

PRESS RELEASE NOT TO BE RELEASED BEFORE 10-03-2005, 12.00 a.m.**Economic Outlook for Central, East and Southeast Europe:
Accelerating GDP Growth, Improved Prospects for European Integration**

In its new special issue on the economies of Central, East and Southeast Europe, The Vienna Institute for International Economic Studies (wiiw) analyses the current economic situation in the region as well as development prospects for 2005 and 2006. Brief surveys of the individual countries are added (the report covers Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, the Slovak Republic, Slovenia, Serbia and Montenegro, Romania, Russia, Belarus and Ukraine, as well as Turkey and China). An annex contains selected indicators of competitiveness as well as projections of per capita GDP until 2015.

The new EU member states of Central and Eastern Europe (NMS) recorded higher GDP growth (5% on average in 2004) than in the previous year, largely thanks to expanding domestic demand. Growth accelerated also in Southeast Europe, as well as in Belarus and Ukraine. On the downside, the labour market situation remains precarious, robust economic growth notwithstanding. The average rate of unemployment in the NMS is nearly twice as high as in the EU-15; in most of Southeast Europe it is even higher, with little prospect for marked improvements any time soon. After a temporary increase in the first months of 2004, inflation resumed its downward trend, reaching low single digits in most NMS and in other transition countries as well. The remaining inflation differential with respect to the eurozone, magnified by a steady appreciation tendency of NMS currencies, may lead to competitiveness losses in the future. Given the ongoing productivity and quality improvements, this danger is not imminent in most NMS yet. Still the exchange rate developments should be watched closely, not least in the period prior to EMU accession, which in several NMS will probably extend beyond 2010. The need to reduce excessive budget deficits represents another challenge facing several NMS in the coming years.

The outstanding feature of last year's economic developments was a boost in foreign trade. NMS exports jumped by more than 20% in current euro terms, somewhat faster than imports (+18%), yet their aggregate trade balance slightly deteriorated. Nonetheless, the export sector of NMS is strengthening – not least thanks to sustained reforms and large FDI inflows – and their integration in the European economy is increasing. After the takeover of EU external trade policies upon accession, particularly intra-NMS exchanges and extra-EU trade are booming. Altogether, the NMS enjoy a surplus in trade transactions with the EU, an achievement attributable largely to growing surpluses of the Czech Republic, Hungary and Slovakia. In Southeast Europe, trade integration is still quite low and many countries in the region suffer from huge trade and current account deficits.

The EU enlargement from 1 May 2004 may be considered a success. Economic growth in NMS, of industry in particular, speeded up, a temporary increase of inflation was soon successfully contained and domestic currencies strengthened. Net transfers from the EU budget were negligible, yet inflows of FDI picked up again. The GDP growth outlook is fairly robust: barring major external shocks, the NMS are expected to grow by 4-5% annually in the coming years thus maintaining their speed of nominal and real convergence to the 'old' EU. Inflation is approaching eurozone levels as well. The shadow side of this fairly upbeat forecast is the labour market where no substantial reduction of unemployment is expected. Also the economic outlook for Southeast Europe is now more encouraging: GDP growth will accelerate in most countries (without recurring inflation), but unemployment will remain high. As far as the integration prospects of this region are concerned, Bulgaria and Romania will become EU members in 2007, followed by Croatia, with Macedonia being the next candidate. The coming two years will be crucial also for the remaining countries of the Western Balkans as a number of exceptionally difficult issues will have to be solved. If everything goes well the whole region could be in the EU around 2015. However, by that time the issue of Turkey's EU membership will have to be finally decided and a possible application of Ukraine (as well as Moldova) for EU membership will have to be dealt with. In addition, the enlarged EU will simultaneously have to clarify its relations with Russia. These challenging developments will doubtlessly require a new (and this time much more radical) reform of the whole system of EU institutions.

'Accelerating GDP Growth, Improved Prospects for European Integration',

wiiw Research Report No. 314, by Peter Havlik, Leon Podkaminer, Vladimir Gligorov et al., March 2005
122 pages including 60 Tables and 18 Figures

The Report comprises an Overview and twenty brief Country Reports on the following transition countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, Ukraine, Turkey and China.

Available in hard copy (EUR 70.--) or in PDF (EUR 65.--) from wiiw's website, www.wiiw.ac.at. (Individual Country Reports, only in PDF: EUR 10.-- each.) Orders can also be sent to fax +431 5336610-50 or to e-mail koehrl@wiiw.ac.at.

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Overview developments 2003-2004 and outlook 2005-2006

	GDP				Consumer prices				Unemployment, based on LFS ¹⁾				Current account			
	real change in % against previous year				change in % against previous year				rate in %, annual average				in % of GDP			
	2003	2004	2005 forecast	2006 forecast	2003	2004	2005 forecast	2006 forecast	2003	2004	2005 forecast	2006 forecast	2003	2004	2005 forecast	2006 forecast
Czech Republic	3.7	3.8	3.9	4	0.1	2.8	1.8	2.2	7.8	8.3	8.7	9	-6.2	-5.4	-5.0	-4.9
Hungary	3.0	3.9	3.8	4.1	4.7	6.8	3.9	3.2	5.9	6.1	6.1	6.1	-9.0	-8.5	-7.9	-7.4
Poland	3.8	5.4	4.5	4.5	0.8	3.5	3	3	19.6	19.3	19	18	-2.2	-1.8	-2.5	-2.5
Slovak Republic	4.5	5.3	5.3	5.5	8.5	7.5	4	2.5	17.4	18.5	18	17	-0.8	-3.0	-4.4	-3.9
Slovenia	2.5	4.2	3.9	3.9	5.6	3.6	3	2.7	6.7	6.3	6	6	-0.4	-0.7	-0.5	-0.5
NMS-5 ²⁾³⁾	3.7	4.8	4.3	4.4	.	.	.	.	15.1	15.1	15.0	14.5	-4.1	-3.9	-4.1	-3.9
Estonia	5.1	6.2	6	5.7	1.3	3.0	2.8	2.5	10.0	10.0	9.5	9	-13.2	-15.1	-14.3	-13.4
Latvia	7.5	7.8	6	6.5	2.9	6.2	5.5	4.5	10.6	10.4	9.8	9.5	-8.2	-12.5	-12.7	-11.3
Lithuania	9.7	6.6	6.7	6.5	-1.2	1.2	1.5	1	12.4	11.4	11	10	-6.9	-8.3	-8.2	-7.3
NMS-8 ²⁾³⁾	4.0	4.9	4.5	4.5	.	.	.	.	14.7	14.6	14.5	14.0	-4.4	-4.5	-4.6	-4.3
EU-15 ³⁾	0.8	2.2	2.2	2.3	1.9	2.0	1.9	1.8	8.1	8.1	8.1	7.9	0.35	0.32	.	.
EU-25 ³⁾	1.1	2.4	2.4	2.5	2.0	2.1	2.1	1.9	9.1	9.1	9.1	8.8	0.14	0.10	.	.
Bulgaria	4.3	5.6	5	5	2.3	6.2	4	3	13.7	12.0	11	10	-8.6	-7.2	-6.1	-5.6
Croatia	4.3	3.7	3.5	3.5	1.8	2.1	2	2	14.3	13.8	13.5	13	-7.3	-6.1	-5.6	-5.3
Romania	4.9	7.8	5	5.5	15.3	11.9	9	7	7.0	7.5	8	8	-6.1	-7.7	-7.7	-7.4
Albania ⁴⁾	6.0	6.0	6.5	6.5	2.3	2.9	4	3	15.0	14.4	14	13.5	-6.7	-4.3	-6.0	-5.0
Bosnia and Herzegovina ⁴⁾⁵⁾	3.5	6	5	5	0.6	0.2	0.5	0.5	42.0	42	42	42	-30.2	-27.7	-24.3	-21.7
Macedonia ⁵⁾	3.4	2	4	4	2.4	0.9	2	2	36.7	37	35	35	-3.3	-7.1	-6.7	-6.5
Serbia and Montenegro ⁶⁾	2.5	8	5	5	9.4	10.8	10	10	15.2	15	15	15	.	.	.	.
Serbia	2.6	7	5	5	9.9	11.4	10	10	15.2	15	15	15	-10.2	-13.5	-15.0	-14.4
Montenegro	2.4	10	5	5	6.7	2.4	3	2	20.0	20	20	20	-7.3	-5.7	-5.0	-5.0
Turkey	5.8	8.0	6	6	25.3	10.6	7	5	10.5	10.5	10.8	11	-3.3	-5.2	.	.
Belarus ⁴⁾	7.0	11.0	8	6	28.0	18.1	14	12	3.1	1.9	2	2	-3.0	-3.5	-3.0	-2.5
Russia	7.3	7.1	5	5.5	13.6	11.0	11	10	8.6	8.2	8.5	9	8.2	10.0	7.2	6.0
Ukraine	9.4	12.0	9	7	5.2	9.0	10	8	9.1	8.0	7.5	7.5	5.8	11.3	9.5	6.0

Notes: NMS: the New EU Member States. - 1) LFS - Labour Force Survey, refers to ILO definition. - 2) wiiw estimate. - 3) Current account data include flows within the region. - 4) Unemployment rate by registration, end of period. - 5) Consumer price inflation measured by retail prices. - 6) Excluding Kosovo and Metohia.

Source: wiiw (February 2005); Eurostat; forecasts for EU-15: European Commission.