

PRESS RELEASE

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## **New wiiw forecast for Central, East and Southeast Europe, 2015-2017: Western CESEE countries in the ascendant**

**Favourable developments in the euro area; growth acceleration in NMS (3% in 2015); improvements also in the Western Balkans (but less dynamic); gloomy prospects in the CIS countries; overall CESEE growth acceleration acts as a demand stimulus for Austria**

The outlook for GDP growth in the Central, East and Southeast Europe (CESEE) region remains divergent: we expect a gradual acceleration of GDP growth for most of the EU's new Member States (NMS) starting this year. For 2015 growth is expected to increase to 3% on average, by 0.2 pp more as compared to last year. The recovery comes a year earlier than expected mainly based on favourable developments in the euro area. In the Western Balkans growth prospects will also improve over the whole forecast period 2015-2017, though slightly less dynamically. Growth performance in Belarus, Kazakhstan, Russia and Ukraine in 2015, however, will be dismal and partly worse than expected; the medium-term outlook for these countries is also fairly uncertain with considerable downside risks. Overall though, we should expect stronger CESEE growth to act as a demand stimulus for the Austrian economy. The NMS in particular are of increasing importance for Austria.

**Austrian competitiveness unchallenged by CESEE; goods exports to NMS-5 expanded; CESEE also more important in terms of services exports; apart from tourism also business-related services exports prosper**

Austria faces only little risks of losing competitiveness to the CESEE countries. Over the longer run these countries have registered higher productivity increases but also much higher wage growth. While direct Austrian goods exports to Germany have lost some importance, exports to CESEE and especially the NMS-5 have gained shares in overall goods exports. Also in Austrian services exports, CESEE is an ever more important market, not only in terms of tourism but also due to business-related services exports. Regarding Austria's total foreign demand, the CESEE growth stimulus was stronger than the German one in the past. However, over the forecast period this should equalise on account of the German recovery gaining momentum.

**Integration process in Central Europe is advancing; Austria can profit from higher growth of neighbours; major EU economic policy challenge is saving in the corporate sector**

Overall it can be noted that the integration process in Central Europe is still proceeding and that Austria has benefited from the higher growth rates of its eastern neighbours and will do so also in the future. A major economic policy challenge for the entire EU over the coming years is to

substantially increase economic growth and fight mass unemployment. Especially the corporate sector has to be motivated to stop saving and to restart investment. Measures of recapitalisation and economic stimulus packages should lead to more consumer demand and subsequently to more investment of the private sector.

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## OVERVIEW 2014 AND OUTLOOK 2015-2017

	GDP				Investment (GFCF)				Consumer prices				Unemployment (LFS)				Current account			
	real change in % against prev. year				real change in % against prev. year				change in % against prev. year				rate in %, annual average				in % of GDP			
	2014	Forecast			2014	Forecast			2014	Forecast			2014	Forecast			2014	Forecast		
<b>NMS-11</b>																				
Bulgaria	1.7	2.6	2.7	3.0	2.8	-1.0	2.0	5.0	-1.6	1.0	1.5	2.0	11.4	10.5	9.5	9.0	0.9	2.3	1.1	0.0
Croatia	-0.4	0.4	1.2	1.6	-4.0	-0.5	2.5	4.0	0.2	0.4	1.0	1.4	17.3	17.5	16.5	16.0	0.7	0.9	0.5	0.0
Czech Republic	2.0	2.6	2.4	2.4	4.5	5.5	5.5	5.0	0.4	0.4	1.5	1.5	6.1	5.8	5.5	5.3	0.6	-1.0	-1.2	-1.5
Estonia	2.1	2.2	2.6	3.2	-2.8	-2.0	3.0	6.0	0.5	0.5	1.5	2.2	7.4	6.3	5.9	5.5	-0.1	-0.4	-1.8	-2.3
Hungary	3.6	3.0	2.1	2.2	11.7	4.0	2.0	3.5	0.0	0.1	2.0	3.0	7.7	7.1	6.8	6.7	4.1	4.4	4.3	4.0
Latvia	2.4	2.3	2.8	2.8	1.3	1.0	3.0	4.0	0.7	0.5	1.9	2.5	10.8	9.8	9.2	8.8	-3.1	-0.8	-1.2	-1.8
Lithuania	2.9	2.5	2.9	3.2	8.0	7.0	7.0	8.0	0.2	0.3	1.2	1.8	10.7	10.0	9.5	9.0	0.1	-0.8	-0.9	-1.0
Poland	3.4	3.5	3.3	3.2	9.2	8.0	8.0	6.0	0.1	-0.6	1.2	1.8	9.0	8.5	8.0	7.8	-1.4	-1.8	-2.2	-2.8
Romania	2.8	3.0	3.3	3.0	-3.5	5.0	4.0	3.0	1.4	0.8	1.5	2.0	6.8	6.7	6.6	6.5	-0.4	-0.6	-0.8	-1.0
Slovakia	2.4	2.9	3.3	3.4	5.7	4.0	3.5	3.5	-0.1	0.2	1.4	1.7	13.2	11.9	11.0	10.5	0.1	0.2	0.3	0.3
Slovenia	2.6	2.4	2.0	2.1	4.8	-0.5	2.0	3.5	0.4	0.5	1.0	1.5	9.7	9.0	8.5	8.0	5.8	5.3	5.0	4.5
<i>NMS-11<sup>1)</sup></i>	2.8	3.0	2.9	2.9	2.6	5.2	4.9	4.8	0.3	0.1	1.4	1.9	9.0	8.5	8.0	7.8	0.1	-0.2	-0.6	-1.0
<i>EA-19<sup>2)</sup></i>	0.9	1.5	1.9	.	1.0	1.7	4.0	.	0.4	0.1	1.5	.	11.6	11.0	10.5	.	3.0	3.5	3.4	.
<i>EU-28<sup>1)2)</sup></i>	1.4	1.9	2.1	.	2.3	2.8	4.4	.	0.6	0.1	1.5	.	10.2	9.6	9.1	.	1.6	1.9	1.9	.
<b>Candidate countries</b>																				
Albania	1.9	2.0	2.2	2.4	4.0	4.8	5.2	5.7	1.6	1.5	1.7	1.7	17.5	17.5	17.5	17.5	-13.0	-13.6	-13.7	-13.7
Macedonia	3.8	3.4	2.7	2.6	5.5	4.0	4.0	4.0	-0.3	1.5	2.0	2.0	28.0	27.0	27.0	26.0	-1.3	-4.0	-4.0	-4.0
Montenegro	1.5	2.3	2.6	2.8	4.0	4.0	5.0	4.0	-0.5	1.0	2.0	2.0	18.0	18.0	18.0	18.0	-15.2	-15.0	-15.0	-15.0
Serbia	-1.8	-0.1	0.9	1.3	-2.7	4.0	4.0	5.0	2.9	3.0	3.0	3.0	18.9	17.0	17.0	17.0	-6.0	-6.0	-6.0	-6.0
Turkey	2.9	2.8	3.1	3.1	-1.3	0.5	1.2	1.2	8.9	7.5	6.8	6.2	9.9	10.5	10.0	9.5	-5.8	-5.5	-5.2	-5.2
<b>Potential candidate countries</b>																				
Bosnia and Herzegovina	1.3	1.6	2.1	2.4	4.0	4.0	5.0	5.0	-0.9	1.0	2.0	2.0	27.5	26.8	26.5	25.4	-7.6	-8.0	-8.0	-8.0
Kosovo	0.9	4.3	3.5	4.1	0.0	-3.5	5.0	6.0	0.4	-0.3	0.5	0.8	30.0	29.0	29.0	28.0	-7.9	-8.0	-9.0	-9.0
Belarus <sup>3)</sup>	1.6	-3.0	0.7	1.4	-15.0	-10.0	-2.0	0.0	18.1	22.0	20.0	18.0	0.5	0.5	0.5	0.5	-6.7	-3.5	-3.0	-3.0
Kazakhstan	4.3	2.0	3.5	4.5	0.2	3.0	5.0	7.0	6.7	5.0	6.0	5.0	5.0	5.0	5.0	5.0	2.1	-3.2	-1.1	0.8
Russia <sup>4)</sup>	0.6	-3.8	1.8	2.0	-2.0	-14.0	5.0	3.0	7.8	15.0	10.0	8.0	5.2	5.3	5.3	5.3	3.2	3.1	1.8	1.8
Ukraine <sup>5)</sup>	-6.8	-10.5	0.0	1.8	-23.0	-15.0	-5.0	5.0	12.1	49.5	18.0	11.0	9.3	11.5	12.0	12.0	-4.0	-1.3	-0.6	-0.6

Note: GFCF: Gross fixed capital formation. LFS: Labour Force Survey. NMS: The New EU Member States. EA: Euro area 19 countries.

1) wiiw estimate. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Unemployment rate by registration. - 4) Including Crimea. - 5) Excluding Crimea and parts of Donbas.

Source: wiiw (July, 2015), Eurostat. Forecasts by wiiw and European Commission for EU and euro area (Spring Report, May 2015).