

Monthly Report | 11/11

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- **Recent economic developments in Albania, Bosnia and Herzegovina, Croatia, Kazakhstan, Macedonia, Montenegro, Russia, Serbia, Turkey and Ukraine**
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Albania: candidate? not yet.

BY MARIO HOLZNER

In its latest October 2011 Progress Report on Albania the European Commission concluded that, although progress has been made recently in some key areas, conditions for opening accession negotiations have not yet been met. The Commission especially referred to the climate of political polarization in the wake of the 8 May 2011 municipal elections that ended in a fierce dispute over the outcome of the vote in the capital Tirana. It was also noted that essential steps in public administration reform have not been completed and the functioning of the judicial system needs to be further improved.

In economic terms the climate has become somewhat harsher. As compared to earlier forecasts the GDP growth rate for 2011 had to be revised downward by more than a percentage point to 2.8%. This is mainly due to a sudden stop of Albanian hydro power electricity production because of a dry summer as well as a dip in the business confidence indicators. This turn in confidence together with a murkier outlook for Albania's main economic partners Greece and Italy makes also the expected growth rates for the years to come less shiny. For 2012 we expect a growth rate of 3.2% and for 2013 a rate of 4%.

However, Albania is still among a group of transition countries with relatively high growth rates. Despite a significant drop of electricity exports, overall exports still increased by some 23% in lek terms in the first eight months of 2011 as compared to the same period a year earlier. The growth rates in euro terms are quite similar as the lek depreciated only slightly during the respective period. The highest growth of 48% was recorded for construction materials and metals. Another sector with slightly above-average export growth is the leather and leather manufacturing sector. Among imports that on average increased by some 14%, minerals, fuels and electricity imports increased most dramatically, by 38%. It is worth noting that imports of

machinery, equipment and spare parts increased far below average. This hints at a reduced investment activity among Albanian firms. The current account deficit if at all will rather increase slightly as remittances from Albanian expatriates dropped by 12% in the first half of 2011 as compared to the same period a year earlier. According to anecdotal evidence large numbers of Albanian migrants return home, especially from crisis-torn Greece. However, proper migration data are inexistent and even labour force data are difficult to interpret because of inconsistencies between registered and labour force survey data.

According to data for the first eight months of 2011, new loans to the economy are declining as compared to the same period in 2010. This is especially true for the largest part of them, the new loans to businesses, while new loans to households are still increasing. This corresponds to the results of the most recent business and consumer survey, where the consumer confidence indicator is still around its long-term average while the industry and construction confidence indicators strongly declined in the second quarter of 2011. Consequently also the credit standards on loans to households continued to ease in the second quarter of 2011 while those on loans to enterprises tightened. One reason is certainly the further increase in the level of non-performing loans, which overall made up some 18% of the total loan portfolio by August 2011, an increase by one third as compared to a year earlier. In order to stimulate lending and accounting for falling inflation, the central bank reduced its one week repo rate by 25bp to 5% at the end of September 2011.

Also fiscal stimulus is still active. By August 2011 government revenues increased by some 2% year-on-year while expenditures increased by 5%, both on a cash basis. For the whole year 2011 this will most likely result in a slight increase of the public debt share in GDP to a rate close to 60%. This level of public debt is among the highest in emerging Europe. In addition, more than half of it has a short-term remaining maturity, which is also exceptionally high in comparison. However, all of the

external government debt is long-term and it constitutes less than half of the total public debt. Thus, overall foreign exposure of the public sector in Albania is rather modest. Moreover, continuous economic growth that is higher than the interest rate to be paid should make the refinancing of debts unproblematic.

In general, the economy faces rather little exposure to risky markets which is partly due to the fact that Albania is not exporting a lot anyway. If the eurozone is considered to be a risky market, then Albania is among the least exposed transition economies with less than 10% of exports in GDP to this market and some 5% of external debt in GDP to it. Also remittances and FDI stemming from the eurozone comprise approximately less than 10% of GDP. Nevertheless, falling remittances are an important constraint on household demand. In that sense it seems to be indicative that first quarter 2011 data on sales, maintenance and repair of motor vehicles is showing a year-on-year decline. This indicator is considered to have significant GDP growth forecasting power.

Under the assumption that the eurozone crisis has no major impact on the Albanian economy and does not aggravate but can be controlled if not solved, growth for 2012 can be expected to be similar to 2011. For 2013 we expect an improvement in growth dynamics as this is the year when the next parliamentary elections are scheduled and government expenditures tend to rise. The elections should also act as a litmus test for Albania's maturity to enter accession negotiations with the EU. A start of negotiations could act as a boost to foreign direct investment and could bring the country's growth dynamics back to pre-crisis levels.

Table AL

Albania: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	3161.3	3182.0	3194.4	3210	.	.	3220	3240	3260
Gross domestic product, ALL bn, nom. ²⁾	967.7	1089.3	1151.0	1220	590	.	1300	1400	1510
annual change in % (real) ²⁾	5.9	7.5	3.3	3.6	2.4	.	2.8	3.2	4.0
GDP/capita (EUR at exchange rate)	2500	2800	2700	2800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5800	6400	6500	6800	.	.	.	.	.
Consumption of households, ALL bn, nom. ²⁾	775.1	861.9	910	970	.	.	.	.	.
annual change in % (real) ²⁾	10.7	6.7	3	2.8	.	.	3	4	7
Gross fixed capital form., ALL bn, nom. ²⁾	374.1	415.1	430	400	.	.	.	.	.
annual change in % (real) ²⁾	5.5	9.5	5	-7	.	.	2	3	8
Gross industrial production ³⁾									
annual change in % (real)	-9.7	8.7	7.2	20	21.8	.	6	8	7
Gross agricultural production ⁴⁾									
annual change in % (real)	2.7	7.1	2.0	9	8.3	.	2	4	3
Construction output total ³⁾									
annual change in % (real)	12.2	10.9	0.4	-25	-25.9	.	2	3	8
Employed persons - LFS, th ⁵⁾	1197.7	1123.3	1160.5	1200	.	.	1150	1150	1200
annual change in %	.	-6.2	3.3	3.4	.	.	-4	0	4
Employment reg. total, th pers., end of period	965.5	974.1	899.3	916.9	904.9	929.5	920	920	950
annual change in %	3.3	0.9	-7.7	2.0	-7.0	2.7	0	0	3
Unemployed persons - LFS, th ⁵⁾	184.8	168.6	185.0	190	.	.	200	200	190
Unemployment rate - LFS, in % ⁵⁾	13.5	13.0	13.8	13.7	.	.	14	14	13
Unemployment rate, reg., in %, end of period	12.9	12.7	13.9	13.5	13.8	13.4	13	13	12
Average gross monthly wages, ALL	27350	27951	31900	33870	42800	45500	.	.	.
annual change in % (real, gross)	21.6	-1.1	11.7	3.0	6.7	4.1	4	5	8
Consumer prices, % p.a.	2.9	3.4	2.3	3.5	3.8	4.0	4	4	4
Producer prices in industry, % p.a.	3.5	6.5	-1.6	0.3	0.03	3.2	4	5	6
General governm.budget, nat.def., % GDP									
Revenues	26.0	26.8	26.2	26.6	25.5	.	26	27	28
Expenditures	29.6	32.3	33.2	29.7	29.1	.	30	31	35
Deficit (-) / surplus (+)	-3.5	-5.5	-7.0	-3.1	-3.6	.	-4	-4	-7
Public debt, nat. def., in % of GDP ⁶⁾	53.9	55.2	59.7	58.2	.	.	59.4	60	63
Central bank policy rate, % p.a., end of period ⁷⁾	6.3	6.3	5.3	5.0	5.3	5.3	5.0	5.0	5.3
Current account, EUR mn	-824.2	-1381.2	-1321.4	-1040.5	-429.1	-586.5	-1100	-1300	-1800
Current account in % of GDP	-10.5	-15.6	-15.2	-11.8	-10.0	.	-11.8	-12.5	-15.5
Exports of goods, BOP, EUR mn	786.3	917.5	750.7	1171.5	595.4	701.4	1300	1500	1700
annual growth rate in %	24.7	16.7	-18.2	56.1	65.8	17.8	11	15	13
Imports of goods, BOP, EUR mn	2890.4	3348.9	3054.4	3254.2	1497.3	1691.3	3350	3800	4600
annual growth rate in %	26.2	15.9	-8.8	6.5	2.9	13.0	3	13	21
Exports of services, BOP, EUR mn	1421.3	1687.8	1771.4	1702.4	628.9	661.9	1500	1800	2100
annual growth rate in %	22.9	18.7	5.0	-3.9	-14.3	5.3	-12	20	17
Imports of services, BOP, EUR mn	1402.3	1618.3	1597.5	1520.7	632.4	716.2	1350	1500	1800
annual growth rate in %	18.0	15.4	-1.3	-4.8	-14.5	13.2	-11	11	20
FDI inflow, EUR mn	481.1	665.2	696.4	831.5	336.9	302.5	600	700	800
FDI outflow, EUR mn	17.5	55.4	28.2	8.9	6.2	6.4	20	30	40
Gross reserves of NB excl. gold, EUR mn ⁸⁾	1415.9	1626.1	1607.8	1842.1	1718.6	1720.2	.	.	.
Gross external debt, EUR mn	2220.6	3212.1	3372.0	3745.5	3576.0	3818.8	.	.	.
Gross external debt in % of GDP	28.4	36.2	38.7	42.3	40.4	41.1	.	.	.
Exchange rate ALL/EUR, average	123.63	122.80	132.06	137.79	138.00	140.61	140	135	130
Purchasing power parity ALL/EUR ⁹⁾	52.39	53.08	55.32	56.22	.	.	.	.	.

1) Preliminary. - 2) According to ESA95 (including non-observed economy, real growth rates based on previous year prices). - 3) Gross value added. - 4) Gross value added of agriculture, forestry and fishing. - 5) Survey once a year (June or September-October), wiiw estimate in 2010. - 6) Based on IMF data. - 7) One-week repo rate. - 8) From 2009 international reserves (foreign assets of NB before). - 9) wiiw estimates based on the 2005 International Comparison Project benchmark.

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

Bosnia and Herzegovina: slow motion mode perpetuating

BY JOSEF PÖSCHL

Bosnia and Herzegovina has gained the reputation of a badly performing country and society. To some degree this is justified, to some it is not. The negative image originates mainly from a never-ending string of news about political trouble and stand-still. This overshadows the fact that BiH is a relatively secure country with democratic institutions and a wide range of well-functioning public administration bodies at least on local and regional levels. In terms of the economy, the negative image is justified with regard to the very low share of citizens in regular employment. On the other hand, however, the economy grew rapidly after the year 2000, and the global crisis caused only a minor GDP decline (3% in 2009). Recovery followed suit, but has so far been weak admittedly.

In some respect, the situation has improved after the crisis: Exports have surpassed the pre-crisis level, whereas imports did not (see Table 1). This is of crucial importance: Less than ten years ago, in 2002-3, export revenues covered merely one quarter of import expenditures; in the meantime, the ratio has climbed to over 50%. This is still by far too low, but the improvement is obvious. It might be much stronger if an export-supportive infrastructure – in physical and above all also in institutional terms – were present. This deficiency is a major reason why many start-up attempts of citizens with entrepreneurial ambitions have remained unsuccessful. Otherwise, the mismatch between population size and productive capacity would already be much lower. The country is hardly attracting foreign direct investment any more. In other transition countries, FDI companies have become the main exporters, so that the trade deficit declined or even disappeared.

It is mainly current transfers which finance the high trade deficit, EUR 1.7 billion in the first half of 2011. They have remained surprisingly stable in recent years, in spite of global turmoil. To a minor degree, services are also a stable contributor, in a magnitude roughly similar to much less stable 'other investment' (borrowing).

The fixed exchange rate in a currency board context is a plus in terms of the business environment. Jointly with the commercial banking sector, the central bank was able to maintain stability. Inflation has been unusually high in 2011, due to, at least partly, increases in administered prices.

The results of the elections in October 2010 reflected the desire for change in larger parts of the electorate. However, the effect was completely the opposite. A constellation emerged that made it impossible to form a new central government within a year, and it is open whether this will ever happen. Citizens are getting used to live without a regular government, something that works in favour of centrifugal tendencies. Prospects of BiH joining the EU are becoming nebulous. The country is unable to meet basic preconditions such as performing a population census, as there is a fear that the outcome might change the ethnic balance and – more importantly – the allocation of resources and privileges.

The international business climate, which is supposed to become rather unfriendly in 2012, is likely to have repercussions on BiH too. Some companies had trouble to pay all due wages even in 2011, and in 2012 the situation may aggravate. GDP is likely to grow less, and employment may somewhat decline. Securing sufficient sources for covering government expenditures may become even more difficult in 2012. The IMF will remain an important partner.

Table 1

Main sources of coverage of the trade deficit, in EUR billion

	Exports (Goods)	Imports (Goods)	Balance of							
			Trade (Goods)	Services	Income	Current transfers	FDI	Portfolio investment	Other investment	Reduction of reserves
2008	3.5	-8.3	-4.8	0.7	0.5	1.9	0.7	0.0	0.7	0.2
2009	2.9	-6.3	-3.4	0.6	0.4	1.7	0.2	-0.1	0.5	0.0
2010	3.7	-7.0	-3.2	0.5	0.3	1.7	0.1	-0.1	0.6	-0.1
2008 1-6	1.8	-4.1	-2.3	0.4	0.2	0.9	0.2	0.0	0.5	0.1
2009 1-6	1.4	-3.1	-1.7	0.3	0.2	0.8	0.2	0.0	-0.1	0.3
2010 1-6	1.8	-3.2	-1.4	0.3	0.1	0.8	0.0	-0.1	0.1	0.1
2011 1-6	2.1	-3.8	-1.7	0.2	0.1	0.8	0.1	0.0	0.2	0.1

Source: Central Bank of BiH.

BOSNIA & HERZEGOVINA

Table BA

Bosnia and Herzegovina: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th pers., mid-year	3842.9	3842.3	3843.0	3843.1	.	.	3843	3843	3842
Gross domestic product, BAM mn, nom. ²⁾	21778.4	24717.6	24003.7	24485.5	.	.	26000	26900	28000
annual change in % (real) ²⁾	6.2	5.7	-3.0	0.7	.	.	2.2	1.4	2.1
GDP/capita (EUR at exchange rate)	2900	3300	3200	3300	.	.	3500	3600	3700
GDP/capita (EUR at PPP - wiiw)	6300	6600	6300	6500	.	.	.	.	.
GDP by expend. approach, BAM mn, nom. ²⁾	24424.3	28115.6	27895.2	27954.5	.	.	.	.	.
Consumption of households, BAM mn, nom. ²⁾	19911.6	22468.0	21630.5	21828.0	.	.	.	.	.
annual change in % (real) ²⁾	5.9	6.0	-3.9	-1.0	.	.	0.2	0	1
Gross fixed capital form., BAM mn, nom. ²⁾	6142.7	7565.1	5951.7	5344.5	.	.	.	.	.
annual change in % (real) ²⁾	28.2	16.1	-22.4	-11.1	.	.	5.4	2	4
Gross industrial production ³⁾									
annual change in % (real)	6.4	11.0	-3.3	1.6	1.3	7.7	7	5	6
Gross agricultural production									
annual change in % (real)	-3.1	8.8	0.7	.	.	.	.	.	.
Construction output total ⁴⁾									
annual change in % (real)	14.5	16.9	-7.2	-11.6	.	.	.	.	.
Employed persons - LFS, th, April	849.6	890.2	859.2	842.8	842.8	816.0	816	810	810
annual change in %	4.8	4.8	-3.5	-1.9	-1.9	-3.2	-3.2	-0.7	0.0
Employees total - reg., th, average	686.1	705.6	697.6	688.2	692.3	694.9	688	682	685
annual change in %	5.0	2.9	-1.1	-1.3	-1.1	0.4	0.0	-0.9	0.4
Unemployed persons - LFS, th, April	346.7	272.0	272.3	315.1	315.1	310.9	311	315	313
Unemployment rate - LFS, in %, April	29.0	23.4	24.1	27.2	29.9	27.6	28	28	28
Unemployment rate, reg., in %, end of period	42.5	40.6	42.4	42.7	43.1	43.1	43	44	44
Average gross monthly wages, BAM	954	1113	1204	1217	1209	1262	1260	1250	1280
annual change in % (real, net)	8.4	8.4	5.6	-0.8	-1.5	-1.2	.	.	.
Consumer prices, % p.a.	1.5	7.5	-0.4	2.1	2.1	3.6	3.7	2	2
Producer prices in industry, % p.a. ⁵⁾	.	8.6	-3.2	0.9	-0.8	4.0	.	.	.
General government budget, nat.def., % GDP									
Revenues	45.1	44.1	43.1	44.4	.	.	44.0	43.5	43.5
Expenditures	44.0	46.3	47.5	46.9	.	.	46.5	46.5	46.0
Deficit (-) / surplus (+)	1.2	-2.2	-4.5	-2.5	.	.	-2.5	-3.0	-2.5
Public debt, nat. def., in % of GDP ⁶⁾	29.6	30.8	35.4	39.1	.	.	39	41	41
Central bank policy rate, % p.a., end of period ⁷⁾
Current account, EUR mn ⁸⁾	-1190.6	-1771.3	-768.4	-766.0	-205.8	-496.7	-990	-900	-900
Current account in % of GDP	-10.7	-14.0	-6.3	-6.1	.	.	-7.5	-6.6	-6.3
Exports of goods, BOP, EUR mn ⁸⁾	3091.5	3522.0	2920.2	3729.3	1790.0	2117.3	4500	5100	5500
annual growth rate in %	15.0	13.9	-17.1	27.7	31.6	18.3	21	13	8
Imports of goods, BOP, EUR mn ⁸⁾	7233.6	8344.6	6330.1	6976.9	3196.0	3779.9	8300	9400	10000
annual growth rate in %	18.7	15.4	-24.1	10.2	4.5	18.3	19	13	6
Exports of services, BOP, EUR mn ⁸⁾	1061.7	1132.0	1033.8	972.6	431.4	420.5	1050	1120	1200
annual growth rate in %	17.4	6.6	-8.7	-5.9	-10.5	-2.5	8	7	7
Imports of services, BOP, EUR mn ⁸⁾	422.3	467.7	461.8	447.3	169.2	176.1	480	500	520
annual growth rate in %	14.2	10.8	-1.3	-3.1	-10.5	4.1	7	4	4
FDI inflow, EUR mn ⁸⁾	1519.8	683.8	180.5	173.6	36.8	98.7	200	200	300
FDI outflow, EUR mn ⁸⁾	20.5	11.3	4.4	31.7	26.9	0.6	0	0	0
Gross reserves of NB excl. gold, EUR mn ⁹⁾	3424.9	3218.9	3143.8	3267.6	3000.8	3048.2	.	.	.
Gross external public debt, EUR mn	2025.4	2168.0	2676.2	3215.4	3041.5	3166.4	.	.	.
Gross external debt in % of GDP	18.2	17.2	21.8	25.7	24.3	23.9	.	.	.
Exchange rate BAM/EUR, average	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.96	1.96	1.96
Purchasing power parity BAM/EUR ¹⁰⁾	0.9008	0.9700	0.9900	0.9828	.	.	0.95	0.95	0.95

1) Preliminary. - 2) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices). - 3) Until 2008 wiiw estimates based on weighted averages for the two entities (Federation BH and Republika Srpska). - 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. - 9) Including investment in foreign securities. - 10) Benchmark results 2005 from Eurostat and wiiw estimates.

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

Croatia: recovery delayed

BY HERMINE VIDOVIC

Croatia's protracted economic downturn came to a preliminary halt in the second quarter of 2011, when GDP grew by 0.8%, after a contraction of the same magnitude during the first quarter of the year. Gross fixed capital formation has been on the decline since the beginning of 2009 and dropped by another 7% in the first half of 2011. Both household consumption and government consumption, having decreased in 2010, showed a slight increase. In construction, where output had shrunk from 2009 onwards, the negative tendencies continued with output down by close to 10%. Currently there is no evidence of recovery in the construction sector: there is still a high number of unsold apartments on the market, investments both of the private and the corporate sector are on the decline and a new cycle of infrastructure investments has not yet started. Industrial production was down by 1.7% in the first eight months of 2011. Output dropped in the production of consumer goods and intermediate goods, while it increased in the production of capital goods. Output of the shipbuilding industry, Croatia's main export sector, declined during the first half of 2011.

External trade was less dynamic than in 2010. Merchandise exports – measured at current euro terms – grew by a mere 3% and import growth remained below 1%. In the first half of 2011 the trade deficit fell slightly compared to the same period a year earlier. Thanks to an increase in tourism services exports rose by 4% while imports fell by nearly 8%, resulting in an expansion of the services trade surplus by EUR 200 million as against the first half of 2010. At the same time the deficit on income widened. Owing to the rise of the services trade surplus in particular, the current account deficit diminished slightly during the first half of the year. As for FDI, net inflows were slightly higher than in the first six months of 2010, but far below the levels achieved in the pre-crisis period; in 2011 FDI was directed primarily towards the financial sector, basic metals and real estate. At the end of

June 2011 the foreign debt stood at EUR 47.2 billion, i.e. 700 million more than in December 2010. This corresponds to a debt to GDP ratio of slightly over 100%. The rise in debt was mainly due to an increase in banks' debt, while debt related to foreign investments decreased.

Responding to the downward pressure on the kuna against the euro in the third quarter of the year, the Croatian National Bank intervened twice on the foreign exchange market to support the domestic currency. In addition the CNB raised the minimum reserve requirement for banks from 13% to 14% on 20 September. This measure should lead to the withdrawal of liquidity from banks, worth EUR 400 million.

As a consequence of growing difficulties in repaying loans, there were about HRK 34 billion (EUR 4.5 billion) of non-performing loans in the portfolios of Croatian banks at the end of June, about twice as much as in September 2009. Close to two thirds of the NPLs are owed by the corporate sector. According to projections of the Croatian National Bank, NPLs may increase to HRK 37 million by the end of the year, and their share in total loans amounts to 14%.

The poor situation of the real sector has translated into growing employment losses over the recent months. Based on Labour Force Survey data, employment fell by close to 5% during the first half of 2011, while at the same time the unemployment rate rose by two percentage points, to 14%. In contrast to the LFS, the unemployment rate obtained from registration data stood at 16.8% at the end of September. The drop in real wages, which was felt already in 2010, has continued in 2011; during the first half of the year net wages were down by 0.2% in real terms.

In July the government adopted its 'Economic and Fiscal Policy Guidelines for the Period 2012-14'. Calculations are based on the assumption of gradual GDP growth rate increases from 1.5% in 2011 to 4% in 2014; at the same time the general government deficit is projected to decline from 5.4% of

GDP to 1.8% in 2014. Given that economic growth is stagnant and the recovery is further delayed, the goals addressed in the Guidelines appear overambitious and will most probably not be met.

After the European Commission had announced the completion of the membership negotiations with Croatia on 10 June this year, the signature of the accession treaty is expected by the end of 2011. A referendum in Croatia on the treaty will be held at the beginning of 2012; subsequently the treaty has to be ratified by the current EU member states. Considering that Croatia meets the political criteria as well as the economic and acquis criteria, the Commission expects Croatia to be ready for membership on 1 July 2013.

The next parliamentary elections are to be held on 4 December 2011. According to recent opinion polls the Kukuriku coalition, consisting of four centre-left parties (Social Democrats, Peoples' Party-Liberal Democrats, Istrian Democratic Assembly and Croatian Party of Pensioners) is ahead of the ruling party, the Croatian Democratic Union (HDZ) led by Prime Minister Jadranka Kosor. The image of HDZ has been seriously damaged due to accusations of corruption against a number of party officials. Only recently the Croatian anti-corruption bureau has opened an investigation against the party over alleged illegal financing.

Achieving a 1.5% GDP growth rate in 2011 as forecast by the Croatian Ministry of Finance is now becoming less likely. Even the 1% growth forecast by wiiw at the beginning of July may seem too optimistic. Developments so far suggest that GDP will grow by only 0.5% in 2011. Prospects for 2012 and 2013 are dampened by the slow recovery of domestic demand as a consequence of high unemployment, but also by poor economic prospects in the EU. Rising trade and services exports to the EU would be of crucial importance for overall growth. Decisive political action can be expected only in 2012 after the formation of a new government. Employment will continue to contract as the labour market will react with a time lag to production growth; the LFS unemployment rate is expected to rise to 13-14% in 2011 and decrease only slowly thereafter. The current account deficit will remain within moderate limits. Bringing down the budget deficit and servicing the high foreign debt will remain the most serious challenges in the coming years.

Table HR

Croatia: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th pers., average	4436.0	4434.5	4429.1	4418.0	.	.	4435	4435	4435
Gross domestic product, HRK mn, nom.	318308	345015	335189	334564	161095	164792	344600	355000	371200
annual change in % (real)	5.1	2.2	-6.0	-1.2	-2.3	0.0	0.5	1	2
GDP/capita (EUR at exchange rate)	9800	10800	10300	10400	.	.	10600	11000	11500
GDP/capita (EUR at PPP - wiiw)	15200	15900	15100	15100	.	.	.	.	.
Consumption of households, HRK mn, nom.	184979	197943	185651	186098	91423	93821	.	.	.
annual change in % (real)	6.3	0.8	-8.5	-0.9	-3.3	0.3	0.4	1	2
Gross fixed capital form., HRK mn, nom.	83514	95572	83386	72373	35443	33123	.	.	.
annual change in % (real)	7.1	8.2	-11.8	-11.3	-13.6	-7.0	-6	0	3
Gross industrial production ²⁾									
annual change in % (real)	4.9	1.2	-9.2	-1.4	-2.0	-1.2	-1.5	2.5	3
Gross agricultural production									
annual change in % (real)	-3.9	8.0	-0.8	-8.2	.	.	.	.	.
Construction output ²⁾									
annual change in % (real)	2.4	11.8	-6.5	-15.9	-17.7	-9.6	.	.	.
Employed persons - LFS, th, average	1615	1636	1605	1541	1549	1478	1490	1490	1495
annual change in %	1.8	1.3	-1.8	-4.0	-3.8	-4.6	-3.5	0	1
Unemployed persons - LFS, th, average	171	149	160	206	207	238	.	.	.
Unemployment rate - LFS, in %, average	9.6	8.4	9.1	11.8	11.8	13.9	13.5	13	12
Unemployment rate, reg., in %, end of period	14.7	13.7	16.7	18.8	16.6	16.9	18.5	18	17
Average gross monthly wages, HRK	7047	7544	7711	7679	7656	7742	7700	7750	7800
annual change in % (real, net)	2.2	0.8	0.2	-0.5	-1.4	-0.2	.	.	.
Consumer prices, % p.a.	2.9	6.1	2.4	1.1	0.8	2.3	2.5	2	2.5
Producer prices in industry, % p.a. ³⁾	3.5	8.3	-0.4	4.3	4.2	6.4	5	4	3
General governm.budget, nat.def., % GDP ⁴⁾									
Revenues	.	39.1	38.2	.	.	.	35.8	35.4	37.0
Expenditures	.	40.4	42.3	.	.	.	41.8	40.0	42.0
Deficit (-) / surplus (+)	-2.5	-1.4	-4.1	-4.9	.	.	-6.0	-5.0	-5.0
Public debt, EU-def., in % of GDP ⁴⁾	32.9	29.2	35.1	41.2	.	.	45.2	48.4	52.0
Central bank policy rate, % p.a.,end of period ⁵⁾	4.1	6.0	6.0	6.0	6.0	6.0	.	.	.
Current account, EUR mn	-3118.8	-4216.5	-2368.7	-512.5	-1401.9	-1386.3	-550	-750	-900
Current account in % of GDP	-7.2	-8.8	-5.2	-1.1	-6.3	-6.2	-1.2	-1.5	-1.8
Exports of goods, BOP, EUR mn	9192.5	9814.0	7703.2	9102.3	4358.4	4486.7	9300	9900	10500
annual growth rate in %	8.6	6.8	-21.5	18.2	13.8	2.9	2	6	6
Imports of goods, BOP, EUR mn	18626.5	20607.8	15090.1	15054.3	7138.9	7193.7	15200	16100	16900
annual growth rate in %	10.8	10.6	-26.8	-0.2	-5.7	0.8	1	6	5
Exports of services, BOP, EUR mn	9114.7	10090.6	8453.9	8489.5	2847.9	2974.4	8750	9200	9700
annual growth rate in %	6.9	10.7	-16.2	0.4	-1.6	4.4	3	5	5
Imports of services, BOP, EUR mn	2748.1	3016.0	2684.1	2603.0	1267.0	1170.1	2450	2500	2550
annual growth rate in %	-0.1	9.7	-11.0	-3.0	-3.5	-7.6	-6	2	2
FDI inflow, EUR mn	3679.0	4218.6	2065.5	232.5	606.5	485.3	900	.	.
FDI outflow, EUR mn	211.2	972.7	888.9	-104.8	216.6	59.1	.	.	.
Gross reserves of NB excl. gold, EUR mn	9307.4	9120.9	10375.8	10660.3	10305.2	11422.3	.	.	.
Gross external debt, EUR mn ⁶⁾	33720.8	39764.4	43745.3	46452.8	44413.4	47186.4	.	.	.
Gross external debt in % of GDP ⁶⁾	77.7	83.3	95.8	101.2	97.2	98.5	.	.	.
Exchange rate HRK/EUR, average	7.3360	7.2232	7.3396	7.2862	7.2669	7.3944	7.3	7.3	7.3
Purchasing power parity HRK/EUR	4.7284	4.8975	5.0130	5.0237	.	.	.	.	.

Note: Gross industrial production, construction output and producer prices in industry refer to NACE Rev. 2.

1) Preliminary. - 2) Enterprises with 20 and more employees. - 3) Domestic output prices. - 4) According to ESA'95, excessive deficit procedure. - 5) Average weighted repo rates. - 6) From 2008 and 2009 new reporting systems, excluding SPE (Special Purpose Entities).

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

Kazakhstan: high commodity prices support strong growth

BY OLGA PINDYUK

Kazakhstan's economy continues to demonstrate steady growth: in the first half of 2011, real GDP growth reached 6.8% year-on-year. The major contributions to growth came from net exports and final consumption – both private and government. Household consumption increased by a remarkable 8.9% in real terms during the first half of 2011, while government expenditures expanded even more rapidly – by 13.9% in real terms.

Net exports have been increasing fast primarily due to strong growth of merchandise exports on the back of high commodity prices, in particular oil prices – as oil remains the key export commodity, accounting for about two thirds of the country's merchandise exports. During the first half of 2011, merchandise exports rose by 40% in euro terms.

High growth of household consumption is supported by increases in real wages and pensions¹ – the former rose by 5% during the first half of 2011. Employment has also been showing positive dynamics – an increase by 1.2% during the same period. We forecast that household consumption will continue growing at a high rate and increase by 7% in real terms by year-end. In 2012-2013, growth will somewhat slow down, but still remain fast, at 5%.

Investment showed sluggish growth during the first half of 2011 – real gross fixed capital formation rose by just 0.4% year-on-year. Investment decreased mainly in agriculture, mining and construction. The investment dynamics in mining most likely reflects the technical stage of oil fields development projects, in part disputes and negotiations over some projects. Construction has not picked up much yet after the housing bubble bust, as banks

are very cautious with financing construction projects and mortgages. Positive growth of investment into fixed assets was recorded in infrastructure sectors (transport, telecommunications) and in manufacturing. By the end of 2011, we do not expect any significant speeding up of investment growth – according to our forecast, real change of gross fixed capital formation will reach +2%. In 2012-2013, investment activity in mining and construction is expected to revive; the better performance of agriculture in 2011 will allow for more capital outlays in the sector (own funds of companies remain the major source of investment financing). Investment into infrastructure will continue, with government financing a part of them. As a result, real gross fixed capital formation will grow by 7% per year during 2012-2013.

We forecast that Kazakhstan's real GDP will grow by 7% in 2011, making the country the most dynamically growing economy in the region we analyse. In 2012-2013, with China continuing strong growth and pushing up demand for commodities, Kazakhstan will further benefit from high commodity prices and increase its real GDP by 6% each year.

Favourable external conditions will allow Kazakhstan to expand its exports at double-digit rates during 2011-2013. The current account balance will reach record-high positive levels during the forecasting period. Strong growth of household incomes and rising investment demand will cause imports to grow faster than exports starting from 2012, thus making the current account balance gradually decline.

High inflows of foreign currency to Kazakhstan created strong revaluation pressures on the domestic currency, the tenge. The National Bank of Kazakhstan significantly intervened in the forex market to prevent a revaluation following the objective to protect the competitiveness of national exporters. This has become more topical with the devaluation of the Russian rouble in 2011. International reserves of the National Bank of Kazakhstan continued strong growth: during the first half of

¹ Pensions were raised at the beginning of 2011 by 30%. Students' scholarships and wages of public sector employees were raised by 30% starting from July 2011.

2011, they increased by 33% in euro terms as compared with the beginning of the year and reached EUR 28.4 billion (or eight months of imports). Assets of the National Fund were also accumulating rapidly and were just EUR 0.9 billion lower than the gross reserves by 1 July 2011.

We revise upwards our forecast of inflation in 2011, to 9.5% p.a. The major driving force behind the inflation dynamics are food prices, which have been increasing dramatically following global trends. Also, there has been evidence that with the creation of the Customs Union Kazakhstan started to import inflation from Russia – as in the latter food

prices used to be higher than in Kazakhstan. The government turned to regulating wholesale and retail prices of major food items. Such policies proved to be inefficient quickly, other methods will be looked for.

After conducting an expansionary anti-crisis fiscal policy, the government is now committed to fiscal consolidation as another measure to curb inflation. The parliament approved a draft of the republican budget which envisages a gradual decrease of the budget deficit during 2012-2014: overall the fiscal balance is expected to be in surplus during the whole period.

KAZAKHSTAN

Table KZ

Kazakhstan: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th pers., average	15484	15674	15880	16210	16102	16505	16500	16600	16700
Gross domestic product, KZT bn, nom.	12850	16053	17008	21648	9134	11275	27300	31500	36100
annual change in % (real)	8.9	3.3	1.2	7.0	8.0	6.8	7	6	6
GDP/capita (EUR at exchange rate)	4900	5800	5200	6800	.	.	8800	10100	11600
GDP/capita (EUR at PPP - wiw)	8800	8800	8600	9300	.	.	.	.	.
Consumption of households, KZT bn, nom.	5641	6871	7913	9602	3671	4287	11200	12700	14200
annual change in % (real)	10.9	6.3	0.6	10.9	4.9	8.9	7	5	5
Gross fixed capital form., KZT bn, nom.	3857	4309	4727	5249	1803	1926	6600	7500	8500
annual change in % (real)	17.3	1.0	-0.8	3.8	0.5	0.4	2	7	7
Gross industrial production									
annual change in % (real)	5.0	2.1	2.7	10.0	11.0	5.8	6	5	5
Gross agricultural production									
annual change in % (real)	8.9	-6.4	13.9	-11.7	3.1	1.5	12	5	5
Construction industry									
annual change in % (real)	5.7	1.9	-3.2	1.0	-3.9	1.7	3	6	6
Employed persons - LFS, th, average	7631.8	7857.2	7903.4	8114.2	8072.9	8169.5	8280	8360	8440
annual change in %	3.1	3.0	0.6	2.7	2.7	1.2	2	1	1
Unemployed persons - LFS, th, average	578.8	557.8	554.5	496.5	515.1	471.5	.	.	.
Unemployment rate - LFS, in %, average	7.3	6.6	6.6	5.8	6.0	5.5	5.5	5.3	5.2
Reg. unemployment rate, in %, end of period	0.8	0.7	0.6	.	.	.	.	.	.
Average gross monthly wages, KZT	53238	60734	67639	77611	72692	82740	.	.	.
annual change in % (real, gross)	17.8	-2.6	3.8	7.6	5.0	5.0	.	.	.
Consumer prices, % p.a.	10.8	17.1	7.3	7.1	7.4	8.6	9.5	8	7
Producer prices in industry, % p.a.	12.4	36.8	-22.0	25.2	22.7	33.4	23	7	6
General governm.budget, nat.def., % GDP									
Revenues and grants	22.5	25.1	20.6	19.9	.	.	.	.	.
Expenditures and net lending	24.1	27.2	23.5	22.3	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-1.7	-2.1	-2.9	-2.4	.	.	-2.5	-1.5	-1.0
Public debt, nat. def., in % of GDP	7.1	8.3	12.2	14.8	.	.	16	17	17
Central bank policy rate % p.a., end of period ²⁾	9.0	10.5	7.0	7.0	7.0	7.5	.	.	.
Current account, EUR mn ³⁾	-6077	4298	-2917	2269	3100	6500	10300	10800	11200
Current account in % of GDP	-7.9	4.7	-3.5	2.1	6.7	13.9	7.1	6.4	5.8
Exports of goods, BOP, EUR mn ³⁾	35309	48905	31506	45814	22400	31300	60800	68100	75000
annual growth rate in %	14.3	38.5	-35.6	45.4	71.0	39.7	33	12	10
Imports of goods, BOP, EUR mn ³⁾	24288	26128	20770	24065	10100	13300	30000	35400	40700
annual growth rate in %	26.4	7.6	-20.5	15.9	0.4	31.7	25	18	15
Exports of services, BOP, EUR mn ³⁾	2603	3007	3038	3199	1500	1500	3400	3600	3900
annual growth rate in %	15.9	15.5	1.0	5.3	0.0	0.0	6	6	8
Imports of services, BOP, EUR mn ³⁾	8566	7556	7200	8518	3600	3100	9100	10200	11500
annual growth rate in %	22.7	-11.8	-4.7	18.3	5.2	-13.9	7	12	13
FDI inflow, EUR mn ³⁾	8120	9732	9496	8040	4300	5400	9000	9800	10700
FDI outflow, EUR mn ³⁾	2303	818	2265	5888	300	2400	3100	3300	3600
Gross reserves of NB excl. gold, EUR mn	11970	13711	16184	21360	19096	28387	.	.	.
Gross external debt, EUR mn	65791	76278	78933	90029	80096	101779	.	.	.
Gross external debt in % of GDP	85.9	84.1	95.5	81.4	72.4	70.3	.	.	.
Average exchange rate KZT/EUR	167.75	177.04	205.67	195.67	195.95	204.73	189	187	186
Purchasing power parity KZT/EUR, wiw ⁴⁾	93.86	116.20	124.54	144.22	.	.	.	.	.

1) Preliminary. - 2) Refinancing rate of NB. - 3) Converted from USD with the average exchange rate. - 4) Based on ICP benchmark results 2005 and wiw estimates.
Source: National statistics (National Bank, Agency of Statistics etc). Forecasts by wiw.

Macedonia: improvement, but not with the EU

BY VLADIMIR GLIGOROV

The EU Commission's latest Progress Report from October 2011 once again recommended to the European Council to open negotiations for membership, but there is no hope that the decision by the Council will be positive. This will be the third time that the Commission has come up with that recommendation and that the Council will be unable to follow through with a positive decision due to the veto by Greece.

The Report assesses that Macedonia is making moderate but steady progress in many areas. It does not, however, comment on the declining incentive that the all but disappearing EU perspective is having on the government and the public. It is not clear how far this lack of progress in Macedonia's EU accession process can go without leading to mutual divergence. This is especially problematic because the constant Greek veto without clear suggestion by the EU how this problem is to be overcome will increasingly be perceived as pressure by the EU on Macedonia to accept the Greek demands. Given that the Commission judges that the country is ready to start negotiations with the EU on integration, that implies that at least the Commission does not think that the issue of the name of the country that bothers Greece is a reflection of some fundamental difference in values between the EU and Macedonia.

The economic performance has been somewhat better than in most other countries in the region. The GDP decline at the height of recession was rather modest (below 1%), while recovery has been stronger at 2% and 3% in 2010 and 2011 respectively. Also, industrial production is recovering somewhat more strongly than expected this year, with similar prospects in the medium term. In addition to export growth, domestic consumption has started to recover, though investment is still declining during 2011. The overall share of industry in

value added has increased, but it is not clear whether this will continue as it depends on increased production capacity which is yet to be created.

There have been no significant changes in the policy stance. Monetary policy cannot contribute much because of the exchange rate regime of a hard peg to the euro. Formally, the exchange rate is supposed to float, which also allows the monetary authorities to let the denar fluctuate, but that is not the policy of the central bank. It has cut the policy rate to a rather low level of 4%, but that is more of a passive adjustment to financial circumstances than an attempt at a more active monetary policy. Fiscal policy, on the other hand, is more consequential. Macedonia's level of public spending is relatively smaller than in most other countries in transition, but it is similar to those in neighbouring Bulgaria and Albania. Also, it has been rather fiscally conservative, though it has run a fiscal deficit of close to 3% during the crisis and intends to continue running deficits of around 2% of GDP with the aim of increasing public investments.

The key problem has been unemployment that has stayed at above 30% for almost two decades now. Unlike in practically all other Balkan and most other European countries, employment has actually increased somewhat during the crisis. That may be due to increased registration of employed in agriculture, but even modest improvement is a positive development as negative effects on an already deeply depressed labour market would have been quite a policy challenge.

The understanding of the economic and social situation could have been improved with the planned census, but the latter had to be discontinued due to the dissatisfaction of the Albanian population with it. This is not necessarily a sign of increased ethnic problems as inter-ethnic relations have been stable since the signing of the Ohrid agreement a decade ago. But numbers play a role in the comprehensive ethnic quota system that the country is committed to and thus the census is such a sensitive issue.

Expectations for medium-term growth are rather optimistic, but they will depend on the development of the Greek and euro crisis. Greek banks dominate the financial market and the eurozone is a major trading partner. The banks, however, do not depend on foreign financing and credit expansion has been somewhat stronger than in most countries in the region this year. But if there is a financial crisis in Greece, that will certainly have an effect on the Macedonian banking sector, while an EU growth slowdown will dash the hopes for a speed-up in recovery. On balance, it is hard to see the economy expanding at rates above 3% until the external risk do not improve.

Table MK

Macedonia: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010	2011	2011	2012	2013
					January-June		Forecast		
Population, th pers., mid-year	2043.6	2046.9	2050.7	2055.0	.	.	2060	2065	2070
Gross domestic product, MKD mn, nom. ²⁾	364989	411728	410734	427172	197644	221608	458000	491000	526000
annual change in % (real) ²⁾	6.1	5.0	-0.9	1.8	0.5	5.2	3	4	4
GDP/capita (EUR at exchange rate)	2900	3300	3300	3400	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	7700	8500	8400	8600	.	.	.	.	.
Consumption of households, MKD mn, nom. ²⁽³⁾	279880	330399	314376	319975	152942	168364	.	.	.
annual change in % (real) ²⁽³⁾	8.1	7.4	-4.7	0.4	3.2	6.1	5	3	3
Gross fixed capital form., MKD mn, nom. ²⁾	71557	86403	81872	87000	.	.	.	.	.
annual change in % (real) ²⁾	17.1	5.4	-8.3	-2.0	.	.	1	4	4
Gross industrial production ⁴⁾									
annual change in % (real)	3.9	5.1	-8.7	-4.8	-4.9	9.2	7	5	5
Gross agricultural production ⁵⁾									
annual change in % (real)	-2.2	5.4	-2.3	8.0	.	.	.	.	.
Construction output, hours worked									
annual change in % (real)	9.7	-9.6	-2.1	5.8	6.4	11.4	8	5	5
Employed persons - LFS, th, average	590.2	609.0	629.9	637.9	621.5	646.2	650	660	670
annual change in %	3.5	3.2	3.4	1.3	-0.9	4.0	2	1.5	2
Unemployed persons - LFS, th, average	316.9	310.4	298.9	300.4	302.9	294.0	.	.	.
Unemployment rate - LFS, in %, average	34.9	33.8	32.2	32.0	32.8	31.3	31	31	31
Unemployment rate, reg., in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD ⁶⁾	24136	26229	29922	30225	30058	30508	.	.	.
real growth rate, % (net wages) ⁶⁾	5.5	1.9	25.0	1.4	1.9	-2.6	.	.	.
Consumer prices, % p.a.	2.3	8.3	-0.8	1.6	0.8	4.4	3	3	3
Producer prices in industry, % p.a. ⁷⁾	2.5	10.1	-7.2	8.7	9.5	12.6	.	.	.
General governm. budget, nat.def., % GDP ⁸⁾									
Revenues	32.8	33.1	31.3	30.9	31.3	30.4	.	.	.
Expenditures	32.2	34.1	33.9	33.4	34.4	33.9	.	.	.
Deficit (-) / surplus (+)	0.6	-0.9	-2.7	-2.5	-3.1	-3.5	-2	-1	-1
Public debt, nat.def., in % of GDP	32.3	27.9	31.7	35.4	.	.	35	35	33
Central bank policy rate, in %, p.a., end of period ⁹⁾	4.8	7.0	8.5	4.1	5.5	4.0	.	.	.
Current account, EUR mn	-421.2	-862.2	-457.1	-150.4	-83.1	-280.0	-510	-450	-400
Current account in % of GDP	-7.1	-12.8	-6.8	-2.2	-2.6	-7.8	-6.8	-5.6	-4.7
Exports of goods, BOP, EUR mn	2472.2	2692.6	1932.6	2492.8	1098.4	1502.7	3200	3800	4600
annual growth rate in %	29.2	8.9	-28.2	29.0	22.9	36.8	30	20	20
Imports of goods, BOP, EUR mn	3653.3	4455.1	3492.2	3960.7	1787.0	2361.7	5000	6000	7200
annual growth rate in %	25.3	21.9	-21.6	13.4	6.1	32.2	25	20	20
Exports of services, BOP, EUR mn	597.3	692.0	617.6	693.8	307.6	384.1	800	900	1000
annual growth rate in %	24.7	15.9	-10.8	12.3	6.0	24.9	20	15	10
Imports of services, BOP, EUR mn	569.1	682.8	601.1	644.4	283.7	327.8	700	800	900
annual growth rate in %	23.3	20.0	-12.0	7.2	-4.8	15.5	15	10	10
FDI inflow, EUR mn	506.0	399.9	145.0	159.1	63.0	143.2	200	200	250
FDI outflow, EUR mn	-0.9	-9.5	8.1	1.4	1.7	0.3	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1400.1	1361.0	1429.4	1482.7	1486.7	1604.2	.	.	.
Gross external debt, EUR mn	2841.1	3304.2	3780.4	4133.8	4060.8	4647.5	.	.	.
Gross external debt in % of GDP	47.6	49.2	56.4	59.5	58.5	62.4	.	.	.
Exchange rate MKD/EUR, average	61.18	61.27	61.27	61.52	61.47	61.53	61.5	61.5	61.5
Purchasing power parity MKD/EUR	23.14	23.57	23.79	24.09	.	.	.	.	.

Note: Gross industrial production and producer price index refer to NACE Rev. 2.

- 1) Preliminary. - 2) According to ESA'95 (FISIM reallocated to industries, including non-observed economy, real growth rates based on previous year prices). - 3) Including Non-Profit Institutions Serving Households (NPISHs). - 4) Enterprises with 10 and more employees. - 5) Based on Economic Accounts of Agriculture. - 6) From 2009 including allowances for food and transport. - 7) Domestic output prices. - 8) Refers to central government budget and extra-budgetary funds. - 9) Central Bank bills (28-days).

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

Montenegro: next new member of the EU

BY VLADIMIR GLIGOROV

Unless Iceland decides to join, Montenegro will be the next new entrant into the EU. The expectation is that the European Council will set the date for the start of the negotiations when it convenes in mid-December. Realistically, the date of accession cannot be much before the end of this decade, so there is some uncertainty whether and when Montenegro will be joining the EU. There is, however, no doubt that the start of the negotiations will additionally stabilize this small coastal and mountainous country that has been hit rather hard by the ongoing crisis.

Unlike Iceland, which may not be enthusiastic about joining the EU because that would mean the removal of capital controls that it is now relying on rather heavily, Montenegro is actually hoping that the speed-up of EU integration will lead to an increase of the inflow of foreign finance, preferably of direct investments. Given that the country already uses the euro as its official currency, the increase of money supply depends heavily on the inflow of foreign finance. In the past, however, the ECB has expressed disagreements with unilateral euroization as a way to join the Economic and Monetary Union (EMU), but it is quite unclear now what its stance will be once the accession of Montenegro becomes imminent. At the moment, there are clearly more important concerns that occupy the ECB.

Montenegro expects to join NATO much more quickly. That is important for internal stability because of simmering constitutional conflicts between the Montenegrin and Serbian parties. In the census that was just completed, though full results are yet to be released, the Serbian minority held its ground at almost 29% of the total population, while there were 45% Montenegrins. There were more than 10% Bosniacs or Muslims and around 5% Albanians while just less than 1% Croats. However, about 44% speak Serbian and almost 37% Montenegrin. This is actually a very high number of citizens

speaking Montenegrin because the language was called either Serbo-Croat or just Serbian previous to this census. Still, the plurality of citizens declared that they spoke Serbian, which created a constitutional problem as Serbian parties pushed for a constitutional amendment that declares Serbian as another official language. This is just an indication of the underlying problem of constitutional and political stability, which international support, such as NATO membership, should help strengthen.

Social problems are another matter. The employment effect of the crisis has been less pronounced than in neighboring Serbia and Croatia, but it has still been strong at about 10% decline since the beginning of the crisis in 2009. The quality of the data on employment and unemployment leaves a lot to be desired, but the shock has been strong however it is measured. It is necessary to keep in mind that there was strong inward migration before the crisis, mainly from within the region, though unemployment rate stayed at a rather high level of around 20%, where it has mainly stayed after the crisis too. So, there are some structural aspects to the employment and unemployment levels. If, by contrast, crisis driven decline in employment is more cyclical than structural, that should have more serious social problems if the economic recovery disappoints and the newly unemployed join the ranks of long-term unemployed or inactive and the dependent.

The risks of recovery being delayed or more probably slow are high. The main reason is that there is a process of deleveraging that is unfolding both in the corporate and in the household sectors. Aggregate data shows a simultaneous decline in deposits and credits, with the latter falling faster than the former. Banks are clearly rebuilding their balance sheets. They were near collapse at the beginning of the crisis and the government had to use significant resources to support them. That was possible because it had built up fiscal buffers as it ran significant fiscal surpluses during the boom years and could relatively easily finance its fiscal deficits during the crisis. Still, the banking sector remains the weak link.

Recovery mostly depends on the performance of the services sector. Industrial production is still declining, but its contribution to the GDP is rather small anyway. Construction is contracting strongly, which is also the key problem for the banking sector because it highlights the ongoing deflation of the real estate boom. Tourism, however, is holding up, which is the major buffer in this crisis. Also, interest in foreign investments in tourism is still there, though current investments are much lower than even in the last couple of years. So, the crisis effects of lower foreign direct investments are probably yet to be felt. Altogether, the prospects for speedier recovery are not very good in the medium run.

Closer connections with the EU could help due to increased access to the structural and funds for microfinance support. The latter are conditional on an IMF programme, which the government has been reluctant to ask for. That may change if there is no speed-up of recovery due to some significant new injections of foreign investments. Even with that, the process of deleveraging will have to continue and thus a more noticeable speed-up of growth can be expected only later.

MONTENEGRO

Table ME

Montenegro: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th pers., mid-year ²⁾	626.2	628.8	631.5	618.8	.	.	632	633	634
Gross domestic product, EUR mn, nom. ³⁾	2680.5	3085.6	2981.0	3103.9	.	.	3200	3400	3600
annual change in % (real) ³⁾	10.7	6.9	-5.7	2.5	.	.	1	2	3
GDP/capita (EUR at exchange rate)	4300	4900	4700	5000	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	10000	10800	9700	9800	.	.	.	.	.
Consumption of households, EUR mn, nom. ³⁾	2369.0	2814.8	2503.7	2550.7	.	.	.	.	.
annual change in % (real) ³⁾	.	12.1	-12.9	2.0	.	.	2	2	3
Gross fixed capital form., EUR mn, nom. ³⁾	867.1	1180.2	797.6	655.1	.	.	.	.	.
annual change in % (real) ³⁾	.	27.3	-30.1	-18.5	.	.	-5	2	5
Gross industrial production ⁴⁾									
annual change in % (real)	0.1	-2.0	-32.2	17.5	0.0	-10.6	-8	5	5
Net agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	-11.0	10.0	3.0	2.0	.	.	.	.	.
Construction output ⁵⁾
annual change in % (real)	23.6	20.7	-19.2	-7.4	.	.	0	5	5
Employed persons - LFS, th, average ⁶⁾	217.4	218.8	212.9	208.2	205.1	192.3	198	198	200
annual change in %	21.9	0.6	-2.7	-2.2	-3.4	-6.2	-5	0	1
Unemployed persons - LFS, th, average ⁶⁾	52.1	45.3	50.9	50.9	50.8	49.7	.	.	.
Unemployment rate - LFS, in %, average ⁶⁾	19.3	17.2	19.3	19.6	19.8	20.6	20	20	20
Unemployment rate, reg., %, average	16.5	14.4	15.1	16.9	16.4	15.1	18	18	17
Average gross monthly wages, EUR ⁷⁾	497	609	643	715	702	729	.	.	.
real growth rate, % (net wages) ⁷⁾	15.0	14.6	7.6	3.0	7.8	0.9 ⁸⁾	.	.	.
Consumer prices, % p.a.	4.2	7.4	3.4	0.5	0.4	2.9	3	3	3
Producer prices in industry, % p.a. ⁹⁾	8.5	14.0	-3.9	-0.9	-2.9	3.6	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	50.0	49.1	45.8	40.9	.	.	.	.	.
Expenditures	43.3	47.5	49.4	43.9	.	.	.	.	.
Deficit(-)/Surplus(+)	6.7	1.7	-3.6	-3.0	.	.	-3	-1	-1
Public debt, nat. def., in % of GDP	27.5	29.0	38.2	40.9	.	.	44	42	41
Central bank policy rate, % p.a., end of period ¹⁰⁾	9.1	9.4	9.4	9.5	9.5	9.7	10	9	9
Current account, EUR mn	-1077.5	-1583.7	-896.3	-779.4	-510.9	-447.0	-700	-700	-800
Current account in % of GDP	-40.2	-51.3	-30.1	-25.1	.	.	-21.9	-20.6	-22.2
Exports of goods, BOP, EUR mn	483.4	450.4	296.3	356.6	155.2	225.6	430	470	520
annual growth rate in %	-25.4	-6.8	-34.2	20.4	15.5	45.4	20	10	10
Imports of goods, BOP, EUR mn	2090.6	2552.3	1668.0	1674.0	763.3	848.0	1810	1990	2190
annual growth rate in %	39.6	22.1	-34.6	0.4	-1.4	11.1	8	10	10
Exports of services, BOP, EUR mn	673.0	750.6	680.5	747.0	188.8	220.5	860	950	1050
annual growth rate in %	61.0	11.5	-9.3	9.8	4.5	16.8	15	10	10
Imports of services, BOP, EUR mn	234.0	351.2	295.9	301.6	145.9	121.5	300	320	340
annual growth rate in %	5.9	50.1	-15.8	1.9	4.2	-16.7	0	5	5
FDI inflow, EUR mn	682.7	655.7	1099.4	574.2	349.3	180.2	300	500	800
FDI outflow, EUR mn	115.0	73.7	32.9	22.1	26.1	1.4	5	20	20
Gross reserves of NB, excl. gold, EUR mn ¹¹⁾	259.0	216.6	172.8	164.6	162.9	162.6	.	.	.
Gross external public debt, EUR mn	462.1	481.7	699.9	912.4	.	.	.	.	.
Gross external public debt in % of GDP	17.2	15.6	23.5	29.4	.	.	.	.	.
Purchasing power parity EUR/EUR ¹²⁾	0.4293	0.4562	0.4865	0.4896	.	.	.	.	.

1) Preliminary. - 2) From 2010 according to census April 2011. - 3) According to ESA'95 (including non-observed economy, real growth rates based on previous year prices etc.). From 2007 FISIM reallocated to industries. - 4) Excluding small enterprises in private sector and arms industry. - 5) Gross value added. - 6) Until 2007 as of October. - 7) Wages of employees who actually received wages (previously wage bill divided by all registered employees). - 8) Real gross wages. - 9) Domestic output prices. - 10) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 11) Data refer to reserve requirements of Central Bank. - 12) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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

Russian Federation: stagnation ahead?

BY PETER HAVLIK

Russian economic growth dropped below 4% in the first half of 2011, resulting first of all from a marked slowdown in the second quarter of the year. The current GDP growth has been quite modest both in comparison to the pre-crisis period (around 7% per year on average during 2005-2008) and in view of the depth of the recent crisis (GDP fell by nearly 8% in 2009). Given the strong recovery of oil prices and the related surge in export revenues (oil prices increased by 40% in January-September 2011 compared to the previous year; export revenues were up by more than 30% in USD terms), the economic recovery in Russia has been rather unimpressive. Apart from a not really spectacular growth of consumption and fixed investments in particular, the current GDP growth is being dampened by surging imports (up by nearly 40% in nominal terms, and by some 20% in volume terms in 2011).

Huge fluctuations in prices along with statistical discrepancies are affecting reported GDP growth figures. In 2011 again, there are large gaps between the nominal and real growth rates of exports and imports. Together with the ongoing replenishment of inventories, these factors exert a disproportionate impact on forecast GDP growth. The official estimates suggest that domestic demand was relatively robust in 2011 as final consumption expenditure grew by more than 4% and gross fixed capital formation by about 3% (overall gross investment jumped by nearly 30% owing to the increase in inventories). Household consumption and retail trade turnover rose somewhat faster – despite stagnating real incomes and wages (both suffering from price increases). At the same time, real exports were flat while the volume of imports soared. Taking together all these demand components, the official data published early October 2011 put the real GDP growth for the first half of the year at just 3.7%.

The latest data on output provide a mixed picture as well: Growth of industry and goods transport was around 5% in the first three quarters of 2011; the manufacturing industry was up by 7% (however, flash estimates for September indicate a marked slowdown). Construction output expanded at a similar rate, but non-market services were essentially flat. The 2011 grain harvest reached about 95 million tonnes (50% higher than in 2010), and agricultural production rebounded strongly (+16% in the period January-September). Accordingly, the export ban on grain imposed one year ago has been lifted already as of 1 July 2011.

Moderate GDP growth notwithstanding, inflation remains stubbornly close to 10%, in particular due to food price hikes during August 2010-July 2011 following last year's poor harvest. Producer price inflation is hovering even close to 20% as a consequence of rising energy and metals prices. The only factor mitigating inflationary pressures has been the nominal rouble appreciation – a by-product of surging export revenues and related foreign exchange inflows – though the volatility of the rouble exchange rate has been considerable: after a short-lived nominal and real depreciation during the peak of the crisis at the turn of 2008/2009, the real appreciation of the rouble resumed in 2010 and has been one of the factors behind surging imports; in September and October 2011 the rouble depreciated again. That notwithstanding, foreign exchange reserves are being gradually replenished (they exceeded USD 500 billion in September 2011), although the capital flight accelerated again, most likely due to political uncertainties before the Duma and especially the presidential elections in December 2011 and March 2012, respectively (FDI outflows exceeded inflows by some USD 20 billion during January-September 2011). The banking sector has consolidated as both deposits and credits have been modestly growing. The share of non-performing loans is gradually declining (below 5% of total credits as of August 2011; however, at least one third of troubled credits have been restructured). Last but not least, housing mortgages are recovering as well, as witnessed by rising construction output: the volume

of outstanding housing mortgages reached RUR 385 billion in September 2011 – twice as much as in September 2010 (yet still nearly 20% less than in 2008 before the crisis).

As mentioned in our previous assessments, the crisis has not been used as a stimulus for restructuring and institutional reforms aiming at an improvement of the business climate. Russia has become even more dependent on exports of commodities recently: oil and gas currently account for two thirds of export revenues. Restructuring, modernization and the ‘innovation development’ preached by the authorities already for a couple of years have so far been just empty slogans. The long-term strategic target of economic diversification and modernization remains high on the agenda and is being pursued, at least verbally, by President Medvedev. However, modernization prospects suffered another blow after President Medvedev’s announcement in September that Vladimir Putin should stand for the next presidential elections in March 2012. The long-lasting anxiety whether either Mr. Putin or Mr. Medvedev will be the next president was thus finally resolved; the tandem will switch positions as Mr. Medvedev will probably succeed Mr. Putin as the next Prime Minister. Paradoxically, this news created some disappointment in both Russia and abroad. Disappointments with this uninspiring switch in the ruling tandem result from a growing scepticism that Russia will turn back- and inward in the coming years, modernization will stall and a rising number of people will give up initiative for resignation (emigration is being considered by ever growing number of young and educated Russians).

This scepticism is being fed, *inter alia*, by Mr. Putin’s recent programmatic article in which he announced the priority of EurAz integration on the post-Soviet space.¹ A mildly spectacular coup in this direction, at least on paper, was launched by

¹ The Customs Union of Belarus, Kazakhstan and Russia was launched already in 2010. Later on, this will be expanded by Kyrgyzstan and Tajikistan, with the ultimate Russian aim to get Ukraine eventually on board as well. The Customs Union should be upgraded to a Common Economic Space starting from January 2012.

Mr. Putin on 20 October in St. Petersburg when eight CIS republics (including Ukraine) announced the establishment of a free trade area (energy and metals will at first be excluded). Besides, the openly expressed praise for the Soviet past (in particular the Brezhnev era) by both Putin and Medvedev (as well as the latter’s press spokesman Mr. Peskov) do not bode well for modernization and forward-looking policies either – despite official claims to the contrary. These and other worrying signals (such as the public clash and the dismissal of Deputy Prime Minister and Finance Minister Alexei Kudrin) foster the views that instead of ‘forwards’ (Medvedev’s slogan ‘Russia Forward’) the forthcoming years of Putin’s presidency will lead Russia backwards, or at least to social and economic stagnation. Simultaneously, a possible final obstacle for WTO accession was removed after Georgia gave up its veto to Russia’s membership early December 2011.

In view of all these recent developments, the *wiiw* forecast has been revised downwards, the main factors behind the revisions being likely falling oil prices (in view of the sluggish demand in the West and a gradual stabilization in the MENA oil producing countries), the diminishing drive for reforms and restructuring in Russia with prospects of Putin’s next presidency (both reflected in the continuation of capital flight and weak investments) and the ongoing strong growth of imports. In the baseline scenario, *wiiw* reckons with unspectacular GDP growth during 2011-2013, most likely below 4% per year in that period. This scenario assumes no abrupt policy changes or external shocks and is charged with substantial downside risks. In particular, a recession in Europe would have severe consequences for Russia, largely via falling export (and fiscal) revenues.² In the baseline scenario, export revenues will grow rather slowly (if at all) owing to stagnating volumes of exported oil and gas in the forecasting period (and there will be not

² A more serious recession in Europe would have grave consequences for Russia, possibly via falling oil prices, although some analysts are fairly upbeat claiming that nowadays Russia is much better prepared to face the current challenges – see the analysis of the Gaidar Institute published in *Vedomosti*, 19 October 2011.

much else to export since the progress in export diversification will be limited). Simultaneously, import volumes are expected to grow at a faster rate as household consumption and investment will gradually pick up, both fuelled by the ongoing real currency appreciation. This (optimistic) scenario implies a negative contribution of real net exports to GDP growth in the coming years and, in nominal terms, gradual reductions of the trade and current account surpluses. With some luck the annual CPI inflation will gradually drop to 5% and the budget deficit will remain balanced.

As argued earlier, the relatively high oil prices (around USD 100 per bbl) are a double-edged sword: on the one hand, export revenues (and taxes) fill government coffers enabling the state to finance various spending programmes which range from rising pensions, infrastructure investments and military expenditure (disagreement with Medvedev's spending profligacy was the stated reason for Mr. Kudrin's dismissal). The Russian economy's growing vulnerability concerning commodity prices is certainly risky – as demonstrated during the

2008/2009 crisis. Besides, high revenues from commodity exports put off the pressure to diversify and modernize the economy, stimulate currency appreciation and impede the competitiveness of non-commodity exports (Dutch Disease syndrome). Therefore, a new collapse of world market energy prices (which appears rather unlikely at the moment) would result in major troubles for the Russian economy: a sharp fall in economic growth with a simultaneous increase in the fiscal deficit, both adversely affecting all components of GDP.

The effects of the crisis on employment have been rather modest in Russia and the labour market situation has been gradually improving: unemployment dropped by about 1 million persons in 2011. But the shrinking labour force due to demographic factors, emerging skill shortages magnified by outward migration (mostly to the West) and the demand for unskilled workers being usually met by migrants (mostly from former Soviet republics) are among the challenges constraining future economic growth.

RUSSIA

Table RU

Russia: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th pers., average ²⁾	142115	141956	141902	142938	141900	142800	142000	141500	141000
Gross domestic product, RUB bn, nom. ³⁾	33247.5	41276.8	38786.4	44939.2	20195.3	24167.1	51600	58000	64800
annual change in % (real) ³⁾	8.5	5.2	-7.8	4.0	4.3	3.7	3.7	3.5	3.8
GDP/capita (EUR at exchange rate)	6700	8000	6200	7800	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	12500	13200	12000	12600	.	.	.	.	.
Consumption of households, RUB bn, nom. ³⁾	16031.7	19966.9	20979.9	23096.6	10722.6	12439.3	.	.	.
annual change in % (real) ³⁾	14.3	10.6	-4.8	3.0	2.1	6.2	6.0	5.5	5
Gross fixed capital form., RUB bn, nom. ³⁾	6980.4	9200.8	8530.7	9843.7	3510.1	3949.3	.	.	.
annual change in % (real) ³⁾	21.0	10.6	-14.4	6.1	1.0	2.2	3	6	6
Gross industrial production ⁴⁾									
annual change in % (real)	6.3	2.1	-9.3	8.2	10.2	5.5	5	6	5
Gross agricultural production									
annual change in % (real)	3.4	10.8	1.4	-11.9	2.8	0.7	.	.	.
Construction output									
annual change in % (real)	18.2	12.8	-13.2	-0.6	-6.3	1.2	5	8	5
Employed persons - LFS, th, average	70570.5	70965.1	69284.9	69803.0	69016.0	70073.8	69500	69300	69000
annual change in %	2.5	0.6	-2.4	0.7	0.6	1.5	-0.4	-0.3	-0.4
Unemployed persons - LFS, th, average	4589.0	4791.5	6372.8	5645.0	6097.5	5288.3	5500	5300	5000
Unemployment rate - LFS, in %, average	6.1	6.3	8.4	7.5	8.1	7.0	7.3	7	6.8
Unemployment rate, reg., in %, end of period	2.0	2.0	2.9	2.1	2.4	1.9	.	.	.
Average gross monthly wages, RUB	13593.4	17290.1	18637.5	21193.0	20162.7	22242.8	23500	25800	28500
annual change in % (real, gross)	17.0	11.0	-3.0	5.0	4.6	2.1	4.1	4.5	5.2
Consumer prices, % p.a.	9.1	14.1	11.8	7.1	6.7	9.2	8.6	5	5
Producer prices in industry, % p.a. ⁵⁾	14.1	21.4	-7.2	12.2	13.1	20.2	15	10	7
General governm.budget, nat.def., % GDP									
Revenues	40.2	38.8	35.1	35.0	37.6	40.9	.	.	.
Expenditures	34.2	33.9	41.1	38.5	36.3	33.7	.	.	.
Deficit (-) / surplus (+), % GDP	6.0	4.9	-6.3	-3.5	1.3	7.2	0	0	0
Public debt, nat.def., in % of GDP ⁶⁾	6.7	5.7	8.3	8.6	7.5	8.3	8	7	6
Central bank policy rate, % p.a., end of period ⁷⁾	10.0	13.0	8.8	7.8	7.8	8.3	.	.	.
Current account, EUR mn ⁸⁾	56818	70642	34961	53235	39342	40257	70000	50000	40000
Current account in % of GDP	6.0	6.2	4.0	4.8	7.8	6.7	5.4	3.4	2.5
Exports of goods, BOP, EUR mn ⁸⁾	258930	321792	218221	337611	144445	177765	400000	420000	450000
annual growth rate in %	7.0	24.3	-32.2	54.7	53.6	23.1	18	5	7
Imports of goods, BOP, EUR mn ⁸⁾	163282	199148	137960	244809	79000	104883	310000	340000	370000
annual growth rate in %	24.7	22.0	-30.7	77.4	27.8	32.8	27	10	9
Exports of services, BOP, EUR mn ⁸⁾	28681	34921	29918	34190	15541	17289	40000	45000	50000
annual growth rate in %	15.7	21.8	-14.3	14.3	9.2	11.2	17	13	11
Imports of services, BOP, EUR mn ⁸⁾	42481	51495	44185	56326	23995	28041	60000	70000	80000
annual growth rate in %	19.2	21.2	-14.2	27.5	19.0	16.9	7	17	14
FDI inflow, EUR mn ⁸⁾	40237	51177	26254	32467	14739	16701	35000	45000	50000
FDI outflow, EUR mn ⁸⁾	33547	37934	31407	39764	18008	23770	40000	45000	40000
Gross reserves of CB, excl. gold, EUR mn	318840	291916	290432	335191	353725	336498	.	.	.
Gross external debt, EUR mn	316903	340688	325697	369536	373679	370012	.	.	.
Gross external debt in % of GDP	33.4	30.1	37.1	33.1	33.5	28.7	.	.	.
Exchange rate RUB/EUR, average	35.01	36.43	44.14	40.30	39.99	40.16	40	40	40
Purchasing power parity RUB/EUR, wiiw ⁹⁾	18.75	22.08	22.85	24.86	.	.	.	.	.

1) Preliminary. - 2) Resident population. 2010 according to Census October 2010. - 3) FISIM reallocated to industries, real growth rates based on previous year prices etc. - 4) Excluding small enterprises. - 5) Domestic output prices. - 6) wiiw estimate. - 7) Refinancing rate of Central Bank. - 8) Converted from USD with the average exchange rate. - 9) wiiw estimates based on the 2005 International Comparison Project benchmark.

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

Serbia: slowdown and confusion ahead of the general elections

BY VLADIMIR GLIGOROV

The official forecast for GDP growth has been reduced from 3 to 2% and from 4 to 3% for 2011 and 2012 respectively. The IMF and the government still expect growth to speed up to 4 and 5% thereafter. However, not much credibility is put on those later growth rates, while there is some scepticism about the forecasts for this and the next years. Given the frequent and rather significant revisions of these growth numbers, it is probably safe to say that the economy is not recovering from the slump in the first couple of years of the crisis.

The effect on the labour market has been quite strong and negative tendencies continue. As a labour force survey is conducted only twice a year, in April and October, the most recent numbers will be released only just before this year's end or at the beginning of next year. However, since the crisis began, overall employment declined by more than 5 hundred thousand people, which is a huge number – nearly 20% decline – as the total number of employed before the crisis was about 2.8 million. It is important that jobs were not only lost in the formal, but also in the informal sector; in fact, the decline was in the same proportion because one in four lost jobs was in the informal sector, which is roughly their share in total employment. Thus, the informal sector has proved not to provide an employment buffer in this crisis. This is because there is an overall decline in demand, which affects small and medium-sized business especially hard and thus does not distinguish between formal and informal activities.

Characteristically, industrial production is not recovering convincingly either. In fact, growth of industrial production has started to slow down and is projected to continue to be anaemic. This needs to be seen in the context of the rather lacklustre development since the beginning of transition in 2000 together with the strong decline at the peak of the

crisis in 1999. So, the level of industrial production is now lower than it has been ten years ago when political and economic transition started. Expectations for recovery in the medium run are slim because it depends on foreign companies being interested in investing as domestic entrepreneurship in industry is almost nonexistent. However, the prospects for foreign investments are not particularly good.

Most of the recovery is due to growing exports and a much slower increase in imports. Ominously, export growth has been slowing down because most of it is the consequence of trade switching, that is of growth of exports at the expense of domestic consumption, while overall exporting capacities have not really improved. In addition, external demand is weakening not only in the EU, which is the main trading partner, but also in the neighbouring countries which are important markets for Serbian agricultural products. Still, exports should continue to improve, though imports will be catching up further pushing the trade deficit into the red. That will also keep the current account deficit high and will push the financial risk up. The government has recently tapped the foreign commercial credit market and sold one billion dollars worth of eurobonds at an interest rate of 7.25%, which is much above the sustainable level of financing its external debt.

The policy which is supposed to compensate for this high cost of borrowing and is also supposed to help keep in check the rather high inflationary expectations is the management of the exchange rate. The dinar has appreciated from around 107 dinars for one euro at the beginning of the year 2011 to 100 dinars for one euro, after depreciating from around 80 dinars for one euro at the beginning of the crisis in late 2008. With inflation still in double digits, though slowing somewhat more rapidly than expected, that leads to an improvement of the external debt to GDP ratio, for the government debt and overall. On the other hand, the cost of future dinar depreciation is increasing rapidly.

Political confusion is developing ahead of the December decision of the EU Council on the recom-

mentation by the EU Commission to accept Serbia's application for membership, granting it the status of a candidate country. This is mostly the consequence of the conflicts at the north of Kosovo where the vast majority of the population is Serb and is pressuring the Belgrade government to annex that territory to Serbia in one way or another. The local population has been in continuous confrontation with the international military and civilian personnel there and this confused political situation has succeeded in putting a temporary brake on the negotiations between the Serbian and the Kosovo governments on the normalization of their relations. The aim of the protests in northern Kosovo is to make it impossible for the EU Council to take the positive decision, which would be a major setback for the Serbian government and more specifically for the governing parties.

With the confusion over the Kosovo policy and with growing social dissatisfaction due to falling employment and real incomes, the upcoming general elections, scheduled for late April or early May 2012, should spell defeat for the ruling Democratic Party and its coalition partners. Their only chance is that they may still win in the capital, as Belgrade is doing much better than the rest of the country, and in the province of Vojvodina, which is also doing somewhat better; in addition, the opposition is yet to suggest what its policy is going to be if they win. Lately, their main promise has been that they will secure huge financial support from Russia. That together with the protest vote may prove sufficient to win the elections, especially if the EU prospects remain as dim as they are now. If that happens, a new chapter of Serbian history will be opened.

Table RS

Serbia: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011	2012 Forecast	2013
Population, th. pers., mid-year ²⁾	7381.6	7350.2	7320.8	7300.0	.	.	7280	7250	7220
Gross domestic product, RSD bn, nom. ³⁾	2276.9	2661.4	2713.2	2986.6	.	.	3400	3800	4100
annual change in % (real) ³⁾	5.4	3.8	-3.5	1.0	.	.	2	3	3
GDP/capita (EUR at exchange rate)	3900	4400	3900	4000	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	8300	8600	8200	8500	.	.	.	.	.
Consumption of households, RSD bn, nom. ³⁾	1714.0	2023.6	2143.2	.	.	.	.	.	.
annual change in % (real) ⁴⁾	6	6	-2	2	.	.	1	2	2
Gross fixed capital form., RSD bn, nom. ³⁾	552.3	632.4	510.2	.	.	.	.	.	.
annual change in % (real) ⁴⁾	12	8	-5	-4	.	.	0	4	4
Gross industrial production									
annual change in % (real) ⁵⁾	4.1	1.4	-12.6	2.5	4.2	4.3	3	5	5
Gross agricultural production									
annual change in % (real)	-11.7	13.7	1.3	1.0	.	.	5	5	5
Construction output ⁶⁾									
annual change in % (real)	10.8	4.7	-19.7	-7.8	.	.	0	3	3
Employed persons - LFS, th, average ⁷⁾	2655.7	2821.7	2616.4	2396.2	2412.1	2281.9	2200	2200	2220
annual change in %	1.0	.	-7.3	-8.4	-8.7	-5.4	-8	0	1
Unemployed persons - LFS, th, average ⁷⁾	585.5	445.4	503.0	568.7	573.3	650.4	.	.	.
Unemployed persons - LFS, th, average ⁷⁾	18.1	13.6	16.1	19.2	19.2	22.2	23	23	23
Unemployment rate, reg., in %, end of period	25.4	24.0	25.2	25.9	26.0	26.6	27	27	27
Average gross monthly wages, RSD ⁸⁾	38744	45674	44147	47450	45907	50770	.	.	.
real growth rate, % (net wages) ⁸⁾	19.5	3.9	0.2	0.7	2.6	-2.5	.	.	.
Consumer prices, % p.a.	7.0	13.5	8.6	6.8	4.1	13.4	10	8	6
Producer prices in industry, % p.a. ⁹⁾	.	12.7	5.6	12.7	11.4	17.4	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	44.0	43.0	42.3	41.0	.	.	.	.	.
Expenditures	46.0	45.6	46.7	45.5	.	.	.	.	.
Deficit (-) / surplus (+), % GDP	-2.0	-2.6	-4.5	-4.6	.	.	-5	-4	-3
Public debt, nat.def., in % of GDP	30.9	29.2	34.8	42.9	.	.	45	45	45
Central bank policy rate, % p.a., end of period ¹⁰⁾	10.0	17.8	9.5	11.5	8.0	11.8	10	8	6
Current account, EUR mn	-5052.6	-7054.1	-2084.4	-2082.0	-1374.9	-1381.6	-2550	-3050	-3550
Current account in % of GDP	-17.7	-21.6	-7.2	-7.2	.	.	-7.5	-8.8	-9.5
Exports of goods, BOP, EUR mn	6382.5	7416.0	5977.8	7402.5	3334.6	4117.5	8700	9600	10600
annual growth rate in %	24.9	16.2	-19.4	23.8	17.9	23.5	17	10	10
Imports of goods, BOP, EUR mn	13451.3	15917.2	11096.3	12175.8	5692.0	6662.0	13800	15200	16700
annual growth rate in %	33.3	18.3	-30.3	9.7	4.7	17.0	13	10	10
Exports of services, BOP, EUR mn	2304.0	2741.4	2500.0	2667.1	1171.4	1351.8	2900	3200	3500
annual growth rate in %	25.3	19.0	-8.8	6.7	0.4	15.4	10	10	10
Imports of services, BOP, EUR mn	2565.1	2926.1	2481.7	2661.9	1184.5	1312.3	2900	3200	3500
annual growth rate in %	36.4	14.1	-15.2	7.3	-0.1	10.8	10	10	10
FDI inflow, EUR mn	2512.6	2017.5	1410.1	1003.1	521.6	596.1	1500	1500	2000
FDI outflow, EUR mn	691.8	193.1	37.6	143.0	102.1	30.5	50	100	100
Gross reserves of NB, excl. gold, EUR mn	9440.7	7938.5	10277.7	9554.9	10063.3	9510.9	.	.	.
Gross external debt, EUR mn	17139.0	21088.0	22487.0	23786.4	23456.2	23000.0	.	.	.
Gross external debt in % of GDP	60.2	64.6	77.9	82.0	.	.	.	.	.
Exchange rate RSD/EUR, average	79.98	81.47	93.94	102.90	99.95	101.91	100	110	110
Purchasing power parity RSD/EUR ¹¹⁾	37.35	41.97	45.02	47.91	.	.	.	.	.

Note: Gross industrial production, construction output and producer price index refer to NACE Rev. 2.

1) Preliminary. - 2) According to census March 2002. - 3) According to ESA'95 (non-observed economy partially included, real growth rates based on previous year prices). - 4) wiiw estimate. - 5) Enterprises with 50 and more employees excluding arms industry. - 6) According to gross value added. - 7) From 2008 extended survey as of April and October (before October only). - 8) From 2009 including wages of employees working for sole proprietors. - 9) Domestic output prices. - 10) Two-week repo rate. - 11) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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

Turkey: delay in soft landing

BY JOSEF PÖSCHL

Turkey has become famous for its high-speed recovery from the GDP decline the global crisis in 2008-9 had triggered. In the first quarter of 2011 the GDP grew by 11.8% annually. In the second quarter, it grew by 'merely' 8.8%. This slight deceleration helped to calm down fears of overheating.

Towards mid-2011, seasonally adjusted figures reflected a stagnation of industrial output. (The mid-2011 output level was far above the 2010 average, thus year-on-year growth rates remained high.) Analysts started announcing 'forget about overheating, what's just going on is soft landing'. However, most likely the GDP growth of the third quarter was again quite high, around 7%. So, maybe a soft landing will take place in the fourth quarter of 2011 (maybe, as this will largely depend on economic developments globally and especially within the EU). Quite possibly, the ultimate landing in late 2011 or early 2012 will not be that soft.

During the first half of 2011, continued strong and expanding investment activity prevented the economy's soft landing. Investment growth was high throughout 2010 (+42% year-on-year). The strong investment growth carried on in the first and sec-

ond quarters of 2011 (34% and 29% respectively). The engine of this growth was private investment into machinery and equipment. Private construction activities also expanded considerably. This strong investment growth provoked massive import expansion.

The private sector financed part of the expanding activities by borrowing from abroad. This helped to cover the gap in the current account. Exports of goods covering merely part of the imports: this is a characteristic feature of the Turkish economy, something that distinguishes Turkey from some other fast-growing emerging markets. During the recent recovery, imports grew much faster than exports, so that the gap has widened dramatically, up to some 11% of GDP in the first half of 2011.

Table 1 shows the balance of trade with goods, i.e. the main source of concern, given that it almost doubled within only one year (from EUR 24.3 billion in Jan.-Aug. 2010 to EUR 43.6 billion in Jan.-Aug. 2011). The table also compares how the trade deficit of the first eight months has been financed in recent years. In all those years, the main contribution came from other investment. In 2010 and 2011, the second most important source was portfolio investment, as direct investment did not regain its pre-crisis strength. The surplus in the services trade had covered three quarters of the trade deficit

Table 1

Pre- and post-crisis contributions to the coverage of the trade deficit

Balance of payments contributions in % of the deficit in the trade in goods

	Jan-Aug 2007	Jan-Aug 2008	Jan-Aug 2009	Jan-Aug 2010	Jan-Aug 2011
Balance of services	29	27	73	28	19
Balance of income	-15	-14	-38	-14	-9
Balance of current transfers	5	3	8	2	2
Balance of direct investment	46	29	36	13	14
Balance of portfolio investment	15	3	11	44	29
Balance of other investment	41	65	-35	52	37
Errors and omissions	11	-6	41	7	16
Reserves*	-32	-6	4	-31	-8
<i>Trade balance in EUR billion</i>	<i>-22.4</i>	<i>-27.2</i>	<i>-10.9</i>	<i>-24.3</i>	<i>-43.6</i>

* A minus sign indicates a reserve expansion.

Source: Turkish Central Bank.

when the latter was low (Jan.-Aug. 2008), but covered merely one fifth when the deficit reached its record level (Jan.-Aug. 2011). In all but one cases (Jan.-Aug. 2009), the net result was an increase in reserves. Nevertheless, the high dependence on borrowing is the Achilles' heel of Turkey's economy.

First figures for the third quarter point to a slow-down of investment growth. Consumption will grow even less, in line with weak consumer confidence and an increase in some indirect taxes. As a consequence of slow investment and consumption growth, we may count with a slower expansion of imports. However, import growth in September was surprisingly high. Export growth could remain high thanks to the gradual depreciation of the lira in past months. Against the euro, the lira started depreciating after the third quarter of 2010, from slightly above EUR 0.5 per TRY in Q3 2010 down to about 0.4 in Q3 2011, i.e. by somewhat over 20%. The policy makers in the central bank saw that the inflation pressure remained moderate, with rates above 5%, but far below 10%. They may have felt comfortable with this gradual depreciation for a long time, as is visible from the fact that they kept the policy rate low and even lowered it further in June 2011. This depreciation promised to slow down the widening of the gap in the balance of trade. The alternative option, an increase in the policy rate, bore the danger of having negative long-term effects: It might have stopped depreciation for the time being, but the deficit in the current account might have continued climbing, up to unsustainable heights. To put brakes on the expansion of private credits, the central bank increased the commercial banks' reserve requirements in several steps. This made borrowing from abroad more attractive, and that is what especially fully or partially foreign-owned non-financial companies have done frequently.

The high current account deficit remains a serious matter of concern. The spread of fear of a new global crisis with large international banks as its nucleus may put question marks on the financing of high trade deficits of countries such as Turkey in future months. The lira came under attack in early

October, and the central bank stepped in massively with the use of foreign currency reserves. Reserves are around EUR 65 billion; analysts have started discussing how long the central bank might be able to repel such attacks, should they become repetitive. Financial investors seem to have doubts about the robustness of declarations of Turkish policy makers assuring that past months' depreciation was enough, now the exchange rate would stabilize on the new level. The central bank left the official policy rate constant, but increased the overnight lending rate from 9% to 12.5%.

There is also good news. The government's revenues surpassed expenditures by far (by EUR 840 million) in the January-August period. This was not the case last year (EUR -7 billion). It is remarkable if we take into account that in June there were parliamentary elections. A more efficient fight against tax evasion may have played a role.

Political stability may strengthen further, as the new victory of Tayyip Erdogan's Justice and Development Party means a consolidation of power. Whatever the government wants to do, the opportunity to do it is now. The focus seems to be on the drafting of a new constitution. A second focus is on foreign policy.

Currently, Turkey's spotlight is directed towards the MENA countries. An informal alliance with Egypt seems to be in the making. During his recent North Africa travel, PM Erdogan's comments in favour of a laicistic state were most remarkable. Remarkable was also the number of accompanying Turkish business people eager to export their products and to invest in the Arabic countries' corporate sector or real estate.

So far, foreign investors can invest in Turkey only if their own country is open to Turkish investors. Now, Turkey prepares for a removal of this barrier, something which could boost foreign investment in the country. Investment from Russia and Middle East countries could become quite substantial. The markets north of Turkey represent a huge potential for Turkey, but relations are not completely free of

friction, as became visible last October when Turkey decided to terminate a 25-year old deal with Gazprom on natural gas supplies.

To conclude, in 2011 Turkey's GDP and consumer prices will grow at approximately the same rate: by about 7%. Another similarity is emerging between the rate of unemployment and the current account deficit measured in per cent of GDP. Both will be close to 10%.

It is open which results the year 2012 will generate. This will depend on the global development, its spill-over on Turkey's economy and the response Turkey's policy makers will decide for. So, we count with a strong slowdown of growth, whereas there is – or is not yet – a hint for the likelihood of a GDP decline. Even more difficult is a forecast for 2013, so we assume there will be a *partial return* towards more regular growth, which in the case of Turkey may be located between 5% and 10%.

Table TR

Turkey: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	70138	71052	72039	73142	.	.	73200	73900	74600
Gross domestic product, TRY bn, nom.	856.1	965.5	952.6	1103.7	509.1	606.8	1270	1430	1600
annual change in % (real)	4.7	0.7	-4.8	9.0	11.2	10.2	7.8	3.5	5.0
GDP/capita (EUR at exchange rate)	6800	7100	6100	7600	.	.	7400	7200	7700
GDP/capita (EUR at PPP - wiiw)	11500	11900	10700	11800	.	.	12600	15700	16500
Consumption of households, TRY bn, nom.	601.2	663.9	680.8	787.3	373.2	443.4	.	.	.
annual change in % (real)	5.5	-0.3	-2.3	6.7	5.5	10.8	4	3	3
Gross fixed capital form., TRY bn, nom.	180.6	189.1	160.7	206.9	95.0	137.9	.	.	.
annual change in % (real)	3.1	-6.2	-19.0	29.9	22.8	31.1	25	6	10
Gross industrial production									
annual change in % (real)	7.0	-0.6	-9.7	13.1	15.4	10.8	9	4	7
Gross agricultural production									
annual change in % (real)	-7.3	.	.	.	.	.	.	.	.
Construction industry									
annual change in % (real)	5.5	-7.6	-16.3	17.5	15.0	14.4	12	7	9
Employed persons - LFS, th, avg.	20750	21193	21271	22593	22161	23623	23500	23450	23800
annual change in %	1.5	2.1	0.4	6.2	7.5	6.6	4.0	-0.2	1.5
Unemployed persons - LFS, th, average	2019	2279	3053	2696	2850	2459	2520	2600	2700
Unemployment rate - LFS, in %, average	8.9	9.8	12.7	10.7	11.5	9.5	9.7	10.5	10.2
Reg. unemployment rate, in %, average	.	.	.	.	.	.	.	.	.
Average gross monthly wages, manuf.ind., TRY	1437	1590	.	.	.	.	.	.	.
annual change in % (real)	1.6	0	.	.	.	.	.	.	.
Consumer prices, % p.a.	8.8	10.4	6.3	8.6	9.3	5.1	6.7	9.1	6.5
Producer prices in industry, % p.a.	6.0	13.0	1.0	6.2	5.6	10.1	10.0	10	7
General governm. budget, EU-def., % GDP ²⁾									
Revenues	.	32.3	33.8	34	.	.	.	.	.
Expenditures	.	34.5	40.6	38	.	.	.	.	.
Deficit (-) / surplus (+)	-1.0	-2.2	-6.8	-4	.	.	-1.8	-2.8	-3
Public debt, EU-def., in % of GDP ²⁾	39.4	39.5	43.8	41.2	.	.	39.5	38.1	39
Central bank policy rate, %, p.a., end of period ³⁾	20.0	17.5	9.0	6.5	9.0	9.0	5.75	6.25	6.25
Current account, EUR mn	-27915	-28108	-9995	-35930	-15224	-32080	-61000	-52000	-54000
Current account in % of GDP	-5.8	-5.6	-2.3	-6.5	-6.0	-11.7	-11.3	-9.8	-9.5
Exports of goods, BOP, EUR mn	84001	95484	78616	91292	43964	49325	105000	114000	130000
annual change in %	12.9	13.7	-17.7	16.1	14.0	12.2	15	9	14
Imports of goods, BOP, EUR mn	118053	131095	96145	133986	59768	82369	175000	182000	200000
annual change in %	10.3	11.0	-26.7	39.4	33.9	37.8	31	4	10
Exports of services, BOP, EUR mn	21116	23928	23923	26176	9682	10988	29500	32000	35000
annual growth rate in %	4.7	13.3	0.0	9.4	7.9	13.5	13	8	9
Imports of services, BOP, EUR mn	11408	12186	12105	14897	6905	7375	16000	17000	18000
annual growth rate in %	22.0	6.8	-0.7	23.1	21.7	6.8	7	6	6
FDI inflow, EUR mn	16238	13217	6085	6986	2430	4545	10000	11000	8000
FDI outflow, EUR mn	1568	1707	1110	1108	714	947	1500	1500	1500
Gross reserves of CB, excl. gold, EUR mn	49804	51022	49088	60411	57870	64857	65000	68000	65000
Gross external debt, EUR mn	169471	201449	186351	216669	215973	214236	.	.	.
Gross external debt in % of GDP	35.4	39.8	42.3	39.2	39.1	39.6	.	.	.
Average exchange rate TRY/EUR	1.7865	1.9064	2.1631	1.9965	2.0220	2.2064	2.35	2.70	2.80
Purchasing power parity TRY/EUR	1.0642	1.1456	1.2368	1.2838	.	.	1.38	1.23	1.3

Note: Gross industrial production and construction output refer to NACE Rev. 2.

1) Preliminary. - 2) According to ESA95 excessive deficit procedure. - 3) From 2010 one-week repo rate, overnight lending rate before.

Source: National statistics (Central Bank, Turkish Statistical Institute - TSI, etc.), Eurostat. Forecasts by wiiw.

Ukraine: countering the depreciation pressures

BY VASILY ASTROV

Despite the weak performance in the major advanced countries and the escalation of the euro-zone debt crisis, Ukraine's economic performance has been so far fairly robust. After 5.3% GDP growth in the first quarter of 2011 (year on year), the economy grew by 3.8% in the second quarter and, according to preliminary estimates, by 6.6% in the third quarter, resulting in a cumulative 5.3% growth in January-September 2011 against the same period of 2010. Available data suggest that this growth has been solely domestically-driven. The retail trade turnover – a proxy for private consumption – soared by 15% in real terms in January-September 2011, backed by rising wages and a recent rebound of consumer credit. In turn, the growth of construction output by 11% over the same period is indicative of a strong investment activity (in the first half of 2011, fixed investments picked up by 16%). However, the booming domestic demand also spilled over into soaring imports (+40% in January-September 2011 in US dollar terms), while export growth (+31.5%) was constrained until recently by the grain export restrictions imposed last year in order to curb inflation. As a result, the contribution of net exports to the GDP growth has been negative, and we expect the current account deficit to climb to 4% of GDP this year (compared to 2% last year).

Starting from September 2011, there have been mounting signs of concern over the sustainability of the current growth path. The weakening of external demand translated into a slowdown of industrial output growth to 6.4% in September 2011 (year on year), although cumulated growth since the beginning of the year was still very impressive (+8.6%). More importantly, due to the rising depreciation expectations, the already strong household demand for foreign cash intensified further (total sales of foreign cash to the population reached USD 7.8 billion in January-September 2011). The increase in perceived risks regarding Ukraine has also been

manifested in the sharply risen CDS spreads: in September 2011, they surged from levels of 400-500 basis points (b.p.) prevailing hitherto to nearly 1000 b.p., before receding to below 800 b.p. by the end of October. Also, the yields on (hryvnia-denominated) government bonds have risen by up to 4 percentage points since August 2011, prompting the government to issue US dollar-indexed bonds instead.

To counteract the ensuing depreciation pressures, the National Bank intervened heavily in the foreign exchange market¹ and tightened both the regulations on foreign cash transactions and the overall monetary policy stance. The latter appears justified given that the boom in domestic demand is clearly pointing to the dangers of 'overheating', especially in the current circumstances of elevated global uncertainties and the fragility of external funding.

While a 'hard landing' appears not very likely at the current stage, the recent policy tightening will almost certainly exert a dampening effect on private consumption and the overall GDP growth in the months to come. At the same time, investments are likely to gain momentum thanks to the government-sponsored infrastructure projects ahead of the 2012 European Football Championship, while agricultural exports will be boosted by the exceptionally good grain harvest this year² and the recent abolition of grain export duties. Therefore, we stick to our earlier forecast of 4.5% GDP growth this year, although we have lowered the growth projection by 1 p.p., to 4%, for 2012. Our baseline scenario also assumes that the recent policy tightening coupled with an improvement in global investor sentiments and/or a resumption of the IMF 'stand-by' programme stalled since spring 2011 will sustain the current exchange rate peg of 8 UAH/USD. Needless to say, this scenario is rather optimistic and the risks clearly lie on the downside. Should the global

¹ In September 2011, the National Bank spent some USD 2 billion of its reserves on interventions.

² According to official projections, in 2011 Ukraine will produce 53 million tons of grain (35% more than last year), of which 27 million tons will be exported (+112% compared to last year).

prices of steel (which still accounts for around 35% of Ukraine's exports) drop markedly and the external funding dry out, a 'hard landing' scenario (i.e. hryvnia devaluation and a sharp deceleration of economic growth) will be hardly avoided.

Meanwhile, the strong tax collection is continuing to temper the authorities' willingness to implement hikes in household gas tariffs – a necessary precondition for a resumption of the IMF programme. Instead, the focus of the government's recent efforts has been on re-negotiating the terms of the gas import contract with Russia to secure a lower gas price. Should the ongoing negotiations prove successful, this would reduce the import bill of the state energy monopolist Naftohaz and (ideally) eliminate the need for subsidies to Naftohaz even without domestic tariff hikes. The reluctance to implement the tariff hikes also implies that the inflationary pressures are currently relatively low, so that the CPI inflation should not exceed 9% this year (and thereafter).

The negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU were reportedly finalized in October 2011, after the last controversial issues related to car imports and exports of sunflower seeds and metal scrap had been resolved. However, the recent conviction of the former (pro-western) prime-minister Yuliya Tymoshenko³ has put into question the timely conclusion of a broader Association Agreement, which – along with DCFTA – was initially expected to be signed by the end of this year. At the same time, the country's participation in an alternative integration project – the Russia-Belarus-Kazakhstan Customs Union (CU) – continues to be unlikely, not least because of Ukraine's WTO membership which makes it problematic to raise Ukraine's import duties to the current CU level. However, on

18 October 2011 Ukraine co-signed the EurAz Free Trade Agreement,⁴ which envisages a gradual phasing-out of existing 'exemptions and limitations' (though not for energy and metals). It should also reduce the incidence of 'trade wars' via the creation of a WTO-conform dispute settlement mechanism. Unlike e.g. CU membership, Ukraine's participation in the EurAz free trade area is in no contradiction with its (potentially forthcoming) free trade regime with the EU.

Overall, the track record of the Yanukovich administration in economic policy since he came to power in February 2010 has been mixed. On the one hand, a number of crucial reforms, which had stalled under the previous 'orange' (Yushchenko-Tymoshenko) authorities, have been implemented, including a comprehensive pension reform and a new, generally more liberal, tax code. Also, the privatization target was met in 2011 for the first time in many years. On the other hand, many of these reforms – such as privatizations – appear to have favoured primarily big business (the so-called 'oligarchs', particularly those close to the ruling Party of Regions), while other reforms – e.g. the pension reform, which envisages a gradual raising of the retirement age for women from 55 to 60 years – will likely have negative social consequences. Also, the potential benefits of the planned abolition, as of January 2012, of the long-standing moratorium on the free purchase of agricultural land are far from obvious, given the so far sluggish progress in elaborating an appropriate legislative framework, including a land cadastre. The popular rating of President Yanukovich and the ruling Party of Regions has plunged substantially over the past year and is now – one year before the next parliamentary elections (scheduled for October 2012) – comparable to that of its major political rival, the 'orange' Block of Yuliya Tymoshenko.

³ Ms. Tymoshenko has been convicted on charges of exceeding her authority when signing the gas agreement with Russia in January 2009. In addition, several other criminal cases have been opened against Ms. Tymoshenko, mostly related to her activities as the head of Ukraine's Unified Energy Systems in the late 1990s.

⁴ The agreement was signed by eight CIS member countries (Azerbaijan, Turkmenistan and Uzbekistan abstained).

UKRAINE

Table UA

Ukraine: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 January-June	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	46509	46258	46053	45871	45911	45727	45700	45600	45500
Gross domestic product, UAH mn, nom.	720731	948056	913345	1094607	479578	580030	1246800	1413400	1602800
annual change in % (real)	7.9	2.3	-14.8	4.2	5.2	4.6	4.5	4	5
GDP/capita (EUR at exchange rate)	2200	2700	1800	2300	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5800	6000	5100	5400	.	.	.	.	.
Consumption of households, UAH mn, nom.	423174	582482	581733	685233	311864	387853	.	.	.
annual change in % (real)	17.2	13.1	-14.9	7.0	4.5	13.4	10	6	7
Gross fixed capital form., UAH mn, nom.	198348	250158	167644	208288	78010	94115	.	.	.
annual change in % (real)	23.9	-1.2	-50.2	4.9	-4.7	6.6	9	7	8
Gross industrial production									
annual change in % (real)	7.6	-5.2	-21.9	11.2	12.3	8.8	8	7	6
Gross agricultural production									
annual change in % (real)	-6.5	17.1	-1.8	-1.5	3.4	3.2	.	.	.
Construction output									
annual change in % (real)	15.6	-15.8	-48.2	-5.4	-19.3	14.5	.	.	.
Employed persons - LFS, th, average	20904.7	20972.3	20191.5	20266.0	20213.6	20247.7	20300	20350	20400
annual change in %	0.8	0.3	-3.7	0.4	0.2	0.2	0.2	0.2	0.2
Unemployed persons - LFS, th, average	1417.6	1425.1	1958.8	1785.6	1869.1	1867.7	.	.	.
Unemployment rate - LFS, in %, average	6.4	6.4	8.8	8.1	8.5	8.5	8	7.8	7.5
Unemployment rate, reg., in %, end of period	2.3	3.0	1.9	2.0	1.4	1.8	.	.	.
Average gross monthly wages, UAH ²⁾	1351.0	1806.0	1906.0	2239.0	2110.2	2496.7	.	.	.
annual change in % (real, gross)	15.0	6.8	-8.9	7.4	6.0	8.3	.	.	.
Consumer prices, % p.a.	12.8	25.2	15.9	9.4	9.8	9.2	8.5	8	7.5
Producer prices in industry, % p.a. ³⁾	19.5	35.5	6.5	20.9	21.1	19.9	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	30.5	31.4	29.9	29.0	30.3	30.7	.	.	.
Expenditures	31.6	32.8	34.0	34.6	35.5	32.7	.	.	.
Deficit (-) / surplus (+) ⁴⁾	-1.1	-1.5	-4.1	-5.9	-5.2	-2.0	-4	-3	-3
Public debt, nat.def., in % of GDP	12.3	20.0	34.8	39.5	31.1	.	40	39	38
Central bank policy rate, % p.a., end of period ⁵⁾	8.0	12.0	10.3	7.8	9.5	7.8	.	.	.
Current account, EUR mn ⁶⁾	-3849	-8721	-1242	-2274	356	-2068	-4500	-6000	-7000
Current account in % of GDP	-3.7	-7.1	-1.5	-2.2	0.8	-4.0	-4.0	-4.7	-4.8
Exports of goods, BOP, EUR mn ⁶⁾	36383	46274	28958	39321	17544	23767	47000	50800	54900
annual growth rate in %	17.2	27.2	-37.4	35.8	32.8	35.5	20	8	8
Imports of goods, BOP, EUR mn ⁶⁾	44100	57270	32046	45641	18997	27474	57000	62700	69000
annual growth rate in %	25.3	29.9	-44.0	42.4	32.5	44.6	25	10	10
Exports of services, BOP, EUR mn ⁶⁾	10337	12228	9936	12856	5769	6350	14800	16600	18300
annual growth rate in %	14.9	18.3	-18.8	29.4	25.4	10.1	15	12	10
Imports of services, BOP, EUR mn ⁶⁾	8571	11039	8248	9538	4232	4994	11400	12800	14600
annual growth rate in %	17.3	28.8	-25.3	15.6	1.0	18.0	20	12	14
FDI inflow, EUR mn ⁶⁾	7220	7457	3453	4893	2089	2253	5000	6000	7000
FDI outflow, EUR mn ⁶⁾	491	690	116	555	496	-4	.	.	.
Gross reserves of NB excl. gold, EUR mn	21634	21847	17824	25096	23316	25123	.	.	.
Gross external debt, EUR mn	54421	72109	72113	88363	85744	85531	.	.	.
Gross external debt in % of GDP	52.2	58.6	85.8	85.0	82.5	75.5	.	.	.
Exchange rate UAH/EUR, average	6.918	7.708	10.868	10.533	10.584	11.163	11	11	11
Purchasing power parity UAH/EUR, wiiw ⁷⁾	2.659	3.412	3.917	4.399	.	.	.	.	.

1) Preliminary. - 2) Excluding small enterprises. - 3) Domestic output prices. - 4) In 2009 budget deficit reached 9.2% of GDP taking into account transfers to Naftohaz and accumulated VAT arrears. - 5) Discount rate of NB. - 6) Converted from USD with the average exchange rate. - 7) wiiw estimates based on the 2005 International Comparison Project benchmark.

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

STATISTICAL ANNEX

Selected monthly data on the economic situation in Central, East and Southeast Europe

NEW: As of January 2011, time series for the three Baltic countries – **Estonia, Latvia, Lithuania** – are included in the wiiw Monthly Database.

Conventional signs and abbreviations used

.	data not available
%	per cent
PP	change in % against previous period
CPPY	change in % against corresponding period of previous year
CCPPY	change in % against cumulated corresponding period of previous year (e.g., under the heading 'March': January-March of the current year against January-March of the preceding year)
3MMA	3-month moving average, change in % against previous year
NACE Rev. 1	statistical classification of economic activities in the European Community, Rev. 1 (1990) / Rev. 1.1 (2002)
NACE Rev. 2	statistical classification of economic activities in the European Community, Rev. 2 (2008)
LFS	Labour Force Survey
CPI	consumer price index
HICP	harmonized index of consumer prices (for new EU member states)
PPI	producer price index
p.a.	per annum
mn	million (10 ⁶)
bn	billion (10 ⁹)
avg	average
eop	end of period
NCU	national currency unit (including 'euro-fixed' series for euro-area countries)

The following national currencies are used:

ALL	Albanian lek	HUF	Hungarian forint	RON	Romanian leu
BAM	Bosnian convertible mark	LVL	Latvian lats	RSD	Serbian dinar
BGN	Bulgarian lev	LTL	Lithuanian litas	RUB	Russian rouble
CZK	Czech koruna	MKD	Macedonian denar	UAH	Ukrainian hryvnia
HRK	Croatian kuna	PLN	Polish zloty		
EUR	euro – national currency for Montenegro and for the euro-area countries Estonia (from January 2011, euro-fixed before), Slovakia (from January 2009, 'euro-fixed before) and Slovenia (from January 2007, 'euro-fixed' before)				
USD	US dollar				
M1	currency outside banks + demand deposits / narrow money (ECB definition)				
M2	M1 + quasi-money / intermediate money (ECB definition)				
M3	broad money				

Sources of statistical data: Eurostat, national statistical offices and central banks; wiiw estimates.

wiiw Members have **free online access** to the wiiw Monthly Database.

To receive your personal password, please go to <http://mdb.wiiw.ac.at>

ALBANIA: Selected monthly data on the economic situation 2010 to 2011

(updated end of Oct 2011)

		2010						2011								
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
LABOUR																
Employment total, registered	th. pers., quart. avg	.	.	916.0	.	.	916.9	.	.	920.4	.	.	929.5	.	.	.
Employment total, registered	CPPY	.	.	-5.7	.	.	2.0	.	.	2.2	.	.	2.7	.	.	.
Unemployment, registered	th. pers., quart. avg	.	.	143.2	.	.	143.0	.	.	142.8	.	.	142.1	.	.	.
Unemployment rate, registered	%	.	.	13.5	.	.	13.5	.	.	13.5	.	.	13.3	.	.	.
PRICES																
Consumer	PP	-0.5	0.8	0.7	0.2	0.2	2.2	0.8	2.3	-0.1	-0.6	-1.1	-1.1	-0.7	0.3	0.4
Consumer	CPPY	3.4	3.5	3.4	3.0	2.8	3.3	3.3	4.5	4.3	4.1	4.2	3.9	3.6	3.1	2.8
Consumer	CCPPY	3.8	3.7	3.7	3.6	3.6	3.5	3.3	3.9	4.0	4.0	4.1	4.0	4.0	3.9	3.8
Producer, in industry	PP	0.6	0.1	0.3	0.3	0.1	0.4	0.7	0.0	0.1	0.4	0.1	0.0	.	.	.
Producer, in industry	CPPY	0.1	0.4	0.5	0.3	0.6	0.7	3.6	3.3	2.3	3.0	3.6	3.2	.	.	.
Producer, in industry	CCPPY	0.0	0.1	0.1	0.2	0.2	0.2	3.6	3.4	3.1	3.0	3.2	3.2	.	.	.
FOREIGN TRADE																
Exports total (fob), cumulated	EUR mn	695	766	866	971	1073	1172	107	250	371	471	586	702	830	926	.
Imports total (cif), cumulated	EUR mn	1928	2224	2523	2823	3123	3475	254	524	831	1154	1480	1809	2150	2470	.
Trade balance, cumulated	EUR mn	-1233	-1458	-1657	-1852	-2050	-2303	-147	-274	-460	-682	-895	-1106	-1320	-1544	.
FOREIGN FINANCE																
Current account, cumulated	EUR mn	-508	-619	-670	-779	-877	-1040	-73	-148	-244	-351	-485	-587	.	.	.
EXCHANGE RATE																
ALL/EUR, monthly average	nominal	136.11	136.24	137.05	138.39	138.82	138.81	138.65	139.59	140.14	141.48	141.80	141.97	139.92	139.85	140.49
ALL/USD, monthly average	nominal	106.63	105.59	104.81	99.60	101.33	104.95	103.84	102.27	100.17	97.89	98.79	98.65	97.98	97.48	102.02
EUR/ALL, calculated with CPI ¹⁾	real, Jan07=100	91.2	91.7	91.5	90.6	90.3	91.7	93.0	94.0	92.5	90.6	89.3	88.3	89.3	89.4	88.9
EUR/ALL, calculated with PPI ¹⁾	real, Jan07=100	90.9	90.9	90.4	89.6	89.1	88.6	88.4	87.1	86.1	84.9	84.9	84.9	.	.	.
USD/ALL, calculated with CPI ¹⁾	real, Jan07=100	90.2	91.7	92.9	97.9	96.4	94.9	96.2	99.5	100.5	101.6	99.1	98.3	98.1	98.6	94.5
USD/ALL, calculated with PPI ¹⁾	real, Jan07=100	85.8	86.4	87.3	91.3	89.3	85.7	85.9	85.8	86.1	87.0	85.7	85.9	.	.	.
DOMESTIC FINANCE																
Currency outside banks	ALL bn, eop	197.2	197.0	191.3	190.9	189.4	195.1	186.6	185.9	185.5	187.9	187.9	189.3	190.2	189.6	189.0
M1	ALL bn, eop	274.4	276.4	272.5	269.8	266.9	275.4	263.4	262.3	263.8	265.4	264.8	267.7	269.6	271.8	268.9
M2	ALL bn, eop	913.6	940.0	948.4	952.0	961.4	980.3	981.4	978.0	983.5	994.6	998.5	1008.8	1015.6	1034.7	1046.9
M2	CPPY, eop	11.2	11.2	12.4	11.7	12.0	12.5	11.5	10.8	10.8	12.2	11.2	11.8	11.2	10.1	10.4
Central bank policy rate (p.a.) ²⁾	% eop	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.3	5.3	5.3	5.3	5.3	5.3	5.0
Central bank policy rate (p.a.) ²⁾³⁾	real, % eop	4.9	4.5	4.4	4.7	4.4	4.2	1.4	1.7	2.9	2.1	1.6	2.0	.	.	.
BUDGET																
General gov. budget balance, cum.	ALL bn	-22799	-23179	-24193	-23433	-23228	-38031	1621	-8904	-11776	-15910	-20426	-26910	-30762	-31189	-30732

1) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

2) One-week repo rate.

3) Deflated with annual PPI.

Source: wiw Monthly Database incorporating national statistics.

MACEDONIA: Selected monthly data on the economic situation 2010 to 2011

(updated end of Oct 2011)

		2010						2011								
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PRODUCTION																
Industry, NACE Rev. 2 ¹⁾	real, CPPY	8.0	-2.5	-14.0	-4.6	-3.0	-10.0	5.0	10.9	24.4	11.8	6.9	-1.9	5.5	0.9	-2.4
Industry, NACE Rev. 2 ¹⁾	real, CCPY	-3.0	-2.9	-4.4	-4.4	-4.3	-4.8	5.0	8.0	13.8	13.2	11.8	9.2	8.5	7.5	6.3
Industry, NACE Rev. 2 ¹⁾	real, 3MMA	3.6	-3.6	-7.3	-7.4	-6.0	-3.7	0.2	13.8	15.7	14.0	5.3	3.4	1.5	1.4	.
Construction, total, effect. work. time	real, CPPY	5.0	8.3	0.5	1.3	6.9	9.7	8.7	13.8	14.9	9.0	16.2	6.1	9.8	.	.
Construction, total, effect. work. time	real, CCPY	6.2	6.5	5.8	5.3	5.5	5.8	8.7	11.3	12.7	11.7	12.6	11.4	11.2	.	.
LABOUR																
Employed persons, LFS	th. pers., quart. avg	.	.	648.8	.	.	659.5	.	.	649.6	.	.	642.8	.	.	.
Employed persons, LFS	CCPPY	.	.	-0.3	.	.	1.3	.	.	5.5	.	.	4.0	.	.	.
Unemployed persons, LFS	th. pers., quart. avg	.	.	300.5	.	.	295.4	.	.	294.6	.	.	293.4	.	.	.
Unemployment rate, LFS	% avg	.	.	31.7	.	.	31.0	.	.	31.2	.	.	31.4	.	.	.
Productivity in industry, NACE Rev. 2 ¹⁾	CCPPY	-0.1	-0.7	-2.9	-3.4	-3.6	-4.5	5.2	7.1	12.7	11.4	9.6	6.8	6.2	5.2	4.0
Unit labour costs, exch.r. adj.(EUR) ¹⁾	CCPPY	.	.	.	.	.	.	-1.7	-2.8	-8.4	-7.8	-6.3	-3.5	-3.1	-2.0	.
WAGES																
Total economy, gross	MKD	29827	30207	30263	30279	30349	31435	30902	30032	30216	30172	30736	30990	30528	30715	.
Total economy, gross	real, CPPY	-1.5	-0.8	-1.6	-2.6	-1.5	-0.3	0.0	-2.7	-3.9	-4.2	-4.4	-1.0	-1.4	-1.9	.
Total economy, gross	EUR	485	491	491	491	493	511	502	488	491	490	500	503	495	499	.
Industry, gross, NACE Rev. 2	EUR	397	397	.	.	.	.	409	398	401	398	412	409	406	413	.
PRICES																
Consumer	PP	-0.4	0.1	0.1	0.3	0.4	0.7	0.9	0.9	1.7	0.3	-0.2	-0.6	-0.8	-0.1	-0.1
Consumer	CPPY	1.5	1.9	2.0	2.7	2.9	3.0	3.2	3.9	5.2	4.8	5.2	4.1	3.8	3.6	3.4
Consumer	CCPPY	0.9	1.0	1.1	1.3	1.4	1.7	3.2	3.6	4.1	4.3	4.5	4.4	4.3	4.2	4.1
Producer, in industry, NACE Rev. 2 ²⁾	PP	0.2	-0.1	0.6	1.1	-1.5	2.4	3.2	1.7	3.3	1.2	-0.9	-0.6	-1.0	1.3	-0.4
Producer, in industry, NACE Rev. 2 ²⁾	CPPY	8.9	8.1	8.8	9.7	7.3	9.3	12.7	12.7	15.3	13.2	10.7	10.9	9.5	11.1	10.1
Producer, in industry, NACE Rev. 2 ²⁾	CCPPY	9.4	9.2	9.2	9.2	9.1	9.1	12.7	12.7	13.6	13.5	12.9	12.6	12.1	12.0	11.8
FOREIGN TRADE																
Exports total (fob), cumulated	EUR mn	1333	1536	1787	2020	2272	2497	205	443	683	961	1233	1492	1735	2014	.
Imports total (cif), cumulated	EUR mn	2218	2582	2905	3281	3680	4119	420	813	1180	1641	2035	2422	2833	3278	.
Trade balance, cumulated	EUR mn	-886	-1047	-1118	-1261	-1407	-1622	-215	-369	-497	-680	-802	-930	-1098	-1264	.
Exports to EU-27 (fob), cumulated	EUR mn	821	937	1088	1229	1391	1531	132	290	436	608	773	922	1059	1218	.
Imports from EU-27 (cif), cumulated	EUR mn	1166	1344	1526	1745	1955	2188	267	466	651	877	1109	1340	1558	1773	.
Trade balance with EU-27, cumulated	EUR mn	-345	-407	-438	-516	-564	-657	-135	-176	-215	-269	-337	-419	-498	-556	.
FOREIGN FINANCE																
Current account, cumulated	EUR mn	-47	-86	-22	-64	-73	-150	-97	-173	-212	-258	-260	-280	-288	.	.
EXCHANGE RATE																
MKD/EUR, monthly average	nominal	61.52	61.51	61.63	61.62	61.55	61.50	61.51	61.51	61.52	61.52	61.53	61.61	61.62	61.51	61.50
MKD/USD, monthly average	nominal	48.25	47.71	47.35	44.37	44.97	46.55	45.99	45.10	43.99	42.64	42.83	42.81	43.14	42.91	44.54
EUR/MKD, calculated with CPI ³⁾	real, Jan07=100	100.7	100.6	100.2	100.3	100.6	100.8	102.1	102.5	103.1	102.8	102.5	101.8	101.4	101.3	100.6
EUR/MKD, calculated with PPI ³⁾	real, Jan07=100	107.3	107.2	107.3	108.3	106.3	107.9	110.1	111.2	113.9	114.3	113.4	112.6	111.1	112.9	112.5
USD/MKD, calculated with CPI ³⁾	real, Jan07=100	99.3	100.3	101.1	108.1	107.1	103.9	105.6	108.2	111.7	114.8	113.6	113.1	111.2	111.4	107.0
USD/MKD, calculated with PPI ³⁾	real, Jan07=100	101.0	101.6	103.0	110.0	106.3	104.0	107.0	109.2	113.6	116.6	114.3	113.7	111.3	114.0	109.1
DOMESTIC FINANCE																
Currency outside banks	MKD bn, eop	16.7	16.2	15.9	16.1	15.6	17.0	15.8	16.1	15.9	16.8	17.3	17.0	18.1	17.6	17.2
M1	MKD bn, eop	52.7	53.6	53.8	53.8	54.0	57.4	54.6	54.1	54.1	57.2	58.2	58.0	57.8	58.0	57.5
Broad money	MKD bn, eop	216.1	220.0	221.9	224.5	229.1	232.6	232.0	233.5	234.7	234.4	238.0	239.4	245.4	247.0	245.1
Broad money	CCPPY, eop	12.8	12.4	13.4	12.3	13.7	12.2	11.5	12.1	11.4	9.0	8.5	8.6	13.5	12.3	10.5
Central bank policy rate (p.a.) ⁴⁾	%, eop	5.0	4.7	4.5	4.5	4.5	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Central bank policy rate (p.a.) ⁴⁾⁵⁾	real, %, eop	-3.6	-3.2	-4.0	-4.7	-2.7	-4.8	-7.7	-7.8	-9.8	-8.2	-6.0	-6.3	-5.1	-6.4	-5.5
BUDGET																
General gov.budget balance, cum. ⁶⁾	MKD mn	-5219	-5415	-6585	-7718	-8658	-10542	-666	-2409	-3725	-3402	-6460	-7727	.	.	.

- 1) In business entities with more than 10 persons employed.
- 2) Domestic output prices.
- 3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.
- 4) Central bank bills (28-days).
- 5) Deflated with annual PPI.
- 6) Central government budget plus extra-budgetary funds.

Source: wiw Monthly Database incorporating national statistics.

MONTENEGRO: Selected monthly data on the economic situation 2010 to 2011

(updated end of Oct 2011)

		2010						2011								
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PRODUCTION																
Industry, total	real, CPPY	16.1	27.2	55.2	37.1	48.4	45.6	2.0	8.4	-10.3	-20.0	-24.4	-18.9	0.2	18.0	-11.2
Industry, total	real, CCPY	1.8	3.8	8.2	10.6	13.5	16.3	2.0	5.0	-0.4	-5.4	-8.9	-10.6	-9.3	-6.6	-7.2
Industry, total	real, 3MMA	27.5	32.5	40.4	46.7	43.8	29.5	17.9	-0.4	-7.9	-17.9	-21.0	-14.8	-2.1	0.7	.
LABOUR																
Employment total, registered ¹⁾	th. persons, avg	160.2	158.5	157.6	155.0	157.7	157.7	157.8	158.0	158.8	159.7	162.9	168.2	170.6	168.0	.
Employment in industry, registered	th. persons, avg	21.9	22.0	22.1	22.3	22.0	21.9	22.0	22.0	22.1	22.3	22.3	22.1	21.7	21.8	.
Unemployment, registered	th. persons, eop	31.1	30.6	31.0	31.9	32.2	31.1	32.8	33.1	32.7	32.2	30.9	29.8	29.1	29.1	29.4
Unemployment rate, registered	% eop	16.3	16.2	16.5	16.8	17.0	16.5	17.2	17.3	17.1	16.8	16.0	15.1	14.6	14.8	15.0
Labour productivity, industry	CCPPY	33.7	36.9	42.6	45.6	49.3	52.4	27.8	29.4	21.8	10.2	2.9	-1.1	-0.8	1.1	.
Unit labour costs, exch.r. adj.(EUR)	CCPPY	-15.4	-15.9	-18.5	-19.5	-21.0	-22.4	-4.6	-10.1	-8.1	2.9	7.6	10.7	9.9	6.8	.
WAGES																
Total economy, gross	EUR	696	752	717	711	716	768	772	754	722	705	714	708	710	709	712
Total economy, gross	real, CPPY	8.4	17.4	13.3	11.8	12.3	16.8	8.6	6.8	0.3	-1.9	-5.3	-3.2	-1.1	-9.1	-4.1
Industry, gross	EUR	747	786	810	832	827	854	929	846	773	823	792	798	793	798	.
PRICES																
Consumer	PP	0.2	0.1	0.1	0.2	0.2	0.1	0.3	1.0	2.0	0.0	-0.1	-0.5	-0.3	0.7	-0.1
Consumer	CCPY	1.0	-0.1	0.3	0.5	0.7	0.7	1.3	2.2	3.8	3.7	3.7	3.6	3.1	3.7	3.5
Consumer	CCPPY	0.5	0.4	0.4	0.4	0.5	0.5	1.1	1.5	2.3	2.6	4.5	2.9	2.9	3.1	3.1
Producer, in industry ²⁾	PP	-0.9	0.3	0.2	-0.3	0.0	0.3	1.6	0.8	0.4	0.0	-0.2	-0.3	0.7	0.0	0.1
Producer, in industry ²⁾	CCPY	2.9	2.5	1.6	0.7	0.3	0.4	2.8	4.5	5.6	4.7	1.9	2.2	3.6	3.2	3.2
Producer, in industry ²⁾	CCPPY	-2.1	-1.6	-1.2	-1.0	-0.9	-0.9	2.8	3.6	4.3	4.4	3.9	3.6	4.3	3.5	3.5
FOREIGN TRADE																
Exports total (fob), cumulated	EUR mn	172	202	229	258	301	330	37	69	111	147	180	213	247	289	332
Imports total (cif), cumulated	EUR mn	928	1083	1226	1365	1508	1657	85	203	353	499	658	843	1019	1191	1363
Trade balance, cumulated	EUR mn	-756	-882	-997	-1107	-1207	-1327	-48	-134	-242	-352	-478	-629	-771	-902	-1032
Exports to EU-27 (fob), cumulated	EUR mn	94	111	127	142	169	185	29	43	70	92	112	130	141	163	186
Imports from EU-27 (cif), cumulated	EUR mn	349	411	459	510	566	625	30	72	128	181	244	306	368	426	487
Trade balance with EU-27, cumulated	EUR mn	-256	-299	-332	-368	-397	-440	-1	-29	-58	-89	-132	-175	-227	-262	-301
FOREIGN FINANCE																
Current account, cumulated	EUR mn	.	.	-501	.	.	-779	.	.	-192	.	.	-447	.	.	.
EXCHANGE RATE																
EUR/USD, monthly average	nominal	0.783	0.776	0.765	0.720	0.732	0.756	0.749	0.733	0.714	0.692	0.697	0.695	0.701	0.697	0.726
EUR/EUR, calculated with CPI ³⁾	real, Jan07=100	107.3	107.2	107.0	106.9	106.9	106.4	107.1	107.7	108.7	108.0	107.8	107.3	107.5	108.0	107.3
EUR/EUR, calculated with PPI ³⁾	real, Jan07=100	109.6	109.9	109.8	109.3	108.8	108.1	108.7	108.8	108.2	107.4	107.3	107.0	107.4	107.5	107.6
USD/EUR, calculated with CPI ³⁾	real, Jan07=100	109.8	108.6	107.2	100.9	102.8	106.2	104.8	103.2	101.6	97.8	97.9	97.3	97.7	97.6	101.4
USD/EUR, calculated with PPI ³⁾	real, Jan07=100	107.0	105.9	104.7	97.2	98.3	100.9	99.8	96.9	93.2	88.8	88.6	88.2	89.3	89.2	92.8
DOMESTIC FINANCE																
Central bank policy rate (p.a.) ⁴⁾	% eop	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.7	9.7	9.7	9.7	9.7	9.7	.
Central bank policy rate (p.a.) ⁴⁾⁵⁾	real, % eop	6.5	6.9	7.9	8.8	9.2	9.2	6.6	4.9	3.9	4.8	7.6	7.4	5.9	6.3	.
BUDGET																
General gov. budget balance, cum.	EUR mn	.	.	0	.	.	-92	.	.	-55	.	.	-52	.	.	.

1) Excluding individual farmers.

2) Domestic output prices.

3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

4) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency).

5) Deflated with annual PPI.

Source: wiw Monthly Database incorporating national statistics.

R U S S I A: Selected monthly data on the economic situation 2010 to 2011

(updated end of Oct 2011)

		2010						2011								
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PRODUCTION																
Industry, total	real, CPPY	6.0	7.1	6.3	6.7	6.8	6.5	6.9	6.0	5.4	4.7	4.2	5.8	5.1	6.1	3.8
Industry, total	real, CCPY	9.6	9.2	8.9	8.7	8.5	8.3	6.9	6.4	6.1	5.7	5.4	5.5	5.4	5.5	5.3
Industry, total	real, 3MMA	7.6	6.5	6.7	6.6	6.7	6.7	6.5	6.1	5.3	4.8	4.9	5.0	5.7	5.0	.
Construction, total	real, CPPY	-5.6	0.0	2.0	2.9	-1.0	11.6	-1.1	0.4	4.2	-1.9	1.9	2.5	17.6	12.4	16.5
Construction, total	real, CCPY	-6.1	-5.1	-4.0	-3.1	-2.9	-0.6	-1.1	-0.3	1.6	0.5	0.8	1.2	4.8	6.2	7.9
LABOUR																
Employed persons, LFS	th. pers., avg	70862	71236	71100	70481	70243	69621	69118	69550	69613	69721	71011	71430	71629	72013	71965
Employed persons, LFS	CCPPY	.	.	0.8	.	.	0.9	2.0	2.1	2.1	1.9	1.7	1.5	1.5	1.4	1.4
Unemployed persons, LFS	th. pers., avg	5357	5248	5032	5111	5014	5392	5815	5685	5352	5411	4855	4612	5013	4672	4615
Unemployment rate, LFS	%, avg	7.0	6.9	6.6	6.8	6.7	7.2	7.8	7.6	7.1	7.2	6.4	6.1	6.5	6.1	6.0
WAGES																
Total economy, gross	RUB	21325	20753	20999	20970	21486	28027	20669	20680	22673	22519	22779	24137	23598	23051	23628
Total economy, gross	real, CPPY	7.1	6.6	4.2	3.7	3.5	8.1	-0.5	-0.8	0.5	0.8	2.4	1.2	1.5	2.7	4.9
Total economy, gross	EUR	546	529	524	498	507	687	512	517	570	555	568	600	591	560	561
Industry, gross ¹⁾	EUR	505	493	485	470	470	556	469	474	519	517	530	543	558	537	.
PRICES																
Consumer	PP	0.4	0.6	0.8	0.5	0.8	1.1	2.4	0.8	0.6	0.4	0.5	0.2	0.0	-0.2	0.0
Consumer	CPPY	5.9	6.6	7.4	8.0	8.0	8.6	9.5	9.4	9.4	9.5	9.0	8.8	8.4	7.5	6.7
Consumer	CCPPY	6.6	6.6	6.7	6.8	6.9	7.1	9.5	9.4	9.4	9.4	9.3	9.2	9.1	8.9	8.7
Producer, in industry ²⁾	PP	0.6	3.3	-1.3	2.2	4.4	1.0	2.1	3.3	1.3	2.0	1.1	-2.3	-1.0	4.6	-0.7
Producer, in industry ²⁾	CPPY	7.9	10.0	7.3	10.7	16.1	16.7	20.5	22.0	21.4	20.0	18.1	19.2	17.3	18.7	19.4
Producer, in industry ²⁾	CCPPY	12.3	12.0	11.4	11.4	11.8	12.2	20.5	21.2	21.3	21.0	20.4	20.2	19.8	19.6	19.6
FOREIGN TRADE																
Exports total, cumulated	EUR mn	167446	192069	217907	243073	268626	300672	22973	51311	82054	113383	144015	174725	204132	234867	.
Imports total, cumulated	EUR mn	87410	104572	121351	137793	154643	173915	10953	25985	44348	62361	81188	99491	117635	137493	.
Trade balance, cumulated	EUR mn	80036	87497	96557	105280	113983	126757	12020	25326	37706	51022	62827	75233	86497	97374	.
FOREIGN FINANCE																
Current account, cumulated	EUR mn	.	.	43579	.	.	52891	.	.	23736	.	.	40257	.	.	.
EXCHANGE RATE																
RUB/EUR, monthly average	nominal	39.090	39.220	40.109	42.101	42.405	40.789	40.352	39.970	39.770	40.560	40.100	40.230	39.930	41.180	42.150
RUB/USD, monthly average	nominal	30.687	30.344	30.836	30.321	30.968	30.854	30.085	29.290	28.430	28.100	27.870	27.980	27.900	28.770	30.490
EUR/RUB, calculated with CPI ³⁾	real, Jan07=100	115.5	115.6	113.7	108.5	108.4	113.2	117.7	119.2	119.2	116.6	118.5	118.4	119.8	115.7	112.4
EUR/RUB, calculated with PPI ³⁾	real, Jan07=100	113.1	116.4	112.0	108.8	112.3	116.8	119.3	123.6	124.7	123.7	126.7	123.4	122.6	124.6	120.8
USD/RUB, calculated with CPI ³⁾	real, Jan07=100	113.7	115.4	114.3	116.8	115.2	116.7	121.9	125.7	129.0	130.2	131.3	131.2	131.4	126.9	119.5
USD/RUB, calculated with PPI ³⁾	real, Jan07=100	106.1	110.4	107.2	110.4	112.2	112.6	116.1	121.2	124.3	126.0	127.6	124.3	123.0	125.4	117.1
DOMESTIC FINANCE																
Currency outside banks	RUB bn, eop	4467.3	4477.8	4524.5	4590.0	4621.5	5062.7	4826.4	4892.6	4916.4	5069.3	5074.0	5189.6	5303.6	5339.1	.
M1	RUB bn, eop	9021.1	9195.0	9400.1	9429.2	9679.7	10825.3	10353.5	10491.6	10434.5	10449.9	10533.2	10904.4	10906.1	11039.6	.
M2	RUB bn, eop	20770.0	20992.1	21318.6	21516.9	22117.7	23791.2	23148.9	23502.0	23639.3	23735.4	24027.2	24452.4	24577.9	24938.7	.
M2	CPPY, eop	24.1	24.1	25.4	25.6	25.2	24.6	23.0	23.1	22.4	20.4	19.5	18.9	18.3	18.8	.
Central bank policy rate (p.a.) ⁴⁾	%, eop	7.8	7.8	7.8	7.8	7.8	7.8	7.8	8.0	8.0	8.0	8.3	8.3	8.3	8.3	8.3
Central bank policy rate (p.a.) ⁴⁾⁵⁾	real, %, eop	-0.1	-2.1	0.4	-2.6	-7.2	-7.7	-10.6	-11.5	-11.0	-10.0	-8.4	-9.2	-7.7	-8.8	-9.3
BUDGET																
Central gov. budget balance, cum.	RUB bn	-512.8	-623.2	-692.6	-759.9	-891.6	-1811.8	-147.5	-78.5	-178.1	-163.1	-385.2	-703.5	-756.2	.	.

1) Manufacturing industry only (D according to NACE Rev. 1).

2) Domestic output prices.

3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

4) Refinancing rate.

5) Deflated with annual PPI.

Source: wiw Monthly Database incorporating national statistics.

U K R A I N E: Selected monthly data on the economic situation 2010 to 2011

(updated end of Oct 2011)

		2010						2011								
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
PRODUCTION																
Industry, total	real, CPPY	6.8	9.8	10.5	10.6	10.6	13.3	9.6	11.8	8.2	5.4	8.9	9.3	8.9	9.6	6.4
Industry, total	real, CCPY	11.4	11.2	11.1	11.1	11.0	11.2	9.6	10.7	9.8	8.6	8.7	8.8	8.8	8.9	8.6
Industry, total	real, 3MMA	8.6	9.0	10.3	10.6	11.5	11.2	11.6	9.8	8.3	7.5	7.9	9.1	9.3	8.3	.
Construction, total	real, CCPY	-16.7	-14.0	-12.6	-9.0	-8.2	-5.4	6.1	6.1	6.8	11.6	13.2	14.5	13.6	13.0	11.4
LABOUR																
Employees total, registered ¹⁾	th. persons, avg	10685	10657	10713	10718	10673	10578	10548	10543	10546	10565	10540	10554	10562	10541	10537
Employees in industry, registered ¹⁾	th. persons, avg	2827	2825	2828	2841	2836	2818	2801	2807	2814	2812	2800	2802	2804	2804	2801
Unemployment, registered	th. persons, eop	397	396	408	401	450	545	586	617	614	580	549	506	470	432	405
Unemployment rate, registered	% eop	1.4	1.4	1.5	1.4	1.6	2.0	2.1	2.2	2.2	2.1	2.0	1.8	1.7	1.6	1.5
Labour productivity, industry ¹⁾	CCPPY	13.6	13.0	12.6	12.2	11.8	11.8	11.5	12.4	11.3	10.0	10.0	10.0	10.0	10.1	9.8
Unit labour costs, exch.r. adj.(EUR) ¹⁾	CCPPY	4.5	6.7	9.0	10.3	11.6	13.4	20.5	15.2	13.5	11.3	8.3	5.5	4.0	3.3	3.5
WAGES ¹⁾																
Total economy, gross	UAH	2367	2280	2349	2322	2353	2629	2297	2338	2531	2533	2573	2708	2749	2694	2737
Total economy, gross	real, CCPY	10.4	9.7	8.2	8.2	10.2	7.9	10.8	11.6	11.4	9.9	5.3	2.0	5.0	8.5	10.0
Total economy, gross	EUR	235	224	228	211	217	250	216	216	228	221	224	236	242	236	248
Industry, gross	EUR	267	260	264	248	253	285	259	254	279	261	266	270	280	283	297
PRICES																
Consumer	PP	-0.2	1.2	2.9	0.5	0.3	0.8	1.0	0.9	1.4	1.3	0.8	0.4	-1.3	-0.4	0.1
Consumer	CCPY	6.8	8.3	10.5	10.1	9.2	9.1	8.2	7.2	7.7	9.4	11.0	11.9	10.6	8.9	5.9
Consumer	CCPPY	9.3	9.2	9.3	9.4	9.4	9.4	8.2	7.7	7.7	8.1	8.7	9.2	9.4	9.4	9.0
Producer, in industry ²⁾	PP	-0.2	0.9	0.1	2.4	-0.3	0.9	1.3	4.8	2.1	3.4	2.6	0.5	0.1	0.5	1.2
Producer, in industry ²⁾	CCPY	24.4	23.3	19.2	19.8	18.9	18.8	18.1	21.5	20.4	20.9	18.8	20.0	20.4	19.9	21.2
Producer, in industry ²⁾	CCPPY	21.6	21.8	21.5	21.3	21.1	20.9	18.1	19.8	20.0	20.2	19.9	19.9	20.0	20.0	20.1
FOREIGN TRADE																
Exports total (fob), cumulated	EUR mn	20661	23950	27542	30971	34744	38744	3459	6936	11253	15138	19309	23407	27167	31191	.
Imports total (cif), cumulated	EUR mn	23154	27341	31677	36168	40758	45781	3771	8476	13546	17900	22623	27334	31906	36940	.
Trade balance, cumulated	EUR mn	-2493	-3392	-4135	-5198	-6014	-7037	-312	-1541	-2293	-2762	-3314	-3927	-4739	-5749	.
FOREIGN FINANCE																
Current account, cumulated	EUR mn	.	.	-384	.	.	-2274	.	.	-932	.	.	-2068	.	.	-3907
EXCHANGE RATE																
UAH/EUR, monthly average	nominal	10.057	10.180	10.293	10.994	10.867	10.497	10.615	10.839	11.093	11.487	11.476	11.468	11.379	11.417	11.030
UAH/USD, monthly average	nominal	7.902	7.890	7.910	7.910	7.928	7.956	7.950	7.941	7.944	7.965	7.975	7.973	7.971	7.971	7.973
EUR/UAH, calculated with CPI ³⁾	real, Jan07=100	98.9	98.7	100.1	93.9	95.2	98.7	99.0	97.3	95.4	92.8	93.5	94.0	93.9	93.1	95.8
EUR/UAH, calculated with PPI ³⁾	real, Jan07=100	117.7	117.3	115.8	110.8	111.2	115.1	114.1	116.3	115.0	113.9	117.1	117.8	118.4	118.8	124.5
USD/UAH, calculated with CPI ³⁾	real, Jan07=100	97.2	98.3	100.8	101.2	101.3	101.5	102.1	102.7	103.1	103.4	103.7	104.2	102.8	102.1	102.0
USD/UAH, calculated with PPI ³⁾	real, Jan07=100	110.4	111.1	110.9	112.5	111.3	110.7	110.5	114.1	114.4	116.0	118.0	118.7	118.5	119.7	120.8
DOMESTIC FINANCE																
Currency outside banks	UAH bn, eop	175.1	175.1	174.8	175.2	173.3	183.0	176.2	177.6	179.5	185.2	184.7	187.7	194.0	194.0	.
M1	UAH bn, eop	269.3	271.3	275.4	277.7	276.4	289.9	286.7	286.7	296.9	305.1	300.6	309.6	311.7	311.1	.
Broad money	UAH bn, eop	550.9	556.2	568.8	576.0	574.1	597.9	601.2	605.2	621.4	638.4	636.2	652.4	657.0	664.4	.
Broad money	CCPY, eop	16.8	18.1	21.2	23.0	22.0	22.7	25.3	26.0	25.7	25.0	22.0	22.3	19.3	19.5	.
Central bank policy rate (p.a.) ⁴⁾	% eop	8.5	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Central bank policy rate (p.a.) ⁴⁾⁵⁾	real, %, eop	-12.8	-12.6	-9.6	-10.0	-9.4	-9.3	-8.8	-11.3	-10.5	-10.9	-9.3	-10.2	-10.5	-10.1	-11.1
BUDGET																
General gov.budget balance, cum.	UAH mn	-25273	-39374	-47454	-51400	-46662	-64836	909	5025	-712	-2916	146	-11144	-8145	-2105	.

1) Enterprises with 10 and more employees.

2) Domestic output prices.

3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

4) Discount rate.

5) Deflated with annual PPI.

Source: wiw Monthly Database incorporating national statistics.

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