new bubble in the banking sector that has not yet recovered from the housing bubble, which burst after the sudden capital stop in 2007. The share of non-performing loans (NPLs) exceeded 31% by the end of 2013. The problem loans fund set up by the National Bank has been rather inefficient as it buys only non-real estate bad loans (these represent a minor part of NPLs) and at a discount considered too high by most banks. Four banks established Special Purpose Vehicles and transferred some part of bad loans to them, other banks try to sell their bad assets to external collection agencies, but progress in balance sheets cleansing is still to be seen. Now the National Bank is considering forcing banks to sell NPLs if their share in banks' assets exceeds a certain threshold. The currently discussed plan is that by the end of 2014, the share of NPLs should not exceed 15% of total assets in all banks' balance sheets.

On 14 February 2014, the National Bank has introduced measures to limit the consumer loans boom: increased capital requirements, an upper limit of consumer loans growth at 30%, and the requirement that monthly payments on consumer loans should not exceed 50% of the monthly income of a loan receiver. Besides, it is expected that banks will have worse access to financing in 2014 as the growth of deposits will slow down. Deposits have been the main financing source of Kazakhstani banks for several years, and with their sluggish growth banks will have supply limitations to loans expansion. Another factor restricting consumption growth is the sudden devaluation of the national currency which took place on 11 February 2014. On that day the National Bank, contrary to its prior announcements of the planned stability of the exchange rate, devalued the tenge by about 19% from 155 KZT/USD to about

Table 22 / Kazakhstan: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	16092.7	16321.6	16556.6	16791.4	17037.5	17150	17300	17450
Gross domestic product, KZT bn, nom. 3)	17008	21816	27572	30347	33521	37300	42100	47100
annual change in % (real)	1.2	7.3	7.5	5.0	6.0	6.0	6.5	5.5
GDP/capita (EUR at exchange rate)	5100	6800	8200	9400	9700	8700	9600	10600
GDP/capita (EUR at PPP)	11400	13700	15900	16900	17900	.	.	.
Consumption of households, KZT bn, nom. 3)	7913	9721	11569	13623	16400	18600	20700	22900
annual change in % (real) 3)	0.6	11.8	10.9	11.0	14.0	5.0	5.0	4.5
Gross fixed capital form., KZT bn, nom. 3)	4727	5307	5772	6761	7600	8300	9600	11000
annual change in % (real) 3)	-0.8	3.8	3.9	9.1	12.0	7.0	9.0	8.0
Gross industrial production								
annual change in % (real)	2.7	9.6	3.8	0.7	2.3	7.0	10.0	10.0
Gross agricultural production								
annual change in % (real)	14.6	-11.7	26.8	-17.8	11.6	15.0	5.0	5.0
Construction industry								
annual change in % (real)	-3.3	2.4	2.8	3.1	3.0	5.0	10.0	8.0
Employed persons, LFS, th, average 4)	7903.4	8114.2	8301.6	8507.1	8579.8	8670	8760	8850
annual change in %	0.6	2.7	1.1	1.0	0.9	1.0	1.0	1.0
Unemployed persons, LFS, th, average 4)	554.5	496.5	473.0	474.8	469.6	.	.	.
Unemployment rate, LFS, in %, average 4)	6.6	5.8	5.4	5.3	5.2	5.1	5.0	5.0
Reg. unemployment rate, in %, end of period 4)	0.6	0.4	0.4	0.4	0.3	.	.	.
Average monthly gross wages, KZT 5)	67333	77611	90028	101263	108640	.	.	.
annual change in % (real, gross)	3.2	7.6	7.1	7.0	1.4	.	.	.
Consumer prices (HICP), % p.a.	7.3	7.1	8.3	5.2	5.8	8.0	6.0	6.0
Producer prices in industry, % p.a.	-22.0	25.2	27.2	3.5	-0.3	2.0	6.0	6.0
General governm.budget, nat.def., % of GDP								
Revenues	20.6	19.7	19.5	19.2	19.0	.	.	.
Expenditures	23.5	22.1	21.5	22.1	21.1	.	.	.
Deficit (-) / surplus (+)	-2.9	-2.4	-2.1	-2.9	-2.1	-2.0	-1.5	-1.5
Public debt, nat.def., % of GDP	13.0	14.8	12.3	13.0	13.5	15.0	14.0	14.0
Central bank policy rate, % p.a., end of period 6)	7.0	7.0	7.5	5.5	5.5	.	.	.
Current account, EUR mn 7)	-2955	1044	7332	498	89	3100	6800	12300
Current account in % of GDP	-3.6	0.9	5.4	0.3	0.1	2.1	4.1	6.7
Exports of goods, BOP, EUR mn 7)	31499	46231	61198	67628	62793	68000	76100	86800
annual growth rate in %	-35.6	46.8	32.4	10.5	-7.1	8.3	11.9	14.1
Imports of goods, BOP, EUR mn 7)	20739	24769	28985	38181	37322	39700	42800	46300
annual growth rate in %	-20.4	19.4	17.0	31.7	-2.2	6.4	7.8	8.2
Exports of services, BOP, EUR mn 7)	2943	3102	3116	3756	3747	3900	4100	4400
annual growth rate in %	0.9	5.4	0.5	20.5	-0.2	4.1	5.1	7.3
Imports of services, BOP, EUR mn 7)	7230	8561	7882	10018	9018	9300	10200	11200
annual growth rate in %	-5.2	18.4	-7.9	27.1	-10.0	3.1	9.7	9.8
FDI inflow, EUR mn 7)	10238	5615	9878	10650	7241	7600	8800	9200
FDI outflow, EUR mn 7)	3007	2855	3720	1516	1152	1200	1200	1300
Gross reserves of NB excl. gold, EUR mn	14352	19044	19477	16674	13913	.	.	.
Gross external debt, EUR mn	78674	89259	96973	103155	109114	.	.	.
Gross external debt, % of GDP	95.1	80.1	71.8	65.2	65.8	.	.	.
Average exchange rate KZT/EUR	205.68	195.67	204.11	191.67	202.09	249.8	252.5	255.2
Purchasing power parity KZT/EUR 8)	92.91	97.56	104.48	106.85	109.62	.	.	.

Note: Gross industrial production and producer prices refer to NACE Rev. 2 (including E - Water supply, sewerage, waste management and remediation activities).

1) Preliminary and wiiw estimates. - 2) According to census March 2009. - 3) From 2011 according to SNA'08 (SNA'93 before) and FISIM reallocated to industries. - 4) From 3 quarter 2011 according to census March 2009, wiiw estimates for growth in 2011 and 2012. - 5) Excluding small enterprises, engaged in entrepreneurial activity. - 6) Refinancing rate of NB. - 7) According to BOP 6th edition. Converted from USD with the average exchange rate. - 8) wiiw estimates based on the 2011 International Comparison Project benchmark.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

185 KZT/USD and announced that the exchange rate will be fully floating in the future. There was panic among businesses and consumers, many shops closed in order to change prices – as many consumer goods are imported to the country, and their prices were being raised to reflect the exchange rate change. The unexpected devaluation was most likely caused by the depreciation of the Russian rouble, which caused a strengthening of the real exchange rate of the tenge, and by sluggish performance of merchandise exports, which fell in 2013 by 4% year-on-year in USD terms primarily due to the weak global demand for oil. Gross reserves of the National Bank of Kazakhstan decreased by 13.6% to USD 19.1 billion during 2013 due to its interventions at the forex market (at the same time, assets of the National Oil Fund increased by 22.1% to USD 70.5 billion during 2013 – which means that there was no urgent need to make so abrupt exchange rate changes).

The devaluation of the national currency will improve the competitiveness of exporters (primarily in the metal industry), but will negatively affect consumers. First, inflation pressure will strengthen as imports will become more expensive. The government announced that it would continue to administratively limit growth of food prices by setting maximum allowed price levels on key food items, but other consumer goods are likely to become more expensive. We expect consumer prices to grow by 8% p.a. in 2014. Second, NPLs are likely to rise in the short run as about 30% of the total stock of loans is denominated in foreign currency (14% of loans to households).

President Nursultan Nazarbayev decided on 14 February 2014 to transfer an additional KZT 1000 billion (about EUR 4 billion or 3% of GDP in 2013) from the National Oil Fund to provide ‘urgent help to the economy’ in 2014 and 2015. Also, a 10% raise in wages of public sector employees was announced to take place in April 2014. The President also asked major companies in the country to increase wages of their employees by 10%. On balance, these developments will negatively affect household consumption prospects, and we forecast that growth of real private consumption will stumble to 5% in 2014 and will remain at around 5% during 2015-2016.

Gross fixed capital formation also demonstrated outstanding growth in 2013, having increased by about 12% year-on-year according to our estimates. The bulk of the growth of fixed capital investment took place in the oil extraction industry and transports (to a large extent the development of transport infrastructure was also linked to the oil sector). The construction sector posted only meagre growth of 3% year-on-year in 2013. We expect that construction will gradually speed up its growth during the forecast period, as mortgage lending will be recovering after the cleansing of banks’ balance sheets. At the same time, fixed investment growth is likely to slow down in 2014, in particular reflecting higher import prices of investment goods and also the factor of a high previous year base. In 2015-2016, as the Kashagan oil field will increase its production volumes, and with the ongoing need to develop oil transport infrastructure and oil processing facilities, gross fixed capital formation will continue to demonstrate healthy growth at rates close to 10%.

Export growth is forecasted to become positive again in 2014 and to speed up in 2015-2016, mainly owing to the expected improvement in world demand for oil as global growth is projected to accelerate. Growing volumes of oil extraction in the Kashagan field in 2015-2016 will allow for further export expansion. We assume that global oil prices will remain slightly below 100 USD/barrel during the forecast period, and most of the export growth in Kazakhstan will be in volume terms. As a result, we envisage a gradual strengthening of Kazakhstan’s current account, from 2% of GDP in 2014 to 7% of GDP in 2015.

Table 23 / Russia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	142797	142861	142961	143202	143000	142500	142000	142000
Gross domestic product, RUB bn, nom.	38807	46309	55644	61811	66689	70000	74800	80500
annual change in % (real)	-7.8	4.5	4.3	3.4	1.3	1.6	2.3	3.0
GDP/capita (EUR at exchange rate)	6200	8000	9500	10800	11000	.	.	.
GDP/capita (EUR at PPP)	14600	15700	17200	18100	18600	.	.	.
Consumption of households, RUB bn, nom.	20986	23618	27193	30823	34452	.	.	.
annual change in % (real)	-5.1	5.5	6.8	7.9	4.7	3.5	4.0	4.0
Gross fixed capital form., RUB bn, nom.	8536	10014	11951	13604	14316	.	.	.
annual change in % (real)	-14.5	5.9	9.1	6.4	-0.3	1.0	3.0	5.0
Gross industrial production 3)								
annual change in % (real)	-9.3	8.2	4.7	2.6	0.3	3.0	4.0	5.0
Gross agricultural production								
annual change in % (real)	1.4	-11.3	23.0	-4.7	6.2	.	.	.
Construction output								
annual change in % (real)	-13.2	5.0	5.1	2.4	-1.5	2.0	4.0	5.0
Employed persons, LFS, th, average 2)	69410.5	69933.7	70856.6	71545.4	71391.3	71000	71000	71000
annual change in % 2)	-2.2	0.8	1.3	1.0	-0.2	-0.5	0.0	0.0
Unemployed persons, LFS, th, average 2)	6284.0	5544.0	4922.3	4130.8	4137.5	4200	4100	4060
Unemployment rate, LFS, in %, average 2)	8.3	7.3	6.5	5.5	5.5	5.5	5.5	5.4
Reg. unemployment rate, in %, end of period	2.9	2.1	1.7	1.4	1.2	.	.	.
Average monthly gross wages, RUB	18637.5	20952.2	23369.2	26629.0	29940.0	.	.	.
annual change in % (real, gross)	-3.5	5.2	2.8	8.4	5.2	.	.	.
Consumer prices, % p.a.	11.8	6.9	8.5	5.1	6.8	6.0	5.0	5.0
Producer prices in industry, % p.a. 4)	-7.2	12.2	19.0	6.8	3.4	3.0	3.0	3.0
General governm.budget, nat.def., % of GDP								
Revenues	35.0	34.6	37.5	37.4	36.1	.	.	.
Expenditures	41.4	38.0	35.9	36.9	37.4	.	.	.
Deficit (-) / surplus (+)	-6.3	-3.4	1.6	0.4	-1.3	-1.0	-1.0	-1.0
Public debt, nat.def., % of GDP 5)	8.3	8.4	9.0	10.0	10.5	11.0	12.0	12.0
Central bank policy rate, % p.a., end of period 6)	8.75	7.75	8.00	8.25	5.50	.	.	.
Current account, EUR mn 7)	36169	50853	69855	56022	24855	20000	15000	15000
Current account, % of GDP 7)	4.1	4.4	5.1	3.6	1.6	1.3	0.9	0.9
Exports of goods, BOP, EUR mn 7)	213321	296041	370131	410744	392650	410000	420000	440000
annual change in %	-32.9	38.8	25.0	11.0	-4.4	4.4	2.4	4.8
Imports of goods, BOP, EUR mn 7)	132035	185221	228764	261154	259182	280000	300000	320000
annual change in %	-32.9	40.3	23.5	14.2	-0.8	8.0	7.1	6.7
Exports of services, BOP, EUR mn 7)	32876	37062	41680	48495	52619	56000	60000	65000
annual change in %	-15.6	12.7	12.5	16.4	8.5	6.4	7.1	8.3
Imports of services, BOP, EUR mn 7)	45511	56753	65706	84658	97109	105000	120000	130000
annual change in %	-13.9	24.7	15.8	28.8	14.7	8.1	14.3	8.3
FDI inflow, EUR mn 7)	26262	32545	39557	39353	45000	50000	60000	.
FDI outflow, EUR mn 7)	31070	39668	48008	37980	40000	50000	60000	.
Gross reserves of CB, excl. gold, EUR mn	290380	335251	350786	367323	341787	.	.	.
Gross external debt, EUR mn 8)	325639	369524	416406	480451	532797	.	.	.
Gross external debt, % of GDP	37.0	32.1	30.6	31.0	33.8	.	.	.
Average exchange rate RUB/EUR	44.1	40.3	40.9	39.9	42.3	45	46	47
Purchasing power parity RUB/EUR 9)	18.6	20.6	22.6	23.9	25.1	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census October 2010. - 3) Excluding small enterprises. - 4) Domestic output prices. - 5) wiiw estimate. - 6) Refinancing rate of Central Bank. From September 2013 one-week repo rate. - 7) Converted from USD with the average exchange rate. BOP 6th edition. - 8) From 2011 according to BOP 6th edition. - 9) wiiw estimates based on the 2011 International Comparison Project benchmark.
Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

RUSSIAN FEDERATION: Stuck in transition!

PETER HAVLIK

Russian economic growth came to a near standstill in 2013. The country is 'stuck in transition'. With traditional growth drivers exhausted, there is little prospect for a renewal of growth without a new decisive reform push. GDP growth forecasts were revised downwards accordingly. The wiiw baseline scenario assumes a continuation of the negative contribution of real net exports to GDP growth and, in nominal terms, reductions of the trade and current account surpluses. We expect a revival of investment and an ongoing modest expansion of household consumption. Inflation and unemployment will gradually diminish.

Russian economic growth has been slowing down since its brief post-crisis recovery in 2010; it came to a near standstill in 2013. GDP growth was fuelled only by higher consumer spending and retail trade which both grew by a still respectable 4-5%. On the other hand, the collapse of investment growth, particularly in the case of state-owned corporations, has been the main factor behind last year's GDP growth slowdown (another factor being the declining export surplus). In this situation it is not surprising that the calls for a 'new growth model' have intensified – in particular given prospects for another fall in export revenues and diminishing current account surpluses. The broadly acknowledged key obstacle to private investments – the poor investment climate – underlines the urgency to markedly improve the institutional, administrative and infrastructure prerequisites for doing business in Russia.[18] Russia thus appears to be a textbook example of a country 'stuck in transition': without a decisive new reform push and marked improvement in economic institutions there is little prospect for a renewal of growth and economic convergence as the previous growth drivers – rising energy prices and better capacity utilisation – have already been exhausted.[19]

Worse than previously expected was the performance of key sectors of the Russian economy (industry, construction and goods transport) whereas grain harvests and some market services (especially finance and real estate) recorded higher growth in the course of the year 2013. Taken together, a rather lacklustre performance required another downward revision of growth forecasts: after meagre GDP growth in 2013 (1.3%), the expected recovery will be unspectacular and GDP growth will be close to 2%

[18] The latest (2014) Doing Business ranking by the World Bank moves Russia (only Moscow is covered) to the 92nd place among the more than 180 surveyed countries (after rank 111 in 2013 – see http://www.doingbusiness.org/data/exploreeconomies/russia).

[19] Economic convergence as well as the role of economic and political institutions and structural reforms in growth have been analysed in detail in the latest EBRD Transition Report 2013, titled 'Stuck in Transition?' (http://www.tr.ebrd.com).

in both 2014 and 2015 according to the latest wiiw assessment. As in the recent past, growth will be driven mainly by household consumption. The contribution of net exports to GDP growth which has been negative already for nearly a decade (except in the crisis year 2009) will remain a drag because import volumes will continue to grow faster than those of exports. Trade and especially current account surpluses shrank markedly in 2013 (the latter is estimated at just 1.6% of GDP in 2013). Given the expected stagnation of export revenues (as energy prices are unlikely to increase) and rising import outlays, the current account surplus will further diminish and may soon even turn into a deficit.

On the more optimistic side, investments should push up growth in the years to come – provided at least some reforms are implemented. Indeed, the share of investment in GDP is envisaged to increase from the current rate of about 22% to 27% by the year 2018 in one of the recent government economic programmes. With this target in mind, a further substantial improvement in the investment climate is required. In order to foster this improvement, new privatisation plans and public-private partnership schemes have been announced. Unfortunately (as mentioned repeatedly in our previous assessments), the recent years have not been used for launching economic restructuring and institutional reforms which would bring about the badly needed improvements in the business and investment climate. Energy still accounts for two thirds of export revenues, and the expected diversification and modernisation effects resulting inter alia from Russia's accession to WTO in August 2012 are yet to materialise. After the lavish spending on the Sochi Olympic facilities (total costs were estimated at nearly EUR 40 billion, close to 10% of overall annual gross investments), no new investment project of a similar scale is in the pipeline.

Foreign exchange reserves have recently dropped below about USD 500 billion as of end-January 2014 (a drop by more than USD 30 billion within one year). Russian capital is round-tripping via offshore destinations back home: out of nearly USD 500 billion of FDI stocks accumulated until the end of 2012, among the top investors were Cyprus (USD 150 billion), the Netherlands (USD 60 billion), the Virgin Islands (USD 50 billion), Luxembourg, Bermuda and the Bahamas (USD 30 billion each). These top six 'foreign' investors accounted for 70% of all accumulated FDI in Russia. Sizeable net FDI inflows (nearly USD 100 billion) are reported by the CBR for 2013 as well; these inflows are probably somehow linked to the Cypriot financial crisis. The consolidation of the banking sector continues, with credits to both households (including housing mortgages) and enterprises modestly growing, and interest rates and the share of non-performing loans falling. The recent depreciation of the rouble will have little effect on exports (owing to supply constraints and structural effects) yet it may help to contain the growth of imports while slowing down disinflation.

Weakened economic growth notwithstanding, the labour market remains tight with employment growth nearly flat and unemployment slightly declining (the LFS rate of unemployment was 5.5% in 2013). Sectoral and regional labour market shortages persist (e.g. in retail trade and construction), especially in big cities such as Moscow and St. Petersburg. The shadow side of the tight labour market – exploitation of migrant (both legal and illegal) workers and the related social, political and nationalist tensions and even racist conflicts – is posing new challenges to the authorities and to social cohesion (according to some estimates there are more than 10 million migrant workers in Russia, the majority of them coming from former Soviet republics).

Lacking progress in the diversification and modernisation of the economy, growing public apathy and widespread corruption, together with the recent slowdown in economic growth and dismal prospects, are all mutually interlinked features of Russia's current development problems.[20] These came to the fore upon Putin's return to the presidency after the tandem 'reshuffle' nearly two years ago, accompanied by more assertive domestic and external policies. A strange coalition between the Orthodox Church and the political leadership which is gambling on the support from conservative parts of the Russian society raises uneasy feelings among the liberal opposition, yet it is popular with the nationalists and populists. On the external front, Russian relations with the United States and the EU further worsened (Syria, Russian ban of USAID and other restrictions on foreign-supported NGOs, etc.). The ongoing tug-of-war over Ukraine represents the current peak in the dangerously escalating conflict between Russia and the West.[21]

In the field of economic policy, there have also been clear signs that voices advocating more anti-liberal approaches start to gain the upper hand recently – at least at the level of ongoing discussions (the eventual implementation may face a similar fate as the previously attempted modernisation efforts). An alternative economic reform strategy aimed at 'achieving sustainable growth in a period of global instability' calls for more 'interventionist' economic and industrial policies and an increased role of the state in supporting investment activity. Other elements of the monetary policy include targeting a 'stable real exchange rate' and the introduction of capital flow controls. In order to stimulate innovation activities, various tax incentives and preferential depreciation schemes should be used; external financing is to be gradually cut.

In the current baseline scenario, wiiw has once more revised its GDP growth forecasts downwards (below 2% in 2014 and less than 3% in 2015-2016). This scenario assumes no abrupt policy changes or external shocks and is charged with substantial downside risks. In particular, a delayed recovery (not to speak of recession) in Europe would have serious consequences, largely via falling export (and fiscal) revenues. In the baseline scenario, export revenues grow slowly due to stagnating volumes of exported oil and gas, while there will be not much else to export since progress in export diversification is limited. Simultaneously, import volumes are expected to grow at a faster rate as investment will gradually pick up. In the medium and long run, economic reforms and investment (including FDI) may also be stimulated by WTO membership-induced reform efforts. In summary, we reckon with a relatively unspectacular GDP growth of less than 3% per year in the medium run. This implies a continuation of the negative contribution of real net exports to GDP growth and, in nominal terms, gradual reductions of the trade and current account surpluses. With the traditional growth drivers – rising energy revenues and idle production capacity – already exhausted, there is little prospect for a renewal of growth without a new decisive reform push. We expect a revival of investment and an ongoing modest expansion of household consumption. Simultaneously, the annual CPI inflation will gradually decline to 5% p.a., the budget will remain balanced and the rate of unemployment will settle below 5%.

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[20] A recent opinion survey found that one third of Russians think the country is already in a crisis, another third of respondents see the danger of crisis – see http://www.gazeta.ru/business/2014/02/05/5883233.shtml.

[21] For more background information see http://wiiw.ac.at/vilnius-eastern-partnership-summit-a-milestone-in-eu-russia-relations--not-just-for-ukraine-p-3075.html and http://www.nytimes.com/2014/02/04/opinion/dont-let-putin-grab-ukraine.html?_r=0. Without ignoring serious problems of recent Russian political and societal developments, it has to be added for the sake of completeness that Western media reports on the situation in Russia (e.g. related to the Sochi Olympic Games) are rather selective and frequently even biased.

Table 24 / Ukraine: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average	46053	45871	45706	45593	45490	45420	45350	45300
Gross domestic product, UAH bn, nom. 2)	913.3	1082.6	1302.1	1408.9	1444.0	1490	1580	1680
annual change in % (real)	-14.8	4.1	5.2	0.2	0.0	-1.1	0.9	1.8
GDP/capita (EUR at exchange rate)	1800	2200	2600	3000	3000	.	.	.
GDP/capita (EUR at PPP)	4800	5500	6400	6600	6700	.	.	.
Consumption of households, UAH bn, nom. 2)	581.7	686.1	865.9	986.5	1038.0	.	.	.
annual change in % (real) 2)	-14.9	7.1	15.7	11.7	5.5	0.0	1.5	2.0
Gross fixed capital form., UAH bn, nom. 2)	167.6	195.9	241.8	265.3	247.0	.	.	.
annual change in % (real) 2)	-50.5	3.9	7.1	0.9	-7.0	-4.0	2.0	4.0
Gross industrial production								
annual change in % (real) 3)	-21.9	11.2	8.0	-0.5	-4.3	0.0	2.0	3.5
Gross agricultural production								
annual change in % (real)	-1.8	-1.5	19.9	-4.5	13.7	.	.	.
Construction output								
annual change in % (real) 4)	-48.2	-5.4	18.6	-8.3	-14.5	.	.	.
Employed persons, LFS, th, average	20192	20266	20324	20354	20350	20350	20350	20350
annual change in %	-3.7	0.4	0.3	0.1	0.0	0.0	0.0	0.0
Unemployed persons, LFS, th, average	1959	1786	1733	1657	1650	.	.	.
Unemployment rate, LFS, in %, average	8.8	8.1	7.9	7.5	7.5	7.5	7.5	7.5
Reg. unemployment rate, in %, end of period 5)	1.9	2.0	1.8	1.8	1.8	.	.	.
Average monthly gross wages, UAH 6)	1905.9	2239.2	2633.0	3026.0	3265.0	.	.	.
annual change in % (real, gross)	-9.0	9.7	8.9	14.3	8.2	.	.	.
annual change in % (real, net)	-9.2	10.2	8.7	14.4	8.2	.	.	.
Consumer prices, % p.a.	15.9	9.4	8.0	0.6	-0.3	4.0	5.0	4.5
Producer prices in industry, % p.a. 7)	6.5	20.9	19.0	3.7	-0.1	4.0	5.0	5.0
General governm.budget, nat.def., % of GDP								
Revenues	29.9	29.1	30.6	31.6	30.7	.	.	.
Expenditures	34.0	35.0	32.4	35.2	35.1	.	.	.
Deficit (-) / surplus (+) 8)	-4.1	-6.0	-1.8	-3.6	-4.4	-5.0	-4.0	-3.5
Public debt, nat.def., % of GDP	34.8	39.9	36.3	36.7	40.5	46.0	44.0	43.0
Central bank policy rate, % p.a., end of period 9)	10.25	7.75	7.75	7.50	6.50	.	.	.
Current account, EUR mn 10)	-1242	-2274	-7359	-11138	-12157	-8500	-8500	-8100
Current account, % of GDP	-1.5	-2.2	-6.3	-8.1	-8.9	-7.4	-6.7	-6.0
Exports of goods, BOP, EUR mn 10)	28958	39321	49865	54646	48856	51300	54400	58200
annual change in %	-37.4	35.8	26.8	9.6	-10.6	5.0	6.0	7.0
Imports of goods, BOP, EUR mn 10)	32046	45641	61540	69801	63620	62300	65400	68700
annual change in %	-44.0	42.4	34.8	13.4	-8.9	-2.0	5.0	5.0
Exports of services, BOP, EUR mn 10)	9936	12856	13954	15404	15466	16200	17000	17900
annual change in %	-18.8	29.4	8.5	10.4	0.4	5.0	5.0	5.0
Imports of services, BOP, EUR mn 10)	8248	9538	9576	11396	12177	12800	13400	14100
annual change in %	-25.3	15.6	0.4	19.0	6.9	5.0	5.0	5.0
FDI inflow, EUR mn 10)	3453	4893	5177	6094	3000	4000	4500	5000
FDI outflow, EUR mn 10)	116	555	138	938	500	500	300	300
Gross reserves of NB excl. gold, EUR mn	17825	25096	23593	17186	13592	.	.	.
Gross external debt, EUR mn	72113	88363	97940	102454	103000	.	.	.
Gross external debt, % of GDP	85.8	86.0	83.4	74.7	75.7	.	.	.
Average exchange rate UAH/EUR	10.868	10.533	11.092	10.271	10.612	13.0	12.5	12.5
Purchasing power parity UAH/EUR 11)	4.166	4.293	4.470	4.710	4.753	.	.	.

1) Preliminary and wiiw estimates. - 2) According to SNA'93 (FISIM not yet reallocated to industries). - 3) From 2011 according to NACE Rev. 2 including E (water supply, sewerage, waste management, remediation). - 4) From 2011 according to NACE Rev. 2. - 5) In % of working age population. - 6) Enterprises with 10 and more employees (in 2009 excluding small enterprises). - 7) Domestic output prices. From 2013 according to NACE Rev. 2. - 8) Without transfers to Naftohaz. - 9) Discount rate of NB. - 10) Converted from USD with the average exchange rate. - 11) wiiw estimates based on the 2011 International Comparison Project benchmark.
Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.

UKRAINE: Teetering on the brink

VASILY ASTROV

The severe political crisis and the suspension of Russian credits have put the currency under strong downward pressure, prompting the National Bank to switch to a floating exchange rate regime and impose partial capital controls. The near-term economic prospects are hardly encouraging, with a balance-of-payments crisis and a bank run looming on the horizon. A 'rescue package' from the IMF is urgently needed to prevent this scenario. However, the 'austerity' conditionalities, which will likely be attached to such a package, will almost certainly push the economy into recession this year.

According to preliminary estimates, Ukraine's GDP picked up strongly in the fourth quarter 2013: by 3.7% year-on-year and 2.4% against the third quarter (in seasonally adjusted terms). However, this mostly reflected one-off factors such as the growth of agricultural output as the poor weather conditions in September postponed harvesting towards the end of the year. The strong economic performance in the fourth quarter 2013 fully offset the GDP decline in January-September, resulting in stagnation for the year as a whole. Viewed from the expenditure side, investments and net exports recorded marked declines, but private consumption saved the day, as lasting price stability and the gradual revival of consumer credit strengthened the purchasing power of households.

The spectacular 'U-turn' of the government just days before the planned signature of an Association Agreement (including a Deep and Comprehensive Free Trade Agreement) with the EU in November 2013 was largely driven by the economic 'carrots' provided by Russia, although concerns over the potential short-term adjustment costs of a free trade deal with the EU played a role as well. In particular, Russia agreed to a USD 15 billion worth purchase of Ukraine's sovereign eurobonds (of which USD 3 billion have already been transferred) with a preferential yield of 5% p.a. – far below the market rates of 8-9%, and comparable to terms typically offered by the IMF but without the usual IMF 'austerity' conditionalities, such as energy tariff hikes. Besides, Russia offered a 30% discount on the price of natural gas – a marked gain for Ukraine's energy-inefficient and gas-dependent economy after years of fruitless negotiations. This price discount, if sustained, should reduce both the country's import bill (by an estimated USD 3-4 billion per year) and the fiscal expenditures needed to bridge the gap between the high import price and the low level of domestic tariffs for households and district heating utilities.

The Russian credits provided a short-term relief to concerns over the sustainability of Ukraine's fixed exchange rate, which had been mounting in the face of persistently high external imbalances and the prospects of QE3 tapering in the United States, and refinancing costs for the country improved accordingly. However, the government's subsequent miscalculations in dealing with the public protests which broke out following the EU agreement debacle have in fact reversed these gains and pushed the country into a severe political – and potentially economic – crisis. On the one hand, a one-off attempt at a crackdown and the adoption of restrictive laws effectively antagonised and radicalised the protesters, whose demands shifted towards resignation of President Viktor Yanukovych, early elections and an overhaul of the country's inefficient and deeply corrupt political system in general. On the other hand, the authorities have been unable to suppress the protests even as the latter turned violent and became increasingly dominated by nationalist radicals, mostly from the western provinces. This has exposed once again the inherent weakness of the Ukrainian state and the country's deep East-West divide. The concessions offered by President Yanukovych were 'too little too late' and could not prevent him and his Party of Regions from eventually losing power.[22] While the full economic impact of the recent 'revolution' is yet to be felt, the fragile macro-economic stability has already been shaken. Faced with the prospects of a new (anti-Russian) government, Russia has suspended its credit line, resulting in the transfer of another USD 2 billion being delayed and the scarcity of external sources of finance exerting a downward pressure on the hryvnia. After having spent USD 1.7 billion of reserves on interventions in the course of January 2014, the National Bank has been left with little choice but to allow the hryvnia to depreciate. Formally, the depreciation was allowed through the adoption of a 'managed float' regime which replaced the fixed rate of 8 UAH/USD (with a ±2% fluctuation band) maintained over the past four years. However, as the exchange rate exceeded 9 UAH/USD, the National Bank resorted to partial capital controls in order to avoid a stronger depreciation.[23] In response, the hryvnia strengthened temporarily to levels around 8.5 UAH/USD, but started sliding again thereafter, fuelled in part by the monetary relaxation aimed at easing the tight inter-bank lending market.

By the time of finalising this report (26 February 2014), an economic forecast with any reasonable degree of certainty would be highly speculative even in the short term. The currency has already depreciated by 25% against the US dollar since the exchange rate was abandoned – more than most other emerging economies' currencies. Part of this depreciation is to be seen as a welcome correction of the initial exchange rate over-valuation: many analysts, including wiiw, have consistently argued that the hryvnia has been overvalued already for several years – by up to 20% according to some estimates.[24] Therefore, provided the scope of the depreciation remains moderate, its impact on the real economy should be broadly positive. It should provide breathing space to exporters (who generate the bulk of GDP), create new opportunities for the import-competing industries, and thus benefit the entire economy without excessively eroding the purchasing power of households and their ability to service dollar-denominated loans which, despite the restrictions enacted after the 2008 crisis, still make up some 35% of all credits.

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[22] Instead, the power has been seized by a broad national-liberal coalition, with early presidential elections scheduled for 25 May 2014. Simultaneously, the parliament has reinstated the 2004 constitution which significantly upgrades the powers of the parliament and the prime minister (at the expense of the president), potentially paving the way to future policy stalemates – as they were common during the years of the 'orange' rule in 2005-2010.

[23] These controls included, most notably, a 6-day waiting period for companies wishing to buy foreign exchange, a UAH 50 thousand cap on the monthly amount of forex purchases by individuals, and a ban on buying foreign exchange for certain purposes such as early loan repayment and investing abroad.

[24] Conventional measures of external competitiveness, such as the real exchange rate, may not necessarily provide evidence for that. For instance, according to our calculations, during 2012-2013 the Ukrainian hryvnia even *depreciated* in real terms against the currencies of its major trading partners: the euro area and Russia (by 2.8% and 1.9%, respectively). However, this seemingly favourable real exchange rate dynamics should not be interpreted in a positive way, as it is largely based on the nearly stagnant producer prices which reflect not so much contained cost pressures but rather depressed global prices for some of Ukraine's key export products such as metals and chemicals.

However, it appears more likely that the extent of the depreciation may be much larger, reaching 30-40% or more, which may have adverse consequences for both the domestic demand and the stock of non-performing loans. Also, in the wake of the financial turmoil, the bond yields have jumped markedly (by up to 300 basis points), reflecting growing concerns over the external debt sustainability.[25] These concerns may become self-fulfilling, as rising borrowing costs make debt repayment all the more difficult, potentially creating a downward spiral driving the economy into insolvency. Ukraine's external debt stock is relatively high (75% of GDP), and the scheduled debt service in 2014 alone stands at USD 17.4 billion, corresponding to 10% of the estimated GDP and nearly matching the country's foreign reserves (USD 17.8 billion at the end of January). In addition, as demonstrated by the experience of numerous countries during the 2008 financial crisis, even relatively low debt levels provide no guarantee against insolvency in the case of a 'sudden stop'. Needless to say, a sharp currency devaluation, which can hardly be avoided unless the country promptly secures a new 'rescue package', would make the default scenario all the more likely. Another dangerous consequence of a sharp devaluation could be a panicky run on the banks, paralysing the payment system and pushing the economy almost certainly into recession.[26]

To prevent the looming balance-of-payments crisis, a new 'rescue package' is urgently needed. The recent radical change of the political landscape in Ukraine opens the possibility for a renewed deal with the IMF, which could replace the Russian 'package' and provide the necessary buffer to the country's fragile external liquidity position. However, the tough conditionalities which are likely to be attached to any IMF loan, such as energy tariff hikes for households and other austerity measures, will probably undermine private consumption and GDP growth and may have grave consequences for the fragile social stability, as illustrated by the recent events in Bulgaria and Bosnia and Herzegovina. On top of all that, political risks remain high. A victory of a pro-Western candidate such as Vitaly Klichko or Yuliya Tymoshenko (who has been released from prison) in the forthcoming presidential elections in May 2014 appears almost certain. However, domestic political stability will crucially depend on whether the new Kyiv authorities will be fully recognised in the predominantly Russian-speaking Southeast of the country, including Crimea where ethnic Russians make up the majority of the population. If the new authorities fail to accommodate the interests of the Russian-speaking provinces, this may give rise to separatist pressures and a potentially violent territorial break-up of the country.

In the longer term (2015-2016), a return to better growth prospects crucially depends on the recovery in the euro area and domestic reforms stimulating investments and restructuring. Given the country's location and the deep internal divisions, any future government will have little choice but to continue manoeuvring between the EU and Russia – at least until the relations between the latter two improve substantially, depriving Ukraine of the painful dilemma with respect to the choice of its foreign (economic) policy vector. As long as this is not the case, any major rapprochement with the EU (including association and deeper trade integration) and a marked increase in FDI from the West would be highly unlikely, resulting in further delays in modernisation and restructuring, particularly of the ailing industrial sector. However, FDI inflows may be boosted somewhat by the newly concluded deals on shale gas exploration with Shell and Chevron, which should further reduce the country's reliance on imported Russian gas.

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[25] All three major rating agencies (S&P, Moody's and Fitch) have downgraded Ukraine's sovereign rating in response.

[26] The currency depreciation so far has already triggered a massive outflow of private deposits from banks.

Appendix
Selected indicators of competitiveness

Remark:

The new ICP benchmark PPP results for 2011 (published December 2013) have been applied resulting in substantial changes for GDP per capita at PPP in particular in Kazakhstan, Russia and Ukraine.

The International Comparison Project - ICP is a joint cooperation of Eurostat, OECD and CIS Stat conducted every 3 years. All three sources have been incorporated.

Table 25 / GDP per capita at current PPPs (EUR), from 2014 at constant PPPs and population

	1991	1995	2000	2005	2009	2010	2011	2012	2013	2014	2015	2016
											Forecast	
Bulgaria	4400	4600	5400	8200	10500	11000	11700	12000	12300	12500	12800	13100
Croatia	6700	6800	9400	13200	14900	14700	15200	15700	15800	15800	16000	16200
Cyprus	10800	12800	16700	20800	23400	23600	23600	23600	21100	20100	20300	20700
Czech Republic	8800	11200	13500	17800	19500	19800	20300	20700	20700	21000	21500	22100
Estonia	5400	5300	8600	13700	15000	15700	17500	18500	18900	19400	20000	20600
Hungary	6800	7500	10300	14200	15300	16100	16900	17000	17500	17700	18100	18500
Latvia	6400	4600	6900	11100	12700	13500	15000	16400	17500	18200	18900	19600
Lithuania	7100	5200	7500	12300	13600	15100	16900	18300	19400	20100	20900	21700
Malta	10500	13000	16500	18000	19800	21100	21500	21900	22200	22700	23200	23700
Poland	4500	6200	9100	11500	14200	15500	16400	17100	17700	18100	18700	19300
Romania	4000	4800	5000	8000	11700	12400	12900	13500	14300	14600	15000	15500
Slovakia	5800	7000	9600	13600	17100	18300	18900	19400	19900	20400	21000	21700
Slovenia	8500	10900	15200	19600	20300	20600	21200	21400	21300	21000	21000	21200
NMS-13	5300	6500	8600	11900	14400	15300	16100	16700	17200	17500	18000	18500
Macedonia	4300	4000	5100	6600	8500	8900	9000	9000	9400	9700	10000	10300
Montenegro	.	.	5600	6900	9900	10200	10600	10400	10800	11000	11300	11600
Serbia	.	.	5000	7100	8400	8500	8900	9000	9500	9500	9600	9800
Turkey	3800	4400	8000	9500	10900	12200	13400	13700	14300	14600	15100	15800
Albania	1400	2000	3500	5200	7200	7100	7500	7800	7900	8000	8100	8200
Bosnia & Herzeg.	.	.	3900	5200	6400	6700	7000	7100	7300	7400	7600	7800
Kosovo	.	.	.	4400	5000	5200	5400	5500	5600	5900	6100	6300
Kazakhstan	5200	3800	3700	7300	11400	13700	15900	16900	17900	19000	20200	21300
Russia	7100	4700	5900	9900	14600	15700	17200	18100	18600	18900	19300	19900
Ukraine	3700	2400	3100	4700	4800	5500	6400	6600	6700	6600	6700	6800
Austria	18600	19700	25100	28100	29500	30900	32300	33100	33200	33700	34300	35000
Germany	18200	18800	22400	26000	26900	29200	30800	31500	31600	32200	32800	33500
Greece	12200	11000	16000	20300	22100	21300	20000	19200	18500	18600	19100	19500
Ireland	12500	15200	25100	32400	30100	31400	32300	32900	33000	33600	34600	35300
Italy	16900	17800	22300	23600	24300	25100	25500	25600	25100	25300	25600	26100
Portugal	10600	11300	15400	17900	18800	19600	19300	19400	19100	19300	19600	20000
Spain	12800	13400	18500	22900	24200	24200	24300	24400	24100	24300	24700	25200
USA	22000	24100	31600	37000	35100	36800	37400	38800	39500	40600	41900	42700
EU-28 average	12800	14600	19000	22400	23500	24500	25100	25600	25700	26100	26600	27100
					European Union (28) average = 100							
Bulgaria	34	32	28	37	45	45	47	47	48	48	48	48
Croatia	52	47	49	59	63	60	61	61	61	61	60	60
Cyprus	84	88	88	93	100	96	94	92	82	77	76	76
Czech Republic	69	77	71	79	83	81	81	81	81	80	81	82
Estonia	42	36	45	61	64	64	70	72	74	74	75	76
Hungary	53	51	54	63	65	66	67	66	68	68	68	68
Latvia	50	32	36	50	54	55	60	64	68	70	71	72
Lithuania	55	36	39	55	58	62	67	71	75	77	79	80
Malta	82	89	87	80	84	86	86	86	86	87	87	87
Poland	35	42	48	51	60	63	65	67	69	69	70	71
Romania	31	33	26	36	50	51	51	53	56	56	56	57
Slovakia	45	48	51	61	73	75	75	76	77	78	79	80
Slovenia	66	75	80	88	86	84	84	84	83	80	79	78
NMS-13	41	45	45	53	61	62	64	65	67	67	68	68
Macedonia	34	27	27	29	36	36	36	35	37	37	38	38
Montenegro	.	.	29	31	42	42	42	41	42	42	42	43
Serbia	.	.	26	32	36	35	35	35	37	36	36	36
Turkey	30	30	42	42	46	50	53	54	56	56	57	58
Albania	11	14	18	23	31	29	30	30	31	31	30	30
Bosnia & Herzeg.	.	.	21	23	27	27	28	28	28	28	29	29
Kosovo	.	.	.	20	21	21	22	21	22	23	23	23
Kazakhstan	.	26	19	33	49	56	63	66	70	73	76	79
Russia	55	32	31	44	62	64	69	71	72	72	73	73
Ukraine	29	16	16	21	20	22	25	26	26	25	25	25
Austria	145	135	132	125	126	126	129	129	129	129	129	129
Germany	142	129	118	116	114	119	123	123	123	123	123	124
Greece	95	75	84	91	94	87	80	75	72	71	72	72
Ireland	98	104	132	145	128	128	129	129	128	129	130	130
Italy	132	122	117	105	103	102	102	100	98	97	96	96
Portugal	83	77	81	80	80	80	77	76	74	74	74	74
Spain	100	92	97	102	103	99	97	95	94	93	93	93
USA	172	165	166	165	149	150	149	152	154	156	158	158
EU-28 average	100	100	100	100	100	100	100	100	100	100	100	100

Sources: wiiw Annual Database incorporating national and Eurostat statistics, wiiw estimates, Eurostat, EC - Winter Report 2014.

Table 26 / Indicators of macro-competitiveness, 2009-2016, EUR based, annual averages

	2009	2010	2011	2012	2013	2014	2015	2016
							Forecast	
Bulgaria								
Producer price index, 2010=100	92.2	100.0	109.2	114.0	112.2	110.0	112.2	114.5
Consumer price index, 2010=100	97.1	100.0	103.4	105.9	106.3	111.6	113.8	116.1
GDP deflator, 2010=100	97.3	100.0	104.9	107.2	107.6	105.5	107.6	109.7
Exchange rate (ER), NC/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
ER, nominal, 2010=100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Real ER (CPI-based), 2010=100	99.1	100.0	100.3	100.1	99.0	102.7	103.2	103.7
Real ER (PPI-based), 2010=100	94.9	100.0	103.7	105.3	103.9	100.5	100.8	100.8
PPP, NC/EUR	0.8753	0.8680	0.8777	0.8816	0.8708	0.84	0.85	0.85
Price level, EU27 = 100	45	44	45	45	45	43	43	43
Average monthly gross wages, NC	609	648	686	731	760	810	850	900
Average monthly gross wages, EUR (ER)	311	331	351	374	389	410	430	460
Average monthly gross wages, EUR (PPP)	696	747	781	829	873	960	1010	1070
GDP nominal, NC mn	68322	70511	75308	77582	78400	80700	84200	88200
Employed persons, LFS, th.,average	3254	3053	2950	2934	2935	2940	2950	2960
GDP per employed person, NC	20999	23097	25532	26442	26700	27400	28500	29800
GDP per empl. person, NC at 2010 ref.pr.	21587	23097	24346	24656	24800	26000	26500	27200
Unit labour costs, NC, 2010=100	100.6	100.0	100.4	105.7	109.2	111.0	114.3	117.9
Unit labour costs, ER adj., 2010=100	100.6	100.0	100.4	105.7	109.2	111.0	114.3	117.9
Unit labour costs, PPP adj., Austria=100	24.7	24.6	24.5	25.1	25.4	25.4	25.8	26.2
Croatia								
Producer price index, 2010=100	95.9	100.0	107.0	112.8	112.5	113.6	114.8	115.9
Consumer price index, 2010=100	98.9	100.0	102.2	105.6	108.1	109.7	111.4	113.0
GDP deflator, 2010=100	99.2	100.0	101.8	103.6	106.1	107.7	109.3	110.9
Exchange rate (ER), NC/EUR	7.340	7.286	7.434	7.517	7.574	7.6	7.6	7.6
ER, nominal, 2010=100	100.7	100.0	102.0	103.2	103.9	104.3	104.3	104.3
Real ER (CPI-based), 2010=100	100.3	100.0	97.2	96.8	96.9	96.8	96.8	96.8
Real ER (PPI-based), 2010=100	98.0	100.0	99.6	101.0	100.2	99.4	98.9	97.9
PPP, NC/EUR	5.126	5.134	5.055	4.916	4.953	4.96	4.95	4.93
Price level, EU27 = 100	70	70	68	65	65	65	65	65
Average gross monthly wages, HRK	7711	7679	7796	7875	7900	8020	8180	8390
Average monthly gross wages, EUR (ER)	1051	1054	1049	1048	1043	1060	1080	1100
Average monthly gross wages, EUR (PPP)	1504	1496	1542	1602	1595	1620	1650	1700
GDP nominal, NC mn	328672	323807	328737	328562	333200	338200	346700	357200
Employed persons, LFS, th., average	1605	1541	1493	1446	1380	1400	1400	1400
GDP per employed person, NC	204742	210101	220259	227237	241449	241600	247600	255100
GDP per empl. person, NC at 2010 ref.pr.	206409	210101	216445	219251	227656	224400	226600	230000
Unit labour costs, NC, 2010=100	102.2	100.0	98.5	98.3	94.9	97.8	98.8	99.8
Unit labour costs, ER adj., 2010=100	101.5	100.0	96.6	95.2	91.3	93.7	94.7	95.7
Unit labour costs, PPP adj., Austria=100	51.4	50.8	48.7	46.9	43.9	44.4	44.1	44.0
Czech Republic								
Producer price index, 2010=100	99.9	100.0	103.7	106.1	106.6	108.2	109.8	111.4
Consumer price index, 2010=100	98.9	100.0	102.2	105.8	107.2	109.1	111.0	112.7
GDP deflator, 2010=100	101.7	100.0	99.1	100.7	101.7	102.6	104.1	105.3
Exchange rate (ER), NC/EUR	26.44	25.28	24.59	25.15	25.98	27.25	26.75	26.00
ER nominal, 2010=100	104.6	100.0	97.3	99.5	102.8	107.8	105.8	102.8
Real ER (CPI-based), 2010=100	96.5	100.0	101.9	100.6	97.2	93.1	95.2	97.9
Real ER (PPI-based), 2010=100	98.4	100.0	101.3	98.6	96.0	91.6	93.2	95.5
PPP, NC/EUR	18.49	18.30	17.90	17.70	17.61	17.5	17.5	17.3
Price level, EU27 = 100	70	72	73	70	68	64	65	67
Average monthly gross wages, NC	23344	23864	24455	25112	25260	25900	26900	27800
Average monthly gross wages, EUR (ER)	883	944	995	999	972	950	1010	1070
Average monthly gross wages, EUR (PPP)	1262	1304	1366	1418	1434	1480	1540	1600
GDP nominal, NC bn	3759	3791	3823	3846	3830	3920	4070	4240
Employed persons, LFS, th., average	4934	4885	4904	4890	4937	4950	4960	4970
GDP per employed person, NC	761806	775993	779649	786472	775759	791900	820600	853100
GDP per empl. person, NC at 2010 ref.pr.	749287	775993	786881	781250	762822	771500	788400	810400
Unit labour costs, NC, 2010=100	101.3	100.0	101.1	104.5	107.7	109.2	110.9	111.5
Unit labour costs, ER adj., 2010=100	96.9	100.0	103.9	105.1	104.8	101.3	104.9	108.5
Unit labour costs, PPP adj., Austria=100	42.5	43.9	45.3	44.7	43.5	41.5	42.2	43.1

(Table 26 ctd.)

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	2009	2010	2011	2012	2013	2014	2015 Forecast	2016
Estonia								
Producer price index, 2010=100	96.9	100.0	104.2	107.0	114.7	117.4	120.6	124.4
Consumer price index, 2010=100	97.3	100.0	105.1	109.5	113.1	115.9	119.1	122.9
GDP deflator, 2010=100	99.7	100.0	103.0	106.4	110.1	112.7	115.7	119.4
Exchange rate (ER), NC/EUR	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real ER (CPI-based), 2010=100	99.4	100.0	101.9	103.5	105.3	106.7	108.0	109.8
Real ER (PPI-based), 2010=100	99.8	100.0	99.0	98.8	106.2	107.2	108.3	109.6
PPP, NC/EUR	0.6978	0.6871	0.6967	0.7136	0.7269	0.73	0.74	0.75
Price level, EU27 = 100	70	69	70	71	73	73	74	75
Average monthly gross wages, NC	784	792	839	887	952	1020	1090	1170
Average monthly gross wages, EUR (ER)	784	792	839	887	952	1020	1090	1170
Average monthly gross wages, EUR (PPP)	1123	1153	1204	1243	1310	1390	1470	1560
GDP nominal, NC mn	13970	14371	16216	17415	18100	19000	20100	21400
Employed persons, LFS, th., average	595.8	570.9	609.1	614.9	621.3	630	635	640.0
GDP per employed person, NC	23447	25173	26624	28322	29132	30200	31700	33400
GDP per empl. person, NC at 2010 ref.pr.	23518	25173	25841	26614	26458	26800	27400	28000
Unit labour costs, NC, 2010=100	105.9	100.0	103.2	105.9	114.3	120.9	126.4	132.8
Unit labour costs, ER adj., 2010=100	105.9	100.0	103.2	105.9	114.3	120.9	126.4	132.8
Unit labour costs, PPP adj., Austria=100	45.1	42.7	43.7	43.8	46.1	48.1	49.5	51.3
Hungary								
Producer price index, 2010=100	96.2	100.0	104.1	108.4	109.1	112.0	115.1	118.1
Consumer price index, 2010=100	95.5	100.0	103.9	109.8	111.7	114.9	118.4	121.9
GDP deflator, 2010=100	97.7	100.0	102.6	105.9	109.4	112.3	115.4	118.5
Exchange rate (ER), NC/EUR	280.33	275.48	279.37	289.25	296.87	300	295	285
ER, nominal 2010=100	101.8	100.0	101.4	105.0	107.8	108.9	107.1	103.5
Real ER (CPI-based), 2010=100	95.8	100.0	99.4	98.9	96.5	97.1	100.2	105.3
Real ER (PPI-based), 2010=100	97.4	100.0	97.5	95.4	93.7	93.9	96.5	100.5
PPP, NC/EUR	167.06	164.54	164.38	166.34	169.25	171.4	173.3	174.4
Price level, EU27 = 100	60	60	59	58	57	57	59	61
Average monthly gross wages, NC	199837	202525	213094	223060	231540	240200	249900	260000
Average monthly gross wages, EUR (ER)	713	735	763	771	780	800	850	910
Average monthly gross wages, EUR (PPP)	1196	1231	1296	1341	1368	1400	1440	1490
GDP nominal, NC bn	25626	26513	27635	28048	29300	30500	32000	33500
Employed persons, LFS, th., average	3782	3781	3812	3878	3879	3980	4020	4060
GDP per employed person, NC	6776265	7011804	7249780	7232798	7553688	7663300	7960200	8251200
GDP per empl. person, NC at 2010 ref.pr.	6938198	7011804	7067901	6832112	6903797	6822600	6896600	6965200
Unit labour costs, NC, 2010=100	99.7	100.0	104.4	113.0	116.1	121.9	125.5	129.2
Unit labour costs, ER adj., 2010=100	98.0	100.0	102.9	107.7	107.7	111.9	117.2	124.9
Unit labour costs, PPP adj., Austria=100	33.3	34.0	34.8	35.5	34.7	35.5	36.6	38.5
Latvia								
Producer price index, 2010=100	97.6	100.0	107.7	112.1	114.0	116.1	118.8	121.8
Consumer price index, 2010=100	101.2	100.0	104.2	106.6	106.6	108.5	110.9	113.8
GDP deflator, 2010=100	100.9	100.0	106.0	109.5	109.6	111.6	114.2	117.1
Exchange rate (ER), NC/EUR	1.0041	1.0084	1.0050	0.9922	0.9981	1	1	1
ER, nominal, 2010=100	99.6	100.0	99.7	98.4	99.0	99.2	99.2	99.2
Real ER (CPI-based), 2010=100	103.8	100.0	101.4	102.4	100.3	100.7	101.4	102.5
Real ER (PPI-based), 2010=100	101.0	100.0	102.7	105.3	106.6	106.8	107.6	108.2
PPP, NC/EUR	0.6858	0.6441	0.6565	0.6628	0.6529	0.66	0.66	0.66
Price level, EU27 = 100	68	64	65	67	65	66	66	66
Average monthly gross wages, NC	656	633	660	684	719	770	830	890
Average monthly gross wages, EUR (ER)	653	628	657	690	720	770	830	890
Average monthly gross wages, EUR (PPP)	956	983	1,006	1,033	1,101	1170	1260	1340
GDP nominal, NC mn	18598	18190	20312	22083	23000	24400	26000	27700
Employed persons, LFS, th., average	983	941	971	876	900	918	930	940
GDP per employed person, NC	18917	19333	20929	25220	25556	26600	28000	29500
GDP per empl. person, NC at 2010 ref.pr.	18749	19333	19742	23022	23317	23800	24500	25200
Unit labour costs, NC, 2010=100	106.8	100.0	102.1	90.8	94.1	98.8	103.4	107.8
Unit labour costs, ER adj., 2010=100	107.3	100.0	102.5	92.3	95.1	99.6	104.3	108.7
Unit labour costs, PPP adj., Austria=100	44.2	41.3	42.0	36.9	37.1	38.4	39.5	40.6

(Table 26 ctd.)

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	2009	2010	2011	2012	2013	2014	2015 Forecast	2016
Lithuania								
Producer price index, 2010=100	90.6	100.0	113.9	119.6	116.7	118.4	121.7	125.4
Consumer price index, 2010=100	98.8	100.0	104.1	107.4	108.7	110.3	113.4	116.8
GDP deflator, 2010=100	97.8	100.0	105.4	108.2	109.4	111.0	114.1	117.5
Exchange rate (ER), NC/EUR	3.453	3.453	3.453	3.453	3.453	3.45	3.45	3.45
ER, nominal, 2010=100	100.0	100.0	100.0	100.0	100.0	99.9	99.9	99.9
Real ER (CPI-based), 2010=100	100.9	100.0	101.0	101.5	101.2	101.6	102.9	104.4
Real ER (PPI-based), 2010=100	93.3	100.0	108.2	110.5	108.0	108.2	109.4	110.5
PPP, NC/EUR	2.140	2.042	2.084	2.081	2.072	2.07	2.10	2.12
Price level, EU27 = 100	62	59	60	60	60	60	61	61
Average monthly gross wages, NC	2056	1988	2046	2124	2234	2370	2540	2720
Average monthly gross wages, EUR (ER)	595	576	593	615	647	690	740	790
Average monthly gross wages, EUR (PPP)	961	974	982	1020	1078	1140	1210	1280
GDP nominal, NC mn	92032	95676	106893	113735	119000	125100	133500	143000
Employed persons, LFS, th., average	1416	1344	1371	1276	1293	1305	1312	1318
GDP per employed person, NC	64999	71203	77973	89155	92048	95900	101800	108500
GDP per empl. person, NC at 2010 ref.pr.	66470	71203	73990	82409	84166	86400	89200	92300
Unit labour costs, NC, 2010=100	110.8	100.0	99.0	92.3	95.1	98.2	102.0	105.5
Unit labour costs, ER adj., 2010=100	110.8	100.0	99.0	92.3	95.1	98.3	102.1	105.6
Unit labour costs, PPP adj., Austria=100	36.0	32.6	32.0	29.1	29.3	29.9	30.5	31.1
Poland								
Producer price index, 2010=100	98.2	100.0	107.3	110.8	109.4	110.5	112.2	114.4
Consumer price index, 2010=100	97.4	100.0	103.9	107.7	108.7	110.6	112.8	115.1
GDP deflator, 2010=100	98.5	100.0	103.2	105.7	106.2	108.2	110.4	112.5
Exchange rate (ER), NC/EUR	4.328	3.995	4.121	4.185	4.198	4.20	4.15	4.15
ER, nominal, 2010=100	108.3	100.0	103.2	104.8	105.1	105.1	103.9	103.9
Real ER (CPI-based), 2010=100	91.8	100.0	97.7	97.2	96.3	96.8	98.5	99.0
Real ER (PPI-based), 2010=100	93.4	100.0	98.8	97.7	96.4	96.0	97.0	97.0
PPP, PLN/EUR	2.481	2.387	2.424	2.420	2.394	2.41	2.42	2.41
Price level, EU27 = 100	57	60	59	58	57	57	58	58
Average gross monthly wages, PLN	3102	3224	3404	3530	3650	3790	3940	4100
Average monthly gross wages, EUR (ER)	717	807	826	844	870	900	950	990
Average monthly gross wages, EUR (PPP)	1250	1351	1404	1459	1524	1580	1630	1700
GDP nominal, NC bn	1345	1417	1528	1595	1630	1700	1790	1880
Employed persons, LFS, th., average	15868	15961	16131	15591	15530	15560	15640	15720
GDP per employed person, NC	84731	88756	94735	102319	104958	109300	114500	119600
GDP per empl. person, NC at 2010 ref.pr.	85988	88756	91837	96804	98798	101000	103700	106300
Unit labour costs, NC, 2010=100	99.3	100.0	102.0	100.4	101.7	103.3	104.6	106.2
Unit labour costs, ER adj., 2010=100	91.7	100.0	98.9	95.8	96.8	98.3	100.7	102.2
Unit labour costs, PPP adj., Austria=100	39.2	42.8	42.0	39.7	39.2	39.3	39.6	39.6
Romania								
Producer price index, 2010=100	95.8	100.0	107.1	112.7	115.0	118.4	122.0	125.6
Consumer price index, 2010=100	94.3	100.0	105.8	109.4	112.9	115.7	119.2	123.4
GDP deflator, 2010=100	94.6	100.0	104.2	108.9	112.3	115.7	119.2	122.8
Exchange rate (ER), NC/EUR	4.240	4.212	4.239	4.459	4.419	4.47	4.45	4.45
ER, nominal, 2010=100	100.7	100.0	100.6	105.9	104.9	106.1	105.6	105.6
Real ER (CPI-based), 2010=100	95.6	100.0	102.0	97.7	100.2	100.4	102.3	104.3
Real ER (PPI-based), 2010=100	98.1	100.0	101.0	98.3	101.4	101.9	103.7	104.8
PPP, NC/EUR	2.108	2.087	2.147	2.157	2.190	2.23	2.26	2.28
Price level, EU27 = 100	50	50	51	48	50	50	51	51
Average monthly grross wages, NC	1845	1902	1980	2063	2166	2240	2340	2470
Average monthly gross wages, EUR (ER)	435	452	467	463	490	500	530	560
Average monthly gross wages, EUR (PPP)	875	911	922	956	989	1010	1040	1080
GDP nominal, NC mn	501139	523693	557348	586750	626300	660600	698800	741400
Employed persons, LFS, th., average	9244	9239	9138	9263	9300	9300	9400	9500
GDP per employed person, NC	54215	56680	60994	63345	67344	71000	74300	78000
GDP per empl. person, NC at 2010 ref.pr.	57312	56680	58548	58152	59949	61400	62300	63500
Unit labour costs, NC, 2010=100	95.9	100.0	100.8	105.7	107.7	108.7	111.9	115.9
Unit labour costs, ER adj., 2010=100	95.3	100.0	100.1	99.9	102.6	102.4	105.9	109.7
Unit labour costs, PPP adj., Austria=100	31.2	32.8	32.6	31.7	31.9	31.4	31.9	32.6

(Table 26 ctd.)

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	2009	2010	2011	2012	2013	2014	2015 Forecast	2016
Slovakia								
Producer price index, 2010=100	99.6	100.0	104.5	106.5	105.4	106.5	108.6	110.8
Consumer price index, 2010=100	99.3	100.0	104.1	108.0	109.6	111.7	115.1	118.5
GDP deflator, 2010=100	99.5	100.0	101.6	102.9	104.4	106.4	109.6	112.9
Exchange rate (ER), NC/EUR	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real ER (CPI-based), 2010=100	101.4	100.0	101.0	102.1	102.0	102.8	104.4	105.9
Real ER (PPI-based), 2010=100	102.6	100.0	99.3	98.4	97.6	97.2	97.6	97.6
PPP NC/ EUR	0.6801	0.6691	0.6760	0.6775	0.6770	0.68	0.69	0.70
Price level, EU27 = 100	68	67	68	68	68	68	69	70
Average monthly gross wages, NC	745	769	786	805	824	850	900	960
Average monthly gross wages, EUR (ER)	745	769	786	805	824	850	900	960
Average monthly gross wages, EUR (PPP)	1095	1149	1163	1188	1217	1250	1300	1380
GDP nominal, NC mn	62794	65897	68974	71096	72800	76000	80600	85700
Employed persons, LFS, th., average	2366	2318	2351	2329	2330	2350	2370	2370
GDP per employed person, NC	26537	28435	29333	30526	31245	32300	34000	36200
GDP per empl. person, NC at 2010 ref.pr.	26678	28435	28875	29675	29927	30300	31000	32100
Unit labour costs, NC, 2010=100	103.2	100.0	100.7	100.3	101.8	103.7	107.3	110.6
Unit labour costs, ER adj., 2010=100	103.2	100.0	100.7	100.3	101.8	103.7	107.3	110.6
Unit labour costs, PPP adj., Austria=100	36.8	35.7	35.7	34.7	34.4	34.6	35.2	35.7
Slovenia								
Producer price index, 2010=100	98.1	100.0	104.6	105.5	105.5	106.0	106.5	107.6
Consumer price index, 2010=100	98.0	100.0	102.1	105.0	107.0	109.0	111.1	113.1
GDP deflator, 2010=100	101.1	100.0	101.2	101.4	102.4	103.9	105.8	107.8
Exchange rate (ER), NC/EUR	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real ER (CPI-based), 2010=100	100.0	100.0	99.0	99.2	99.6	100.3	100.7	101.0
Real ER (PPI-based), 2010=100	101.0	100.0	99.3	97.4	97.6	96.8	95.7	94.8
PPP, NC/EUR	0.8575	0.8412	0.8315	0.8029	0.8058	0.81	0.81	0.81
Price level, EU27 = 100	86	84	83	80	81	81	81	81
Average monthly gross wages, NC	1439	1495	1525	1525	1523	1510	1540	1580
Average monthly gross wages, EUR (ER)	1439	1495	1525	1525	1523	1510	1540	1580
Average monthly gross wages, EUR (PPP)	1678	1777	1834	1900	1890	1870	1910	1960
GDP nominal, NC mn	35420	35485	36150	35319	35275	35410	36080	37100
Employed persons, LFS, th., average	981	966	936	924	900	880	870	870
GDP per employed person, NC	36117	36734	38618	38232	39194	40200	41500	42600
GDP per empl. person, NC at 2010 ref.pr.	35727	36734	38175	37692	38257	38700	39200	39500
Unit labour costs, NC, 2010=100	99.0	100.0	98.1	99.5	97.8	95.9	96.5	98.3
Unit labour costs, ER adj., 2010=100	99.0	100.0	98.1	99.5	97.8	95.9	96.5	98.3
Unit labour costs, PPP adj., Austria=100	66.7	67.5	65.8	65.0	62.5	60.4	59.8	60.1
Macedonia								
Producer price index, 2010=100	92.0	100.0	111.9	113.5	111.9	115.2	118.7	122.3
Consumer price index, 2010=100	98.4	100.0	103.9	107.3	110.3	113.6	117.1	120.6
GDP deflator, 2010=100	97.4	100.0	103.1	103.2	106.1	109.3	112.6	115.9
Exchange rate (ER), NC/EUR	61.27	61.52	61.53	61.53	61.58	61.5	61.5	61.5
ER, nominal, 2010=100	99.6	100.0	100.0	100.0	100.1	100.0	100.0	100.0
Real ER (CPI-based), 2010=100	100.9	100.0	100.7	101.5	102.7	104.6	106.2	107.7
Real ER (PPI-based), 2010=100	95.1	100.0	106.2	104.8	103.4	105.2	106.7	107.7
PPP, NC/EUR	23.69	23.83	24.83	24.60	24.90	25.3	25.6	25.9
Price level, EU27 = 100	39	39	40	40	40	41	42	42
Average gross monthly wages, MKD [1)]	29922	30225	30602	30669	31000	32200	33700	35200
Average monthly gross wages, EUR (ER)	488	491	497	498	503	520	550	570
Average monthly gross wages, EUR (PPP)	1263	1268	1232	1247	1245	1270	1310	1360
GDP nominal, NC mn	410734	434112	459789	458621	485600	515200	546600	579900
Employed persons, LFS, th., average	629.9	637.9	645.1	650.6	675.0	685	695	702
GDP per employed person, NC	652061	680581	712757	704970	719407	752100	786500	826100
GDP per empl. person, NC at 2010 ref.pr.	669667	680581	691326	683090	678086	688200	698700	712500
Unit labour costs, NC, 2010=100	100.6	100.0	99.7	101.1	102.9	105.4	108.6	111.2
Unit labour costs, ER adj., 2010=100	101.0	100.0	99.7	101.1	102.8	105.4	108.6	111.3
Unit labour costs, PPP adj., Austria=100	34.2	33.9	33.6	33.2	33.0	33.4	33.8	34.2

1) From 2009 including allowances for food and transport.

(Table 26 ctd.)

(Table 26 ctd.)

	2009	2010	2011	2012	2013	2014	2015	2016
							Forecast	
Montenegro								
Producer price index, 2010=100	100.9	100.0	103.2	105.1	106.8	111.2	114.4	117.2
Consumer price index, 2010=100	99.5	100.0	103.1	107.3	109.7	113.0	116.4	119.9
GDP deflator, 2010=100	98.4	100.0	100.9	100.8	99.9	104.0	107.0	109.6
Exchange rate (ER), NC/EUR	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real ER (CPI-based), 2010=100	101.6	100.0	100.0	101.5	102.2	104.0	105.5	107.1
Real ER (PPI-based), 2010=100	103.9	100.0	98.0	97.1	98.9	91.3	91.1	90.2
PPP, NC/EUR	0.4885	0.4927	0.4904	0.4893	0.4772	0.49	0.50	0.50
Price level, EU27 = 100	49	49	49	49	48	49	50	50
Average monthly gross wages, NC	643	715	722	727	726	760	800	840
Average monthly gross wages, EUR (PPP)	1316	1451	1472	1486	1521	1550	1610	1690
GDP nominal, NC mn	2981.0	3103.9	3234.1	3149	3200	3400	3600	3800
Employed persons, LFS, th., average	212.9	208.2	195.4	200.0	210.0	215	220	220
GDP per employed person, NC	14002	14912	16553	15744	15238	15800	16400	17300
GDP per empl. person, NC at 2010 ref.pr.	14228	14912	16399	15613	15255	15200	15300	15800
Unit labour costs, NC, 2010=100	94.2	100.0	91.8	97.1	99.3	104.3	109.0	110.9
Unit labour costs, ER adj., 2010=100	94.2	100.0	91.8	97.1	99.3	104.3	109.0	110.9
Unit labour costs, PPP adj., Austria=100	43.8	46.6	42.5	43.8	43.8	45.3	46.6	46.8
Serbia								
Producer price index, 2010=100	88.7	100.0	114.2	120.6	124.9	128.9	134.4	138.4
Consumer price index, 2010=100	93.6	100.0	111.0	119.7	129.0	134.2	139.5	143.7
GDP deflator, 2010=100	95.3	100.0	109.6	116.1	125.3	129.4	134.8	138.9
Exchange rate (ER), NC/EUR	93.94	102.90	101.96	113.13	113.09	116	118	120
ER, nominal, 2010=100	91.3	100.0	99.1	109.9	109.9	112.7	114.7	116.6
Real ER (CPI-based), 2010=100	104.7	100.0	108.7	102.9	109.3	109.5	110.3	110.1
Real ER (PPI-based), 2010=100	100.1	100.0	109.5	101.3	105.2	104.4	105.3	104.6
PPP, NC/EUR	44.34	46.73	49.57	51.46	54.66	55.6	57.1	57.7
Price level, EU27 = 100	47	45	49	45	48	48	48	48
Average monthly gross wages, NC	44147	47450	52733	57430	60708	61870	64340	66270
Average monthly gross wages, EUR (ER)	470	461	517	508	537	530	550	550
Average monthly gross wages, EUR (PPP)	996	1015	1064	1116	1111	1110	1130	1150
GDP nominal, NC bn	2720	2882	3209	3349	3700	3800	4000	4200
Employed persons, LFS, th., average	2616	2396	2253	2228	2311	2300	2300	2300
GDP per employed person, NC	1039614	1202670	1424023	1502771	1601234	1652200	1739100	1826100
GDP per empl. person, NC at 2010 ref.pr.	1090478	1202670	1299061	1293854	1277675	1277200	1290000	1314500
Unit labour costs, NC, 2010=100	102.6	100.0	102.9	112.5	120.4	122.8	126.4	127.8
Unit labour costs, ER adj., 2010=100	112.4	100.0	103.8	102.3	109.6	108.9	110.2	109.6
Unit labour costs, PPP adj., Austria=100	39.6	35.4	36.4	35.0	36.6	35.9	35.7	35.0
Albania								
Producer price index, 2010=100	99.8	100.0	102.6	103.8	103.3	103.3	103.3	103.3
Consumer price index, 2010=100	96.6	100.0	103.4	105.5	107.6	108.7	109.8	110.9
GDP deflator, 2010=100	97.5	100.0	101.7	104.7	106.8	108.1	109.5	110.6
Exchange rate (ER), NC/EUR	132.1	137.8	140.3	139.0	140.3	142	143	145
ER, nominal, 2010=100	95.8	100.0	101.8	100.9	101.8	103.1	103.8	105.2
Real ER (CPI-based), 2010=100	102.9	100.0	98.5	98.8	98.5	97.1	95.9	94.1
Real ER (PPI-based), 2010=100	107.2	100.0	95.7	95.0	93.9	91.5	89.4	86.5
PPP, NC/EUR	55.55	59.94	60.32	61.17	61.41	61.3	61.1	60.5
Price level, EU27 = 100	42	44	43	44	44	43	43	42
Average monthly gross wages, NC	36075	34767	36482	39284	40860	41700	42300	42900
Average monthly gross wages, EUR (ER)	273	252	260	283	291	290	300	300
Average monthly gross wages, EUR (PPP)	649	580	605	642	665	680	690	710
GDP nominal, NC bn	1148	1222	1282	1340	1380	1420	1460	1490
Employed persons, LFS, th., Oct	1161	1167	1160	1117	1100	1150	1200	1200
GDP per employed person, NC	989300	1047188	1104938	1199554	1254545	1234800	1216700	1241700
GDP per empl. person, NC at 2010 ref.pr.	1015119	1047188	1086094	1145223	1174615	1142700	1111500	1122600
Unit labour costs, NC, 2010=100	107.0	100.0	101.2	103.3	104.8	109.9	114.6	115.1
Unit labour costs, ER adj., 2010=100	111.7	100.0	99.3	102.4	102.9	106.7	110.4	109.4
Unit labour costs, PPP adj., Austria=100	31.8	28.5	28.1	28.3	27.7	28.4	28.9	28.2

(Table 26 ctd.)

(Table 26 ctd.)

	2009	2010	2011	2012	2013	2014	2015 Forecast	2016
Bosnia and Herzegovina								
Producer price index, 2007=100	99.1	100.0	103.7	105.3	102.6	103.6	105.7	107.8
Consumer price index, 2010=100	97.9	100.0	103.7	105.8	106.0	107.6	109.7	111.9
GDP deflator, 2010=100	98.4	100.0	102.6	104.9	105.3	106.9	109.1	111.2
Exchange rate (ER), NC/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
ER, nominal, 2010=100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Real ER (CPI-based), 2010=100	100.0	100.0	100.6	100.0	98.7	99.0	99.5	100.0
Real ER (PPI-based), 2007=100	102.1	100.0	98.5	97.2	94.9	94.6	94.9	94.9
PPP, NC/EUR	0.9871	0.9686	0.9612	0.9470	0.9355	0.94	0.94	0.94
Price level, EU27 = 100	50	50	49	48	48	48	48	48
Average monthly gross wages, NC	1204	1217	1273	1290	1300	1330	1380	1440
Average monthly gross wages, EUR (ER)	615	622	651	660	665	680	710	740
Average monthly gross wages, EUR (PPP)	1219	1256	1324	1362	1390	1420	1470	1530
GDP nominal, NC mn	24202	24773	25666	25804	26100	27000	28400	29800
Employed persons, LFS, th., April	859.2	842.8	816.0	813.7	821.6	823	831	840
GDP per employed person, NC	28167	29392	31453	31713	31767	32800	34200	35500
GDP per empl. person, NC at 2010 ref.pr.	28625	29392	30666	30230	30180	30700	31300	31900
Unit labour costs, NC, 2010=100	101.6	100.0	100.3	103.1	104.1	104.7	106.5	109.1
Unit labour costs, ER adj., 2010=100	101.6	100.0	100.3	103.1	104.1	104.7	106.5	109.1
Unit labour costs, PPP adj., Austria=100	41.0	40.4	40.3	40.4	39.8	39.5	39.5	39.9
Kazakhstan								
Producer price index, 2010=100	79.9	100.0	127.2	131.7	131.3	133.9	141.9	150.4
Consumer price index, 2010=100	93.4	100.0	108.3	113.9	120.5	130.2	138.0	146.3
GDP deflator, 2010=100	83.6	100.0	117.8	123.6	128.8	135.2	143.3	151.9
Exchange rate (ER), NC/EUR	205.68	195.67	204.11	191.67	202.09	250	253	255
ER, nominal, 2010=100	105.1	100.0	104.3	98.0	103.3	127.7	129.0	130.4
Real ER (CPI-based), 2010=100	90.7	100.0	100.7	110.0	108.7	93.8	97.0	100.2
Real ER (PPI-based), 2010=100	78.3	100.0	115.8	124.2	117.6	95.7	98.8	101.6
PPP, NC/EUR	92.9	97.6	104.5	106.9	109.6	115.1	122.0	129.3
Price level, EU27 = 100	45	50	51	56	54	46	48	51
Average monthly gross wages, NC	67333	77611	90028	101263	108640	123200	137120	151890
Average monthly gross wages, EUR (ER)	327	397	441	528	538	490	540	600
Average monthly gross wages, EUR (PPP)	725	796	862	948	991	1070	1120	1170
GDP nominal, NC bn	17008	21816	27572	30347	33521	37300	42100	47100
Employed persons, LFS, th., average	7903	8114	8302	8507	8580	8670	8760	8850
GDP per employed person, NC	2151941	2688560	3321274	3567251	3906990	4302200	4805900	5322000
GDP per empl. person, NC at 2010 ref.pr.	2573662	2688560	2819377	2886766	3034203	3182800	3354800	3503400
Unit labour costs, NC, 2010=100	90.6	100.0	110.6	121.5	124.0	134.1	141.6	150.2
Unit labour costs, ER adj., 2010=100	86.2	100.0	106.0	124.1	120.1	105.0	109.7	115.2
Unit labour costs, PPP adj., Austria=100	24.4	28.4	29.9	34.1	32.3	27.8	28.6	29.6
Russia								
Producer price index, 2010=100	89.2	100.0	119.0	127.1	131.4	135.3	139.4	143.6
Consumer price index, 2010=100	93.5	100.0	108.5	114.0	121.8	129.1	135.5	142.3
GDP deflator, 2010=100	87.6	100.0	115.2	123.7	131.7	136.1	142.1	148.5
Exchange rate (ER), NC/EUR	44.13	40.27	40.87	39.94	42.27	45	46	47
ER, nominal, 2010=100	109.6	100.0	101.5	99.2	105.0	111.7	114.2	116.7
Real ER (CPI-based), 2010=100	87.2	100.0	103.7	108.7	108.1	106.3	107.6	108.9
Real ER (PPI-based), 2010=100	83.8	100.0	111.3	118.4	115.9	110.5	109.6	108.4
PPP, NC/EUR	18.62	20.60	22.61	23.91	25.06	25.5	26.2	26.9
Price level, EU27 = 100	42	51	55	60	59	57	57	57
Average monthly gross wages, NC	18638	20952	23369	26629	29940	32850	35870	39170
Average monthly gross wages, EUR (ER)	422	520	572	667	708	730	780	830
Average monthly gross wages, EUR (PPP)	1001	1017	1034	1114	1195	1290	1370	1460
GDP nominal, NC bn	38807	46309	55644	61811	66689	70000	74800	80500
Employed persons, LFS, th., average	69411	69934	70857	71545	71391	71000	71000	71000
GDP per employed person, NC	559097	662178	785305	863939	934134	985900	1053500	1133800
GDP per empl. person, NC at 2010 ref.pr.	638439	662178	681590	698265	709178	724500	741100	763400
Unit labour costs, NC, 2010=100	92.3	100.0	108.4	120.5	133.4	143.3	153.0	162.2
Unit labour costs, ER adj., 2010=100	84.2	100.0	106.8	121.5	127.1	128.2	133.9	138.9
Unit labour costs, PPP adj., Austria=100	26.8	31.9	33.8	37.6	38.4	38.2	39.2	40.1

(Table 26 ctd.)

(Table 26 ctd.)

	2009	2010	2011	2012	2013	2014	2015 Forecast	2016
Ukraine								
Producer price index, 2010=100	82.7	100.0	119.0	123.4	123.3	128.2	134.6	141.4
Consumer price index, 2010=100	91.4	100.0	108.0	108.6	108.3	112.7	118.3	123.6
GDP deflator, 2010=100	87.9	100.0	114.3	123.4	126.5	132.0	138.7	144.9
Exchange rate (ER), NC/EUR	10.868	10.533	11.092	10.271	10.612	13.0	12.5	12.5
ER, nominal, 2010=100	103.2	100.0	105.3	97.5	100.8	123.4	118.7	118.7
Real ER (CPI-based), 2010=100	90.4	100.0	99.5	105.3	100.1	84.0	90.4	93.1
Real ER (PPI-based), 2010=100	82.6	100.0	107.3	116.9	113.3	94.8	101.9	104.9
PPP, NC/EUR	4.1660	4.2930	4.4700	4.7100	4.7530	4.89	5.06	5.18
Price level, EU27 = 100	38	41	40	46	45	38	40	41
Average monthly gross wages, NC	1906	2239	2633	3026	3265	3400	3620	3860
Average monthly gross wages, EUR (ER)	175	213	237	295	308	260	290	310
Average monthly gross wages, EUR (PPP)	457	522	589	642	687	700	720	750
GDP nominal, NC mn	913	1083	1302	1409	1444	1490	1580	1680
Employed persons, LFS, th., average	20192	20266	20324	20354	20350	20350	20350	20350
GDP per employed person, NC	45234	53418	64065	69218	70958	73200	77600	82600
GDP per empl. person, NC at 2010 ref.pr.	51477	53418	56050	56076	56078	55400	55900	57000
Unit labour costs, NC, 2010=100	88.3	100.0	112.1	128.7	138.9	146.4	154.5	161.6
Unit labour costs, ER adj., 2010=100	85.6	100.0	106.4	132.0	137.9	118.6	130.2	136.1
Unit labour costs, PPP adj., Austria=100	28.8	33.7	35.6	43.1	44.0	37.3	40.2	41.5
Austria								
Producer price index, 2010=100	95.2	100.0	108.3	110.9	109.7	111.6	113.7	115.6
Consumer price index, 2010=100	98.1	100.0	103.3	105.8	107.9	109.8	111.9	114.1
GDP deflator, 2010=100	98.6	100.0	102.1	103.9	105.9	107.8	109.8	111.6
Real ER (CPI-based), 2010=100	100.2	100.0	100.2	100.0	100.5	101.1	101.5	101.9
Real ER (PPI-based), 2010=100	98.1	100.0	102.8	102.4	101.5	101.9	102.2	101.8
PPP, NC/EUR	1.1233	1.1036	1.1035	1.0992	1.1056	1.110	1.113	1.109
Price level, EU27 = 100	112	110	110	110	111	111	111	111
Average monthly gross wages, EUR	3162	3196	3272	3352	3419	3500	3590	3680
Average monthly gross wages, EUR (PPP)	2815	2896	2965	3049	3092	3154	3227	3318
GDP nominal, NC mn	276228	285165	299240	307004	314065	325100	336800	348900
Employed persons - LFS, th., average	4078	4096	4144	4184	4209	4240	4280	4310
GDP per employed person, NC	67741	69600	72200	73400	74600	76700	78700	81000
GDP per empl. person, NC at 2010 ref.pr.	68687	69600	70707	70674	70425	71100	71700	72500
Unit labour costs, NC, 2010=100	100.2	100.0	100.8	103.3	105.7	107.2	109.0	110.5
Unit labour costs, PPP 2011 adjusted	0.61	0.61	0.61	0.63	0.64	0.65	0.66	0.67

Notes:

New benchmark PPP results for 2011 were applied (published by Eurostat , OECD and CIS Stat in December 2013). Additionally, we rebased the reference prices to the year 2010 (instead of the previously published 2005 basis).

Employment data and related indicators (e.g. Unit labour costs) may be affected by new population census data.

Unit labour costs are defined as average gross wages per employee relative to labour productivity (real GDP per employed person, LFS) . For level comparisons, labour productivity is converted with the PPP rate 2011 (PPP adjusted).

PPP rates have been taken from Eurostat based on the benchmark results 2011. Missing data have been extrapolated by wiiw with GDP deflators. Kazakhstan, Russia and Ukraine are estimated by wiiw using the OECD and CIS PPP benchmark results 2011.

Real exchange rates: Increasing values mean real appreciation.

NC = national currency (including euro-fixed series for euro area countries - EE, LV, SK, SI, AT). ER = Exchange Rate, PPP = Purchasing Power Parity, Price level: PPP/ ER.

Sources: wiiw Annual Database incorporating national and Eurostat statistics; WIFO; OECD and CIS for purchasing power parities, 2011 benchmark year, December 2013. wiiw estimates and forecasts.

Table 27 / Indicators of macro-competitiveness, 2009-2016, annual changes in %

	2009	2010	2011	2012	2013	2014	2015 Forecast	2016	2009-13 average
Bulgaria									
GDP deflator	4.3	2.8	4.9	2.3	0.3	-2.0	2.0	2.0	2.9
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real ER (CPI-based)	1.5	0.9	0.3	-0.2	-1.1	3.8	0.5	0.5	0.3
Real ER (PPI-based)	-2.1	5.3	3.7	1.5	-1.3	-3.3	0.4	0.0	1.4
Average gross wages, NC	11.8	6.4	5.8	6.6	4.0	6.6	4.9	5.9	6.9
Average gross wages, real (PPI based)	18.8	-1.9	-3.1	2.1	5.6	8.7	2.9	3.8	4.0
Average gross wages, real (CPI based)	9.1	3.3	2.3	4.1	3.6	1.5	2.9	3.8	4.5
Average gross wages, EUR (ER)	11.8	6.4	5.8	6.6	4.0	5.5	4.9	7.0	6.9
Employed persons (LFS)	-3.2	-6.2	-3.4	-0.5	0.0	0.2	0.3	0.3	-2.7
GDP per empl. person, NC at 2010 ref. pr.	-2.3	7.0	5.4	1.3	0.6	4.8	1.9	2.6	2.3
Unit labour costs, NC at 2010 ref. prices	14.5	-0.6	0.4	5.3	3.3	1.7	3.0	3.2	4.5
Unit labour costs, ER (EUR) adjusted	14.5	-0.6	0.4	5.3	3.3	1.7	3.0	3.2	4.5
Croatia									
GDP deflator	2.9	0.8	1.8	1.8	2.3	1.5	1.5	1.5	1.9
Exchange rate (ER), EUR/NC	-1.6	0.7	-2.0	-1.1	-0.7	-0.3	0.0	0.0	-0.9
Real ER (CPI-based)	-0.4	-0.3	-2.8	-0.4	0.1	-0.1	0.0	0.0	-0.8
Real ER (PPI-based)	2.0	2.0	-0.4	1.4	-0.8	-0.7	-0.6	-1.0	0.8
Average gross wages, NC	2.2	-0.4	1.5	1.0	0.3	1.5	2.0	2.6	0.9
Average gross wages, real (PPI based)	2.7	-4.5	-5.1	-4.2	0.6	0.5	1.0	1.6	-2.2
Average gross wages, real (CPI based)	0.0	-1.5	-0.7	-2.3	-2.0	0.0	0.5	1.1	-1.3
Average gross wages, EUR (ER)	0.6	0.3	-0.5	-0.1	-0.4	1.6	1.9	1.9	0.0
Employed persons (LFS)	-1.8	-4.0	-3.2	-3.1	-4.6	1.4	0.0	0.0	-3.3
GDP per empl. person, NC at 2010 ref. pr.	-5.2	1.8	3.0	1.3	3.8	-1.4	1.0	1.5	0.9
Unit labour costs, NC at 2010 ref. prices	7.8	-2.2	-1.5	-0.3	-3.4	3.0	1.0	1.1	0.0
Unit labour costs, ER (EUR) adjusted	6.1	-1.4	-3.4	-1.4	-4.1	2.6	1.0	1.1	-0.9
Czech Republic									
GDP deflator	2.4	-1.6	-0.9	1.6	1.0	0.9	1.4	1.1	0.5
Exchange rate (ER), EUR/NC	-5.6	4.6	2.8	-2.2	-3.2	-4.7	1.9	2.9	-0.8
Real ER (CPI-based)	-6.0	3.6	1.9	-1.3	-3.3	-4.2	2.2	2.9	-1.1
Real ER (PPI-based)	-3.3	1.6	1.3	-2.7	-2.6	-4.6	1.8	2.4	-1.2
Average gross wages, NC	3.3	2.2	2.5	2.7	0.6	2.5	3.9	3.3	2.3
Average gross wages, real (PPI based)	4.9	2.1	-1.2	0.3	0.2	1.0	2.3	1.8	1.3
Average gross wages, real (CPI based)	2.7	1.1	0.3	-0.8	-0.8	0.8	2.0	1.8	0.5
Average gross wages, EUR (ER)	-2.5	6.9	5.4	0.4	-2.6	-2.3	6.3	5.9	1.4
Employed persons (LFS)	-1.4	-1.0	0.4	-0.3	1.0	0.3	0.2	0.2	-0.3
GDP per empl. person, NC at 2010 ref. pr.	-3.3	3.6	1.4	-0.7	-2.4	1.1	2.2	2.8	-0.3
Unit labour costs, NC at 2010 ref. prices	6.8	-1.3	1.1	3.4	3.0	1.4	1.6	0.5	2.6
Unit labour costs, ER (EUR) adjusted	0.8	3.2	3.9	1.1	-0.3	-3.3	3.5	3.4	1.7
Estonia									
GDP deflator	0.1	0.3	3.0	3.3	3.5	2.3	2.7	3.2	2.0
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real ER (CPI-based)	-0.8	0.6	1.9	1.6	1.7	1.3	1.3	1.7	1.0
Real ER (PPI-based)	5.1	0.2	-1.0	-0.2	7.5	0.9	1.1	1.1	2.3
Average gross wages, NC	-5.0	1.1	5.9	5.7	7.3	7.1	6.9	7.3	2.9
Average gross wages, real (PPI based)	-5.9	-2.0	1.6	3.0	0.1	4.7	4.0	4.0	-0.7
Average gross wages, real (CPI based)	-5.2	-1.6	0.8	1.4	4.0	4.5	4.0	4.0	-0.2
Average gross wages, EUR (ER)	-5.0	1.1	5.9	5.7	7.3	7.1	6.9	7.3	2.9
Employed persons (LFS)	-9.2	-4.2	6.7	1.0	1.0	1.4	0.8	0.8	-1.1
GDP per empl. person, NC at 2010 ref. pr.	-5.3	7.0	2.7	3.0	-0.6	1.3	2.2	2.2	1.3
Unit labour costs, NC at 2010 ref. prices	0.3	-5.6	3.2	2.7	8.0	5.8	4.5	5.0	1.6
Unit labour costs, ER (EUR) adjusted	0.3	-5.6	3.2	2.7	8.0	5.8	4.5	5.0	1.6
Hungary									
GDP deflator	3.6	2.4	2.6	3.2	3.4	2.7	2.8	2.6	3.0
Exchange rate (ER), EUR/NC	-10.3	1.8	-1.4	-3.4	-2.6	-1.0	1.7	3.5	-3.3
Real ER (CPI-based)	-7.6	4.4	-0.6	-0.5	-2.4	0.6	3.2	5.0	-1.4
Real ER (PPI-based)	-2.5	2.7	-2.5	-2.2	-1.8	0.2	2.9	4.2	-1.3
Average gross wages, NC	0.6	1.3	5.2	4.7	3.8	3.7	4.0	4.0	3.1
Average gross wages, real (PPI based)	-3.7	-2.5	1.0	0.5	3.2	1.1	1.2	1.4	-0.3
Average gross wages, real (CPI based)	-3.3	-3.2	1.2	-0.9	2.1	0.8	1.0	1.0	-0.9
Average gross wages, EUR (ER)	-9.8	3.1	3.8	1.1	1.1	2.6	6.3	7.1	-0.3
Employed persons (LFS)	-2.5	0.0	0.8	1.7	0.0	2.6	1.0	1.0	0.0
GDP per empl. person, NC at 2010 ref. pr.	-4.4	1.1	0.8	-3.3	1.0	-1.2	1.1	1.0	-1.0
Unit labour costs, NC at 2010 ref. prices	5.1	0.3	4.4	8.3	2.7	5.0	2.9	3.0	4.1
Unit labour costs, ER (EUR) adjusted	-5.7	2.0	2.9	4.6	0.1	3.9	4.7	6.6	0.7

(Table 27 ctd.)

Table 27 (ctd.)

	2009	2010	2011	2012	2013	2014	2015	2016	2009-13
							Forecast		average
Latvia									
GDP deflator	-1.2	-0.9	6.0	3.3	0.0	1.8	2.4	2.5	1.4
Exchange rate (ER), EUR/NC	-0.4	-0.4	0.3	1.3	-0.6	-0.2	0.0	0.0	0.0
Real ER (CPI-based)	1.8	-3.7	1.4	1.0	-2.1	0.4	0.7	1.1	-0.3
Real ER (PPI-based)	0.4	-1.0	2.7	2.6	1.3	0.2	0.7	0.5	1.2
Average gross wages, NC	-3.8	-3.5	4.3	3.7	5.1	7.1	7.8	7.2	1.1
Average gross wages, real (PPI based)	-0.7	-5.7	-3.2	-0.4	3.3	5.2	5.3	4.6	-1.4
Average gross wages, real (CPI based)	-6.8	-2.3	0.0	1.3	5.0	5.2	5.5	4.5	-0.6
Average gross wages, EUR (ER)	-4.2	-3.9	4.6	5.0	4.4	6.9	7.8	7.2	1.1
Employed persons (LFS)	-12.6	-4.3	3.1	-9.8	2.8	2.0	1.3	1.1	-4.4
GDP per empl. person, NC at 2010 ref. pr.	-5.9	3.1	2.1	16.6	1.3	2.1	2.9	2.9	3.2
Unit labour costs, NC at 2010 ref. prices	2.3	-6.4	2.1	-11.1	3.7	4.9	4.7	4.3	-2.1
Unit labour costs, ER (EUR) adjusted	1.8	-6.8	2.5	-10.0	3.1	4.7	4.7	4.3	-2.0
Lithuania									
GDP deflator	-3.4	2.3	5.4	2.7	1.1	1.5	2.8	3.0	1.6
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Real ER (CPI-based)	3.1	-0.9	1.0	0.6	-0.3	0.4	1.3	1.5	0.7
Real ER (PPI-based)	-10.0	7.1	8.2	2.1	-2.2	0.2	1.2	1.0	0.8
Average gross wages, NC	-4.4	-3.3	2.9	3.8	5.2	6.1	7.2	7.1	0.8
Average gross wages, real (PPI based)	10.5	-12.4	-9.7	-1.1	7.8	4.5	4.2	4.0	-1.4
Average gross wages, real (CPI based)	-8.3	-4.4	-1.2	0.6	4.0	4.5	4.3	4.0	-1.9
Average gross wages, EUR (ER)	-4.4	-3.3	2.9	3.8	5.2	6.6	7.2	6.8	0.8
Employed persons (LFS)	-6.8	-5.1	2.0	-6.9	1.3	0.9	0.5	0.5	-3.2
GDP per empl. person, NC at 2010 ref. pr.	-8.6	7.1	3.9	11.4	2.1	2.7	3.2	3.5	3.0
Unit labour costs, NC at 2010 ref. prices	4.5	-9.7	-1.0	-6.8	3.0	3.3	3.8	3.5	-2.1
Unit labour costs, ER (EUR) adjusted	4.5	-9.7	-1.0	-6.8	3.0	3.4	3.8	3.5	-2.1
Poland									
GDP deflator	3.7	1.5	3.2	2.5	0.5	1.9	2.0	1.9	2.3
Exchange rate (ER), EUR/NC	-18.8	8.3	-3.1	-1.5	-0.3	-0.1	1.2	0.0	-3.5
Real ER (CPI-based)	-16.5	8.9	-2.3	-0.5	-0.9	0.5	1.7	0.5	-2.6
Real ER (PPI-based)	-12.9	7.1	-1.2	-1.1	-1.3	-0.5	1.1	0.0	-2.1
Average gross wages, NC	5.4	3.9	5.6	3.7	3.4	3.8	4.0	4.1	4.4
Average gross wages, real (PPI based)	2.2	2.1	-1.6	0.4	4.7	2.8	2.4	2.0	1.5
Average gross wages, real (CPI based)	1.4	1.2	1.6	0.1	2.5	2.0	1.9	2.0	1.4
Average gross wages, EUR (ER)	-14.4	12.6	2.3	2.1	3.1	3.5	5.6	4.2	0.7
Employed persons (LFS)	0.4	0.6	1.1	-3.3	-0.4	0.2	0.5	0.5	-0.3
GDP per empl. person, NC at 2010 ref. pr.	1.2	3.2	3.5	5.4	2.1	2.2	2.7	2.5	3.1
Unit labour costs, NC at 2010 ref. prices	4.2	0.7	2.0	-1.6	1.3	1.6	1.3	1.5	1.3
Unit labour costs, ER (EUR) adjusted	-15.4	9.1	-1.1	-3.1	1.0	1.5	2.5	1.5	-2.2
Romania									
GDP deflator	4.2	5.7	4.2	4.6	3.1	3.0	3.0	3.0	4.4
Exchange rate (ER), EUR/NC	-13.1	0.7	-0.6	-4.9	0.9	-1.1	0.4	0.0	-3.6
Real ER (CPI-based)	-9.2	4.6	2.0	-4.2	2.6	0.1	1.9	2.0	-1.0
Real ER (PPI-based)	-7.4	2.0	1.0	-2.7	3.2	0.4	1.8	1.0	-0.9
Average gross wages, NC	4.8	3.1	4.1	4.2	5.0	3.4	4.5	5.6	4.2
Average gross wages, real (PPI based)	2.3	-1.2	-2.8	-1.0	2.9	0.4	1.4	2.5	0.0
Average gross wages, real (CPI based)	-0.8	-2.8	-1.6	0.8	1.7	0.9	1.4	2.0	-0.6
Average gross wages, EUR (ER)	-9.0	3.8	3.4	-1.0	6.0	2.0	6.0	5.7	0.5
Employed persons (LFS)	-1.3	0.0	-1.1	1.4	0.4	0.0	1.1	1.1	-0.1
GDP per empl. person, NC at 2010 ref. pr.	-5.3	-1.1	3.3	-0.7	3.1	2.4	1.5	1.9	-0.2
Unit labour costs, NC at 2010 ref. prices	10.6	4.2	0.8	4.9	1.8	1.0	3.0	3.6	4.4
Unit labour costs, ER (EUR) adjusted	-3.9	4.9	0.1	-0.3	2.8	-0.2	3.4	3.6	0.7
Slovakia									
GDP deflator	-1.2	0.5	1.6	1.3	1.5	1.9	3.0	3.0	0.7
Exchange rate (ER), EUR/NC	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Real ER (CPI-based)	3.7	-1.4	1.0	1.1	0.0	0.8	1.5	1.5	0.9
Real ER (PPI-based)	0.5	-2.5	-0.7	-0.9	-0.8	-0.4	0.4	0.0	-0.9
Average gross wages, NC	3.0	3.3	2.2	2.4	2.4	3.2	5.9	6.7	2.6
Average gross wages, real (PPI based)	10.6	2.9	-2.2	0.5	3.4	2.1	3.8	4.6	3.0
Average gross wages, real (CPI based)	2.0	2.6	-1.8	-1.3	0.9	1.1	2.8	3.6	0.5
Average gross wages, EUR (ER)	6.9	3.3	2.2	2.4	2.4	3.2	5.9	6.7	3.4
Employed persons (LFS)	-2.8	-2.1	1.5	-1.0	0.0	0.9	0.9	0.0	-0.9
GDP per empl. person, NC at 2010 ref. pr.	-2.2	6.6	1.6	2.8	0.8	1.2	2.3	3.5	1.9
Unit labour costs, NC at 2010 ref. prices	5.3	-3.1	0.7	-0.3	1.5	1.9	3.5	3.0	0.8
Unit labour costs, ER (EUR) adjusted	9.3	-3.1	0.7	-0.3	1.5	1.9	3.5	3.0	1.5

(Table 27 ctd.)

Table 27 (ctd.)

	2009	2010	2011	2012	2013	2014	2015 Forecast	2016	2009-13 average
Slovenia									
GDP deflator	3.3	-1.1	1.2	0.3	1.0	1.4	1.9	1.8	0.9
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real ER (CPI-based)	-0.1	0.0	-1.0	0.2	0.4	0.7	0.4	0.3	-0.1
Real ER (PPI-based)	2.6	-1.0	-0.7	-1.9	0.2	-0.9	-1.1	-1.0	-0.2
Average gross wages, NC	3.4	3.9	2.0	0.1	-0.1	-0.9	2.0	2.6	1.8
Average gross wages, real (PPI based)	4.9	1.9	-2.5	-0.8	-0.2	-1.4	1.5	1.6	0.6
Average gross wages, real (CPI based)	2.5	1.8	-0.1	-2.7	-2.0	-2.7	0.1	0.8	-0.1
Average gross wages, EUR (ER)	3.4	3.9	2.0	0.1	-0.1	-0.9	2.0	2.6	1.8
Employed persons (LFS)	-1.5	-1.5	-3.1	-1.3	-2.6	-2.2	-1.1	0.0	-2.0
GDP per empl. person, NC at 2010 ref. pr.	-6.5	2.8	3.9	-1.3	1.5	1.2	1.3	0.8	0.0
Unit labour costs, NC at 2010 ref. prices	10.6	1.0	-1.9	1.3	-1.6	-2.0	0.7	1.8	1.8
Unit labour costs, ER (EUR) adjusted	10.6	1.0	-1.9	1.3	-1.6	-2.0	0.7	1.8	1.8
Macedonia									
GDP deflator	0.7	2.7	3.1	0.1	2.8	3.0	3.0	3.0	1.9
Exchange rate (ER), EUR/NC	0.0	-0.4	0.0	0.0	-0.1	0.1	0.0	0.0	-0.1
Real ER (CPI-based)	-1.8	-0.9	0.7	0.7	1.2	1.9	1.5	1.5	0.0
Real ER (PPI-based)	-3.4	5.1	6.2	-1.4	-1.3	1.7	1.4	1.0	1.0
Average gross wages, NC [1)]	9.0	1.0	1.2	0.2	1.1	3.9	4.7	4.5	2.5
Average gross wages, real (PPI based)	17.5	-7.1	-9.5	-1.2	2.5	0.8	1.6	1.4	0.0
Average gross wages, real (CPI based)	9.9	-0.6	-2.5	-3.0	-1.7	0.8	1.6	1.4	0.3
Average gross wages, EUR (ER)	9.0	0.6	1.2	0.2	1.0	3.3	5.8	3.6	2.4
Employed persons (LFS)	3.4	1.3	1.1	0.8	3.8	1.5	1.5	1.0	2.1
GDP per empl. person, NC at 2010 ref. pr.	-4.2	1.6	1.6	-1.2	-0.7	1.5	1.5	2.0	-0.6
Unit labour costs, NC at 2010 ref. prices	13.8	-0.6	-0.3	1.4	1.8	2.3	3.1	2.4	3.1
Unit labour costs, ER (EUR) adjusted	13.8	-1.0	-0.3	1.4	1.7	2.5	3.1	2.4	3.0
Montenegro									
GDP deflator	2.4	1.6	0.9	-0.1	-0.9	4.1	2.9	2.5	0.8
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real ER (CPI-based)	2.4	-1.6	0.0	1.5	0.7	1.8	1.5	1.5	0.6
Real ER (PPI-based)	0.0	-3.8	-2.0	-0.9	1.8	-7.7	-0.2	-1.0	-1.0
Average gross wages, NC	5.6	11.2	1.0	0.7	-0.1	4.7	5.3	5.0	3.6
Average gross wages, real (PPI based)	9.9	12.2	-2.1	-1.2	-1.7	0.6	2.3	2.5	3.2
Average gross wages, real (CPI based)	2.1	10.6	-2.1	-3.3	-2.3	1.6	2.2	1.9	0.9
Employed persons (LFS)	-2.7	-2.2	-6.1	2.4	5.0	2.4	2.3	0.0	-0.8
GDP per empl. person, NC	-0.7	6.5	11.0	-4.9	-3.2	3.7	3.8	5.5	1.6
GDP per empl. person, NC at 2010 ref. pr.	-3.0	4.8	10.0	-4.8	-2.3	-0.4	0.7	3.3	0.8
Unit labour costs, NC at 2010 ref. prices	8.9	6.1	-8.2	5.8	2.2	5.1	4.6	1.7	2.8
Unit labour costs, ER (EUR) adjusted	8.9	6.1	-8.2	5.8	2.2	5.1	4.6	1.7	2.8
Serbia									
GDP deflator	5.9	4.9	9.6	6.0	7.9	3.2	4.2	3.0	6.8
Exchange rate (ER), EUR/NC	-13.3	-8.7	0.9	-9.9	0.0	-2.5	-1.7	-1.7	-6.3
Real ER (CPI-based)	-6.7	-4.5	8.7	-5.3	6.2	0.2	0.7	-0.2	-0.5
Real ER (PPI-based)	-4.7	-0.1	9.5	-7.4	3.8	-0.8	0.8	-0.7	0.0
Average gross wages, NC	-3.3	7.5	11.1	8.9	5.7	1.9	4.0	3.0	5.9
Average gross wages, real (PPI based)	-8.4	-4.6	-2.7	3.1	2.1	-1.3	-0.2	0.0	-2.2
Average gross wages, real (CPI based)	-11.0	0.6	0.1	1.0	-1.9	-2.0	0.0	0.0	-2.3
Average gross wages, EUR (ER)	-16.2	-1.9	12.2	-1.8	5.7	-1.3	3.8	0.0	-0.9
Employed persons (LFS)	-7.3	-8.4	-6.0	-1.1	3.7	-0.5	0.0	0.0	-3.9
GDP per empl. person, NC at 2010 ref. pr.	4.1	10.3	8.0	-0.4	-1.3	0.0	1.0	1.9	4.0
Unit labour costs, NC at 2010 ref. prices	-7.1	-2.5	2.9	9.3	7.0	2.0	3.0	1.1	1.7
Unit labour costs, ER (EUR) adjusted	-19.4	-11.0	3.8	-1.5	7.1	-0.6	1.2	-0.6	-4.7
Albania									
GDP deflator	2.0	2.6	1.7	3.0	2.0	1.2	1.3	1.0	2.3
Exchange rate (ER), EUR/NC	-7.0	-4.2	-1.8	0.9	-0.9	-1.2	-0.7	-1.4	-2.6
Real ER (CPI-based)	-5.8	-2.8	-1.5	0.3	-0.4	-1.4	-1.2	-1.9	-2.1
Real ER (PPI-based)	-4.8	-6.7	-4.3	-0.7	-1.2	-2.6	-2.3	-3.3	-3.6
Average gross wages, NC	5.2	-3.6	4.9	7.7	4.0	2.1	1.4	1.4	3.6
Average gross wages, real (PPI based)	7.0	-3.9	2.2	6.5	4.5	2.1	1.4	1.4	3.2
Average gross wages, real (CPI based)	2.9	-7.0	1.5	5.6	2.0	1.0	0.4	0.4	0.9
Average gross wages, EUR (ER)	-2.1	-7.6	3.0	8.7	3.1	-0.4	3.4	0.0	0.9
Employed persons (LFS)	3.3	0.6	-0.6	-3.7	-1.5	4.5	4.3	0.0	-0.4
GDP per empl. person, NC at 2010 ref. pr.	0.0	3.2	3.7	5.4	2.6	-2.7	-2.7	1.0	3.0
Unit labour costs, NC at 2010 ref. prices	5.2	-6.6	1.2	2.1	1.4	4.9	4.3	0.4	0.6
Unit labour costs, ER (EUR) adjusted	-2.1	-10.5	-0.7	3.1	0.5	3.6	3.6	-1.0	-2.0

1) In 2009 wiiw estimate (including allowances for food and transport).

(Table 27 ctd.)

Table 27 (ctd.)

	2009	2010	2011	2012	2013	2014	2015 Forecast	2016	2009-13 average
Bosnia and Herzegovina									
GDP deflator	0.0	1.6	2.6	2.3	0.3	1.5	2.1	1.9	1.4
Exchange rate (ER), EUR/NC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real ER (CPI-based)	-1.4	0.0	0.6	-0.6	-1.3	0.3	0.5	0.5	-0.5
Real ER (PPI-based)	0.7	-2.0	-1.5	-1.3	-2.4	-0.4	0.4	0.0	-1.3
Average gross wages, NC	8.1	1.1	4.6	1.3	0.8	2.3	3.8	4.3	3.2
Average gross wages, real (PPI based)	11.7	0.2	0.9	-0.2	3.4	1.3	1.7	2.3	3.1
Average gross wages, real (CPI based)	8.6	-1.0	0.9	-0.6	0.6	0.8	1.7	2.3	1.6
Average gross wages, EUR (ER)	8.1	1.1	4.6	1.3	0.8	2.3	3.8	4.3	3.2
Employed persons (LFS)	-3.5	-1.9	-3.2	-0.3	1.0	0.2	1.0	1.1	-1.6
GDP per empl. person, NC at 2010 ref. pr.	0.7	2.7	4.3	-1.4	-0.2	1.7	2.0	1.9	1.2
Unit labour costs, NC at 2010 ref. prices	7.4	-1.6	0.3	2.8	0.9	0.6	1.8	2.4	1.9
Unit labour costs, ER (EUR) adjusted	7.4	-1.6	0.3	2.8	0.9	0.6	1.8	2.4	1.9
Kazakhstan									
GDP deflator	4.7	19.6	17.8	4.9	4.2	5.0	6.0	6.0	10.0
Exchange rate (ER), EUR/NC	-13.9	5.1	-4.1	6.5	-5.2	-19.1	-1.1	-1.1	-2.6
Real ER (CPI-based)	16.2	-4.9	4.3	9.2	-1.1	-13.7	3.3	3.3	4.5
Real ER (PPI-based)	-8.6	10.3	0.7	7.2	-5.2	-18.6	3.2	2.8	0.6
Average gross wages, NC	10.7	15.3	16.0	12.5	7.3	13.4	11.3	10.8	12.3
Average gross wages, real (PPI based)	42.0	-7.9	-8.8	8.7	7.6	11.2	5.0	4.5	6.9
Average gross wages, real (CPI based)	3.2	7.6	7.1	6.9	1.4	5.0	5.0	4.5	5.2
Average gross wages, EUR (ER)	-4.7	21.2	11.2	19.8	1.8	-8.9	10.2	11.1	9.4
Employed persons (LFS)	0.6	2.7	2.3	2.5	0.9	1.1	1.0	1.0	1.8
GDP per empl. person, NC	5.3	24.9	23.5	7.4	9.5	10.1	11.7	10.7	13.8
GDP per empl. person, NC at 2010 ref. pr.	0.6	4.5	4.9	2.4	5.1	4.9	5.4	4.4	3.5
Unit labour costs, NC at 2010 ref. prices	10.1	10.3	10.6	9.9	2.1	8.1	5.6	6.1	8.5
Unit labour costs, ER (EUR) adjusted	-5.3	16.0	6.0	17.0	-3.2	-12.5	4.5	5.0	5.7
Russia									
GDP deflator	2.0	14.2	15.2	7.4	6.5	3.3	4.5	4.5	8.9
Exchange rate (ER), EUR/NC	-17.5	9.6	-1.5	2.3	-5.5	-6.1	-2.2	-2.1	-2.9
Real ER (CPI-based)	-8.7	14.7	3.7	4.8	-0.6	-1.6	1.2	1.2	2.5
Real ER (PPI-based)	-20.3	19.3	11.3	6.3	-2.1	-4.6	-0.8	-1.2	2.0
Average gross wages, NC	7.8	12.4	11.5	13.9	12.4	9.7	9.2	9.2	11.6
Average gross wages, real (PPI based)	16.1	0.2	-6.3	6.7	8.7	6.5	6.0	6.0	4.8
Average gross wages, real (CPI based)	-3.6	5.2	2.8	8.4	5.3	3.5	4.0	4.0	3.5
Average gross wages, EUR (ER)	-11.1	23.2	9.9	16.6	6.2	3.1	6.8	6.4	8.3
Employed persons (LFS)	-2.2	0.8	1.3	1.0	-0.2	-0.5	0.0	0.0	0.1
GDP per empl. person, NC at 2010 ref. pr.	-5.7	3.7	2.9	2.4	1.6	2.2	2.3	3.0	0.9
Unit labour costs, NC at 2010 ref. prices	14.3	8.4	8.4	11.2	10.7	7.4	6.7	6.0	10.6
Unit labour costs, ER (EUR) adjusted	-5.7	18.8	6.8	13.8	4.6	0.9	4.4	3.8	7.3
Ukraine									
GDP deflator	13.0	13.8	14.3	8.0	2.5	4.3	5.1	4.4	10.2
Exchange rate (ER), EUR/NC	-29.1	3.2	-5.0	8.0	-3.2	-18.4	4.0	0.0	-6.2
Real ER (CPI-based)	-18.6	10.6	-0.5	5.9	-4.9	-16.1	7.6	3.0	-2.1
Real ER (PPI-based)	-21.4	21.1	7.3	8.9	-3.1	-16.3	7.5	2.9	1.5
Average gross wages, NC	5.5	17.5	17.6	14.9	7.9	4.1	6.5	6.6	12.6
Average gross wages, real (PPI based)	-0.9	-2.8	-1.2	10.8	8.0	0.1	1.4	1.6	2.6
Average gross wages, real (CPI based)	-9.0	7.4	8.9	14.3	8.2	0.1	1.4	2.0	5.6
Average gross wages, EUR (ER)	-25.2	21.2	11.7	24.1	4.4	-15.5	11.5	6.9	5.6
Employed persons (LFS)	-3.7	0.4	0.3	0.1	0.0	0.0	0.0	0.0	-0.6
GDP per empl. person, NC at 2010 ref. pr.	-11.4	3.8	4.9	0.0	0.0	-1.2	0.9	2.0	-0.7
Unit labour costs, NC at 2010 ref. prices	19.2	13.2	12.1	14.9	7.9	5.4	5.5	4.6	13.4
Unit labour costs, ER (EUR) adjusted	-15.5	16.8	6.4	24.1	4.4	-14.0	9.7	4.6	6.4
Austria									
GDP deflator	1.6	1.4	2.1	1.7	2.0	1.8	1.9	1.7	1.8
Real ER (CPI-based)	-0.5	-0.2	0.2	-0.2	0.5	0.6	0.4	0.4	0.0
Real ER (PPI-based)	-3.6	1.9	2.8	-0.4	-0.9	0.4	0.3	-0.3	-0.1
Average gross wages, NC	2.4	1.1	2.4	2.5	2.0	2.4	2.6	2.5	2.1
Average gross wages, real (PPI based)	10.6	-3.7	-5.5	0.1	3.1	0.6	0.7	0.8	0.8
Average gross wages, real (CPI based)	1.9	-0.8	-0.9	0.1	0.0	0.6	0.7	0.6	0.0
Employed persons (LFS)	-0.3	0.5	1.2	1.0	0.6	0.7	0.9	0.7	0.6
GDP per empl. person, NC at 2010 ref. pr.	-3.6	1.3	1.6	0.0	-0.4	1.0	0.8	1.1	-0.2
Unit labour costs, NC at 2010 ref. prices	6.2	-0.2	0.8	2.5	2.4	1.4	1.7	1.4	2.3
Unit labour costs, ER (EUR) adjusted	6.2	-0.2	0.8	2.5	2.4	1.4	1.7	1.4	2.3

NC = national currency (including euro-fixed series for euro area countries - EE, LV, SK, SI, AT). ER = Exchange Rate, PPI = Producer price index, CPI = Consumer price index. Positive growth of real exchange rates means real appreciation.
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