

PRESS RELEASE

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The Vienna Institute for International Economic Studies (wiiw) expects an acceleration of GDP growth in Central, East and Southeast Europe (CESEE) to an average 2-3% annually over the forecast period 2014-2016: a major driving force rooted in an upward reversal of investment. First quarter 2014 results seem to support previous expectations of investment-led growth in the CESEE countries that were widely based on anecdotal evidence. However, the development is quite diverse across major regions, some of which had to experience setbacks more recently.

Starting with the setbacks, the ongoing Russia-Ukraine conflict has negatively affected economic dynamics not only in these two countries but also in the three Baltic States that are both directly and indirectly dependent on Russia. Ukraine is expected to suffer a 5% decline in GDP in 2014, mostly on account of strongly falling investment. Russia and Estonia can hope for not much more than about half a percentage point of growth in 2014. With close to 3%, the growth forecast for Latvia and Lithuania is much better. However, as compared to the wiiw forecast of March this year we had to reduce the 2014 GDP growth outlook for these five countries on average by 1.8 percentage points.

Parts of the Western Balkans were hit hard by floods in May this year. In particular, Serbia and Bosnia and Herzegovina suffered huge damages due to rainfalls that were the heaviest in 120 years of recorded weather history. A number of these countries are pursuing, for different reasons, fiscal austerity (Albania, Croatia, Serbia, Kosovo), which also has negative effects on economic growth. Hence the economies of Serbia, Croatia and Bosnia and Herzegovina will most likely be in recession or near stagnation in 2014. Growth in Albania, Montenegro, Macedonia and Kosovo will be more robust but mostly below previous expectations. On average, the wiiw growth forecast revision for the Western Balkans in 2014 is at -0.5% as compared to the Spring Forecast Report.

In the core new EU Member States additional efforts were made to raise the absorption rate of the funds allocated within the context of the EU multiannual financial framework for 2007-2013 that was about to come to a close by the end of last year. Over the remaining disbursement period of the biennium 2014-2015, substantially higher amounts of EU co-financed public investment – that has the potential to spur subsequent private investment – are to be expected. Indeed, investment activity picked up throughout most of the core new Member States in the first quarter of 2014. Also, improving growth prospects in the euro area are supporting export industries' activities. Growth rates for this group of countries are expected to range around 2% to 3% for 2014 (except for Slovenia, 0.5% and Bulgaria, 1.4%) with an average upward forecast revision of 0.6% as compared to our projections earlier this year.

wiiw, 03 July 2014

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OVERVIEW 2013 AND OUTLOOK 2014-2016

	GDP				Investment (GFCF)				Consumer prices				Unemployment (LFS)				Current account			
	real change in %				real change in %				change in %				rate in %,				in % of GDP			
	against prev. year				against prev. year				against prev. year				annual average							
	Forecast				Forecast				Forecast				Forecast				Forecast			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
NMS-11																				
Bulgaria	0.9	1.4	2.1	2.5	-0.3	2.0	3.0	4.0	0.4	0.0	1.0	2.0	13.0	12.5	12.0	11.5	1.9	-1.0	-1.8	-2.5
Croatia	-0.9	-0.5	0.7	1.5	-1.3	-1.5	2.0	3.5	2.3	0.5	1.0	1.0	17.2	17.5	17.5	17.0	1.3	0.9	0.8	0.7
Czech Republic	-0.9	1.7	2.4	3.0	-3.6	2.3	3.0	3.0	1.4	1.0	1.8	1.5	7.0	7.5	7.3	7.0	-1.4	-1.0	-1.2	-1.4
Estonia	0.8	0.7	1.8	2.4	1.0	2.0	3.0	4.0	3.2	0.7	2.0	2.5	8.6	7.8	7.3	7.0	-1.0	-2.8	-2.6	-3.0
Hungary	1.1	2.6	2.2	2.1	5.8	7.0	6.0	5.0	1.7	0.3	2.0	3.0	10.2	8.5	8.3	8.3	3.0	2.6	2.2	2.0
Latvia	4.1	2.7	2.9	3.1	-4.3	2.5	4.0	5.0	0.0	0.8	1.8	2.5	11.9	10.5	9.8	9.2	-0.8	-1.8	-2.1	-2.5
Lithuania	3.3	2.9	3.1	3.2	12.8	8.0	7.0	8.0	1.2	0.8	1.8	2.5	11.8	10.8	10.2	9.5	1.5	-0.3	-0.8	-1.2
Poland	1.6	3.0	3.2	3.1	-0.2	5.0	5.0	5.0	0.9	1.1	2.0	2.0	10.3	10.5	10.1	10.0	-1.3	-2.5	-3.0	-3.1
Romania	3.5	3.2	3.0	3.3	-3.3	1.0	4.0	5.0	3.2	2.0	3.0	3.0	7.3	7.2	7.0	7.0	-1.1	-2.0	-3.0	-3.5
Slovakia	0.9	2.4	3.0	3.2	-4.3	3.0	4.0	4.5	1.5	0.5	1.5	2.5	14.2	13.8	13.0	12.0	2.1	1.7	1.5	1.2
Slovenia	-1.1	0.5	1.4	1.7	0.1	2.0	2.0	1.5	1.9	0.7	1.0	1.0	10.1	10.8	10.5	10.0	6.3	5.3	4.9	4.5
<i>NMS-11¹⁾</i>	1.4	2.5	2.7	2.9	-0.7	3.5	4.3	4.6	1.5	1.0	2.0	2.2	10.0	9.9	9.5	9.3	0.0	-0.9	-1.4	-1.6
<i>EA-18²⁾</i>	-0.4	1.2	1.7	.	-2.9	2.3	4.2	.	1.3	0.8	1.2	.	12.0	11.8	11.4	.	2.6	2.9	2.9	.
<i>EU-28^{1/2)}</i>	0.2	1.6	2.0	.	-2.2	3.1	4.6	.	1.5	1.0	1.5	.	10.9	10.6	10.2	.	1.8	1.8	1.8	.
Candidate countries																				
Albania	0.5	1.3	1.5	0.9	-5.0	1.0	1.5	2.0	2.0	1.0	1.0	1.0	15.6	15.0	15.0	15.5	-10.4	-9.5	-8.8	-7.8
Macedonia	2.9	2.8	2.9	3.0	2.0	4.0	4.0	4.0	2.8	3.0	3.0	3.0	29.0	29.0	28.0	28.0	-1.9	-4.0	-4.0	-4.0
Montenegro	3.5	2.1	2.9	3.0	3.0	4.0	5.0	5.0	2.2	3.0	3.0	3.0	19.5	19.0	19.0	19.0	-14.6	-15.4	-15.4	-15.0
Serbia	2.5	-1.0	0.0	1.0	-3.0	2.0	3.0	4.0	7.8	3.0	3.0	3.0	22.1	24.0	24.0	24.0	-5.0	-6.0	-6.0	-6.0
Turkey	4.0	2.9	3.5	4.5	4.3	0.5	3.0	10.0	7.5	8.3	7.5	6.8	8.5	9.0	9.0	8.5	-7.9	-4.5	-5.5	-6.5
Potential candidate countries																				
Bosnia and Herzegovina	2.1	0.0	1.0	2.0	3.2	-1.0	3.0	5.0	0.2	1.0	2.0	2.0	27.5	27.0	27.0	27.0	-5.5	-8.0	-7.0	-8.0
Kosovo	4.0	5.0	4.0	4.0	6.0	2.0	3.0	4.0	1.8	4.0	4.0	3.0	31.0	29.0	30.0	30.0	-6.7	-12.3	-12.9	-10.6
Russia	1.3	0.6	1.6	2.3	-0.1	-3.0	0.0	2.0	6.8	7.0	6.0	5.0	5.5	5.5	5.5	5.4	1.6	1.5	1.1	1.0
Ukraine ³⁾	0.0	-5.0	0.0	1.8	-6.6	-20.0	0.0	4.0	-0.3	11.0	9.7	4.5	7.2	8.0	8.0	7.7	-8.7	-3.0	-3.2	-3.3

Note: GFCF: Gross fixed capital formation. 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). - 3) GDP growth rate up to 2014 including Crimea and Sevastopol.

Source: wiiw (July, 2014), Eurostat. Forecasts by wiiw and European Commission for EU and euro area (Spring Report, April 2014).