

Press conference, 30 June 2016

**Modest recovery in the East –
EU fiscal rules act as obstacles to growth –
New uncertainties due to BREXIT**

wiiw forecast 2016-2018 &

Austria's economic relations with the CESEE countries

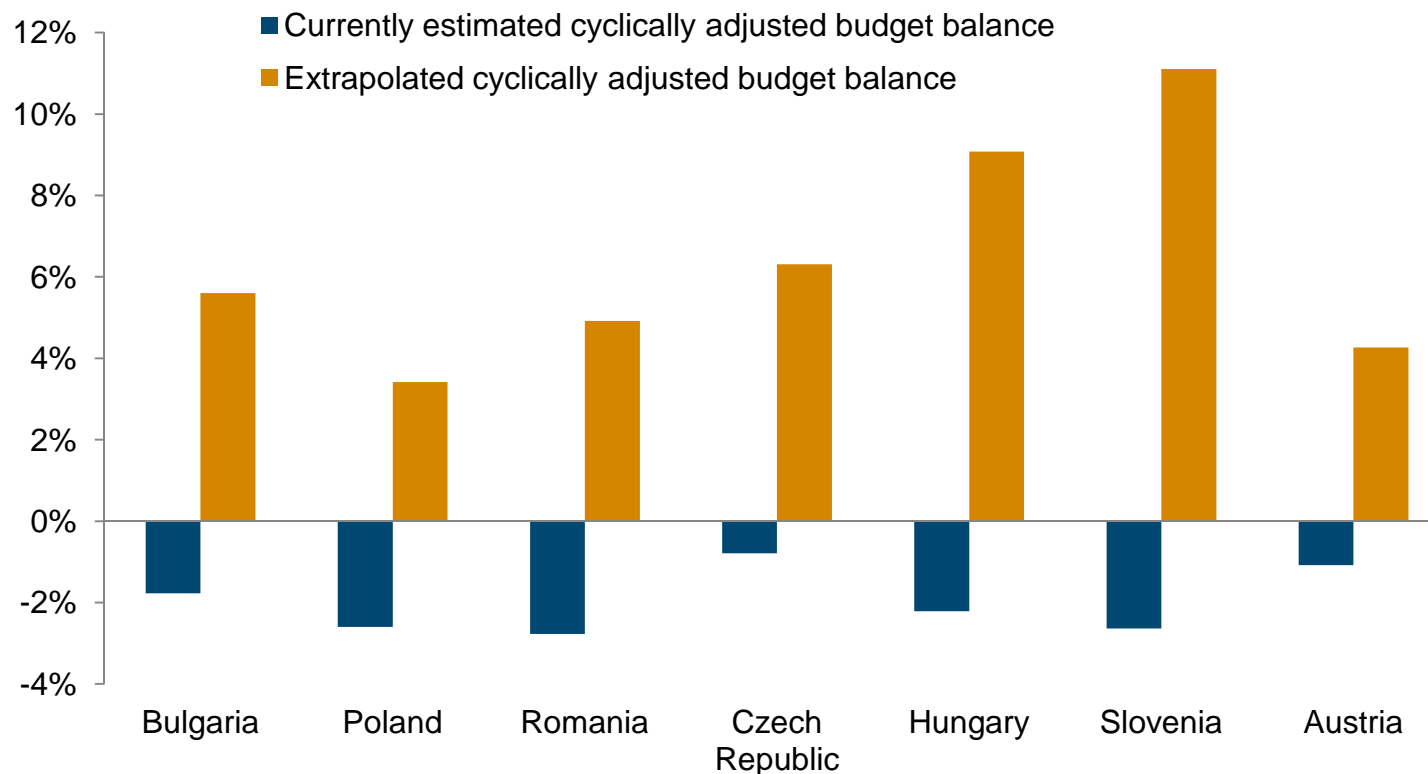
Mario Holzner

INTERNATIONAL ENVIRONMENT: SLUGGISH RECOVERY IN THE EURO AREA

- Economic recovery of the euro area more moderate than expected at the beginning of the year
- Oil price ↑, euro ↑, expenditure on asylum seekers ↓
- Quantitative easing of the ECB is supportive ...
- ... but without a coordinated expansionary fiscal policy no sustainable recovery (OECD)
- IMF top economists: downsizing the state by self-imposed budget consolidation is counterproductive

EU FISCAL RULES ACT AS THE BIGGEST OBSTACLE

Estimates of the cyclically adjusted budget balance 2016, in % of GDP

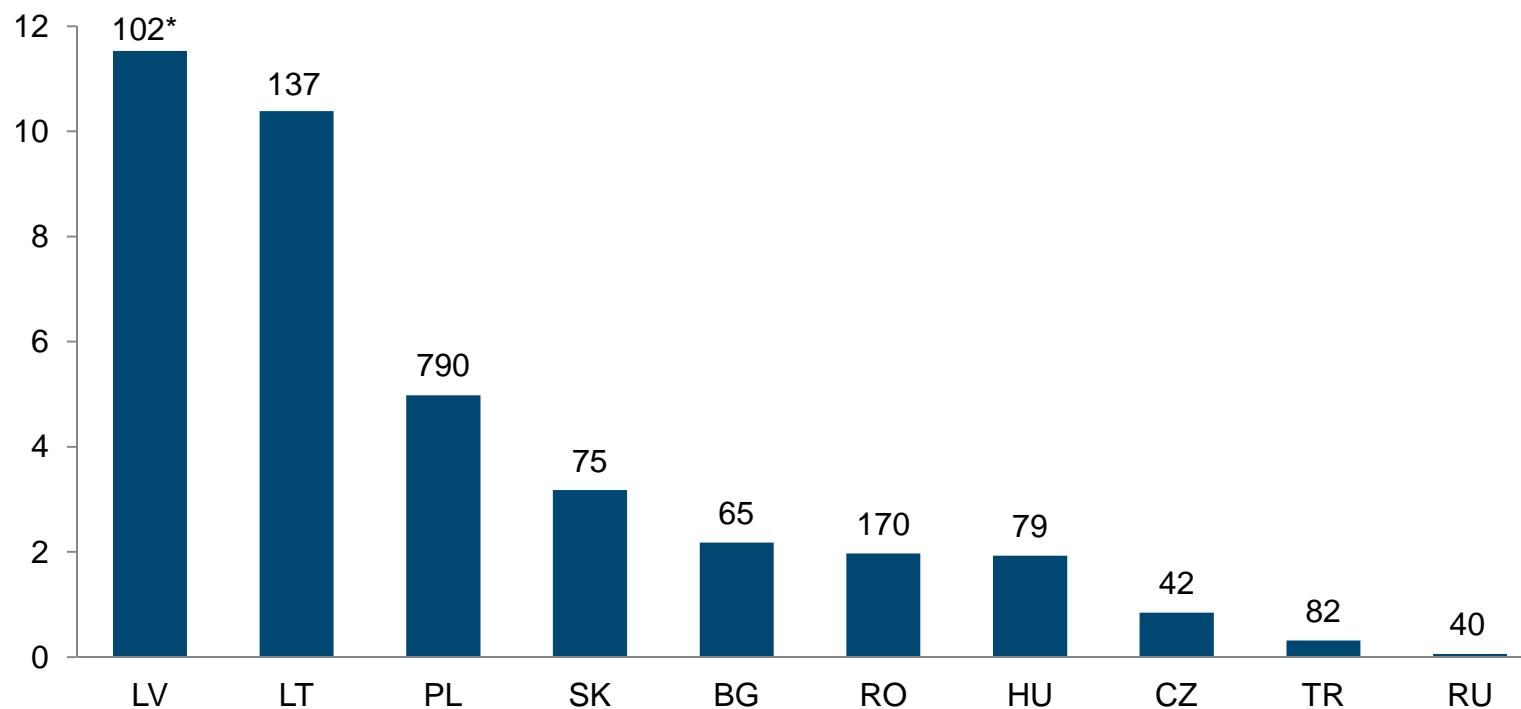


Note: The currently estimated cyclically adjusted budget balance uses continuously adjusted estimates of the output gap. The extrapolated cyclically adjusted budget balance is based on the assumption that the potential output of the respective country immediately before the financial crisis (autumn 2007) has grown in the period 2010-2016 at the constant annual average growth rate of the years 2000-2009.

Source: AMECO (autumn 2007, spring 2016), wiiw calculations.

DOWNSIDE RISKS: MAINLY LACKING EU COOPERATION

Total population living in the UK as a ratio of employment in source country, in %, 2014

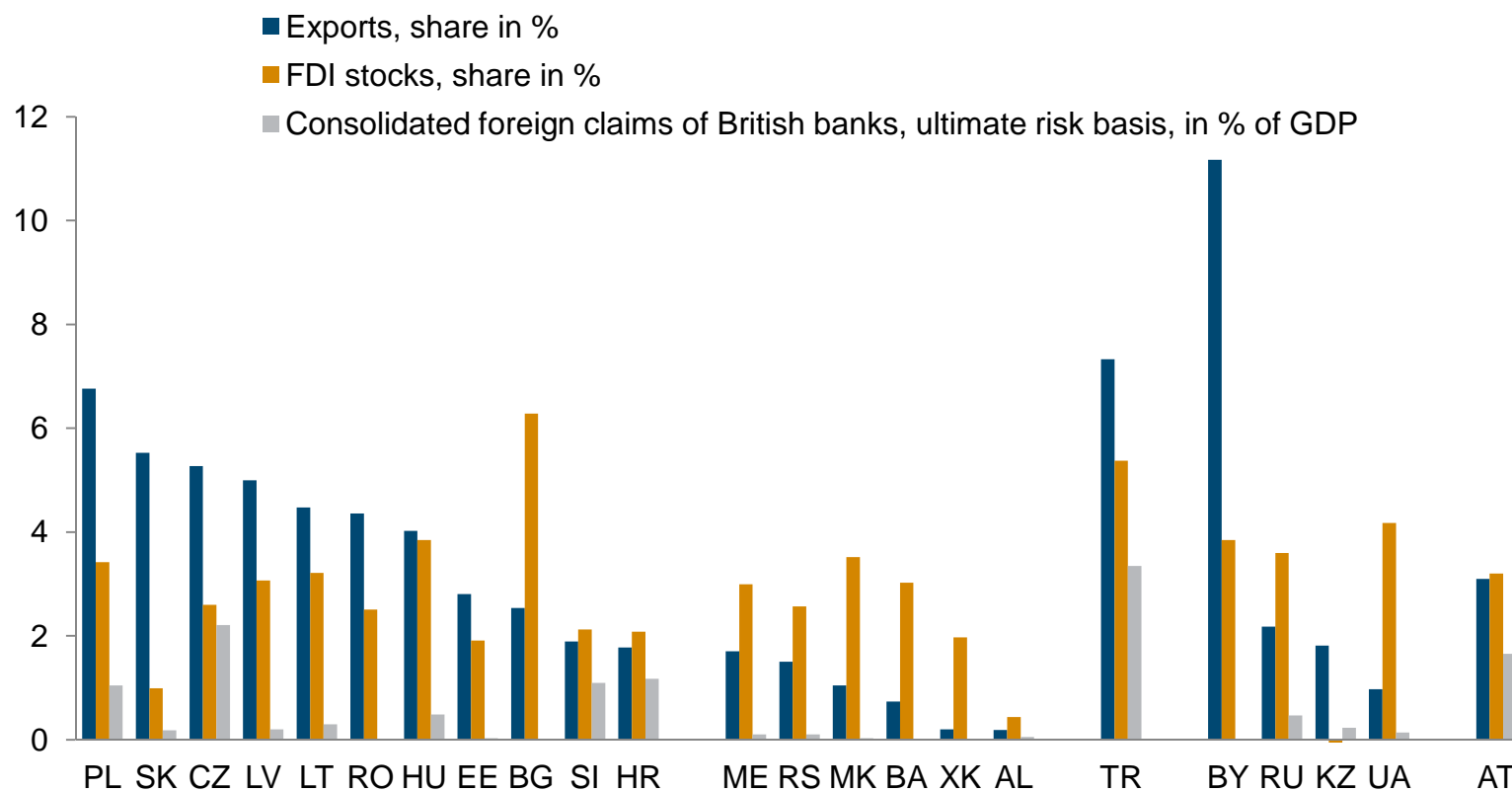


Remark: * Persons living in the UK in thousands.

Source: Annual Population Survey (APS), ONS. wiiw Database incorporating national and Eurostat statistics.

DOWNSIDE RISK: BREXIT

Economic relations of CESEE countries with the United Kingdom



Remark: 2015 or latest available year.

Source: wiiw Database incorporating national and Eurostat statistics, OeNB, BIS.

CESEE: MEDIUM-TERM TREND GROWTH RATE OF UP TO 3%

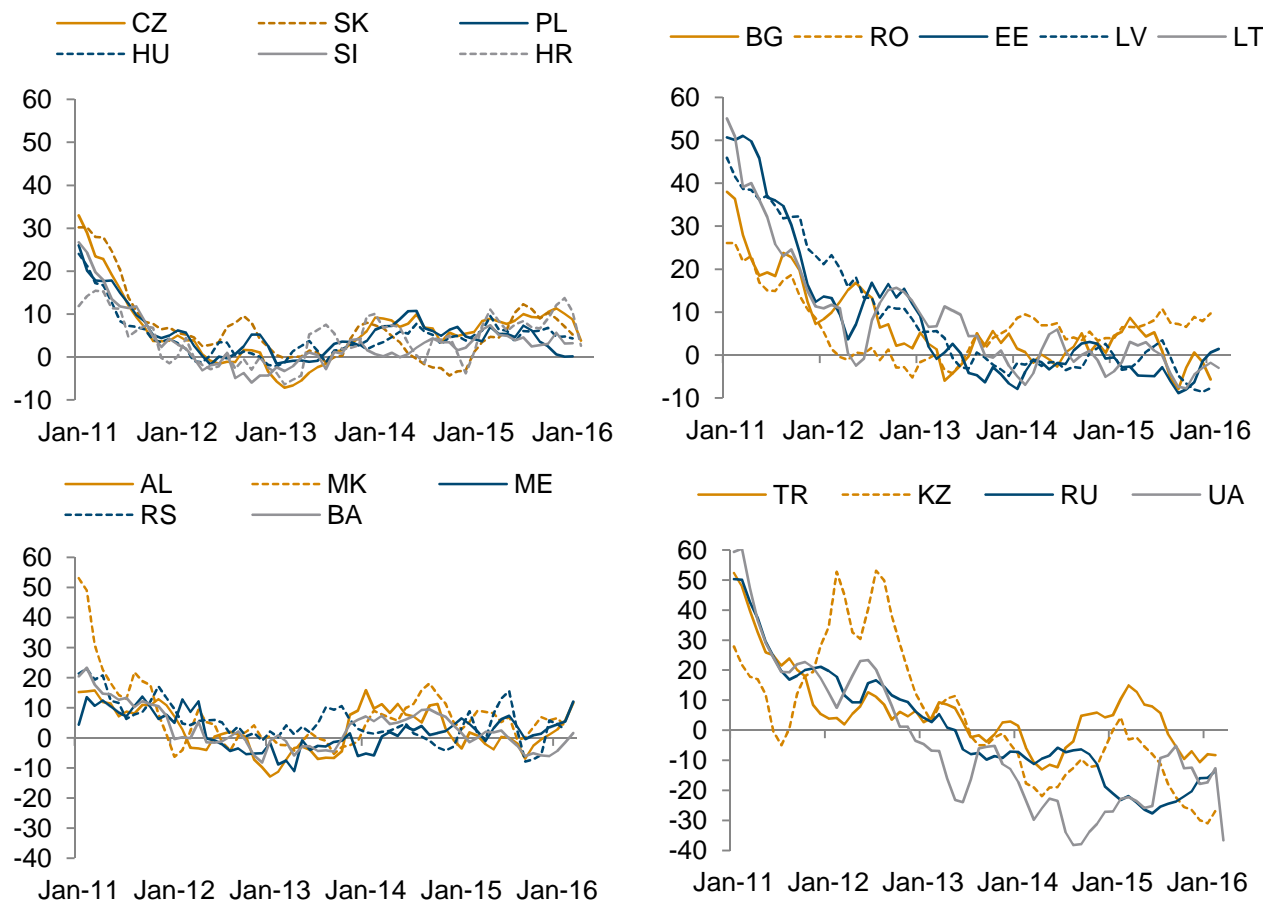
Real GDP growth – forecast and revisions

		Forecast, %			Revisions, pp		
		2016	2017	2018	2016	2017	2018
EU-CEE	BG	2.9	3.0	3.1	↑ 0.4	↑ 0.5	↑ 0.4
	HR	2.0	2.2	2.3	↑ 0.6	↑ 0.4	↑ 0.3
	CZ	2.4	2.6	2.6	→ 0.0	↑ 0.3	↑ 0.2
	EE	2.0	2.3	2.4	↓ -0.2	↓ -0.1	↓ -0.2
	HU	2.0	2.5	2.9	↓ -0.2	↑ 0.2	→ 0.0
	LV	2.5	3.0	3.3	↓ -0.5	↓ -0.2	↓ -0.2
	LT	2.8	3.1	3.4	↓ -0.2	↓ -0.3	↓ -0.1
	PL	3.3	3.3	3.4	↓ -0.1	↑ 0.1	→ 0.0
	RO	4.0	3.2	3.5	→ 0.0	↑ 0.2	→ 0.0
	SK	3.0	3.2	3.3	→ 0.0	→ 0.0	→ 0.0
	SI	2.0	2.3	2.8	→ 0.0	→ 0.0	→ 0.0
Western Balkans	AL	2.9	3.3	3.3	↓ -0.3	↓ -0.2	↓ -0.3
	BA	2.9	2.9	3.0	→ 0.0	→ 0.0	↓ -0.1
	XK	3.3	4.2	4.0	↓ -0.6	↓ -0.1	→ 0.0
	MK	3.4	3.1	3.1	→ 0.0	→ 0.0	→ 0.0
	ME	3.1	3.3	3.5	↑ 0.3	↑ 0.5	↑ 0.4
	RS	1.9	2.3	2.5	↑ 0.3	↑ 0.6	↑ 0.5
Turkey	TR	4.1	3.7	3.5	↑ 0.9	↑ 0.6	↑ 0.5
CIS-3 +UA	BY	-2.0	0.5	1.4	↑ 0.6	→ 0.0	↓ -0.1
	KZ	0.4	2.0	3.0	↓ -0.6	↓ -0.5	↓ -0.5
	RU	-0.8	0.8	1.8	→ 0.0	→ 0.0	→ 0.0
	UA	0.5	1.9	2.4	↑ 0.5	→ 0.0	↓ -0.1

Note: Current forecast and revisions relative to the wiiw Spring 2016 Forecast Report. Colour scale reflects variation from the minimum (red) to the maximum (green) values. Source: wiiw forecast.

CESEE: HOUSEHOLD CONSUMPTION A GROWTH DETERMINANT

Imports of goods (nominal, euro-based), change in % against preceding year, 3-month moving average

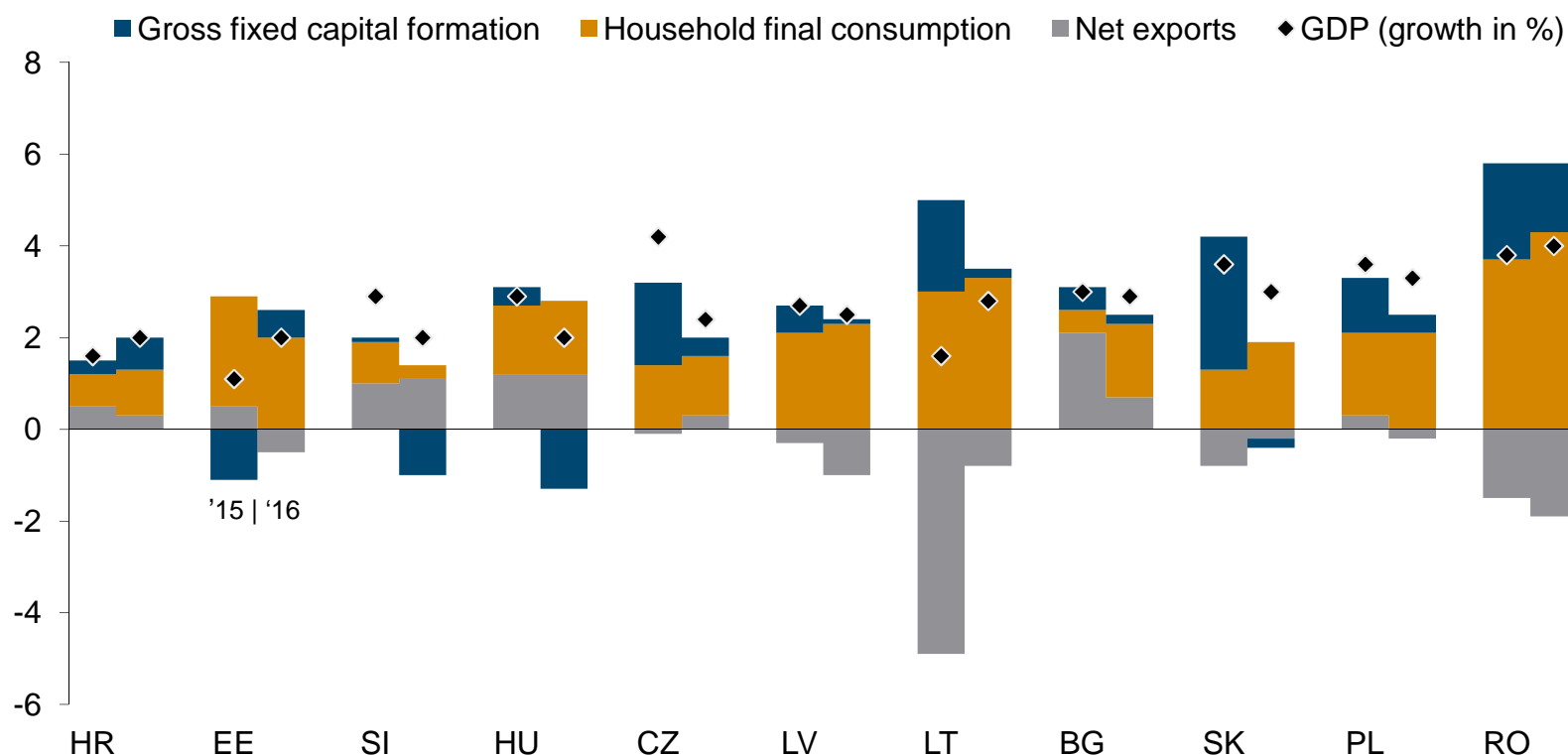


Source: wiiw Monthly Database incorporating national and Eurostat statistics.

EU-CEE: HOUSEHOLD CONSUMPTION REPLACES EU-FUNDED INVESTMENT

GDP growth in 2015 & 2016

and contribution of individual demand components in percentage points

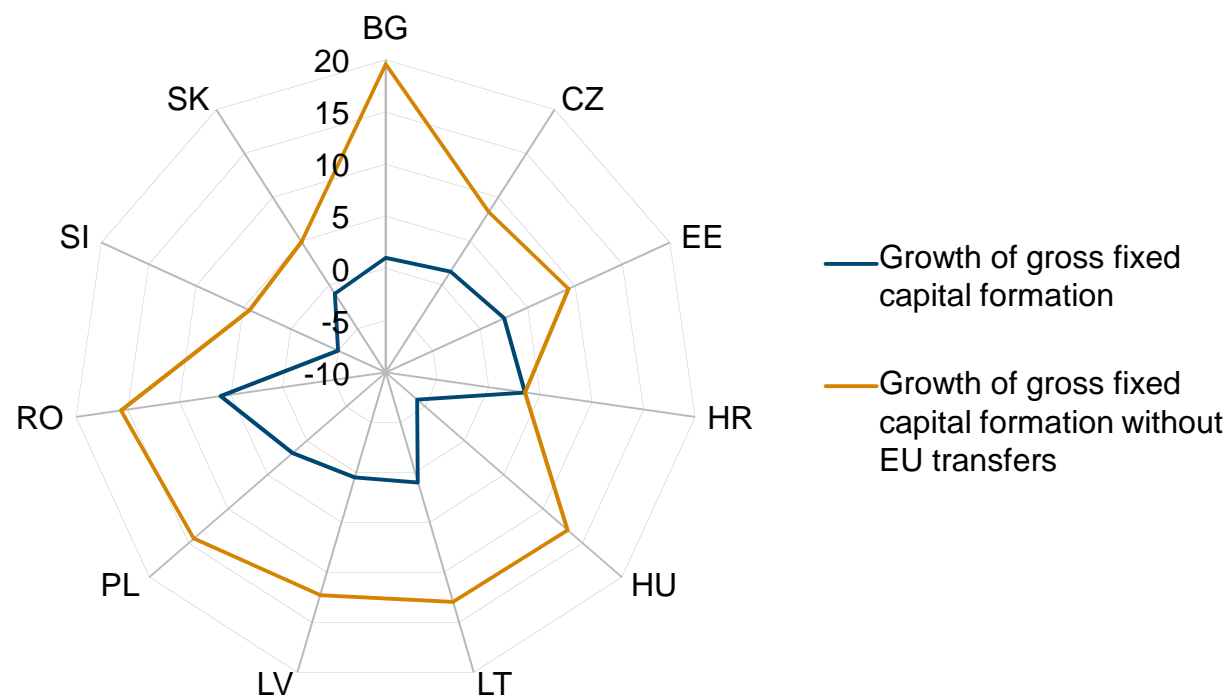


Remark: Ranking by growth rates of 2016.

Source: 2015 wiiw Annual Database incorporating national and Eurostat statistics; forecasts by wiiw, June 2016.

EU-CEE: INVESTMENTS WITHOUT EU-SHARE LIKELY TO RISE STRONGLY

Estimated growth of gross fixed capital formation, 2016



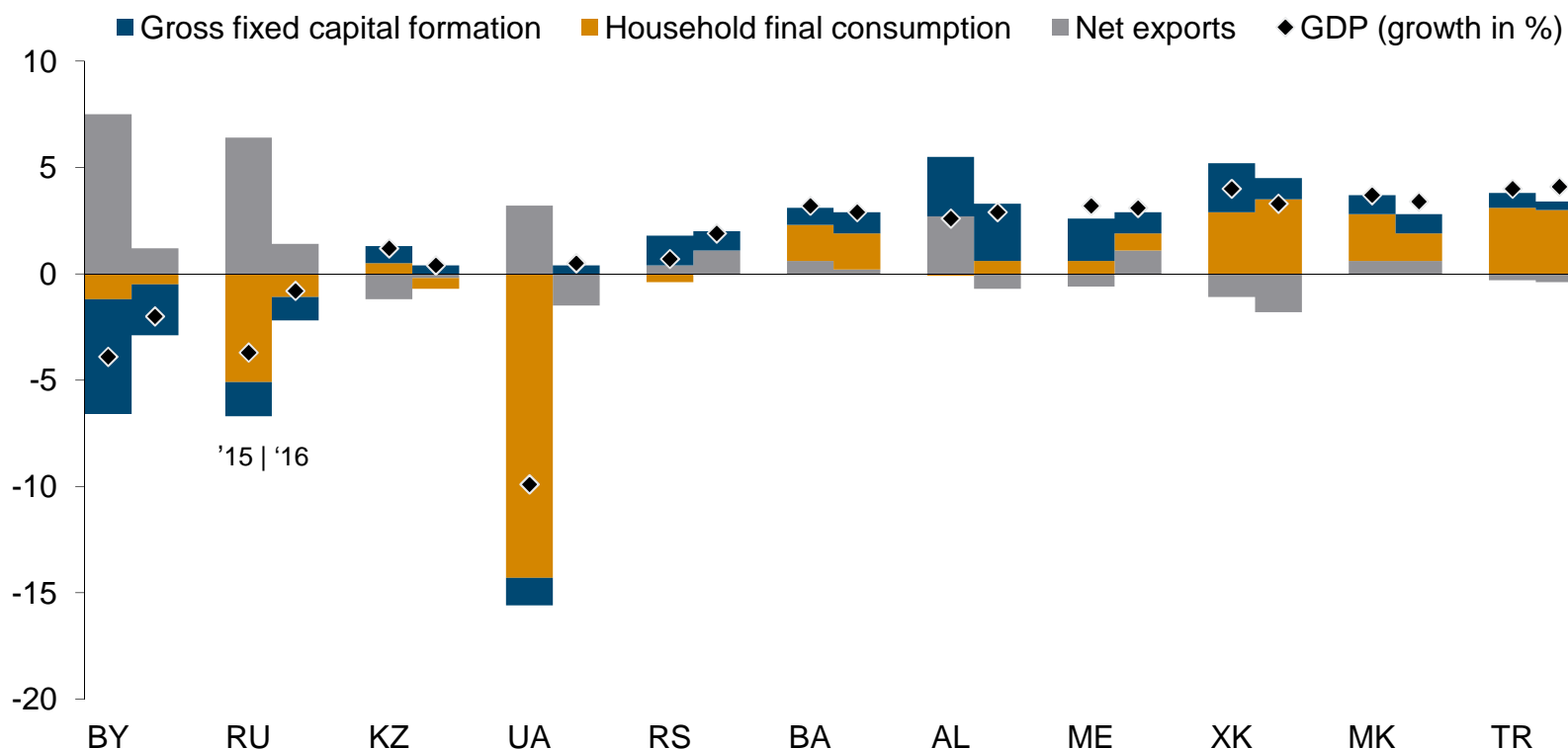
Remark: Forecasted growth of gross fixed capital formation with and without estimates of EU transfer-related investments. For 2015 a share of EU transfers in total gross fixed capital formation equal to that in the late disbursement phase of the latest MFF (2012-2014) is assumed, for 2016 a share equal to that in the early phase (2007-2009). In the case of Croatia, because of its recent accession to the EU, for both years the average of the late disbursement phase is assumed.

Source: EU Commission; forecast: wiiw June 2016; own calculations.

WESTERN BALKANS: DIFFERENTIATED SOURCES OF GROWTH CIS AND UKRAINE: BOTTOMING OUT

GDP growth in 2015 & 2016

and contribution of individual demand components in percentage points

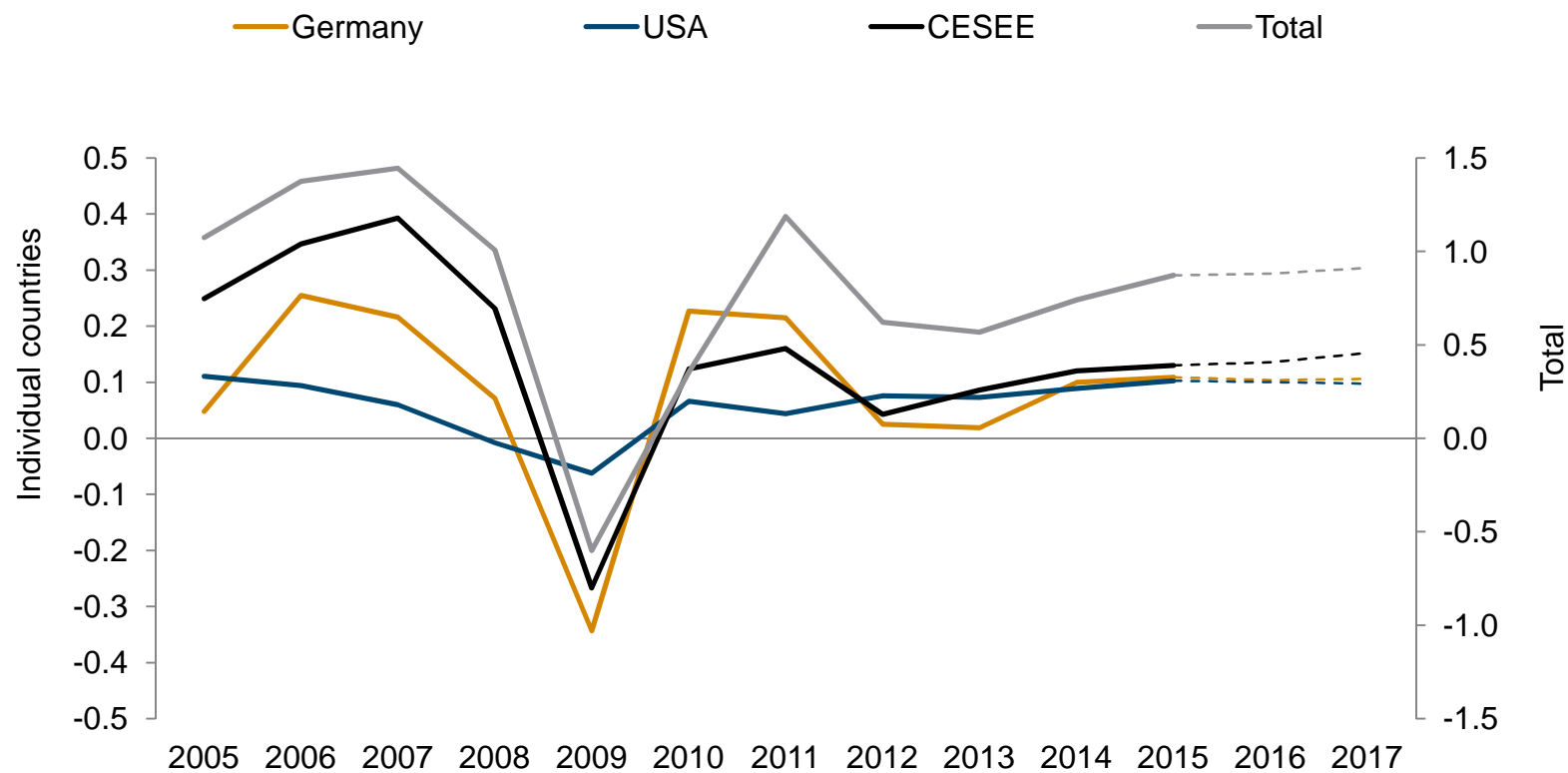


Remark: Ranking by growth rates of 2016.

Source: 2015 wiiw Annual Database incorporating national and Eurostat statistics; forecasts by wiiw, June 2016.

AUSTRIA: BENEFITING FROM CESEE RECOVERY

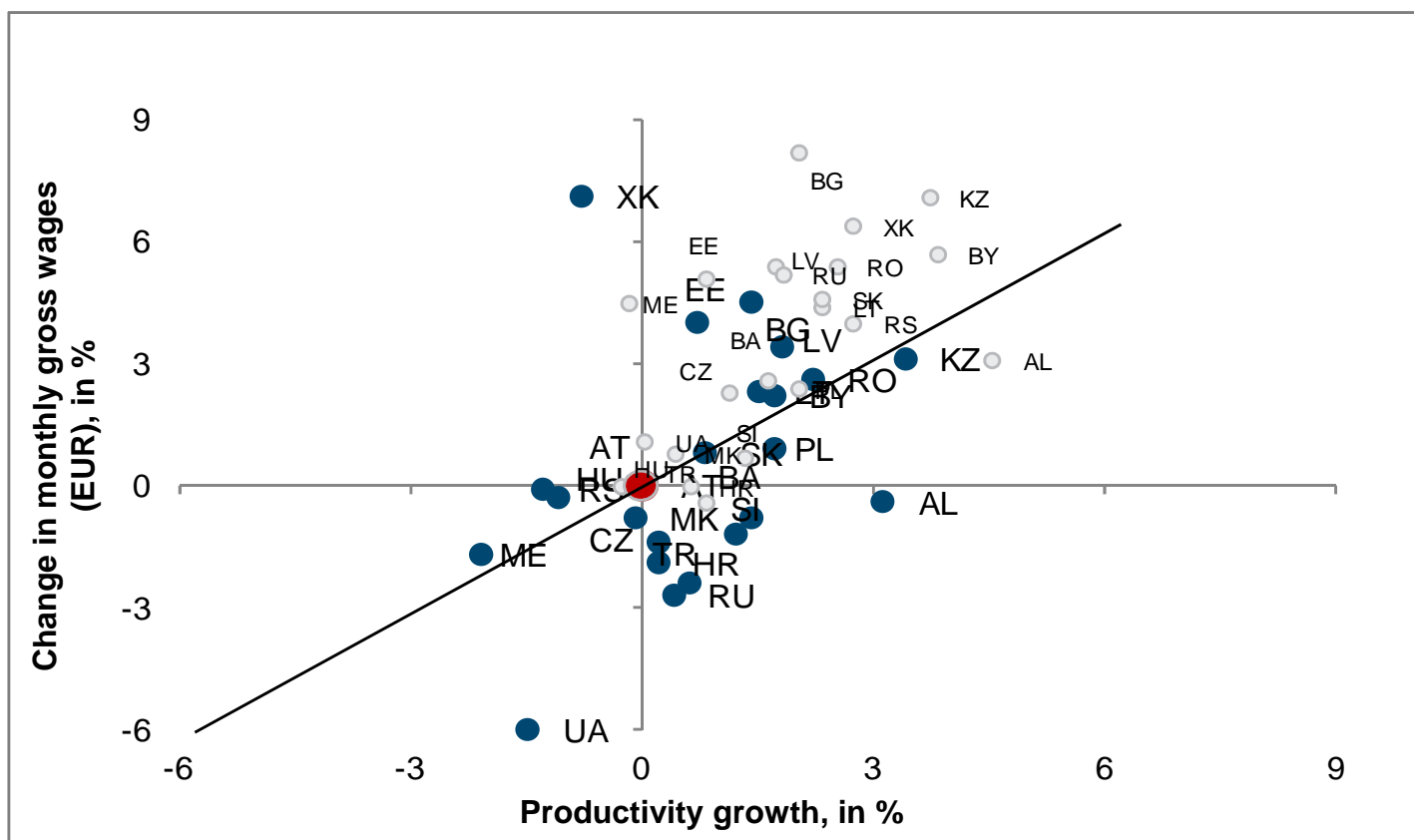
Potential export contribution to Austrian GDP growth, in %



Source: IMF-WEO, Eurostat, AMECO, wiiw Database incorporating national and Eurostat statistics.

COMPETITIVENESS: CESEE POSE LITTLE THREAT TO AUSTRIA

Wage and productivity growth in relation to Austria, 2011-2015 compared to 2006-2015

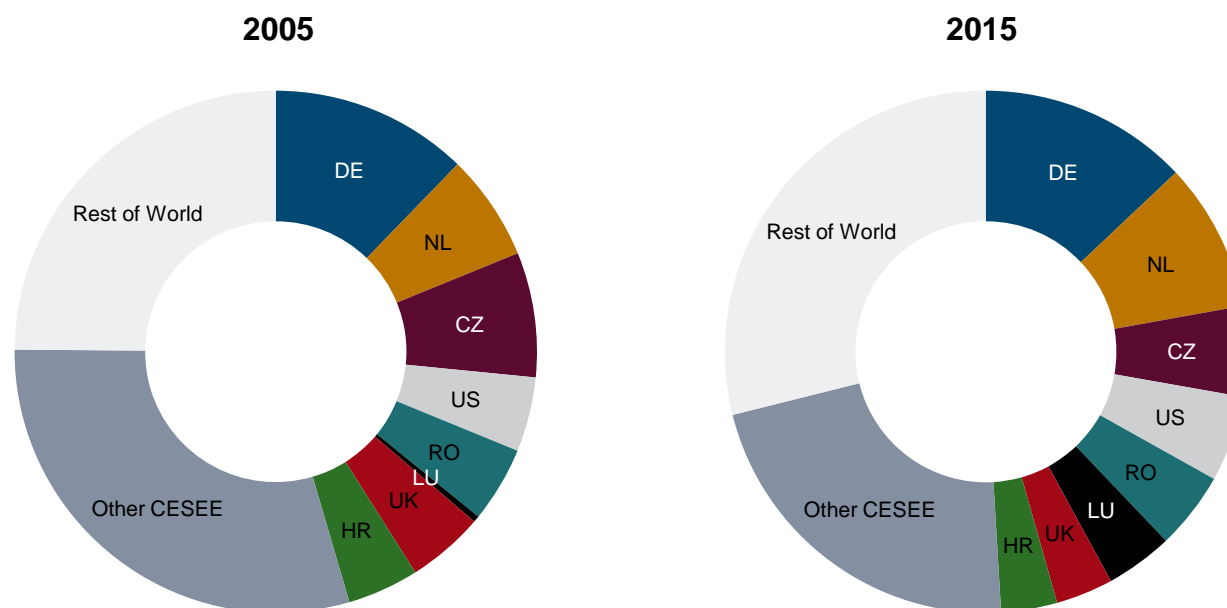


Remark: Blue dots show average 2011-2015, grey dots show average 2006-2015.

Source: wiiw Database, AMECO, Eurostat.

AUSTRIAN DIRECT INVESTMENTS: SHARE OF CESEE DECLINING

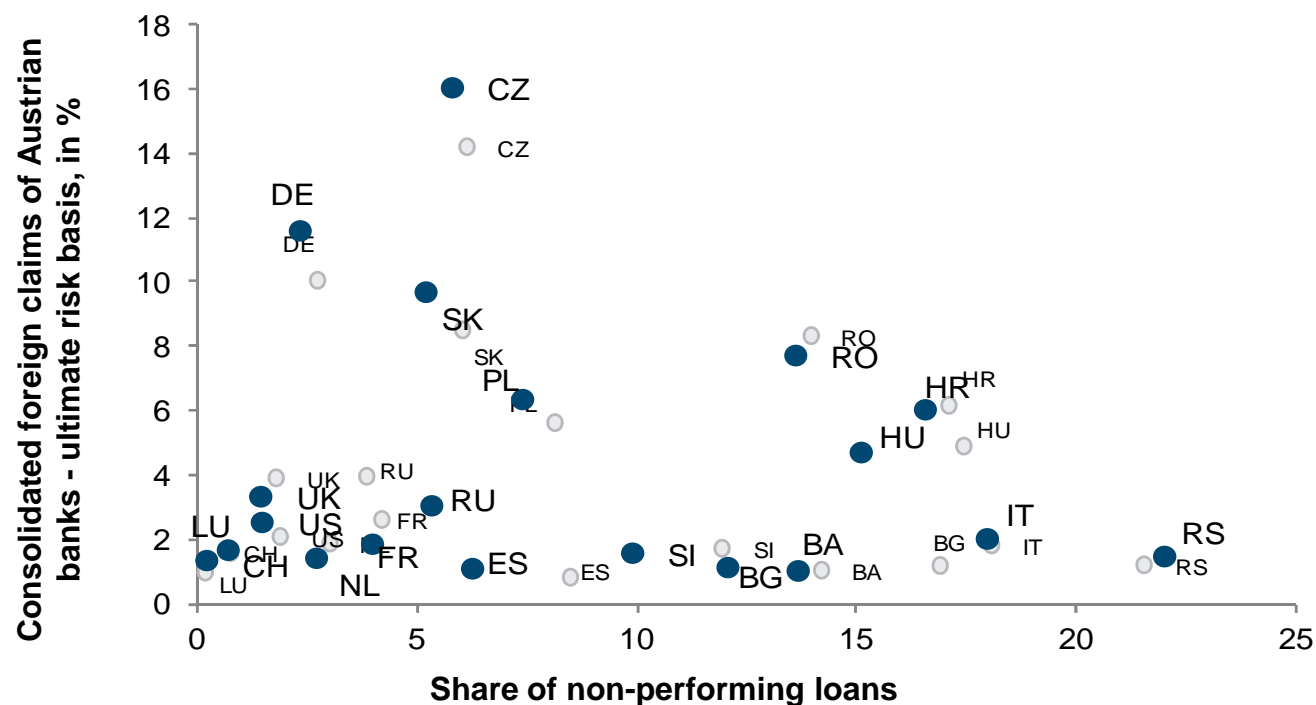
Austrian FDI stocks abroad, top 8 (ranking 2015), shares in %



Remark: According to BPM6 methodology.
Source: OeNB.

AUSTRIAN BANKS: FOREIGN EXPOSURE DECLINING

Foreign claims of Austrian banks and share of non-performing loans
 Top 20 (ranking 2015), shares in %

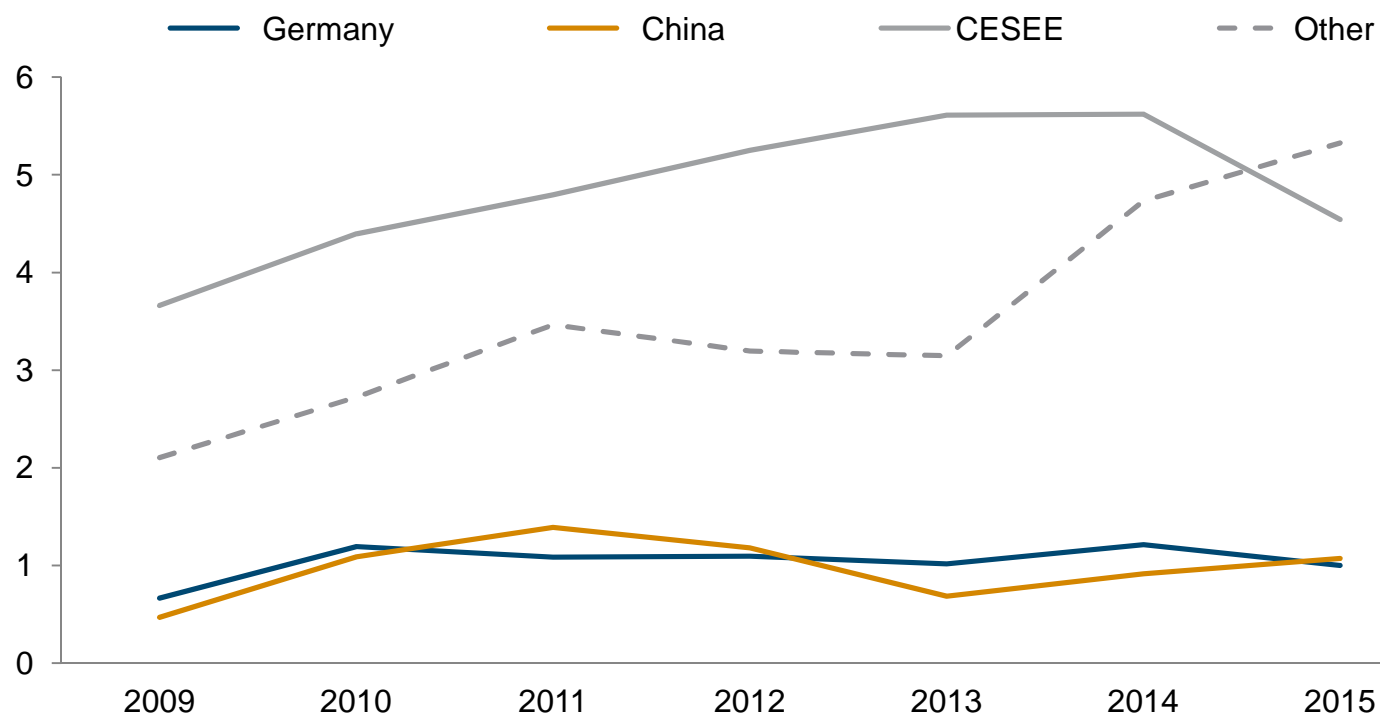


Remark: Blue dots show 2015, grey dots show 2014.

Source: Foreign claims: BIS (lacking data according to OeNB for Ukraine in 2014, RBI for Albania, Kosovo, Russia and Belarus in 2014, RBI for Kosovo in 2015). Non-performing loans: national statistics for CESEE, IMF for other countries.

AUSTRIAN FDI INCOME: TIME TO HARVEST

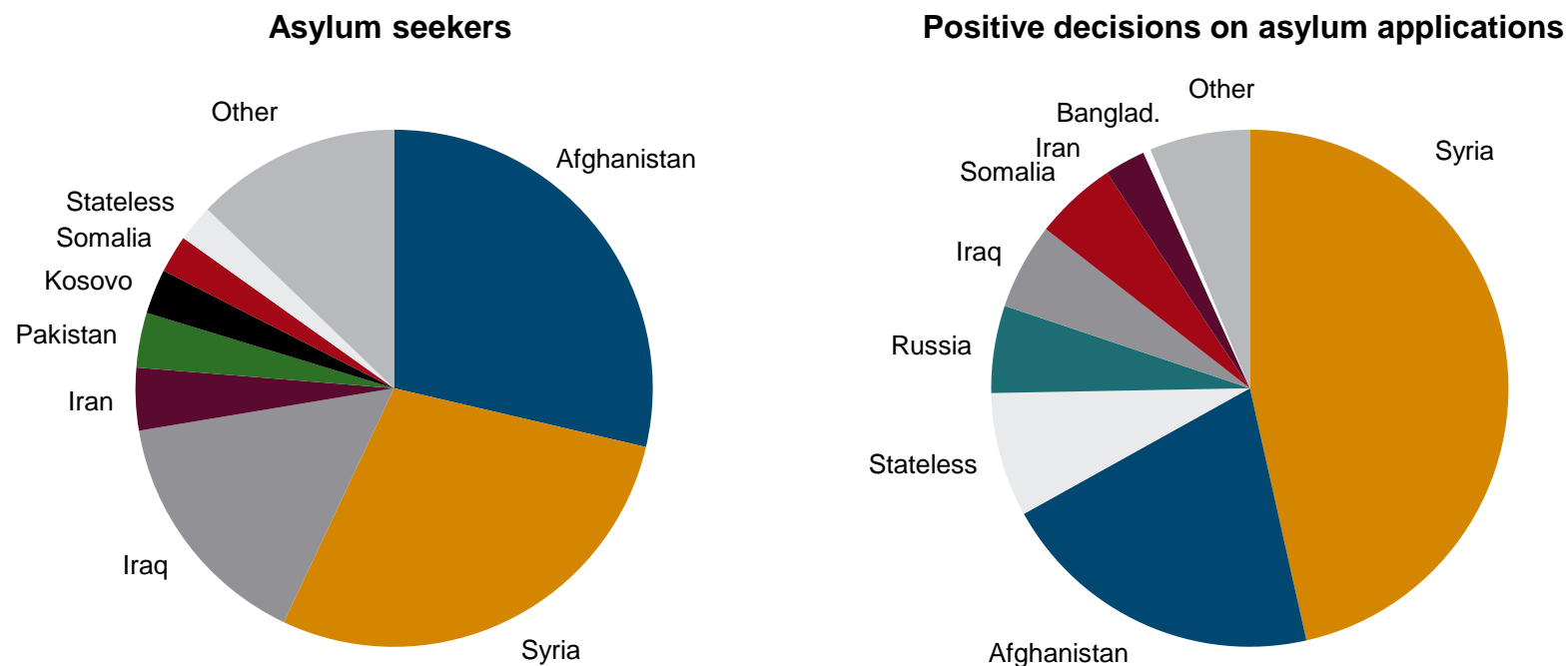
Income from FDI abroad
in billion EUR



Remark: According to BPM6 methodology.
Source: OeNB.

ASYLUM IN AUSTRIA: ONLY FEW FROM CESEE (RUSSIA, KOSOVO)

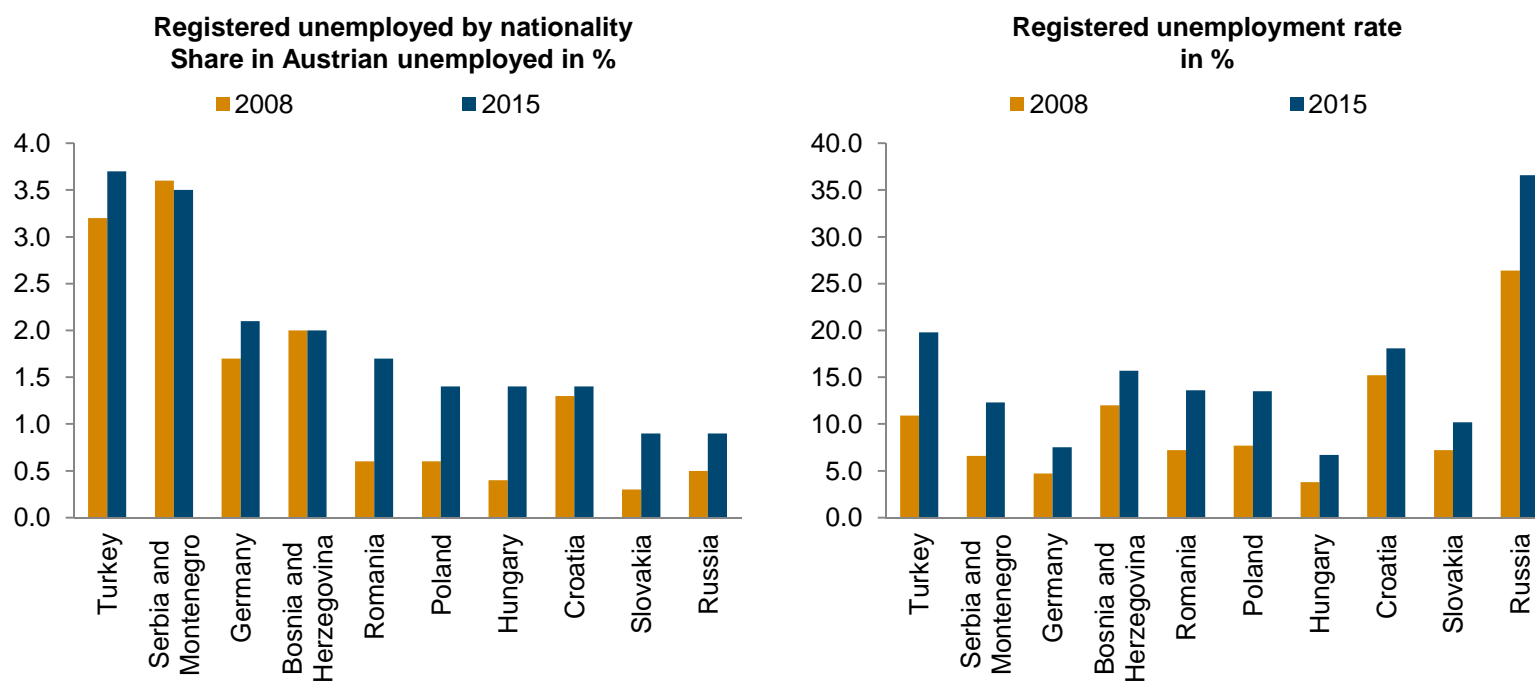
Asylum seekers and positive decisions on asylum applications in Austria by nationality, 2015, top 8 (ranking 2015), shares in %



Source: Eurostat.

UNEMPLOYED PERSONS IN AUSTRIA: INCREASINGLY FROM EU-CEE

Registered unemployed and unemployment rate by nationality
Top 8 (ranking 2015), shares in %



Remark: Serbia and Montenegro are taken together and include former Yugoslavia. The unemployment rate is defined as unemployed in % of the labour force.

GDP GROWTH FORECAST 2016-2018

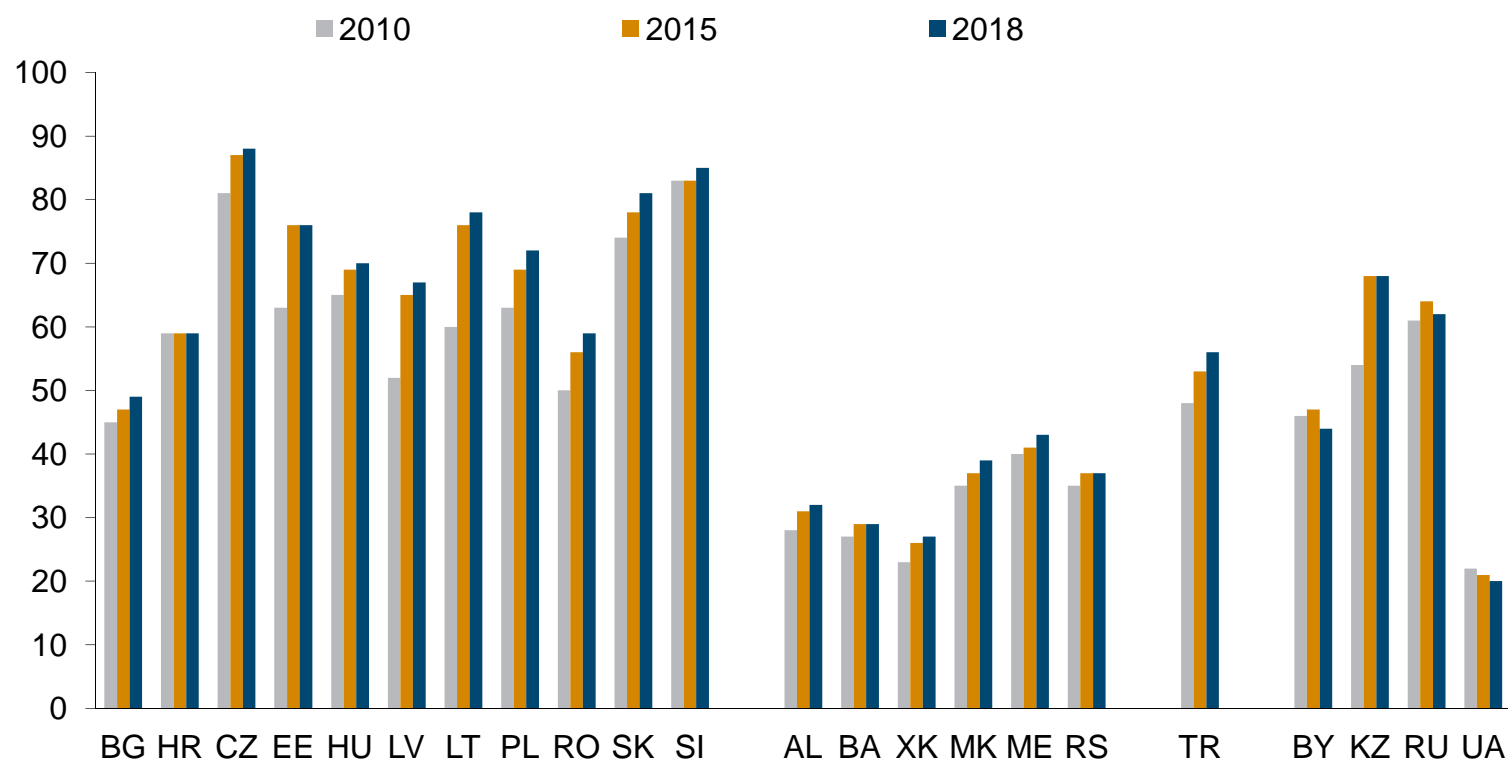
	2016	2017	2018
Turkey	4.1	3.7	3.5
Romania	4.0	3.2	3.5
Macedonia	3.4	3.1	3.1
Poland	3.3	3.3	3.4
Kosovo	3.3	4.2	4.0
Montenegro	3.1	3.3	3.5
Slovakia	3.0	3.2	3.3
Bulgaria	2.9	3.0	3.1
Albania	2.9	3.3	3.3
Bosnia and Herzegovina	2.9	2.9	3.0
Lithuania	2.8	3.1	3.4

	2016	2017	2018
Latvia	2.5	3.0	3.3
Czech Republic	2.4	2.6	2.6
Croatia	2.0	2.2	2.3
Hungary	2.0	2.5	2.9
Slovenia	2.0	2.3	2.8
Estonia	2.0	2.3	2.4
Serbia	1.9	2.3	2.5
Ukraine ²⁾	0.5	1.9	2.4
Kazakhstan	0.4	2.0	3.0
Russia ¹⁾	-0.8	0.8	1.8
Belarus	-2.0	0.5	1.4

1) Including Crimea. - 2) Excluding Crimea and parts of Donbas.
Forecast: wiiw (June 2016).

EU-CEE & WESTERN BALKANS: CATCH-UP PROCESS DECELERATING – GROWTH DIFFERENTIAL 1-1.5 pp.

GDP per capita at PPP, EU-28 average = 100



Source: wiiw Database incorporating national and Eurostat statistics.

Forecast: wiiw (June 2016).

CONCLUSIONS

- Sluggish recovery in the euro area – CESEE trend growth rate up to 3% – EU-CEE driven by household consumption, CIS has bottomed out
- Overall, CESEE provide growth impetus to Austria
- Austria's competitiveness not endangered by CESEE
- Austrian total FDI income has increased to more than 10 bn euro annually
- BREXIT risk for Europe; direct effects likely to be small for EU-CEE
- Rigid EU fiscal rules are biggest obstacle to a sustainable economic upswing in Europe

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Thank you for your attention!

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