wiiw
Wiener Institut für Internationale Wirtschaftsvergleiche
The Vienna Institute for International Economic Studies

# Current Analyses and Forecasts | 8 | July 2011

## Economic Prospects for Central, East and Southeast Europe

*Leon Podkaminer, Vladimir Gligorov, Mario Holzner, Michael Landesmann, Roman Römisch et al.*

# Recovery: Limp and Battered

*Leon Podkaminer, Vladimir Gligorov, Mario Holzner, Michael Landesmann, Roman Römisch et al.*

# Recovery: Limp and Battered

# Contents

## Tables, Figures, Panels and Boxes

### Summary



### Overview



### Special section on Debt dynamics, flow of funds and deleveraging

**Country reports**

## Appendix on selected indicators of competitiveness



***The authors of this report wish to thank Boriana Assenova, Beate Muck, Renate Prasch, Hana Rusková, Monika Schwarzhappel and Barbara Swierczek (all wiiw) for statistical assistance.***

## Executive summary

For 2011 the wiiw central scenario envisages further improvements in the economic performance of those countries that were still stagnating or contracting in 2010 (Bulgaria, Latvia, Romania, Croatia, Macedonia and Montenegro). However, in those countries that performed reasonably well in 2010 (such as Poland and Slovakia), growth will not accelerate all that much. At a later juncture GDP growth rates will stabilize throughout the region, but they will not return to the levels recorded prior to 2007. The relatively rapid growth in terms of the global output expected in 2011 will not of necessity translate directly into equally robust growth across the countries of Central, Eastern and South-east Europe (CESEE). Growth is expected to remain anaemic – less than 2% and imbalanced – in the euro area, which will remain the CESEE countries' major trading partner.

In 2011, net exports will play an essential and positive role in maintaining GDP growth in many new member states (NMS) where domestic demand continues to be languid (e.g. Czech Republic, Hungary and Romania). In countries whose exports depend on energy and raw materials (Russia and Ukraine), net exports will contribute negatively to overall GDP growth (as imports will also rise owing to currency appreciation). In the few countries remaining, net exports will assume a neutral role in generating GDP growth. At a later stage, the contribution of net exports is expected to drop on a fairly universal scale, reflecting a revival in domestic demand (both consumption and investments) and a deterioration of trade balances. All in all, continuation of growth in 2011 in the CESEE region hinges decisively on foreign demand. In the case of Russia, Kazakhstan and (to a lesser degree) Ukraine, an unpredictable slump in the world-market prices of, and demand for, energy carriers and metals would slow down growth substantially. In the case of the remaining CESEE countries, a renewed weakness of growth in the euro area could well mean immediate cuts in their exports. Those cuts could possibly trigger a new slump in their overall GDP growth. Although quite unpredictable, a renewed growth slowdown in the euro area cannot be ruled out. Failure to resolve the euro area debt crisis in an orderly manner – and in the very near future as well – may lead to another financial-cum-real crisis in the euro area; once again it could spill over to the NMS and the Western Balkan countries. A still greater risk looms large as well: should the institutional cohesion of the euro area (and of the whole EU) weaken, the NMS are likely to lose out – both economically and politically.

The CESEE region is still included in a larger group of countries: that of the ‘emerging markets’. However, the economic performance of the CESEE countries is increasingly at variance with that of the remaining ‘emerging markets’. In terms of overall dynamism, the CESEE countries (in particular the NMS) are looking increasingly similar to the euro area – yet without having achieved the euro area’s levels of development. In most cases, the CESEE countries’ relatively close association with the European Union was to all intents and purposes inevitable. However, that irresistible association (implying a relatively rapid external liberalization of the CESEE countries’ trade and capital flows, for example) may have also borne some unwelcome consequences. One of these consequences may have been their losing out to those ‘emerging markets’ whose external opening up has been much more gradual and cautiously controlled.

Various scars left by the 2008-2009 recession, be the victims productive capacities, balance sheets of banks, firms and households or labour markets, will gradually have to heal. In the interim, those scars will impair the growth of household consumption and fixed investment in the business sector in 2011 and afterwards. Moreover, attempts at serious fiscal consolidation, which in many countries would be either untimely or not really necessary, will have an additional impact on the rate of domestic demand growth. In all likelihood, however, in many countries fiscal consolidation will be relatively gradual – also on account of electoral concerns.

Accelerating inflation is another challenge. Although to date inflation has been essentially exogenous to most CESEE countries – driven by rising energy and food prices – it could provoke more restrictive monetary policies. These, in turn, could support high capital inflows (carry trade) and even stronger nominal appreciation of national currencies in the countries with flexible exchange rates. A decline in cost-competitiveness and worsening in net exports (in tandem with larger current account deficits) could also ensue in countries with fixed exchange rates owing to inflation differentials with respect to the eurozone. The fact that unemployment is expected to return rather slowly to pre-crisis levels could, however, reduce the dangers of wage-driven inflation and induce more accommodative monetary policies.

In conclusion, growth in the CESEE region is expected to stabilize, yet remain rather unimpressive in the coming years – the proviso being that external conditions are not disrupted once again.

### Country summaries

In **Bulgaria**, GDP grew by 1.5% year on year in the first quarter of 2011 thanks to a continuing export boom. The unusually robust export performance contributed to a reversal in the current account balance; the latter turned positive in 2011. However, domestic demand has remained depressed, with both private consumption and fixed investment, in particular, shrinking still further in the first quarter. The outlook for 2011 and thereafter is moderately positive, yet uncertainties prevail with respect to the sustainability of the current export-led recovery.

In the **Czech Republic,** economic growth in the current year will slow down. Fiscal consolidation measures – if consistently implemented – will restrict household consumption. However, it is hoped that fixed investment will register a modest take-off. Foreign trade, depending predominantly on exports to Germany, has assumed the lead – and positive – role. Monetary policy is expected to remain relaxed, thus helping to check currency appreciation. The political situation will remain highly volatile.

In the **Baltic States**, particularly Estonia, exports since the end of 2010 have expanded much more firmly than expected. Similarly, an upsurge in gross fixed investments has been the main growth driver in Latvia and Lithuania, while household consumption will also gain some momentum at a later stage. We expect GDP to increase between 3.6% in Latvia and 5.7% in Estonia in 2011. Each of the three countries will grow between 4% and 5% in the two years thereafter, when growth in external demand will abate. Despite faster GDP growth, the situation in the labour markets will remain disappointing for a long time to come.

In **Hungary,** post-crisis growth has been driven solely by external demand. Investment and consumption are suffering on account of legal uncertainties and impaired financial intermediation. For 2011, nationalizing the assets of private pension funds will secure a one-off fiscal surplus. International investors have demonstrated their appreciation of the government's fiscal plans. The slow export-based recovery is expected to continue in 2011.

In **Poland**, the robust GDP growth is expected to continue. Growth will be driven primarily by domestic demand – in terms of both consumption and investment. Improvements in industrial labour productivity will help to contain the impact of any eventual currency appreciation. Trade developments will play a secondary – but increasingly negative – role. Whereas fiscal consolidation will proceed at a fairly gradual pace, monetary policy seems determined to combat inflation more vigorously than elsewhere in the EU.

In **Romania**, the economy is emerging from a protracted period of depression. Recovery is driven by net exports and the accumulation of stocks, while domestic consumption and gross fixed capital formation continue to contract still further. Implementation of the 2011 budget execution is on track and should meet the deficit target for the current year. The forecast for the election year 2012 points to an acceleration of economic growth and no increase in fiscal austerity. This will be followed by renewed stabilization measures and slower economic growth in 2013.

For **Slovakia,** wiiw expects a respectable GDP growth of 4% for 2011 and the two years thereafter. Growth is mainly driven by net exports, the major driver being foreign demand for products of the Slovak automotive industry – most orders coming from Germany. Domestic demand will remain subdued owing to the fiscal austerity measures that are being implemented. Although the labour market is showing some positive signs, unemployment remains high.

In **Slovenia,** GDP which is driven primarily by foreign demand will grow by 2% in 2011. The enterprise sector is currently facing liquidity problems and needs to deleverage, thus there is little room for investments. Somewhat faster growth can only be expected in the years to come, as long as investment enjoys a recovery and private consumption registers some improvement. For the latter to happen, however, the labour market will have to improve as well. Given the ongoing fiscal consolidation, public investment will need time to recover. Solving the political problems will be one of the main prerequisites for a return to a sustainable growth path.

In **Croatia,** GDP growth in 2011 should finally rebound, the proviso being that external demand, particularly the demand for tourism services, improves. High unemployment may hamper a more pronounced recovery in household consumption. The burdens associated with high foreign debt servicing and reducing the budget deficit will remain the most serious challenges in the years to come. Prospects of joining the EU in 2013 may stimulate foreign investment flows; a negative referendum on accession to the EU would be a clear setback.

In **Macedonia,** the crisis has had a milder effect than in most other countries in the region. GDP decline was only 0.9% in 2009. Recovery was also unremarkable: GDP growth of only 0.7% in 2010. Some acceleration, about 2%, is expected for 2011. Unlike most other countries in the region, employment has been on the increase throughout the crisis, although the unemployment rate remains at a very high level: some 30%. In summary, the real economy creates the impression of stability, albeit at a low level of activity.

In **Montenegro** the decline in output was quite marked: about 6% in 2009. In 2010 the economy did not recover all that much. GDP growth will pick up speed somewhat in 2011, increasing to 2%. It is expected that the EU will set a date for the start of negotiations on accession: possibly December this year. That will be of benefit to the financial markets, as the state is borrowing in commercial markets. It will also mean increased transfers from EU funds.

In **Turkey**, record GDP growth, 8.9% in 2010 and 11% in the first quarter of 2011, heightened the country's attractiveness to international investors. Nonetheless, that rapid growth, coming as it does in tandem with a trade deficit that expanded rapidly and has become alarmingly high, has triggered fears of the bubble bursting all of a sudden. The central bank has not responded by increasing interest rates, but has chosen to impose higher reserve requirements on commercial banks. Signs of growth deceleration have already become visible in the course of the current year; however, the extent to which this can be attributed to monetary policy is still unclear. Fiscal policy may also become more restrictive, with the ruling party having secured a landslide victory in the elections. The forecast hints at the possibility of the boom gradually cooling down.

In **Albania**, the political system is still showing signs of pubescence. The recent municipal elections culminated in a fierce dispute over the outcome of the ballot in the country's capital, Tirana. Nevertheless, in terms of economic development things seem to be improving. The growth rate for 2011 is expected to be slightly over 4%. A similar growth rate is expected for 2012 and a somewhat higher rate for 2013. The main drivers are further export growth and an improvement in consumer and business confidence.

In **Bosnia and Herzegovina**, exports expanded substantially in 2010 and the first months of 2011, but this did not trigger much GDP growth, as the export sector's GDP contribution is rather small. Large parts of the business sector are still in worse shape than they were before the crisis; the public sector finds it difficult to make ends meet. The flow of funds from Paris Club creditors will remain interrupted pending the establishment of a new central government after the elections held in October 2010. Households continue to rely heavily on remittances. Prospects of EU accession are poor.

In **Serbia** GDP growth this year is expected to be 2.5%. Next year, it should accelerate to 3%. An inflation rate of more than 10% has raised concerns as to stability. Much will depend on the outcome of the general elections next year. Social pressures and unrest usually accelerate in the run-up to the elections; they have already become more than apparent. It is also expected that negotiations on EU membership will start next year: something that should have a stabilizing effect.

In **Kazakhstan,** GDP growth for 2011 is forecast at 7% thanks to high global oil prices. Oil exports are hampered by shortcomings in terms of both transport infrastructure and production capacities. In the biennium 2012-2013 the Kazakh economy will grow by 6%. Both consumer and investment demand will rise, the latter more rapidly. The banking sector has not yet fully recovered from the crisis. As asset cleansing gets underway in the banking sector, the economy will benefit from a gradual improvement in access to funding. As a result of high global food prices, CPI in 2011 will increase to 8%. In the biennium 2012-2013, inflation will slow down to around 7%.

In **Russia**, the economy has been growing by about 4% per year. Huge fluctuations in prices and inventories are affecting the reliability of GDP growth figures. Inflation has accelerated and remains stubbornly close to 10%. The long-term strategic target of economic diversification and modernization remains high on the agenda. The wiiw forecast reckons with continued, yet unspectacular, GDP growth over the period 2011-2013. With some luck, inflation may remain in single digits during 2011 and the budget deficit will evolve into a surplus. We have every expectation of President Medvedev being re-elected and the ruling Medvedev-Putin tandem continuing after March 2012.

In **Ukraine**, the economy will continue to recover, benefiting from the newly gained political stability. Relatively good budget performance and favourable financing conditions have reduced the willingness to implement the austerity measures, resulting in a suspension of the IMF stand-by programme. In the short and medium term, we expect a continuation of the current growth path of 4-5% per year, driven largely by domestic demand and accompanied by a moderate widening of current account deficits. The free trade negotiations with the EU have advanced recently; they might come to conclusion by the end of 2011.

**Keywords:** Central and East European new EU member states, Southeast Europe, future EU member states, Balkans, former Soviet Union, Turkey, economic forecasts, employment, foreign trade, competitiveness, debt, deleveraging, exchange rates, flow of funds, inflation, monetary policy.

**JEL classification:** C33, C50, E20, E29, F34, G01, G18, O52, O57, P24, P27, P33, P52

Table A

## Central and East European new EU member states (NMS-10): an overview of economic fundamentals, 2010

| | Bulgaria | Czech Republic | Estonia | Hungary | Latvia | Lithuania | Poland | Romania | Slovakia | Slovenia | *NMS-10* [1] | *EU-15* | *EU-27* [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP in EUR at exchange rates, EUR bn | 36.03 | 145.14 | 14.50 | 98.45 | 17.97 | 27.41 | 353.66 | 121.94 | 65.91 | 36.06 | *917.1* | *11326.1* | *12266.9* |
| GDP in EUR at PPP, EUR bn | 80.17 | 205.38 | 21.30 | 156.77 | 28.22 | 46.58 | 581.64 | 236.29 | 98.19 | 43.63 | *1498.2* | *10741.0* | *12266.9* |
| GDP in EUR at PPP, EU-27=100 | 0.7 | 1.7 | 0.2 | 1.3 | 0.2 | 0.4 | 4.7 | 1.9 | 0.8 | 0.4 | *12.2* | *87.6* | *100.0* |
| GDP in EUR at PPP, per capita | 10600 | 19500 | 15900 | 15700 | 12600 | 14200 | 15200 | 11000 | 18100 | 21300 | *14700* | *27000* | *24500* |
| GDP in EUR at PPP per capita, EU-27=100 | 43 | 80 | 65 | 64 | 51 | 58 | 62 | 45 | 74 | 87 | *60* | *110* | *100* |
| GDP at constant prices, 1990=100 | 127.2 | 140.4 | 140.1 | 127.9 | 100.5 | 110.4 | 188.0 [3] | 131.4 | 163.0 | 157.2 | *140.1* | *191.2* | *161.4* |
| GDP at constant prices, 2000=100 | 148.9 | 136.9 | 145.9 | 120.5 | 143.2 | 153.3 | 146.5 | 149.2 | 159.7 | 130.8 | *130.8* | *119.8* | *142.9* |
| Industrial production real, 2000=100 [4] | 142.3 | 145.7 | 163.6 | 141.8 | 143.4 | 169.4 | 175.0 | 126.1 | 192.1 | 118.9 | *156.1* | *92.4* | *102.2* |
| Population - thousands, average | 7534 | 10514 | 1340 | 10004 | 2235 | 3287 | 38190 | 21460 | 5430 | 2047 | *102041* | *398366* | *501680* |
| Employed persons - LFS, thousands, average | 3053 | 4885 | 571 | 3781 | 945 | 1344 | 15961 | 9239 | 2318 | 966 | *43062* | *172841* | *216449* |
| Unemployment rate - LFS, in % | 10.2 | 7.3 | 16.9 | 11.2 | 18.7 | 17.8 | 9.6 | 7.3 | 14.4 | 7.3 | *9.9* | *9.6* | *9.6* |
| General gov. revenues, EU-def., in % of GDP | 34.5 | 40.5 | 40.1 | 44.6 | 35.2 | 34.2 | 37.8 | 34.3 | 33.1 | 43.4 | *38.2* | *44.4* | *44.0* |
| General gov. expenditures, EU-def., in % of GDP | 37.7 | 45.2 | 40.0 | 48.9 | 42.9 | 41.3 | 45.7 | 40.8 | 41.0 | 49.0 | *44.5* | *50.8* | *50.3* |
| General gov. balance, EU-def., in % of GDP | -3.2 | -4.7 | 0.1 | -4.3 | -7.6 | -7.1 | -7.9 | -6.4 | -7.9 | -5.6 | *-6.4* | *-6.4* | *-6.4* |
| Public debt, EU def., in % of GDP | 16.2 | 38.5 | 6.6 | 80.2 | 44.7 | 38.2 | 55.0 | 30.8 | 41.0 | 38.0 | *47.2* | *82.9* | *80.0* |
| Price level, EU-27=100 (PPP/exch. rate) | 45 | 71 | 68 | 63 | 64 | 59 | 61 | 52 | 67 | 83 | *61* | *105* | *100* |
| Compensation per employee, monthly, in EUR [5] | 433 | 1283 | 1119 | 1005 | 780 | 781 | 883 | 621 | 1134 | 2035 | *898* | *3217* | *2776* |
| Compensation per employee, monthly, EU-27=100 | 15.6 | 46.2 | 40.3 | 36.2 | 28.1 | 28.1 | 31.8 | 22.4 | 40.8 | 73.3 | *32.3* | *115.9* | *100.0* |
| Exports of goods in % of GDP | 43.3 | 65.7 | 60.8 | 71.5 | 37.4 | 57.3 | 34.6 | 30.6 | 74.0 | 51.0 | *47.9* [6] | *29.1* [6] | *30.5* [6] |
| Imports of goods in % of GDP | 50.0 | 64.3 | 62.3 | 66.7 | 43.9 | 61.6 | 36.3 | 35.4 | 73.8 | 53.7 | *49.1* [6] | *29.4* [6] | *30.9* [6] |
| Exports of services in % of GDP | 14.7 | 11.3 | 23.5 | 14.6 | 15.4 | 11.4 | 6.9 | 5.3 | 6.7 | 12.1 | *9.3* [6] | *9.7* [6] | *9.7* [6] |
| Imports of services in % of GDP | 9.4 | 9.5 | 14.4 | 12.2 | 9.2 | 7.8 | 6.2 | 5.8 | 7.8 | 9.2 | *7.9* [6] | *8.4* [6] | *8.4* [6] |
| Current account in % of GDP | -1.0 | -3.8 | 3.6 | 2.1 | 3.6 | 1.8 | -3.4 | -4.1 | -3.4 | -1.1 | *-2.4* [6] | *0.2* [6] | *-0.04* [6] |
| FDI stock per capita in EUR, 2010 [7] | 4784 | 9238 | 9156 | 6856 | 3713 | 3134 | 3600 | 2442 | 6800 | 5492 | *4600* | *11366* | *9952* |

NMS-10: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. PPP: Purchasing power parity.
1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) 1989=100, which in the Polish case is the appropriate reference year. - 4) EU-15 and EU-27 working day adjusted. - 5) Gross wages plus indirect labour costs, according to national account concept. - 6) Data for NMS-10, EU-15 and EU-27 include flows /stocks within the region. - 7) For EU-15 and EU-27 year 2009 .

*Source:* wiiw, Eurostat, AMECO.

Table B

## Southeast Europe and selected CIS countries: an overview of economic fundamentals, 2010

| | Croatia | Macedonia | Montenegro | Turkey | Albania | Bosnia and Herzegovina | Serbia | Kazakhstan | Russia | Ukraine | *NMS-10* [1] | *EU-15* | *EU-27* [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP in EUR at exchange rates, EUR bn | 45.92 | 6.89 | 3.03 | 553.52 | 8.85 | 12.65 | 30.13 | 110.64 | 1115.05 | 103.92 | *917.1* | *11326.1* | *12266.9* |
| GDP in EUR at PPP, EUR bn | 66.60 | 17.60 | 6.18 | 860.78 | 21.70 | 25.18 | 65.86 | 150.10 | 1807.74 | 248.82 | *1498.2* | *10741.0* | *12266.9* |
| GDP in EUR at PPP, EU-27=100 | 0.5 | 0.1 | 0.05 | 7.0 | 0.2 | 0.2 | 0.5 | 1.2 | 14.7 | 2.0 | *12.2* | *87.6* | *100.0* |
| GDP in EUR at PPP, per capita | 15100 | 8600 | 9800 | 11800 | 6800 | 6600 | 9000 | 9300 | 12700 | 5400 | *14700* | *27000* | *24500* |
| GDP in EUR at PPP per capita, EU-27=100 | 62 | 35 | 40 | 48 | 28 | 27 | 37 | 38 | 52 | 22 | *60* | *110* | *100* |
| GDP at constant prices, 1990=100 | 111.4 | 115.1 | . | 208.6 | 198.0 | . | . | 153.3 | 107.2 | 65.8 | *140.1* | *191.2* | *161.4* |
| GDP at constant prices, 2000=100 | 130.2 | 126.2 | 139.9 | 145.7 | 171.7 | 143.6 | 150.4 | 220.8 | 159.5 | 152.4 | *130.8* | *119.8* | *142.9* |
| Industrial production real, 2000=100 | 122.6 | 100.9 | 90.2 | 146.8 | 221.3 | 187.3 | 106.0 | 206.1 | 148.5 | 154.5 | *156.1* | *92.4* | *102.2* |
| Population - thousands, average | 4417 | 2054 | 632 | 73003 | 3210 | 3843 | 7300 | 16210 | 142938 | 45871 | *102041* | *398366* | *501680* |
| Employed persons - LFS, thousands, average | 1541 | 638 | 208 | 22593 | 1100 | 843 | 2396 | 8114 | 69803 | 20266 | *43062* | *172841* | *216449* |
| Unemployment rate - LFS, in % | 11.8 | 32.0 | 19.6 | 10.7 | 15.0 | 27.2 | 19.2 | 5.8 | 7.5 | 8.1 | *9.9* | *9.6* | *9.6* |
| General gov. revenues, nat. def., in % of GDP | 37.0 | 30.9 | 42.0 | 34.0 [3] | 26.6 | 42.5 | 39.5 | 19.9 | 35.3 | 29.0 | *38.2* [3] | *44.4* [3] | *44.0* [3] |
| General gov. expenditures, nat. def., in % of GDP | 41.4 | 33.3 | 45.0 | 38.0 [3] | 29.7 | 47.0 | 43.9 | 22.3 | 38.9 | 34.9 | *44.5* [3] | *50.8* [3] | *50.3* [3] |
| General gov. balance, nat. def., in % of GDP | -4.3 | -2.5 | -3.0 | -4.0 [3] | -3.0 | -4.5 | -4.4 | -2.4 | -3.6 | -6.0 | *-6.4* [3] | *-6.4* [3] | *-6.4* [3] |
| Public debt, nat. def., in % of GDP | 40.1 | 34.0 | 42.0 | 48.0 [3] | 61.0 | 39.1 | 36.0 | 14.8 | 8.6 | 39.8 | *47.2* [3] | *82.9* [3] | *80.0* [3] |
| Price level, EU-27=100 (PPP/exch. rate) | 69 | 39 | 49 | 64 | 41 | 50 | 46 | 74 | 62 | 42 | *61* | *105* | *100* |
| Average gross monthly wages, EUR at exchange rate | 1054 | 491 | 715 | 770 [4] | 246 | 622 | 461 | 388 | 523 | 213 | *898* [4] | *3217* [4] | *2776* [4] |
| Average gross monthly wages, EU-27=100 | 38.0 | 17.7 | 25.8 | 27.7 [4] | 8.9 | 22.4 | 16.6 | 14.0 | 18.9 | 7.7 | *32.3* [4] | *115.9* [4] | *100* [4] |
| Exports of goods in % of GDP | 19.8 | 36.2 | 11.8 | 16.5 | 13.2 | 29.5 | 24.6 | 41.4 | 27.2 | 37.8 | *47.9* [5] | *29.1* [5] | *30.5* [5] |
| Imports of goods in % of GDP | 32.8 | 57.5 | 55.3 | 24.2 | 36.8 | 55.1 | 40.4 | 21.8 | 16.9 | 44.2 | *49.1* [5] | *29.4* [5] | *30.9* [5] |
| Exports of services in % of GDP | 18.5 | 10.1 | 24.7 | 4.7 | 19.2 | 7.7 | 8.9 | 2.9 | 3.0 | 12.4 | *9.3* [5] | *9.7* [5] | *9.7* [5] |
| Imports of services in % of GDP | 5.9 | 9.2 | 9.9 | 2.7 | 17.2 | 3.5 | 8.8 | 7.7 | 4.9 | 8.8 | *7.9* [5] | *8.4* [5] | *8.4* [5] |
| Current account in % of GDP | -1.4 | -2.8 | -25.7 | -6.6 | -11.9 | -5.5 | -6.9 | 2.9 | 4.8 | -2.1 | *-2.4* [5] | *0.2* [5] | *-0.04* [5] |
| FDI stock per capita in EUR, 2010 [6] | 5824 | 1600 | 6429 | 1874 | 1100 | 1500 | 2164 | 3741 | 1700 | 954 | *4600* | *11366* | *9952* |

NMS-10: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia. PPP: purchasing power parity, wiiw estimates for Albania, Bosnia and Herzegovina, Montenegro, Serbia, Kazakhstan, Russia, Ukraine.

1) wiiw estimates. - 2) wiiw estimates and Eurostat. - 3) EU definition: expenditures and revenues according to ESA'95, excessive deficit procedure. - 4) Gross wages plus indirect labour costs, according to national account concept. - 5) Data for NMS-10, EU-15 and EU-27 include flows within the region. - 6) For EU-15 and EU-27 year 2009.

*Source:* wiiw, Eurostat, AMECO.

Table 1

## Overview 2009-2010 and outlook 2011-2013

| | | **GDP** real change in % against previous year | | | | | **Consumer prices** change in % against previous year | | | | | **Unemployment, based on LFS** [1] rate in %, annual average | | | | | **Current account** in % of GDP | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2009** | **2010** | **2011** | **2012** | **2013** | **2009** | **2010** | **2011** | **2012** | **2013** | **2009** | **2010** | **2011** | **2012** | **2013** |
| | | | | | **Forecast** | | | | | **Forecast** | | | | | **Forecast** | | | | | **Forecast** | |
| BG | Bulgaria | -5.5 | 0.2 | 3 | 3.5 | 3.5 | 2.5 | 3.0 | 4 | 4 | 4 | 6.8 | 10.2 | 11 | 10 | 9 | -8.9 | -1.0 | 2.6 | 1.2 | 0.0 |
| CZ | Czech Republic | -4.2 | 2.3 | 2.2 | 2.5 | 3.7 | 0.6 | 1.2 | 2.0 | 2.0 | 2.0 | 6.7 | 7.3 | 7.3 | 7.0 | 6.5 | -3.2 | -3.8 | -2.6 | -3.0 | -3.0 |
| EE | Estonia | -13.9 | 3.1 | 5.7 | 4.5 | 4.8 | 0.2 | 2.7 | 5.5 | 4.5 | 4.5 | 13.8 | 16.9 | 13 | 11.5 | 9.5 | 4.5 | 3.6 | -0.6 | -2.8 | -4.1 |
| HU | Hungary | -6.7 | 1.2 | 2.5 | 3 | 3 | 4.0 | 4.7 | 4.2 | 3.5 | 3.5 | 10.0 | 11.2 | 11 | 9.5 | 8.5 | 0.4 | 2.1 | 0.9 | 0.5 | 0.0 |
| LV | Latvia | -18.0 | -0.3 | 3.6 | 3.8 | 4 | 3.3 | -1.2 | 4.5 | 3.5 | 4 | 17.1 | 18.7 | 15.5 | 14 | 12.5 | 8.6 | 3.6 | 0.5 | -1.4 | -2.7 |
| LT | Lithuania | -14.7 | 1.3 | 5 | 4.5 | 4.5 | 4.2 | 1.2 | 4.5 | 4 | 4.5 | 13.7 | 17.8 | 16 | 14 | 12.5 | 4.3 | 1.8 | -2.0 | -3.1 | -4.2 |
| PL | Poland | 1.7 | 3.8 | 3.8 | 4.2 | 4.3 | 4.0 | 2.7 | 3.5 | 2.5 | 2.5 | 8.2 | 9.6 | 10 | 8.5 | 7.5 | -2.2 | -3.4 | -3.6 | -3.9 | -4.2 |
| RO | Romania | -7.1 | -1.3 | 2 | 4 | 3 | 5.6 | 6.1 | 6.5 | 4 | 4 | 6.9 | 7.3 | 7.6 | 7 | 7 | -4.2 | -4.1 | -3.1 | -4.3 | -4.3 |
| SK | Slovakia | -4.8 | 4.0 | 4 | 4 | 4 | 0.9 | 0.7 | 3 | 3 | 3 | 12.0 | 14.4 | 13 | 12 | 12 | -3.2 | -3.4 | -4.3 | -5.0 | -5.2 |
| SI | Slovenia | -8.1 | 1.2 | 2 | 2.5 | 3 | 0.9 | 2.1 | 2.5 | 2.5 | 2.5 | 5.9 | 7.3 | 8 | 7.5 | 7 | -1.5 | -1.1 | -1.2 | -1.5 | -1.7 |
| | **NMS-10** [2)3)] | **-3.6** | **2.1** | **3.1** | **3.7** | **3.8** | **3.3** | **3.0** | **3.9** | **3.0** | **3.0** | **8.5** | **9.9** | **10.0** | **8.9** | **8.1** | **-2.1** | **-2.4** | **-2.4** | **-3.0** | **-3.3** |
| | *EU-15* [3)] | *-4.3* | *1.8* | *1.7* | *1.8* | . | . | . | . | . | . | *9.1* | *9.6* | *9.5* | *9.3* | . | *-0.09* | *-0.13* | . | . | . |
| | *EU-27* [3)] | *-4.2* | *1.8* | *1.9* | *2.0* | . | *1.0* | *2.1* | *3.0* | *2.0* | . | *8.9* | *9.6* | *9.6* | *9.2* | . | *-0.09* | *-0.04* | . | . | . |
| HR | Croatia | -6.0 | -1.2 | 1 | 2 | 3 | 2.4 | 1.1 | 2.5 | 2 | 2.5 | 9.1 | 11.8 | 12 | 11 | 10 | -5.5 | -1.4 | -2.5 | -3.2 | -3.5 |
| MK | Macedonia | -0.9 | 0.7 | 2 | 3 | 3 | -0.8 | 1.6 | 3 | 3 | 3 | 32.2 | 32.0 | 31 | 31 | 31 | -6.7 | -2.8 | -4.1 | -5.2 | -4.9 |
| ME | Montenegro | -5.7 | 0.5 | 2 | 3 | 3 | 3.4 | 0.5 | 3 | 3 | 3 | 19.3 | 19.6 | 20 | 20 | 20 | -30.1 | -25.7 | -21.9 | -20.6 | -22.2 |
| TR | Turkey | -4.8 | 8.9 | 6.0 | 4.5 | 4.0 | 6.3 | 8.6 | 7.0 | 6 | 6 | 12.7 | 10.7 | 9.9 | 10.0 | 10.2 | -2.3 | -6.6 | -9.7 | -9.4 | -9.4 |
| | **Candidate countries** [2)3)] | **-4.8** | **8.0** | **5.6** | **4.3** | **3.9** | **5.8** | **7.9** | **6.6** | **5.7** | **5.7** | **13.2** | **11.6** | **10.8** | **10.8** | **10.9** | **-2.8** | **-6.2** | **-9.1** | **-9.0** | **-9.0** |
| AL | Albania | 3.3 | 4 | 4.1 | 3.9 | 5 | 2.3 | 3.5 | 4 | 4 | 4 | 13.8 | 15 | 15 | 14 | 13 | -15.5 | -11.9 | -11.8 | -13.0 | -16.3 |
| BA | Bosnia & Herzegovina | -3.0 | 0.9 | 2.2 | 3 | 3 | -0.4 | 2.1 | 4 | 2 | 2 | 24.1 | 27.2 | 27 | 27 | 26 | -6.2 | -5.5 | -6.7 | -5.7 | -5.4 |
| RS | Serbia | -3.1 | 1.8 | 2.5 | 3 | 3 | 8.6 | 6.8 | 10 | 8 | 6 | 16.1 | 19.2 | 20 | 20 | 20 | -7.2 | -6.9 | -8.0 | -9.9 | -10.0 |
| | **Potential candidate countries** [2)3)] | **-1.8** | **2.0** | **2.7** | **3.2** | **3.4** | **5.3** | **5.1** | **7.5** | **5.9** | **4.7** | **17.2** | **19.8** | **20.2** | **19.8** | **19.3** | **-8.4** | **-7.4** | **-8.3** | **-9.5** | **-10.1** |
| KZ | Kazakhstan | 1.2 | 7 | 7 | 6 | 6 | 7.3 | 7.1 | 8 | 7 | 6.5 | 6.6 | 5.8 | 5.5 | 5.3 | 5.2 | -3.8 | 2.9 | 3.2 | 2.6 | 2.4 |
| RU | Russia | -7.8 | 4.0 | 4.5 | 4.4 | 4.1 | 11.8 | 7.1 | 9 | 7 | 5 | 8.4 | 7.5 | 7.3 | 7 | 6.8 | 4.0 | 4.8 | 4.7 | 3.1 | 2.5 |
| UA | Ukraine | -14.8 | 4.2 | 4.5 | 5 | 5 | 15.9 | 9.4 | 10 | 9 | 8 | 8.8 | 8.1 | 8 | 7.8 | 7.5 | -1.5 | -2.1 | -2.6 | -2.9 | -3.1 |

*Note:* NMS: The New EU Member States.

1) LFS – Labour Force Survey. - 2) wiiw estimate. - 3) Current account data include flows within the region.

*Source:* wiiw (June 2011), Eurostat. Forecasts by wiiw and European Commission (Economic Forecast, Spring 2011) for EU.

*Leon Podkaminer**

# Recovery: limp and battered

### The global economy: divergent growth patterns ...

According to current views, global output may continue to expand rather strongly in 2011 and 2012. The IMF's recent update (released on 17 June) of the April issue of its World Economic Outlook (WEO) envisages global output growth rates of 4.3% and 4.5 % for 2011 and 2012, respectively: somewhat lower than in 2010 (5.1%). However, it seems hardly warranted under present conditions to draw the conclusion that robust global developments might ultimately support accelerated recovery in the countries of Central, East and Southeast Europe (CESEE).

First, global growth rates actually mask divergences in performance among various groups of countries. It is logical to assume that whereas developments in individual CESEE countries will be affected quite markedly by developments in those parts of the global economy with which they have close economic ties, the impact of broader 'global developments' will only be weak and indirect. In that context, it must be observed that while output in the advanced economies is projected to rise by 2.2% in 2011, output in the emerging and developing economies will rise by 6.6%. The latter rate primarily reflects a strong growth rate of 8.4% in Developing Asia, including China and India. Moreover, within the group of advanced countries the USA, whose direct economic ties to most CESEE countries are tenuous, is expected to grow by 2.5% in 2011. The USA continues to outperform the euro area, whose economic and other ties are incomparably closer to most CESEE countries. The euro area is expected to grow by 2%. The latter figure is higher than the estimates envisaged by other sources. For example, the May 2011 issue of the Monthly Bulletin of the European Central Bank (ECB) cites on page 52 the findings of various recent studies, all of which suggest 1.7%. The IMF April 2011 forecast for the euro area growth rate was 1.6%[1]. It goes without saying that all these forecasts are merely averages of more dispersed estimates. Substantial uncertainty remains where the actual performance of groups of countries is concerned. For example, projections prepared by the ECB staff put the likely GDP growth rate for the euro area in a range of 1.3%-2.1% for 2011 and 0.8%-2.8% for 2012. For 2012 the IMF expects just 1.7% growth for the eurozone in its June 2011 WOE Update.

Secondly, the assumption (often tacitly accepted) that the countries with close economic ties should somehow 'move closer together', with faster growth in the lead country contributing to faster growth in the countries in its wake (or vice versa), may actually require that special, restrictive conditions be met. These conditions may well necessitate, inter alia, a certain degree of synchronization of national business cycles, similar patterns of economic policy responses and a measure of cross-country policy cooperation. If those conditions are not met, close economic ties (e.g. via high mutual

---

* Thanks are due to Vasily Astrov, Vladimir Gligorov, Peter Havlik, Michael Landesmann, Kazimierz Laski, Josef Pöschl and Sándor Richter, all wiiw, for useful comments on the earlier draft of this Overview.

1 Much faster growth in Germany and France, now projected by the IMF, accounts for the revision of the growth rate for the euro area.

trade) may only help to bolster divergent tendencies, with growth in one country being accelerated at the expense of a growth slowdown in partner countries.

Such antagonistic developments can already be discerned in the euro area where growth in Germany depends on that country's trade and current account surpluses that it has earned at the expense of large trade and current account deficits, thereby forgoing growth in some of its euro area partners. Outside Europe, one can identify an antagonistic element in China's trade ties to the USA. China's faster growth does not necessarily imply faster US growth: the opposite may be true. China's export-led growth may have actually suppressed growth of output produced in the USA.

The present post-crisis period (which started with the recovery registered almost universally in late 2009 or early 2010) differs from the pre-crisis boom years (extending roughly over the period 2004-2007) on many counts, as well as on account of the higher levels of uncertainty about the future. For example, it has become more difficult to understand and foresee developments in terms of world market prices for energy carriers and other essential raw materials, including some agricultural products. Rapid growth of Developing Asia's demand for raw materials is often cited as one reason for the discontinuation of previous (pre-2007) trends relating to world-market prices for raw materials; an increase in the intensity of worldwide speculative activities may be another contributory factor. Of course, the political turmoil seizing North Africa and the Middle East adds to the uncertainty over world market prices for oil and the possible disruption of supplies. The impact of the Fukushima disaster (including the change in attitude towards nuclear power in Europe) also fuels the heightened sense of uncertainty.

### ... amid a lack of rebalancing

Exogenous uncertainties over world-market prices for energy and other raw materials are of vital and direct importance to Russia, Kazakhstan and (to a lesser degree) Ukraine. Other CESEE countries, in particular the New Member States (NMS), are facing greater uncertainties head-on as to the resolution of the protracted financial and sovereign debt crisis raging in the euro area. While the EU authorities, the ECB, IMF, and the individual EU governments (the ones most concerned with the crisis) have made every effort to contain that crisis, it is only fair to state that the results to date have been unsatisfactory. Proof of the inefficiency of the attempts undertaken so far abounds. One glaring example of that inefficiency is the response of financial markets to the decision in May 2010 to set up the European Financial Stability Facility (EFSF). As things turned out, within days of establishing the EFSF, the yields on government bonds issued by the 'endangered' euro area countries shot up by several hundred basis points. This pattern of market response to steps taken with every good intention of bettering the situation has persisted ever since. Worse still, there are some grounds for arguing that the European Stabilization Mechanism (ESM), which is to replace the EFSF in 2013, may in fact be a major destabilizing factor[2].

[2] See P. De Grauwe (2011), 'The Governance of a Fragile Eurozone', *CEPS Working Document* No. 346 (May). De Grauwe calls ESM 'a mechanism of self-destruction of the eurozone'.

So far the sovereign debt/banking crisis in the euro area is believed to have been restricted to the southern periphery (plus Ireland) of the euro area. The likelihood of that crisis spilling over to other parts of the euro area cannot be ruled out (as shown recently by rumours regarding Belgium and also Slovenia being the next in line). However, while it would be grossly premature to speculate about the possibility of some sort of imminent 'collapse' threatening the euro area (let alone the European Union), some fundamental changes in the architecture of the EU (and the euro area) may prove to be an absolute necessity. At some point, the current approach that rules out (i) sovereign debt restructurings, (ii) sovereign insolvencies, and (iii) continuing emergency transfers will have to be abandoned. Of course, changes ('reforms') may be a painful, protracted and politically disruptive process. Worse still, as shown by the brief experience with the European financial stabilization schemes, the eventual outcomes of those changes do not necessarily constitute an improvement.

The philosophy underlying the reform ideas proposed by various influential official (and advisory) bodies (including the ECB and the European Commission) does not differ all that much from the economic doctrine on which the Maastricht Treaty and the constitution of the ECB were founded. What is new is the emphasis on the need for unconditional subordination on the part of the member states to the strict rules of fiscal discipline – plus the establishment of additional layers of surveillance over the private-sector financial institutions as well. In other words, it is 'more of the same', (this time, however, enforced consistently on member states) which will solve the Union's current problems – and prevent their recurrence in the future. Unfortunately, insistence on stricter observance of rules that have proven practically impossible to implement in the past does not seem the right direction to take. It can be argued that the attempts to abide by those rules may have contributed to the build-up of inter-euro area imbalances that are partly responsible for the present debt/banking crisis in the euro area.[3]

The persistence of such imbalances is explicitly assumed in forecasts for the coming years – albeit without any explicit expectations of a sovereign/debt crisis that would inevitably result from those imbalances. Thus, for example, the IMF April 2011 WEO envisages continuation of large German net lending to the rest of the world (5.1% of German GDP in 2011, falling to 4.1% over the period 2013-2016). That notwithstanding, net lending of the whole euro area will continue to hover around zero. Of course, the German economy will not remain the sole international lender worldwide (although it will remain the major lender to its partners in the euro area). Japan and Developing Asia will assume similar roles, although their net lending levels are expected to be lower both in relation to their respective GDPs and in absolute terms. Moreover, there are crucial differences between the economics of net lending in Japan and Germany. First, Japan's (or China's) net lending (that goes primarily to the USA) cannot end up in the US sovereign debt crisis: the US FED can print as many dollars as it needs and then ship them to Japan or China as debt repayment. Neither Greece nor Portugal – nor even France – has at present the option of printing euros to be sent back to Germany. Secondly, Japan has earnestly tried to absorb its financial surpluses internally. Japan is run-

[3] See K. Laski and L. Podkaminer (2010), 'Long-term growth prospects in Central and Eastern Europe hinge on changes in the basic paradigms of EU economic policy-making', *wiiw Current Analyses and Forecasts*, No. 6, July, pp. 1-22, and K. Laski and L. Podkaminer (2011), 'Common monetary policy with uncommon wage policies: Centrifugal forces tearing the euro area apart', *Intervention. European Journal of Economics and Economic Policies*, No. 1, pp. 21-29.

ning huge general government fiscal deficits. (According to the IMF April 2011 WEO, Japan's fiscal deficit by 2016 will amount to 7.4% of the GDP). By way of contrast, the German government is acting aggressively to reduce domestic absorption in order to eliminate the fiscal deficit as early as 2012. In so doing (along the lines prescribed by the EU authorities), the German policy not only slows down its own growth (and that of some of its EU partners'), but it also augments the imbalances that sooner or later will have highly detrimental effects for all – including the NMS.

## CESEE: a diverse bunch of countries

The CESEE region extends from the Adriatic to the Pacific. In essence, the countries included in this bloc have but one feature in common – extensive experience of totalitarian political systems and 'planned economy' conditions which ended more than 20 years ago. But even that experience differed. 'Transition' since the early 1990s does not seem to have made the CESEE any more homogeneous. Arguably, they have become even more diverse than they were 20 years ago[4]. Given that diversity, easily acceptable generalizations about the whole bloc of CESEE countries are likely to be so general as to contain but little interesting substance. It so happens, however, that acute generalizations can be wrong or misleading. As already mentioned, the countries lumped together in that bloc are different. Some of the differences are measurable (such as the size of their economies, degree of trade openness, structures of production). Some measurable indicators of economic performance (such as inflation, exchange rates or GDP growth) are also usually available, thus facilitating cross-country comparisons or analyses. But even quite elementary comparative analyses conducted in terms of such basic indicators often cannot cover all CESEE countries – simply on account of differences in the availability, comparability, timeliness and reliability of national statistical data. The data problems, which are particularly acute with respect to the Western Balkan countries, often crop up elsewhere – not only in the post-Soviet states, but also in the NMS[5].

The importance of differences in statistical reporting standards pales in comparison to differences in their institutional features ('superstructures'). It is these very features, however, on which countries' observable 'economic fundamentals' – and much of their current performance – rest. The problem is that putting institutional characteristics into cross-country quantitative comparisons is extremely difficult – if it is to be done seriously. Of course, simplistic cross-country comparisons of 'institutional features' abound. The Transition Reports of the European Bank of Reconstruction and Development (EBRD) or The World Competitiveness Report routinely produce such comparisons. However, those comparisons rely on fairly arbitrary 'grades' that EBRD staff or other experts award to the countries' specific institutional features (such as 'ease of doing business'). While probably not useless, those cross-country comparisons of necessity miss the truly essential features of institutional superstructures. Those truly decisive features include issues that cannot be quantified using a system of 'grades'. Understanding those features calls for 'in-depth studies' that also take account of the history, politics and sociology of the individual countries. It is to be hoped that those studies can advance a

4 It is not even certain whether their transitions are headed in the same direction (see e.g. K Poznanski (2011): 'Patterns of Transition', *wiiw Monthly Report No.3*, pp.1-11). Indeed, while Kazakhstan, for example, has transformed into a corruption-ridden authoritarian state, most of the NMS have adopted numerous standards typical of Western Europe.

5 This is not to say that the EU statistical standards are of paramount quality.

proper understanding of the individual nations' power structures, the goals and preferences of important agents both within their economies and without their traditions, past experience, dominant attitudes and modes of behaviour, etc. The present overview does not study such deep determinants of economic performance of individual CESEE countries. Instead it seeks to identify the general trends currently coming to the fore. Some explanations of very specific singularities in the recent performance of individual countries are to be found in the country reports appended to this study.

## More uniform GDP growth across the CESEE region

2009 was a recession year worldwide. Most of the CESEE countries covered by this report, with the exception of a pretty diverse trio (Poland, Kazakhstan and Albania) also went into recession (Table 1). In 2010 the majority of CESEE countries started to recover. Only in Romania and Croatia did the GDP continue to decline slightly and remained almost unchanged in Bulgaria and Latvia. All the remaining CESEE countries reported positive growth (it being rapid in Turkey and Kazakhstan).

Generally, the strong growth rebound typical of recoveries from short and shallow recessions was not to be observed. Instead, the correlation between the growth rates reported across the CESEE region in 2009 and 2010 is positive. But, as that correlation is very low (0.261), it is fair to say that the growth rates in 2010 do not actually stand in any obvious relationship to the rates recorded in 2009. In particular, the extremely pronounced rates of decline in 2009 were not followed by high rates of positive growth in 2010. Rather, the opposite regularity prevailed. The present recovery is still very weak in those countries that suffered most in the past. Thus, growth in 2010 was still anaemic in two of the three Baltic countries where recession had set in well before 2009 and assumed apocalyptic dimensions in 2009 (Latvia and Lithuania). The same applies to Hungary, which had stagnated long before entering outright recession in 2009. One tentative conclusion to be drawn from the facts about the relationship between the rates of growth in 2009 and 2010 could be that the factors governing growth in the individual countries are still predominantly country-specific. It may have to be added that the relationship between the growth rates reported in 2010 and the average growth rates over the period 2008-2009 is even more problematic. The correlation is even lower (0.163).

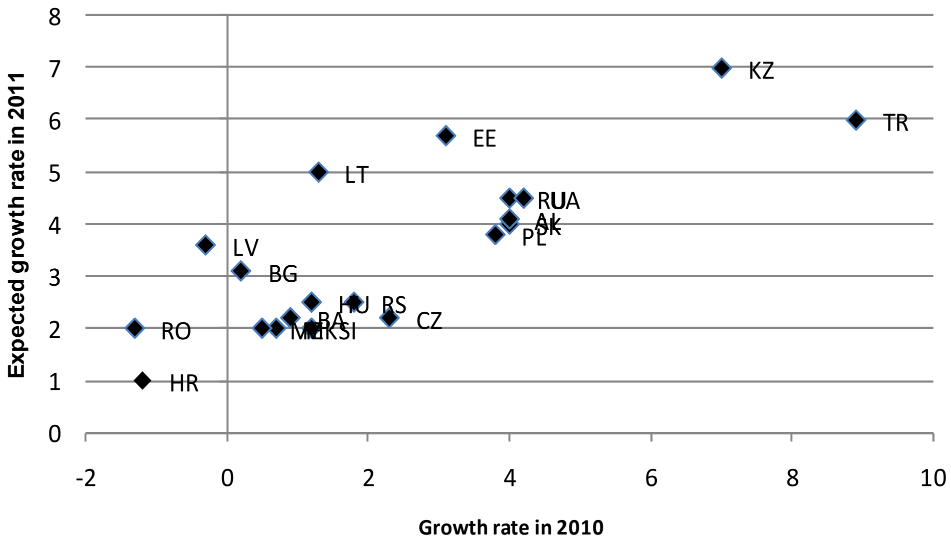
The fact that recovery tends to be weak in countries that suffered most should not be surprising. Actually, it may be explained in general economic terms, no matter what specific causes underlie the recession (and subsequent recovery) in those countries. Deep and protracted GDP recessions (especially of the type experienced by the Baltic countries) are almost always associated with deep declines in employment – and with even steeper declines in fixed investment. In addition, these developments are also usually associated with a drop in productivity (and profits in the business sector). Undoubtedly, in such economies the productive capacities (human and physical capital alike) depreciate when idle. Potentially efficient and profitable firms that had incurred debts (e.g. in order to fund the purchase of modern productive equipment) became insolvent during recessions (while firms which had been satisfied with obsolete capital stock might well tend to survive). All in all, it is rather difficult to expect that the economies that have undergone long and deep recessions can swiftly resume fast growth, once demand and financial conditions somehow improve. The importance of the supply-side and financial constraints on recovery in the countries emerging from profound and protracted crises must not be underestimated[6].

The GDP growth rates expected in 2011 (Table 1) are all positive. At the same time, they are becoming more uniform. Generally, growth accelerates in those countries, which grew weakly (or were still in recession) in 2010 – without necessarily attaining the levels recorded in countries, which were already growing at a faster rate in 2010. On the whole, growth rates have not changed much in countries that were already growing moderately in 2010. Interestingly, the correlation between the rates of GDP growth registered in 2010 and the rates expected for 2011 has strengthened to 0.806. The correlation between growth rates expected for 2011 and 2012 is even higher (0.906). This finding can be interpreted as evidence of a gradual return (expected by wiiw) to self-propelling growth across the CESEE region. The relationship between growth rates expected in pairs of consecutive years not only becomes 'tighter" as the years pass. (See the scatter plot in Figure 1.)

Figure 1

**GDP growth rates in 2010 and the expected growth rates in 2011 (%)**

20 CESEE countries




*Source:* wiiw Database incorporating national and Eurostat statistics.

Estimates from Box 1 indicate that the recent recessions have left near-permanent 'scars' on the most affected countries. These scars will still have to heal – a process that extends beyond the horizon of our forecasts. It is also quite important to notice that the crisis has disturbed the operation of the so-

6 Estonia performed pretty well in 2010, with GDP rising over 3% (after dropping close to 14% in 2009 alone). This achievement must be set in a longer-term perspective. Even if the high GDP growth (over 4.5% per annum) in that country were to continue, the Estonian GDP in 2013 would still be lower than in 2007. Gross fixed investment would then be some 33% short of the 2007 level (even if it were to rise at 8% annually in the interim). The extent of shrinkage of that country's productive capital is hard to assess. But probably shrinkage was quite substantial. Of course, the same applies to other countries that have experienced periods of long and deep recession.

called 'beta-convergence' (i.e. a long-term tendency for countries' GDP growth rates to be correlated inversely with their base-year per capita GDP level). The scatter plot in Figure 2 shows that there is actually no such relationship between the p.c. GDP level of the year 2010 (in purchasing power parity terms) and the average rate of GDP growth over the period 2010-2013[7].

Box 1

**Regressing the GDP growth rates for pairs of years**

Box Table 1 reports the outcomes of Ordinary Least Square linear regressions linking the GDP growth rates for one year to GDP growth rates for the previous year over the period 2010-2013 for the sample of 20 CESEE countries covered by this report.

Specifically Box Table 1 reports the outcome of the estimation of the parameters associated with the following simple formula:

$$G(t) = \text{Regression coefficient} \bullet G(t-1) + \text{Constant} \quad (1)$$

Where G(t) denotes the GDP growth rate for the year t.

Box Table 1

**Outcomes of the estimation of the equation (1), 2010 - 2013**

| | **Regression coefficient** | **Constant** | **Adj. $R^2$** |
|---|---|---|---|
| G(2010) vs. G(2009) | 0.119 | 3.06 | 0.016 |
| | *0.1036* | *0.856* | |
| G(2011) vs. G(2010) | 0.500 | 2.305 | 0.631 |
| | *0.086* | *0.297* | |
| G(2012) vs. G(2011) | 0.542 | 1.833 | 0.811 |
| | *0.06* | *0.227* | |
| G(2013) vs. G(2012) | 0.747 | 1.095 | 0.616 |
| | *0.133* | *0.509* | |

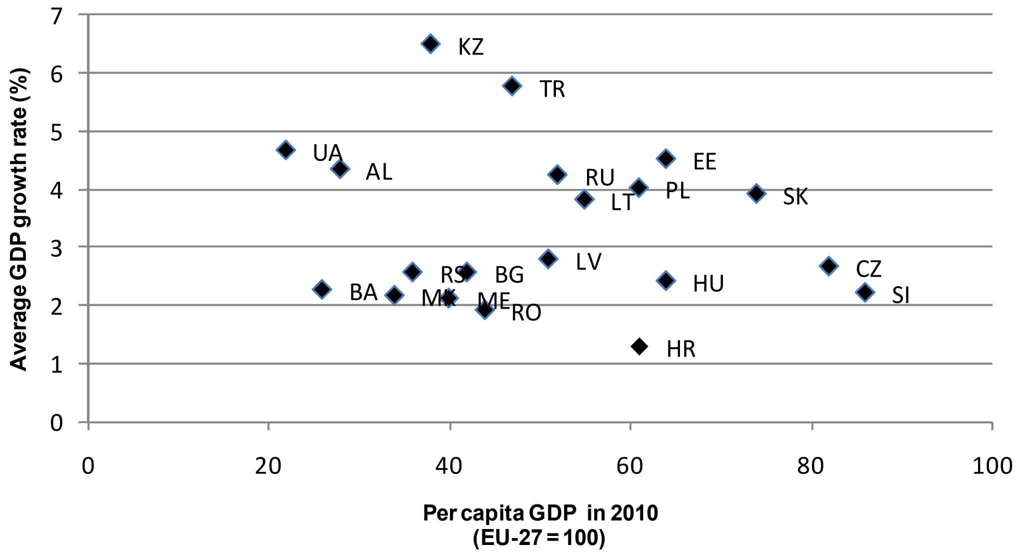
*Source:* own calculation based on GDP growth rates for 20 CESEE countries, taken from Table 1. Adj. $R^2$ is the adjusted $R^2$ (measuring 'quality of fit') and the numbers in italics below are the standard errors of the parameter estimates. All parameter estimates, except the regression coefficient for the first pair of years, are highly significant. Furthermore, the 'fit' is satisfactory for all pairs of years – except for the first.

It may need to be added that regressing the growth rates for 2010 on the average growth rates over the period 2008-2009 does not yield a satisfactory outcome. The regression coefficient for such a regression is small: positive, yet highly insignificant in statistical terms. The Adj. $R^2$ for that regression equals -0.027.

[7] The Ordinary Least Squares regression fitted into the data from Fig. 2 yields a small negative regression coefficient (about -0.012). However, this estimate has a high standard error and is statistically insignificant. (The Adjusted $R^2$ coefficient for this regression is -0.026).

Figure 2

**Average expected GDP growth rates, years 2010-2013 and per capita PPP GDP in 2010**




*Source:* wiiw Database incorporating national and Eurostat statistics.

## Domestic demand yet to recover

In 2010, household consumption generally continued to contract in most CESEE countries, although not as much as in 2009 (Table 2). Of course, some CESEE countries have recorded positive, if not very high growth in household consumption. But continuing cuts (or low growth) in household consumption was primarily a 'speciality' of the NMS (as well as some smaller Balkan countries). Household consumption rebounded pretty strongly on the 'outskirts' of the CESEE region: in Turkey, Kazakhstan and Ukraine. While weak contraction (and weak growth) of household consumption is only to be expected in countries emerging from 'difficult times', the strong acceleration of consumption in Turkey and Ukraine suggests that the economic policies in those two countries are unwilling (or unable) to respond to sharp swings in market sentiments. Considerations related to electoral politics may play a role in all this. Alternatively, the growth in consumption in Ukraine may represent a rebound after a dramatic slump in 2009. By way of contrast, the rebound in consumption growth in Kazakhstan is less of an enigma because that country was blessed with high gains on export revenues that permitted increases in public sector wages and social benefits. (However, the rebound in consumption growth in Russia, whose (nominal) exports also performed very well in 2010, was much more moderate).

Consumption growth in 2011 is expected to strengthen in the NMS – and to become more uniform across the CESEE region. Growth in Turkey and Kazakhstan is expected to become less explosive (while remaining rather high in Ukraine). Overall, however, the rates of growth in household consumption in 2011 (and later) are still subdued (as compared to the pre-crisis years), especially in the NMS and Balkan countries.

Table 2

## Consumption and investment

real change in % against preceding year

| | Household final consumption | | | | | Gross fixed capital formation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 1) | 2011 | 2012 | 2013 | 2009 | 2010 1) | 2011 | 2012 | 2013 |
| | | | Forecast | | | | | Forecast | | |
| Bulgaria | -7.6 | -1.3 | 1 | 1.5 | 2 | -17.6 | -16.5 | -5 | 5 | 10 |
| Czech Republic | -0.3 | 0.4 | 1 | 2.5 | 3 | -7.9 | -4.6 | 2 | 4 | 6 |
| Estonia | -18.8 | -1.9 | 1.7 | 1.7 | 2.5 | -32.9 | -9.2 | 9 | 9 | 10 |
| Hungary | -8.1 | -2.0 | 0.5 | 1.5 | 2.5 | -9.3 | -6.9 | 3 | 7 | 8 |
| Latvia | -24.1 | -0.1 | 2.2 | 2.2 | 2.5 | -37.3 | -19.5 | 14 | 11 | 12 |
| Lithuania | -17.7 | -4.5 | 2.5 | 3.3 | 4 | -40.0 | 0.0 | 20 | 13 | 12 |
| Poland | 2.1 | 3.3 | 3.8 | 4.5 | 4.5 | -1.1 | -1.9 | 4 | 6 | 7 |
| Romania | -10.5 | -1.6 | 0 | 4 | 2.5 | -25.3 | -13.1 | 1 | 5 | 6 |
| Slovakia | 0.3 | -0.3 | 1 | 3 | 4 | -19.9 | 3.7 | 4 | 5 | 6 |
| Slovenia | -0.5 | 0.5 | 1.5 | 1.5 | 2 | -21.6 | -6.7 | -3.5 | 3 | 4 |
| **NMS-10** | **-3.6** | **0.7** | **2.0** | **3.4** | **3.5** | **-12.3** | **-5.8** | **2.9** | **5.7** | **7.0** |
| EU-15 | -1.6 | 0.8 | 0.8 | 1.1 | . | -12.3 | -0.2 | 2.2 | 3.7 | . |
| EU-27 | -1.8 | 0.8 | 0.9 | 1.3 | . | -12.4 | -0.6 | 2.5 | 3.9 | . |
| Croatia | -8.5 | -0.9 | 0.4 | 2 | 2.7 | -11.8 | -11.3 | -6 | 3 | 5 |
| Macedonia | -3.1 | 2.5 | 2 | 3 | 3 | -2.0 | 0.0 | 3 | 4 | 4 |
| Montenegro 2) | -4 | 0 | 2 | 2 | 3 | -6 | -2 | 2 | 2 | 5 |
| Turkey | -2.3 | 6.6 | 5 | 4 | 3 | -19.0 | 29.9 | 15 | 10 | 10 |
| **Candidate countries** | **-2.7** | **6.0** | **4.7** | **3.8** | **3.0** | **-17.9** | **25.8** | **13.3** | **9.4** | **9.6** |
| Albania | 3 | 3 | 4 | 7 | 9 | 5 | -7 | 2 | 5 | 11 |
| Bosnia and Herzegovina | -3.9 | -0.1 | 0.2 | 2 | 2 | -22.4 | 0.0 | 5.4 | 3.6 | 4.3 |
| Serbia 2) | -2 | 2 | 2 | 2 | 2 | -5 | -4 | 3 | 4 | 4 |
| **Potential candidate countries** | **-1.5** | **1.7** | **1.9** | **3.0** | **3.3** | **-5.9** | **-3.9** | **3.3** | **4.2** | **5.8** |
| Kazakhstan | 0.6 | 10.9 | 6 | 5 | 5 | -0.8 | 3.8 | 10 | 7 | 7 |
| Russia | -4.8 | 3.0 | 4.2 | 5.5 | 5 | -14.4 | 6.1 | 3 | 6 | 6 |
| Ukraine | -14.9 | 7.0 | 5.5 | 5.5 | 6 | -50.2 | 4.9 | 12 | 10 | 8 |

1) Preliminary and wiiw estimates. - 2) wiiw estimate.

*Source:* wiiw Database incorporating national and Eurostat statistics. Forecasts by wiiw and European Commission (Economic Forecast, Spring 2011) for EU-15 and EU-27.

The subdued pace of growth of household consumption in the NMS is only to be expected. First, the recession period has impaired households' financial positions. Generally, household debt has risen in relation to current disposable incomes – implying a higher burden related to servicing that debt. Secondly, household disposable incomes have stagnated or dropped, not only on account of falling/stagnant employment and/or wages, but also because of higher taxation and lower social transfers. Higher taxation and lower transfers to the household sector are parts of the fiscal austerity measures that have been or are about to be imposed quite universally – though with different intensities – across the CESEE region. Thirdly, the real purchasing power of household disposable incomes tends to be eroded by higher inflation coming from 'outside' (not generated by wage hikes). Fourthly, the on-going changes in the distribution of income, quite universally, favour high-income households and disfavour low-income households. This tendency is normally associated with the rise in the savings propensity of households, which of course depresses consumption growth. Last but not least, for the time being the willingness (or sometimes ability) of commercial banks to lend to the household sector (for consumption purposes) seems to remain depressed. It is quite obvious that all these factors that have a moderating impact on the growth of household consumption can only lessen in importance gradually. Obviously, if overall growth weakens once more and/or unfavourable shocks hit the financial or public sectors, growth in household consumption may well slow down again.

In 2010, gross fixed investment continued to decline in most CESEE countries – in many very much so. However, on the periphery of the region (Russia, Ukraine and Turkey) a palpable rebound in investment was already to be observed. In Ukraine, the investment rebound follows on an incredible 50% drop reported in 2009; in Russia, the rebound is consistent with the windfall gains earned via energy exports. Only Turkey is a true outlier, with investment acceleration bordering on a run-away boom. Whether that boom will be sustained over coming years is highly uncertain. Booms of this kind typically tend to end unexpectedly and abruptly (usually because they tend to be followed by too high trade deficits associated) – as a rule in a painful bust. In the case of Turkey, the scenario envisaging the sudden transition from boom to bust is not entirely improbable, as the country has gone through several such cycles since the 1960s.

The investment growth expected in all remaining countries in 2011 is positive (with a few exceptions such as Bulgaria, Slovenia and Croatia; (Table 2). Otherwise, that growth is quite moderate when compared with the recent (pre-crisis) years and levels of investment decline suffered during the crisis[8]. In 2012 and 2013, investment growth will be uniformly positive and steady, yet without becoming unsustainably strong. Of course, forecasts of gross fixed investment are much more uncertain than those of household consumption, for example. Sudden accelerations usually come unexpectedly and swiftly, reflecting barely predictable changes in business sector expectations ('animal spirits'). The same, of course, is true of sudden contractions in investment. Overall, the rates of gross fixed investment forecast by wiiw seem generally consistent with the present 'Zeitgeist', i.e. sentiments prevailing not only among economic analysts, but also among policy-makers and business people in general. At the present juncture, these sentiments seem to attach greater value to safety over rapid expansion.

The 'sentiment' factor is not the sole contributory factor to the likely moderate pace of developments in investments. There are some more substantial reasons why investments need not go into top gear all that soon. One reason relates to the fact that in many countries the business sector has incurred high losses and rather high debts. That impairs the ability to borrow. Secondly, even if monetary policy does not appear restrictive in many places, commercial lending remains pretty expensive, while lending standards have become more restrictive in some countries. Thirdly, the fiscal restrictions implemented (or planned) in various countries are scarcely conducive to a larger volume of investment (be it public or private). Last, but not least, the higher levels of uncertainty also dis-

---

8 It is worth remembering that where the Baltic countries (and Hungary) are concerned, the crisis started well before the 'global crisis'.

courage investment. The intensified volatility and virtual unpredictability of energy prices has an impact not only on investment in the development of new sources of energy, but on much of industry as well, facing as it does uncertainty over the preferred types of energy-using technologies to be embodied in new production capacities. Choosing the wrong type of technology (such as costly energy-saving technologies) may prove fatal, were energy prices to stabilize at a low level. Conversely, choosing an energy-intensive technology would be fatal, should energy prices stabilize at a high level. Given that scale of 'technological uncertainty', the best strategy for firms may be to 'wait and see': in other words, to defer making any investment decision at all until 'the dust settles'. Needless to say, at present that 'objective' uncertainty prevails not only with respect to the energy prices. Major uncertainties prevail over the path that reform will take in the euro area's mode of operation, as well as over the future of some euro area countries and the fate of the common currency – not to speak of the EU at large. No doubt that uncertainty has an impact on business investment decisions in the euro area – and possibly in the CESEE region too.

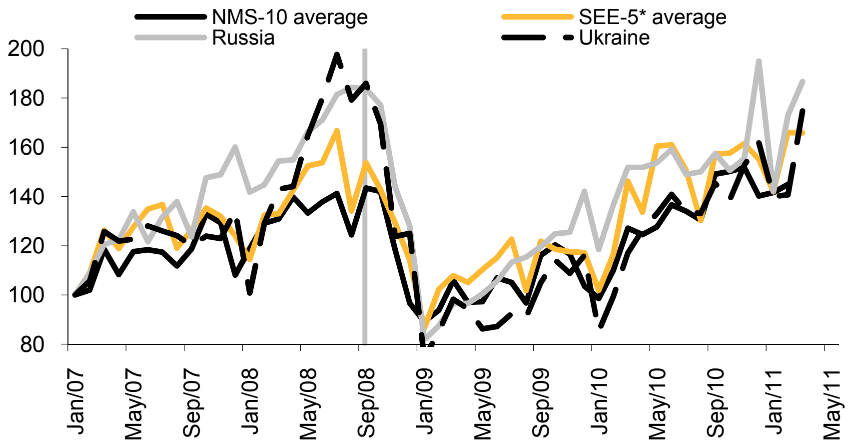
## Net exports less important in the future

After the worldwide collapse of international trade in 2008, which affected the CESEE countries as well, came the rebound. Since the first quarter of 2009, trade has been rising, as evidenced by developments in CESEE exports.

Figure 3

**Exports of goods nominal, euro-based**

January 2007 = 100




*SEE-5: AL, BA; HR, MK, RS

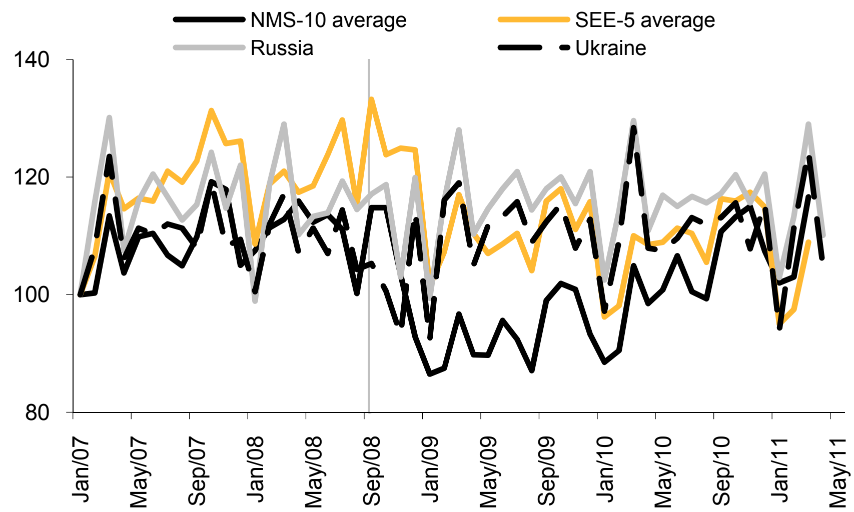
*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

As is to be observed, exports have recovered quite universally throughout the CESEE region. As the goods exported are predominantly industrial products, one would also expect a revival in industrial production. However, the revival of industrial production has turned out to be much more moderate. This is not surprising. The decline in production in 2008 was less steep, even in the NMS, than the decline in exports, thus leaving less room for recovery. Besides, to a great degree the discrepancies between the dynamic patterns of exports and industrial production reflect other important developments – primarily the dynamics of domestic demand for industrial goods and their prices, as well as the dynamics of goods imported.

Figure 4

**Industrial production (real)**

January 2007 = 100




SEE-5: AL, BA; HR, MK, RS

*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

In any case, while undoubtedly useful, the analyses of the dynamics of nominal exports or even of real industrial production cannot serve as a reliable basis for assessments of GDP developments. Changing exports, even in real terms, must be seen in the context of simultaneous changes in imports: the two items are not merely correlated. They are functionally linked with exports that are increasingly dependent on imports of intermediate inputs[9]. Real industrial production is a 'gross' category (that includes the use of intermediate production inputs). As such, it hardly bears any relationship to the GDP, the accounting of which is generally done in net (value-added) terms. The claim that recovery and growth have been 'export driven' may be true. However, such a statement cannot be based on data relating solely to the dynamics of exports. Whether foreign trade as a whole now plays a positive role requires an analysis that is usually conducted in terms of the contribution of net exports (of goods and services) to GDP growth rates. In order to conduct such analyses, one needs to know the real rates of change in both exports and imports, respectively.

Changes in volumes of exports and imports of goods and non-factor services played a decisive – and positive – role in constraining the depth of recession in 2009 (Table 3). The contribution of net exports to the rates of change in the GDP was especially large in countries where recession was particularly deep and/or prolonged (Bulgaria, Romania, the Baltic States and Ukraine). Without ac-

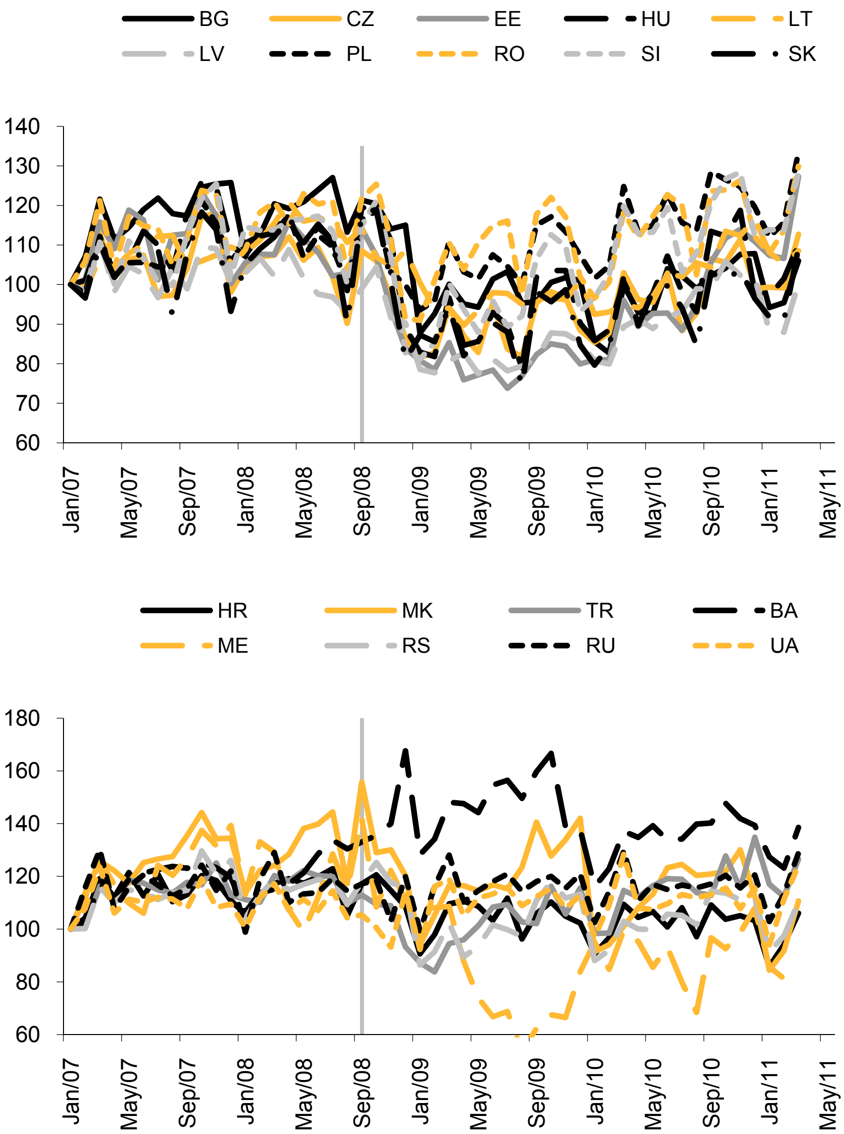
9 See R. Stehrer, 'Patterns of new EU member states' international trade in intermediate products', *wiiw Monthly Report* No. 6/2011.

tive changes in foreign trade, recession in those countries would have been truly apocalyptic. Still, the often-voiced belief that the output recession in 2009 was driven by a drop in trade calls for qualification. While it seems correct to state that at the time the recession was triggered by a collapse in demand for CESEE exports, the ensuing (albeit somewhat delayed) cuts in imports (of intermediate inputs for the production of exportable goods as well) helped to soften the decline in output. Foreign trade as a whole eventually helped to limit the damage, although the initial drop in exports undoubtedly provoked the crisis. In may be added that for a long time (prior to 2008), the countries

Figure 4a

**Industrial production (real)**

January 2007 = 100




*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

Table 3

## Contributions to the GDP growth rates

in percentage points *)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Forecast | 2013 |
|---|---|---|---|---|---|---|---|
| **Bulgaria** | | | | | | | |
| **GDP growth rate (%)** | **6.4** | **6.2** | **-5.5** | **0.2** | **3.1** | **3.5** | **3.5** |
| Household final consumption | 6.4 | 2.3 | -5.0 | -0.8 | 0.6 | 1.2 | 1.2 |
| Government final consumption | 0.0 | -0.2 | -1.0 | -0.2 | 0.2 | 0.3 | 0.3 |
| Gross fixed capital formation | 3.2 | 6.3 | -5.8 | -4.8 | -1.2 | 1.1 | 2.2 |
| Trade balance | -3.9 | -1.6 | 9.8 | 5.9 | 3.5 | 0.6 | -0.6 |
| **Czech Republic** | | | | | | | |
| **GDP growth rate (%)** | **6.1** | **2.5** | **-4.2** | **2.3** | **2.2** | **2.5** | **3.8** |
| Household final consumption | 2.3 | 1.7 | -0.1 | 0.2 | 0.5 | 1.2 | 1.4 |
| Government final consumption | 0.1 | 0.2 | 0.5 | 0.1 | -0.8 | -0.4 | 0.3 |
| Gross fixed capital formation | 2.7 | -0.4 | -1.9 | -1.1 | 0.4 | 0.8 | 1.3 |
| Trade balance | 1.2 | 1.3 | -0.7 | 0.7 | 1.9 | 0.8 | 0.2 |
| **Estonia** | | | | | | | |
| **GDP growth rate (%)** | **6.9** | **-5.0** | **-13.9** | **3.1** | **5.7** | **4.5** | **4.8** |
| Household final consumption | 4.8 | -3.1 | -10.1 | -0.9 | 0.8 | 0.8 | 1.2 |
| Government final consumption | 0.7 | 0.7 | 0.0 | -0.5 | 0.1 | 0.2 | 0.3 |
| Gross fixed capital formation | 2.1 | -5.4 | -10.2 | -2.0 | 1.8 | 1.8 | 2.1 |
| Trade balance | -5.6 | 6.3 | 11.6 | 2.1 | 1.5 | 1.4 | 0.8 |
| **Hungary** | | | | | | | |
| **GDP growth rate (%)** | **0.7** | **0.9** | **-6.7** | **1.2** | **2.5** | **3.0** | **3.0** |
| Household final consumption | 0.1 | 0.3 | -4.3 | -1.0 | 0.3 | 0.7 | 1.2 |
| Government final consumption | -1.6 | 0.2 | 0.0 | -0.4 | 0.0 | 0.0 | 0.0 |
| Gross fixed capital formation | 0.8 | 0.7 | -2.0 | -1.4 | 0.6 | 1.4 | 1.6 |
| Trade balance | 2.2 | 0.0 | 4.1 | 2.2 | 1.3 | 1.6 | 1.3 |
| **Latvia** | | | | | | | |
| **GDP growth rate (%)** | **10.0** | **-4.2** | **-18.0** | **0.0** | **3.6** | **3.8** | **4.0** |
| Household final consumption | 9.9 | -3.5 | -14.8 | -0.1 | 1.3 | 1.3 | 1.5 |
| Government final consumption | 0.9 | 0.1 | -1.7 | -2.4 | -0.3 | 0.0 | 0.0 |
| Gross fixed capital formation | 2.4 | -4.3 | -11.4 | -4.4 | 2.4 | 2.1 | 2.3 |
| Trade balance | -5.2 | 8.7 | 13.1 | 0.8 | -0.1 | -0.1 | -0.3 |
| **Lithuania** | | | | | | | |
| **GDP growth rate (%)** | **9.8** | **2.9** | **-14.7** | **1.3** | **5.0** | **4.4** | **4.5** |
| Household final consumption | 7.9 | 2.4 | -11.5 | -2.6 | 1.6 | 2.1 | 2.5 |
| Government final consumption | 0.5 | 1.4 | -0.3 | -0.7 | 0.2 | 0.2 | 0.2 |
| Gross fixed capital formation | 5.8 | -1.5 | -10.4 | 0.0 | 3.4 | 2.5 | 2.5 |
| Trade balance | -5.5 | -0.8 | 13.0 | -0.6 | -1.7 | -1.5 | -2.1 |
| **Poland** | | | | | | | |
| **GDP growth rate (%)** | **6.8** | **5.1** | **1.7** | **3.8** | **3.8** | **4.2** | **4.2** |
| Household final consumption | 3.0 | 3.5 | 1.2 | 2.0 | 2.3 | 2.7 | 2.7 |
| Government final consumption | 0.7 | 1.3 | 0.4 | 0.6 | 0.0 | 0.2 | 0.2 |
| Gross fixed capital formation | 3.5 | 2.1 | -0.3 | -0.4 | 0.8 | 1.2 | 1.4 |
| Trade balance | -2.1 | -0.7 | 2.8 | -0.3 | -0.4 | -0.5 | -1.0 |
| **Romania** | | | | | | | |
| **GDP growth rate (%)** | **6.3** | **7.3** | **-7.1** | **-1.3** | **2.1** | **3.9** | **3.1** |
| Household final consumption | 8.5 | 6.4 | -7.0 | -1.0 | 0.0 | 2.1 | 1.5 |
| Government final consumption | 0.0 | 1.1 | 0.2 | -0.7 | -0.2 | 0.7 | 0.2 |
| Gross fixed capital formation | 8.0 | 4.9 | -8.2 | -3.4 | 0.2 | 1.1 | 1.4 |
| Trade balance | -10.8 | -1.5 | 7.5 | -0.2 | 0.8 | -0.9 | -0.6 |

(Table 3 ctd.)

Table 3 (ctd.)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Forecast | 2013 |
|---|---|---|---|---|---|---|---|
| **Slovakia** | | | | | | | |
| **GDP growth rate (%)** | **10.6** | **5.8** | **-4.8** | **4.0** | **3.7** | **3.9** | **3.9** |
| Household final consumption | 3.8 | 3.3 | 0.1 | -0.2 | 0.6 | 1.7 | 2.2 |
| Government final consumption | 0.0 | 1.1 | 1.0 | 0.0 | 0.0 | 0.2 | 0.2 |
| Gross fixed capital formation | 2.4 | 0.3 | -5.0 | 0.8 | 0.8 | 1.0 | 1.3 |
| Trade balance | 4.1 | 0.0 | 2.4 | 1.2 | 2.0 | 1.0 | 0.1 |
| **Slovenia** | | | | | | | |
| **GDP growth rate (%)** | **6.9** | **3.7** | **-8.1** | **1.2** | **2.0** | **2.6** | **3.2** |
| Household final consumption | 3.5 | 1.5 | -0.3 | 0.3 | 0.8 | 0.8 | 1.1 |
| Government final consumption | 0.1 | 1.1 | 0.5 | 0.2 | 0.0 | 0.3 | 0.4 |
| Gross fixed capital formation | 3.4 | 2.4 | -6.2 | -1.6 | -0.8 | 0.6 | 0.8 |
| Trade balance | -2.0 | -0.4 | 1.8 | 0.6 | 0.7 | 0.5 | 0.2 |
| **Croatia** | | | | | | | |
| **GDP growth rate (%)** | **5.1** | **2.4** | **-5.8** | **-1.2** | **1.0** | **2.0** | **3.0** |
| Household final consumption | 3.7 | 0.5 | -4.9 | -0.5 | 0.2 | 1.1 | 1.5 |
| Government final consumption | 0.9 | 0.4 | 0.0 | -0.2 | -0.1 | 0.1 | 0.2 |
| Gross fixed capital formation | 1.9 | 2.2 | -3.3 | -2.9 | -1.3 | 0.6 | 1.0 |
| Trade balance | -1.5 | -0.7 | 3.0 | 2.8 | 0.3 | -0.2 | -0.5 |
| **Macedonia** | | | | | | | |
| **GDP growth rate (%)** | **6.1** | **5.0** | **-0.9** | **0.7** | **2.0** | **3.1** | **2.9** |
| Household final consumption | 6.4 | 5.9 | -3.1 | 0.9 | 1.5 | 2.3 | 2.3 |
| Government final consumption | -0.1 | 1.8 | -1.2 | -0.5 | 0.2 | 0.0 | 0.0 |
| Gross fixed capital formation | 2.9 | 1.1 | -0.4 | 0.0 | 0.6 | 0.8 | 0.8 |
| Trade balance | -5.0 | -3.7 | 2.5 | 3.1 | -0.6 | -1.9 | -2.0 |
| **Turkey** | | | | | | | |
| **GDP growth rate (%)** | **4.7** | **0.4** | **-4.5** | **8.9** | **6.0** | **4.5** | **4.0** |
| Household final consumption | 3.9 | -0.2 | -1.6 | 0.0 | 3.5 | 2.8 | 2.2 |
| Government final consumption | 0.8 | 0.2 | 1.0 | 0.0 | 0.3 | 0.0 | 0.0 |
| Gross fixed capital formation | 0.7 | -1.4 | -3.8 | 0.0 | 3.0 | 2.3 | 2.3 |
| Trade balance | -1.1 | 1.6 | 2.7 | 0.0 | -1.5 | -1.1 | -0.8 |
| **Albania** | | | | | | | |
| **GDP growth rate (%)** | **5.9** | **7.7** | **3.3** | **4.0** | **4.1** | **3.9** | **5.4** |
| Household final consumption | 8.1 | 5.4 | 2.4 | 2.4 | 3.2 | 5.5 | 7.3 |
| Government final consumption | 0.0 | 0.0 | 0.7 | 0.5 | 0.6 | 0.5 | 1.3 |
| Gross fixed capital formation | 2.1 | 3.7 | 2.0 | -2.7 | 0.7 | 1.6 | 3.7 |
| Trade balance | -4.7 | -0.1 | -0.5 | 3.6 | -0.3 | -3.7 | -6.8 |
| **Bosnia and Herzegovina** | | | | | | | |
| **GDP growth rate (%)** | **6.2** | **5.7** | **-3.0** | **0.9** | **2.2** | **3.0** | **3.0** |
| Household final consumption | 5.1 | 4.9 | -3.2 | -0.1 | 0.2 | 1.5 | 1.5 |
| Government final consumption | 0.4 | 0.6 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 |
| Gross fixed capital formation | 6.1 | 4.0 | -6.1 | 1.1 | 1.2 | 0.8 | 1.0 |
| Trade balance | -3.6 | -2.5 | 8.6 | 1.0 | 1.3 | 0.4 | 0.4 |
| **Russia** | | | | | | | |
| **GDP growth rate (%)** | **8.5** | **5.2** | **-7.8** | **4.0** | **4.5** | **4.4** | **4.1** |
| Household final consumption | 7.3 | 5.4 | -2.5 | 1.5 | 2.2 | 2.9 | 2.6 |
| Government final consumption | 0.4 | 0.6 | 0.0 | 0.3 | 0.8 | 1.0 | 0.8 |
| Gross fixed capital formation | 4.1 | 2.2 | -3.2 | 1.2 | 0.7 | 1.3 | 1.3 |
| Trade balance | -4.1 | -3.4 | 5.9 | -1.9 | -3.2 | -2.2 | -0.7 |
| **Ukraine** | | | | | | | |
| **GDP growth rate (%)** | **7.9** | **2.3** | **-14.8** | **4.2** | **4.5** | **4.9** | **5.0** |
| Household final consumption | 10.6 | 8.4 | -10.3 | 4.2 | 3.6 | 3.6 | 4.0 |
| Government final consumption | 0.3 | 0.0 | -0.5 | 0.6 | 0.4 | 0.6 | 0.8 |
| Gross fixed capital formation | 5.9 | -0.3 | -15.9 | 2.2 | 2.2 | 2.0 | 1.7 |
| Trade balance | -9.3 | -13.4 | 15.1 | -2.5 | -1.8 | -1.4 | -1.4 |

*) Contributions of changes in inventories are not shown.

*Source:* wiiw estimates incorporating national sources.

particularly badly hit (the three Baltic countries, together with Bulgaria, Romania and Ukraine) had followed a path of strong growth driven exclusively by booming domestic demand. The path was characterized by unsustainable accumulating deficits in both the foreign trade and current accounts (Table 4). The contribution of net exports to overall GDP growth was thus both negative and huge (Table 3). Under such conditions 'rebalancing' – involving deep recessions in both consumption and gross fixed investment – was only a matter of time. Of course, the swift reversal of the role played by net exports in the formerly overheated countries stemmed almost exclusively from a sudden drop in imports, not from an acceleration of exports. Of course, exports declined too – in the case of the NMS, it was due to the impact of recession simultaneously hitting their major trading partners (primarily the euro area, but also Sweden and the UK).

Table 4

**Foreign financial position**

in % of GDP

| | Trade Balance (BOP) | | | | | | Current account | | | | | | Gross external debt | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 1) | 2011 | 2012 | 2013 | 2008 | 2009 | 2010 1) | 2011 | 2012 | 2013 | 2008 | 2009 | 2010 1) |
| | | | | Forecast | | | | | | Forecast | | | | | |
| Bulgaria | -24.3 | -12.0 | -6.7 | -3.9 | -4.8 | -5.6 | -23.0 | -8.9 | -1.0 | 2.6 | 1.2 | 0.0 | 104.9 | 108.0 | 101.8 |
| Czech Republic | 2.8 | 2.2 | 1.4 | 2.6 | 1.2 | 1.1 | -0.7 | -3.2 | -3.8 | -2.6 | -3.0 | -3.0 | 43.5 | 45.2 | 48.7 |
| Estonia | -13.2 | -4.0 | -1.5 | -0.6 | -0.6 | -1.6 | -9.7 | 4.5 | 3.6 | -0.6 | -2.8 | -4.1 | 118.2 | 124.5 | 113.7 |
| Hungary | -0.5 | 3.7 | 4.7 | 5.2 | 6.1 | 6.6 | -7.3 | 0.4 | 2.1 | 0.9 | 0.5 | 0.0 | 123.1 | 141.3 | 140.3 |
| Latvia | -17.7 | -7.1 | -6.4 | -5.6 | -5.7 | -6.2 | -13.1 | 8.6 | 3.6 | 0.5 | -1.4 | -2.7 | 130.2 | 157.8 | 166.8 |
| Lithuania | -13.0 | -3.1 | -4.3 | -5.0 | -6.7 | -8.6 | -13.1 | 4.3 | 1.8 | -2.0 | -3.1 | -4.2 | 71.3 | 87.2 | 86.0 |
| Poland | -4.9 | -1.0 | -1.7 | -2.4 | -3.8 | -4.6 | -4.8 | -2.2 | -3.4 | -3.6 | -3.9 | -4.2 | 56.8 | 59.6 | 65.7 |
| Romania | -13.6 | -5.8 | -4.8 | -9.9 | -4.2 | -4.3 | -11.6 | -4.2 | -4.1 | -3.1 | -4.3 | -4.3 | 56.5 | 69.0 | 75.4 |
| Slovakia | -1.2 | 1.9 | 0.2 | 1.4 | 1.4 | 1.3 | -6.2 | -3.2 | -3.4 | -4.3 | -5.0 | -5.2 | 55.6 | 71.9 | 74.7 |
| Slovenia | -7.1 | -2.0 | -2.7 | -4.5 | -5.3 | -5.7 | -6.7 | -1.5 | -1.1 | -1.2 | -1.5 | -1.7 | 105.2 | 113.8 | 113.4 |
| Croatia | -22.6 | -16.2 | -12.9 | -13.1 | -13.8 | -13.4 | -9.1 | -5.5 | -1.4 | -2.5 | -3.2 | -3.5 | 86.2 | 98.6 | 102.5 |
| Macedonia | -26.2 | -23.3 | -21.3 | -20.6 | -20.7 | -24.4 | -12.8 | -6.7 | -2.8 | -4.1 | -5.2 | -4.9 | 49.3 | 56.5 | 62.4 |
| Montenegro | -68.1 | -46.0 | -43.5 | -44.4 | -46.5 | -48.9 | -51.3 | -30.1 | -25.7 | -21.9 | -20.6 | -22.2 | 15.6 | 23.5 | 30.2 |
| Turkey | -7.1 | -4.0 | -7.7 | -10.9 | -10.7 | -10.9 | -5.6 | -2.3 | -6.6 | -9.7 | -9.4 | -9.4 | 40.4 | 42.3 | 39.1 |
| Albania | -27.4 | -26.6 | -23.5 | -24.2 | -25.1 | -27.8 | -15.5 | -15.5 | -11.9 | -11.8 | -13.0 | -16.3 | 35.2 | 40.1 | 42.1 |
| Bosnia & Herzegovina | -38.2 | -27.8 | -25.7 | -28.3 | -30.5 | -30.3 | -14.2 | -6.2 | -5.5 | -7.0 | -6.0 | -5.0 | 17.2 | 21.8 | 25.4 |
| Serbia | -26.0 | -17.7 | -15.8 | -15.1 | -14.9 | -15.1 | -21.6 | -7.2 | -6.9 | -8.0 | -10.0 | -10.0 | 70.2 | 79.5 | 81.1 |
| Kazakhstan | 25.1 | 13.0 | 19.7 | 17.9 | 16.3 | 15.0 | 4.7 | -3.8 | 2.9 | 3.2 | 2.6 | 2.4 | 84.1 | 95.5 | 81.4 |
| Russia | 10.8 | 9.1 | 10.3 | 7.8 | 6.9 | 6.2 | 6.2 | 4.0 | 4.8 | 4.7 | 3.1 | 2.5 | 34.2 | 36.4 | 33.1 |
| Ukraine | -8.9 | -3.7 | -6.3 | -7.1 | -7.1 | -7.2 | -7.1 | -1.5 | -2.1 | -2.6 | -2.9 | -3.1 | 82.6 | 90.4 | 85.4 |

1) Preliminary and wiiw estimates.

*Source:* wiiw Database incorporating national and Eurostat statistics. Forecasts by wiiw.

The contributions of net trade to the GDP growth in 2010 were generally far smaller in volume. Although for the most part they continued to be positive, in a couple of instances they re-entered negative territory. To some extent this was a rather unexpected development because (i) domestic demand grew rather slowly in 2010, as described above; and (ii) recovery occurred in the CESEE countries' major export markets. Of course, exports from most CESEE countries performed very well in 2010. Yet, apparently, the expansion of exports in general happened to be matched (or even surpassed) by a rise in imports.

The expectations for 2011 (and beyond) are on the whole moderately optimistic. Although in general the positive contributions of net trade will decline further, the negative contribution of net exports to the GDP growth rates projected for some other countries will remain limited (except in Russia and Ukraine where the real growth of exports is constrained while imports benefit from currency appreciation). This overall optimistic scenario is certainly realistic. Nonetheless, the scale of changes in the contribution of net trade to GDP growth recorded between 2009 and 2010 warrant a certain measure of caution. If consumption and investment accelerate domestically while stagnating in the CESEE countries' major export markets, the contribution of net export to growth may start deteriorating more than expected. This development would then be associated with deteriorating trade and current balances – in most cases, signifying renewed expansion of foreign debt.

Recent experience has shown that countries with flexible exchange rates are more likely to contain the risks associated with following such an import-fed, debt-driven growth path. Of course, a flexible exchange rate regime does not guarantee easy sailing, especially if the macro and regulatory policies prove unable to contain domestic booms. However, the situation facing countries that have adopted fixed (or rigidly pegged) exchange rate regimes may in due course become even more precarious – even if only because they no longer have in their arsenals the policy tools they need to control eventual developments. Undoubtedly, retaining a floating (national) currency offers other advantages. First, a floating currency can depreciate, thus helping to offset losses in external competitiveness or secure competitiveness gains. Secondly, an adequately unpredictable floatation helps to limit potentially destructive (destabilizing) capital inflows[10]. Of course, reaping the advantages of flexibility is not automatic nor is it entirely without risk. That it calls for the pursuance of a competent monetary policy is obvious.

The situation facing the three CESEE countries that are already members of the euro area (Slovenia, Slovakia and Estonia) may not differ too much from the situation facing other CESEE countries on fixed (pegged) exchange rate regimes (such as Bulgaria, Latvia and Lithuania). However, objective differences are to be seen in their overall levels of development and economic policy-making capacities. The NMS in the euro area are much more developed and mature than the countries with pegged or fixed exchange rate regimes. Their industrial bases are much more advanced and export-oriented, their financial systems more sophisticated. Certain variances in performance between the euro and the other fixed-rate CESEE countries will naturally ensue from those differences. Thus, there are some grounds for expecting hard times ahead for the three NMS in the euro area. Seen in the longer term, performance in Slovakia, Slovenia and Estonia may happen to converge with the current performance of weaker members in the euro area, such as Portugal, whose participation in the euro area has not done the country much good. Certainly, alternative scenarios are also imaginable. All three NMS in the euro area are more export-oriented and – thus far – quite competitive.

[10] As can be seen (Table 5) Poland, Ukraine and Romania – but especially Turkey have recently become recipients of rather high capital inflows (other than FDI). High capital outflows from Russia and Kazakhstan represent exports of capital (other than FDI).

Table 5

## Balance of payments: selected positions

EUR million

| | Current plus capital account | | | | | Financial account plus errors & omissions | | | | | FDI, net | | | | | Change in official reserves* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 1Q 10 | 1Q 11 | 2008 | 2009 | 2010 | 1Q 10 | 1Q 11 | 2008 | 2009 | 2010 | 1Q 10 | 1Q 11 | 2008 | 2009 | 2010 | 1Q 10 | 1Q 11 |
| Bulgaria | -7885 | -2639 | -65 | -492 | 265 | 8560 | 1989 | -319 | -297 | -929 | 6212 | 2498 | 1460 | 24 | -27 | -675 | 650 | 384 | 789 | 665 |
| Czech Republic | 249 | -2822 | -4210 | 334 | 822 | 1345 | 5071 | 5875 | -597 | -1921 | 1503 | 1397 | 3822 | 1183 | 545 | -1594 | -2249 | -1665 | 263 | 1099 |
| Estonia | -1400 | 1012 | 993 | 72 | 80 | 1904 | -1009 | -1825 | -181 | -56 | 420 | 100 | 906 | 200 | 232 | -504 | -3 | 832 | 109 | -25 |
| Hungary | -6737 | 1471 | 3816 | 1136 | . | 14445 | 4105 | -804 | 1774 | . | 2850 | -458 | 578 | -385 | . | -7708 | -5576 | -3012 | -2910 | . |
| Latvia | -2673 | 2047 | 995 | 488 | 57 | 2225 | -1120 | -277 | 153 | -363 | 702 | 113 | 248 | -148 | 236 | 448 | -927 | -718 | -641 | 306 |
| Lithuania | -3636 | 2035 | 1245 | 195 | 138 | 2851 | -2098 | -723 | -95 | -142 | 1166 | -33 | 379 | -20 | 240 | 785 | 63 | -522 | -100 | 4 |
| Poland | -13329 | -1674 | -5500 | 135 | -1747 | 10888 | 12089 | 16997 | 5875 | 9229 | 7064 | 6180 | 3770 | 3159 | 1968 | 2441 | -10415 | -11497 | -6010 | -7482 |
| Romania | -15555 | -4294 | -4736 | -1495 | -538 | 15472 | 5514 | 8022 | 4637 | 1652 | 9315 | 3551 | 2542 | 453 | 389 | 83 | -1220 | -3286 | -3142 | -1114 |
| Slovakia | -3215 | -1559 | -1252 | 142 | . | 2279 | 992 | 1253 | -142 | . | 2947 | -346 | 150 | 320 | . | 936 | 567 | -1 | 0 | . |
| Slovenia | -2516 | -535 | -403 | -61 | -94 | 2495 | 368 | 384 | -0.2 | 85 | 381 | -539 | 499 | -39 | 90 | 21 | 167 | 19 | 62 | 9 |
| Croatia | -4321 | -2463 | -618 | -1350 | . | 3990 | 3360 | 702 | 832 | . | 3246 | 1207 | 593 | 529 | . | 330 | -896 | -84 | 518 | . |
| Macedonia | -874 | -429 | -182 | -81 | -195 | 823 | 498 | 223 | 70 | 398 | 409 | 137 | 220 | 50 | 204 | 52 | -69 | -41 | 11 | -202 |
| Montenegro | -1584 | -894 | -779 | -243 | -188 | 1429 | 979 | 795 | 243 | 188 | 582 | 1066 | 552 | 138 | 114 | 155 | -85 | -17 | 0.1 | 0.1 |
| Turkey | -28148 | -10025 | -36620 | -7252 | -16181 | 26943 | 9890 | 46386 | 7896 | 19443 | 11511 | 4975 | 5385 | 799 | 2203 | 1205 | 135 | -9766 | -644 | -3262 |
| Albania | -1292 | -1261 | -971 | -225 | -227 | 1484 | 1229 | 1150 | 208 | 150 | 620 | 680 | 837 | 166 | 54 | -192 | 32 | -179 | 17 | 77 |
| Bosnia and Herzegovina | -1596 | -578 | -537 | -10 | . | 1390 | 533 | 651 | -3 | . | 627 | 184 | 13 | -63 | . | 206 | 46 | -114 | 12 | . |
| Serbia | -7041 | -2083 | -2081 | -759 | -845 | 5354 | 4446 | 1152 | 393 | 1013 | 1824 | 1372 | 860 | 284 | 307 | 1687 | -2364 | 929 | 367 | -168 |
| Kazakhstan | 4298 | -3147 | 9193 | 3805 | 3551 | -2811 | 4913 | -5627 | -721 | 1077 | 8914 | 7640 | 1623 | 2445 | 1881 | -1487 | -1766 | -3566 | -3084 | -4629 |
| Russia | 70981 | 26424 | 54056 | 24718 | 23250 | -97541 | -23995 | -26208 | -12459 | -20764 | 13243 | -5154 | -7959 | -1604 | . | 26560 | -2429 | -27848 | -12258 | -2486 |
| Ukraine | -8718 | -815 | -2032 | 40 | -590 | 9456 | -3238 | 8405 | -550 | . | 6767 | 3336 | 4339 | 699 | 564 | -738 | 4053 | -6373 | 510 | . |

* Negative numbers represent increase in reserves

*Source:* wiiw Database incorporating national and Eurostat statistics.

Owing to their euro area membership (and a dose of good luck), they can – in due time – advance to the top EU league, i.e. come close to Ireland. It is to be hoped they would achieve top league status without having to share the latter country's experience of a run-away, credit-driven housing bubble.

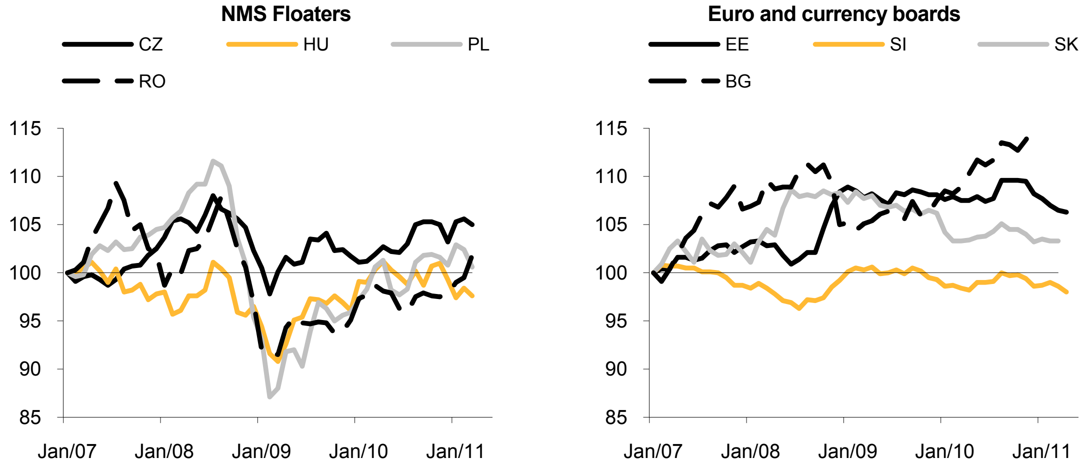
## Cost-competitiveness: a double-edged sword

Differences in the performance of real exchanges rates (essential to measuring competitiveness) under various exchange rate regimes have been analysed in greater detail by Havlik et al. (2011)[11]. It turns out that the long-term trends towards real appreciation may not differ much across countries with different exchange rate arrangements. However, what seems to count is that real exchange rates in floating-regime countries tend to be much more volatile. In particular, that volatility made for abrupt and swift real depreciation at the close of 2008 and at the beginning of 2009. By way of contrast, in the fixed-regime countries (including those in the euro area) real exchange rate adjustments either did not happen or were delayed and/or much more moderate. Fig. 5 shows the differences between the real exchange rate dynamics under different types of exchange-rate regimes.

Figure 5

**Real exchange rates[1)]**

EUR per NCU, PPI-deflated, January 2007 = 100




1) Values above 100 indicate appreciation relative to January 2007.

*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

At present, nominal exchange rates in the floating-exchange rate countries are appreciating once again, if not all that strongly as yet. The trend towards appreciation is generally seen to be rather moderate. Most probably, the ensuing competitiveness losses can be offset, at least partially, by gains in labour productivity and unit labour costs[12]. Of course, recuperation from losses of competi-

[11] P. Havlik et al. (2011), 'Recovery – in Low Gear across Tough Terrain', *wiiw Current Analyses and Forecasts*, No. 7, February.

[12] For a detailed analysis of recent developments in unit labour costs across the CESEE see P. Havlik et al. (2011), op.cit. and also the Appendix Tables A/1 and A/2.

tiveness (manifesting itself in high and rising trade/current account deficits) may not be all that easy for countries that are experiencing – as they are now – a return to higher inflows of foreign exchange. Under such conditions (periodically occurring in the floating CESEE countries) nominal exchange rates tend to strengthen. In due course, excessive nominal appreciation could force firms to cut back on employment or even wages (in sectors exposed to foreign cost-competition – starting with manufacturing). However, the wage and employment responses currently observed (or expected in 2011) in most of the floating-exchange CESEE countries generally show a rise in both employment and wages. Apparently, the competitiveness pressures generated by nominal appreciation have not yet been strong enough to induce downward adjustments in wages/employment levels. That can, of course, change, should appreciation continue and accelerate. The expectation, however, is that appreciation should not become excessive in the floating exchange rate countries. It is assumed that those countries will check inflation so that interest rates do not rise to a level that would attract far greater capital inflows and the growth of unit labour costs (ULC) will be moderate (see Appendix on selected indicators of competitiveness, Tables A/2 and A/3).

Performance in the fixed-exchange rate countries (including the three CESEE euro area members) with respect to wage and employment developments continues to vary somewhat. Most of the countries have recorded large declines in both real wage rates and employment levels – and none has reported a simultaneous rise in wages and employment (see Appendix Tables A/1 and A/2). Actually, in most of the countries average wages even dropped in nominal (as well as in real) terms. A so-called 'internal devaluation' process – defined as an attempt to generate deflation in wages (in domestic prices) – is underway (for example, in Latvia). In some instances, national policies tend to support this development by cutting the wages of public sector employees and/or making the national labour codes less protective ('labour market flexibilization'). These policies are consistent with 'advice' given by the EU authorities to the old euro area member countries engulfed by the crisis (such as Greece).

Whether 'internal devaluation' works in the fixed-exchange rate CESEE remains to be seen. It does not seem to work satisfactorily in the 'old' euro area members such as Greece or Portugal that have failed to emulate the German economy's iron determination to keep wages depressed. There are good theoretical grounds why in any event 'internal devaluation' is a risky strategy. Primarily, it is risky because it could trigger general deflation that might well turn into domestic depression. Such a depression might help to regain external competitiveness at the expense of stagnant domestic consumption, often in tandem with high unemployment. Worse still, depression may prove 'unproductive' – i.e. it could fail to promote exports simply because of a non-existent or underdeveloped industrial base (as seems to be the case in Greece and in some Western Balkan countries). In the case of the more industrialized fixed-exchange CESEE countries, however, 'internal devaluation' may ultimately yield desirable results. It can be argued that as some of these countries initially fixed their exchange rates at highly undervalued parities, the loss of competitiveness that has since built up may not be unduly excessive. Bulgaria may be one such country (its unit labour costs are still quite low, see Appendix Tables A/1 and A/2). Otherwise, overcoming the effects of overvaluation by deflation may be painful – but it would not necessarily have to take many more years.

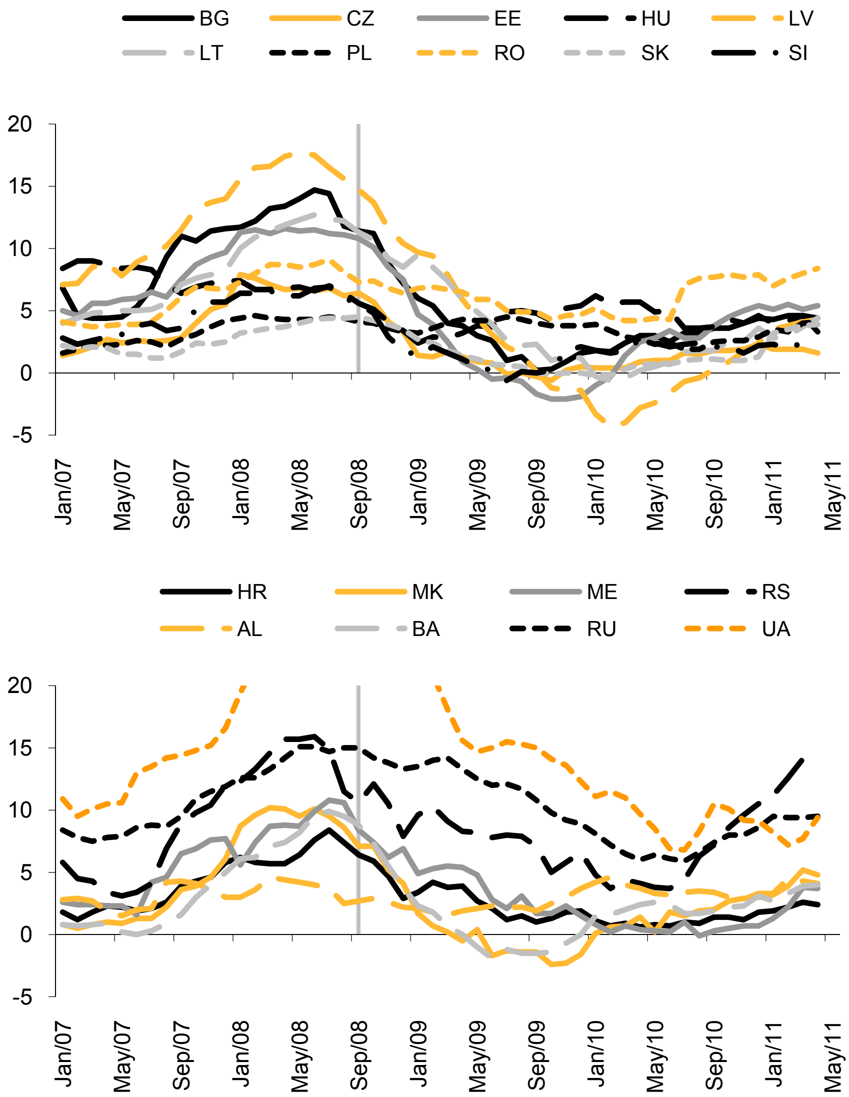
## Money matters

Inflation, which had generally accelerated during the pre-crisis boom, fell in the course of the 2009 recession. In 2010, inflation rates started to rise again (Figure 6).

Figure 6

**Consumer prices**

change in % against preceding year



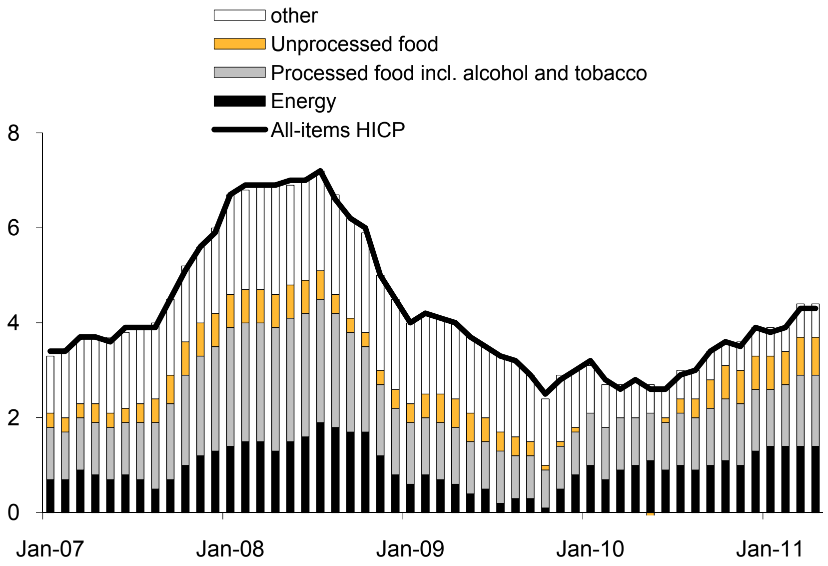

*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

In the NMS, pre-2009 inflation differed from post-2009 inflation in terms of magnitude and structure alike (Figure 7). The former was not only much higher, but it also reflected to a large degree the developments in prices of consumer services and goods other than energy and food. It is believed that those prices respond, in the short term, primarily to the strength of overall consumer demand (or household disposable incomes). Thus, the pre-2009 inflation reflected, to some extent, the overall consumption boom. Of course, the rapid rise in food and energy prices was even more important. The rapid rise in food and energy prices over that period is generally attributed above all to world-market developments relating to the prices of energy carriers and farm produce.

Figure 7

**Contributions to inflation growth (based on HICP) in NMS-10**

change in % against preceding year




*Source:* Eurostat statistics, wiiw calculation.

The post-2009 inflation has been almost exclusively due to rising energy and food prices. Once again, rising prices of food and energy primarily reflect developments in global markets. The non-energy/non-food component of inflation currently plays a minimal role. This attests to the weakness of overall consumer spending – as well as to the weakness of more substantial cost pressures in sectors supplying non-food/non-energy consumer goods and services. All in all, the post-2009 inflation in the NMS can be described in terms of an external shock that to date has had little to do with developments on domestic markets. The fact that in 2010 indirect tax rates (VAT and excises) went up in a number of NMS only strengthens the case for describing the overall post-2009 inflation as something imposed on the NMS rather than being endogenously generated.

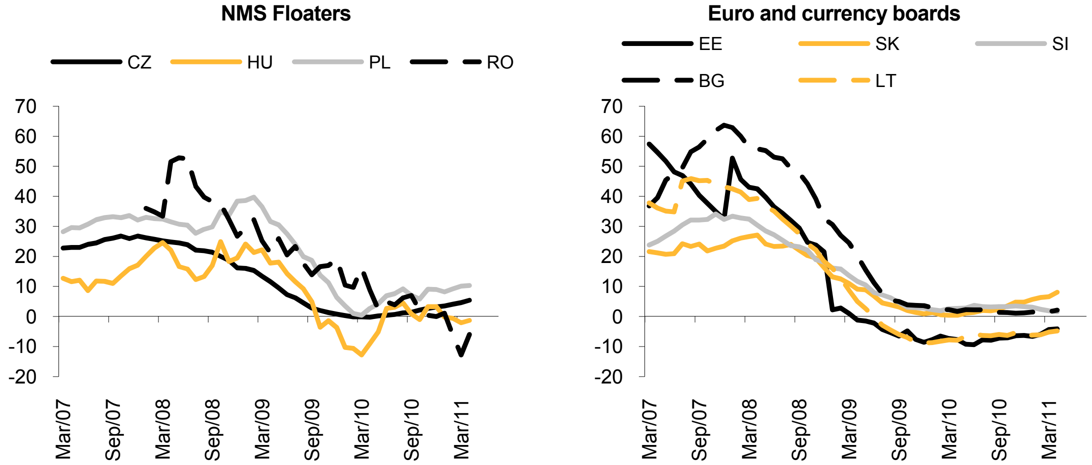
Given the data limitations, it is hard to say to what extent inflation in other CESEE countries can be similarly characterized. The impact of higher world-market energy and food prices in those countries may be similar (or even more pronounced, given their levels of affluence). Nonetheless, other endogenous factors (be they due to emerging cost pressures, consumer demand rising faster than supply or a revival of strong inflationary expectations) are also important. This holds especially true for countries where for one reason or another high inflation tends to be endemic, such as Serbia and Turkey, but it also applies to Ukraine, Russia and Kazakhstan.

At present, industrial producer prices in general have been rising much faster than consumer prices throughout the CESEE region. Higher energy costs have certainly played a role in all this. This suggests that the return to lower inflation in the consumer goods markets can be delayed.

Figure 8

**Bank loans to non-financial private sector**

change in % against preceding year

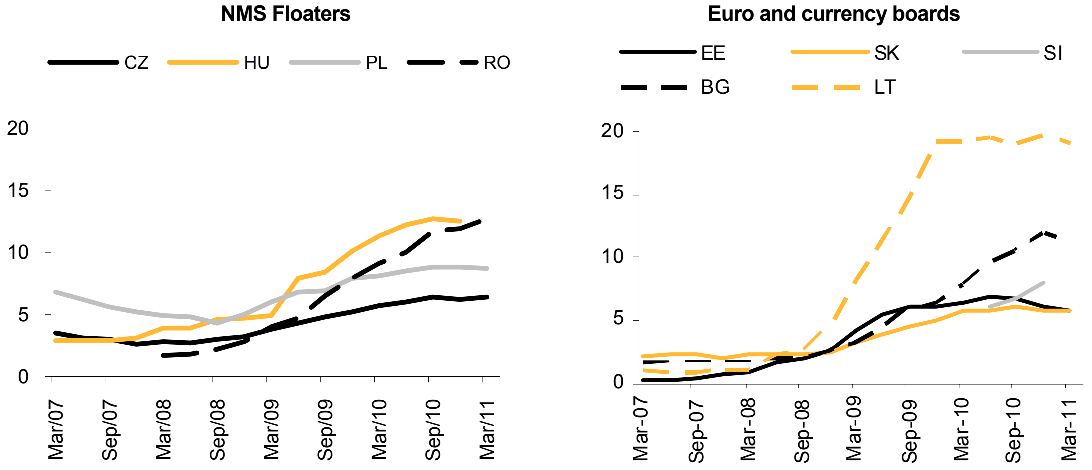



*Source:* National Bank of respective country.

Figure 9

**Non-performing loans**

in % of total




*Note:* Non-performing loans defined as credits more than 90 days overdue. EE: loans more than 60 days overdue.
*Source:* National Bank of respective country.

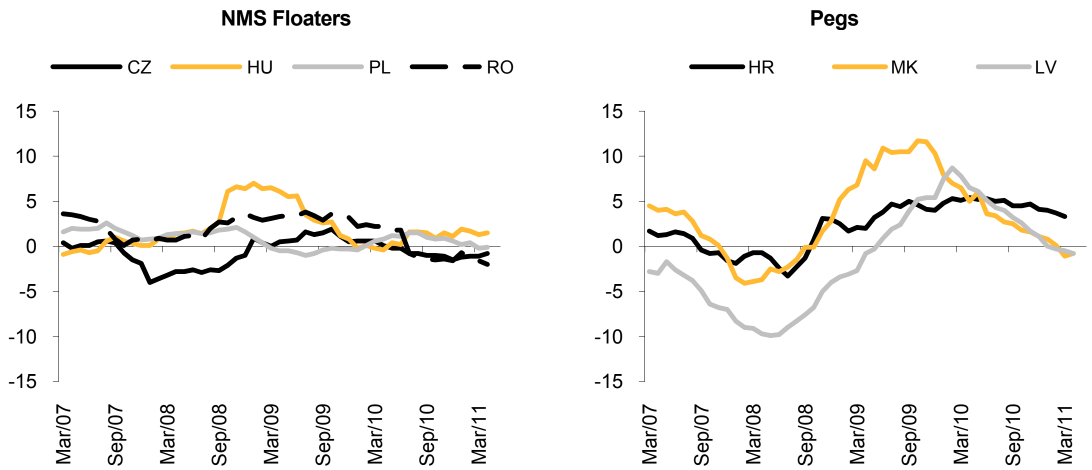
To the extent that post-2009 inflation is still exogenous in character, it is natural to expect that the monetary authorities have not overreacted to it. Other factors similarly suggest that monetary policy needs to keep interest rates low. First, it is generally believed that fiscal policies should now adopt a more restrictive stance. Coping with fiscal and monetary austerity simultaneously may prove too much for the economies. Secondly, a spot of higher inflation may help to reduce fiscal deficits (for example, via higher VAT revenues). Thirdly, higher interest rates would tend to raise the costs of servicing public (as well as private) debts. Fourthly, given the fact that domestic demand is still generally weak and the expansion of lending to the private sector is generally very slow, monetary policy restrictions would slow down any further recovery. Last, but not least, although commercial bank sectors in the CESEE countries tend to issue very reassuring reports, their balance sheets are not necessarily impeccable. While bank loans to the nonfinancial private sector more or less stagnate, the levels of non-performing loans are generally on the rise, though in most cases they are still quite low by the historical benchmarks of those countries. Figures 8 and 9 illustrate the developments in bank lending and in non-performing loans in NMS floaters, the NMS in the euro area and those countries with currency-board regimes. As can be seen, the situation of the banking sector in Lithuania seems rather fragile. The developments in the remaining CESEE countries look less dangerous, though there are some exceptions. Lending has been expanding very swiftly in Turkey. Non-performing loans leapt upwards in Kazakhstan in 2009, but then dropped to a 'more normal' level of 15% by the first half of 2010).

Most of the CESEE national banks have been pursuing relatively relaxed monetary policies; their interest rates tend to be low or negative in real terms, as should be expected. (This does not say much about the magnitude of interest rates that the commercial banks charge on loans to the corporate and household sectors). Commercial interest rates are, of course, much higher, although to some extent any changes in those rates are correlated with changes in policy rates). However, one can already sense some change in the orientation of monetary policy, for example in Poland, Russia and Serbia. In Turkey monetary policy has been responding to the signs of overheating by increasing commercial banks' reserve requirements. Some further observations are worth making at this stage.

Figure 10

**Real central bank policy rates**

CPI-deflated, in % p.a.




*Source:* wiiw Monthly Database incorporating national and Eurostat statistics.

First, as shown by Figure 10, policy interest rates in the three countries with pegged exchange rates were very high in real terms in 2009. That must have aggravated still further the critical state of the countries in question in that year. However, it must be recalled that the national monetary authorities could do little to change things. Like the euro-area member countries and the countries with currency-board regimes, the three countries are assumed to have pursued a passive policy and adjusted their lead interest rates to the policy interest rates determined by the ECB. Of course, ECB decisions must ignore specific developments in small countries that have joined the euro area or pegged their currencies to the euro. Inflation differentials between the euro area and the peg countries may therefore result in destabilizing misalignments of lead interest rates and inflation in the peg countries. In real terms, the lead interest rates in those countries may always tend to be 'out of step with the business cycle'. They may tend to be highly negative during booms and highly positive during busts.

Secondly, although from a longer-term perspective, excessive currency appreciation is certainly undesirable, countries whose private sectors have happened to incur high debts denominated in foreign currencies may feel an urge to prevent depreciation. The hikes in policy interest rates in some countries (such as Hungary) may perhaps be motivated by that very concern over the fate of domestic agents heavily indebted in foreign currencies,[13] as well as over the stability of the banking systems which underwrote the foreign-exchange borrowing. Other countries, where commercial banks nurtured domestic credit booms while relying heavily on foreign financing, include Ukraine, the three Baltic countries and Slovenia. The Slovenian and Estonian banks no longer have to fear devaluation – but the banks in Latvia and Lithuania very much so (to a lesser extent, Hungary and Ukraine as well)[14]. The dogged determination of the Latvian authorities not to allow floatation (or devaluation) of its pegged currency was also certainly motivated by their concern over the fate of both the domestic banks (which are actually foreign-owned) and borrowers. Of course, in such a situation, serving the interests of the indebted parties would imply heaping losses on other parties (such as export-oriented or import-competing sectors).

Thirdly, lowering policy interest rates in the face of pretty high – though falling – inflation (as recently observed in Turkey) may represent an attempt to discourage capital inflows ('carry trade') and the resulting excessive currency appreciation. The intention behind such a policy may is understandable, but its effectiveness may well give rise to problems. This movie has been shown in a host of different venues and on countless occasions (for example, in Poland in the latter half of the 1990s). In the majority of cases, there was no happy ending[15].

---

13 The extent of the foreign exposure of banking systems and household sectors in some CESEE countries is documented in a recent Austrian National Bank publication (*Focus on European Integration*, 1/2011).

14 It is worth observing that capital (other than FDI) has continued to leave the three Baltic countries and Hungary (see Table 5).

15 The policy of simultaneously attempting to control inflation and maintain some level of the exchange rate (thus compromising on the free float principle) might prove effective, were the freedom of capital movements to be limited. With a free movement of capital, however, it is generally believed that such a policy would be rather ineffective (according to the 'impossible trinity principle').

## Fiscal deficits: declining, if only gradually

The overall orientation of the fiscal policies pursued in the EU changed radically in 2010. While in 2009 a certain degree of fiscal relaxation was universally viewed as something unavoidable (or even desirable), 2010 saw a triumphant return of the traditional, pre-crisis attitudes stressing the need for 'sound fiscal policies'. The outbreak of sovereign debt crises on the fringes of the euro area brought the short-lived revival of old Keynesian practices to an abrupt halt – at least in continental Europe. (In the UK those practices lived on until quite recently. They are still alive and well in the USA). 'Fiscal fundamentalism' reared its head in the EU Commission and the ECB, as well as among governments of certain euro area countries. The battle cry is now 'back to the spirit of Maastricht'. All EU member countries (not only the euro area members) have now been solemnly admonished to fasten their fiscal belts (at best in tandem with 'structural reforms' stipulating further flexibilization of national labour markets, cuts in social spending, later retirement age, etc.). Whether the more radical fiscal austerity sought of Greece or Portugal will help defuse the countries' sovereign debt crisis is debatable. In so far as increased austerity is likely to push those countries into still deeper recession (or delay/weaken the prospects of recovery) and engender political turmoil, it will only reduce their ability to honour their debt obligations.

Even if the renewed austerity made some sense when applied to the debt-stricken euro area countries, it would not necessarily make sense when imposed on most NMS. The reasons are quite simple.

First, given the emergence of the NMS from recession, some fiscal deficits (not necessarily falling short of 3% mark) are only to be expected.

Secondly, public debt is relatively high in only one NMS: Hungary. In the remaining countries, public debt is fairly low (falling short much more of the ritual 60% of the GDP mark) – or even very low.

Thirdly, unlike the debt-stricken euro area countries, most of the public debt in the majority of NMS is denominated in national domestic currencies (and rather low anyhow). Of course, the currency denominations of public debt differ from country to country. Hungary is most vulnerable, whereas in the Czech Republic and Poland public debt is not only predominantly denominated in the respective domestic currencies, but it is also mostly owned by the residents. Unlike Greece or Portugal, the Czech Republic would default on its public debt, only if it wished to do so. In the extreme and unlikely event of being unable to roll over its debt, the Czech Republic would always be able to meet its obligations by issuing domestic currency. Of course, those NMS that have joined the euro area no longer have any control over the issue of the currency in which their public debt is denominated. They are now unable to float debts in their own currencies. This imposes a potential limit on the NMS public debt in the euro area. On the other hand, as the public debt in those countries is still low or extremely low, they do not really have much to fear, even if their fiscal deficits continue to be fairly high for some time.

The relatively good fiscal status of the NMS could worsen suddenly for a number of reasons (for example, on account of high debts in the private sector being taken over by the government, as happened in Ireland). Furthermore, the maturity composition of the debt (especially if owed to foreign creditors) might be a factor calling for some otherwise unpleasant decisions. Clearly, the concerns over possible risks to the exposure of public finances to the otherwise possible negative shocks are valid. However, introducing fiscal consolidation merely for the sake of fiscal consolidation (as occasionally observed in some NMS) does not of necessity yield much economic benefit. It is worth adding that the aspirations of economic policy to implementing restrictive fiscal and 'structural reform' policies are likely to be opposed, especially when such policies reflect ideological predilections and are not really necessary. Political and popular opposition may, in such cases, blunt the austerity measures.

Table 6

**Public finances overview**

| | Fiscal balance in % of GDP | | | | | | Public debt in % of GDP | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 [1] | 2011 | 2012 | 2013 | 2008 | 2009 | 2010 [1] | 2011 | 2012 | 2013 |
| | | | | | Forecast | | | | | | Forecast | |
| Bulgaria | 1.7 | -4.7 | -3.2 | -3 | -2.5 | -2 | 13.7 | 14.6 | 16.2 | 17 | 18 | 19 |
| Czech Republic | -2.7 | -5.8 | -4.7 | -4.6 | -4.1 | -3.5 | 30.0 | 35.3 | 38.5 | 41.3 | 42.9 | 44.0 |
| Estonia | -2.9 | -1.8 | 0.1 | -0.8 | -1.8 | -1.5 | 4.6 | 7.2 | 6.6 | 6.1 | 6.9 | 6.5 |
| Hungary | -3.6 | -4.5 | -4.3 | 2 [2] | -3 | -3 | 72.3 | 78.4 | 80.2 | 74 | 73 | 72 |
| Latvia | -4.2 | -9.6 | -7.6 | -4.8 | -3.5 | -2.0 | 19.7 | 36.7 | 44.7 | 48.5 | 49.5 | 49.0 |
| Lithuania | -3.3 | -9.5 | -7.1 | -5.3 | -4.0 | -2.8 | 15.6 | 29.5 | 38.2 | 40.5 | 42.5 | 43.0 |
| Poland | -3.7 | -7.3 | -7.9 | -5.8 | -3.6 | -3 | 47.1 | 50.9 | 55.0 | 55.4 | 55.1 | 52 |
| Romania | -5.7 | -8.5 | -6.4 | -5.0 | -5 | -4 | 13.4 | 23.6 | 30.8 | 33 | 34 | 35 |
| Slovakia | -2.1 | -8.0 | -7.9 | -5.4 | -5.0 | -4.5 | 27.8 | 35.4 | 41.0 | 45.1 | 47.4 | 47 |
| Slovenia | -1.8 | -6.0 | -5.6 | -5.8 | -5.0 | -4.5 | 21.9 | 35.2 | 38.0 | 42.8 | 46 | 50 |
| EU-15 | -2.3 | -6.8 | -6.4 | -4.7 | -3.8 | . | 64.8 | 76.8 | 82.9 | 85.2 | 86.3 | . |
| EU-27 | -2.4 | -6.8 | -6.4 | -4.7 | -3.8 | . | 62.3 | 74.4 | 80.0 | 82.3 | 83.3 | . |
| Croatia | -0.9 | -3.2 | -4.3 | -6.0 | -5.0 | -5.0 | 29.0 | 35.2 | 40.1 | 45.2 | 48.4 | 52.0 |
| Macedonia | -0.9 | -2.6 | -2.5 | -2 | -1 | -1 | 28.7 | 32.0 | 34.0 | 35 | 35 | 33 |
| Montenegro | 1.7 | -3.5 | -3.0 | -3 | -1 | -1 | 29.0 | 38.2 | 42.0 | 44 | 42 | 41 |
| Turkey | -2.2 | -6.8 | -4 | -2.8 | -2.2 | -2 | 39.5 | 43.8 | 41.2 | 39.7 | 38.1 | 38 |
| Albania | -5.5 | -7.0 | -3 | -4 | -4 | -7 | 55.2 | 61.6 | 61 | 61 | 61 | 62 |
| Bosnia and Herzegovina | -2.2 | -4.5 | -4.5 | -3.5 | -2.5 | -2.0 | 30.8 | 35.4 | 39.1 | 38 | 39 | 40 |
| Serbia | -2.6 | -4.5 | -4.4 | -5 | -4 | -3 | 27.9 | 32.6 | 36.0 | 43 | 45 | 45 |
| Kazakhstan | -2.1 | -2.9 | -2.4 | -2.5 | -2.0 | -1.0 | 8.3 | 12.2 | 14.8 | 13 | 11 | 11 |
| Russia | 4.9 | -6.3 | -3.6 | 0 | 0 | 0 | 5.7 | 8.3 | 8.6 | 8 | 7 | 6 |
| Ukraine | -1.5 | -4.1 | -6.0 | -4 | -3 | -3 | 20.0 | 34.8 | 39.8 | 39 | 38 | 37 |

1) Preliminary and wiiw estimates. - 2) Including the one-off effect of nationalization of the private pension funds' assets. Without that effect the general government balance is forecasted to attain -3.5% of GDP.

*Source:* wiiw Database incorporating national and Eurostat statistics. Forecasts by wiiw and European Commission (Economic Forecast, Spring 2011) for EU.

Public debt levels and fiscal deficits of those CESEE countries that are not EU members are generally much lower than reported in the NMS. This holds particularly true for Russia and Kazakhstan. It is hard to say to what extent this fact is due to differences in national accounting procedures. Latitude in terms of possibly permitting unreported transfers to the commercial banking sector might have increased the magnitude of their fiscal deficit and public debt somewhat. On the other hand, both countries dispose of sovereign wealth funds. Those funds (especially if taken together with the official foreign reserves of their central banks) are certainly larger than the official (gross) public debt of either country. Clearly, fiscal sustainability concerns cannot justify the pursuit of fairly conservative fiscal policies. Some other motives – be they political, social, or perhaps even economic (such as inflation) – may well be lurking behind the overall conservative fiscal policies of either country.

### Unemployment to normalize gradually

Given the depths of recession, cuts in employment levels – and rises in unemployment rates – were very pronounced in 2009 (Table 1). This applies not only to the Baltic countries and Hungary: countries where recession set in before 2009 but also to Slovakia. Those same trends continued to prevail in the most affected countries in 2010. In 2010, unemployment rates also increased in most other CESEE countries, even if some of them did not report cuts in employment levels. The fact that both the unemployment and employment levels increased is explained by increases in labour supply (due, among other reasons, to demographic factors and possibly an increase in return migration).

On the whole, however, unemployment rates did not increase dramatically (except in the three Baltic countries and Bulgaria). However, the same rates remain incredibly high in most Western Balkan countries. 2011 will witness steps to bring improvements in terms of reducing unemployment in the Baltic countries. Most other CESEE countries will only enjoy any definite improvements in 2012 or even later. Gradually, unemployment levels will shift towards pre-crisis levels. However, the return to the extremely low unemployment rates reported by the Baltic countries in the mid-2000s may be a long way off. On the other hand, a gradual return to long-term 'normalcy' on the labour market is actually bad news for most Western Balkan countries.

### Summary and conclusions: stabilization of unimpressive growth only if external conditions are not disrupted

For 2011, our central scenario (Table 1) envisages further improvements in the economic performance of those countries that were still stagnating or contracting in 2010. However, in those countries that performed reasonably well in 2010, GDP growth will not accelerate all that much. Later on growth rates will stabilize throughout the region, but they will not return to the levels recorded prior to 2007.

Various scars left by the recession, be the victims productive capacities, balance sheets of banks, firms and households or labour markets, will gradually have to heal. In the meantime those scars will impair the growth of household consumption and fixed investment in the business sector. Moreover, attempts at serious fiscal consolidation, which in many countries would be either untimely or not really necessary (as in the Czech Republic, for example), will have an additional impact on the rate of domestic demand growth.

In 2011, net exports will play an essential and positive role in maintaining growth in many NMS where domestic demand continues to be anaemic. In countries whose exports depend on energy and raw materials, net exports will contribute negatively to overall GDP growth (as imports will also rise owing to currency appreciation). In the few countries remaining, net exports will assume a neutral role in generating growth. At a later stage, the contribution of net exports is expected to be reduced on a fairly universal scale, reflecting a revival of domestic demand and a deterioration of trade balances. All in all, continuation of growth in 2011 in the CESEE region hinges decisively on foreign demand. In the case of Russia, Kazakhstan and (to a lesser degree) Ukraine, an unpredictable slump in the world-market prices of, and demand for, energy carriers and metals would slow down growth substantially. In the case of the remaining CESEE countries, a renewed weakness of growth in the euro area could well mean immediate cuts in their exports. Those cuts could possibly trigger a new slump in their overall growth. Although quite unpredictable, a renewed growth slowdown in the euro area cannot be ruled out. Failure to resolve the euro area debt crisis in an orderly manner – and in the very near future as well – may lead to another financial-cum-real crisis in the euro area. Another such crisis in the euro area could spill over to the NMS and the Western Balkan countries. A still greater risk looms large as well. Should the institutional cohesion of the euro area (and of the whole EU) weaken, the NMS are likely to lose out – both economically and politically.

In conclusion, growth in the CESEE region is expected to stabilize, yet remain rather unimpressive – the proviso being that external conditions are not disrupted again.

A final reflection is now in order. The CESEE region is still included in a larger group of countries: that of the ‘emerging markets’. However, the economic performance of the CESEE countries is increasingly at variance with that of the remaining ‘emerging markets’. In terms of overall dynamism, the CESEE countries (in particular the NMS) are looking increasingly similar to the euro area – yet without having achieved the euro area’s levels of development. In most cases, the CESEE countries’ relatively close association with the European Union was to all intents and purposes inevitable. However, that irresistible association (implying a relatively rapid external liberalization of the CESEE countries’ trade and capital flows, for example) may have also borne some unwelcome consequences. One of these consequences may have been their losing out to the those ‘emerging markets’ whose external opening up has been much more gradual and cautiously controlled.

*Vladimir Gligorov, Mario Holzner, Michael Landesmann and Roman Römisch*

# Debt dynamics, flow of funds and deleveraging: a CEE–GIPS comparison

## Introduction

In this chapter we examine debt developments in selected groups of CEE economies and undertake comparisons with the GIPS group (Greece, Ireland, Portugal, Spain) which has recently become the focus of attention in the context of the current crisis of the euro-economy. The focus of this comparative analysis is the build-up of private sector debt (in most cases closely linked to foreign debt) before the crisis and the analysis of deleveraging processes (the running down of debt positions) as a result of much stricter financing conditions in the wake of the international financial crisis and changing savings and expenditure behaviour of the private sector (section 1). We show that there is strong evidence of heterogeneity amongst the CEE economies (we compare samples of selected subgroups) both with regard to the build-up of private sector debt before the crisis as well as the type and extent of adjustment processes in the wake of the crisis. The latter also encompasses adjustments in fiscal positions of the states which we evaluate with regard to likely violations of sustainability as the countries move towards recovery but with differentiated growth prospects (which might become a distinct difference between the GIPS and the CEE regions).

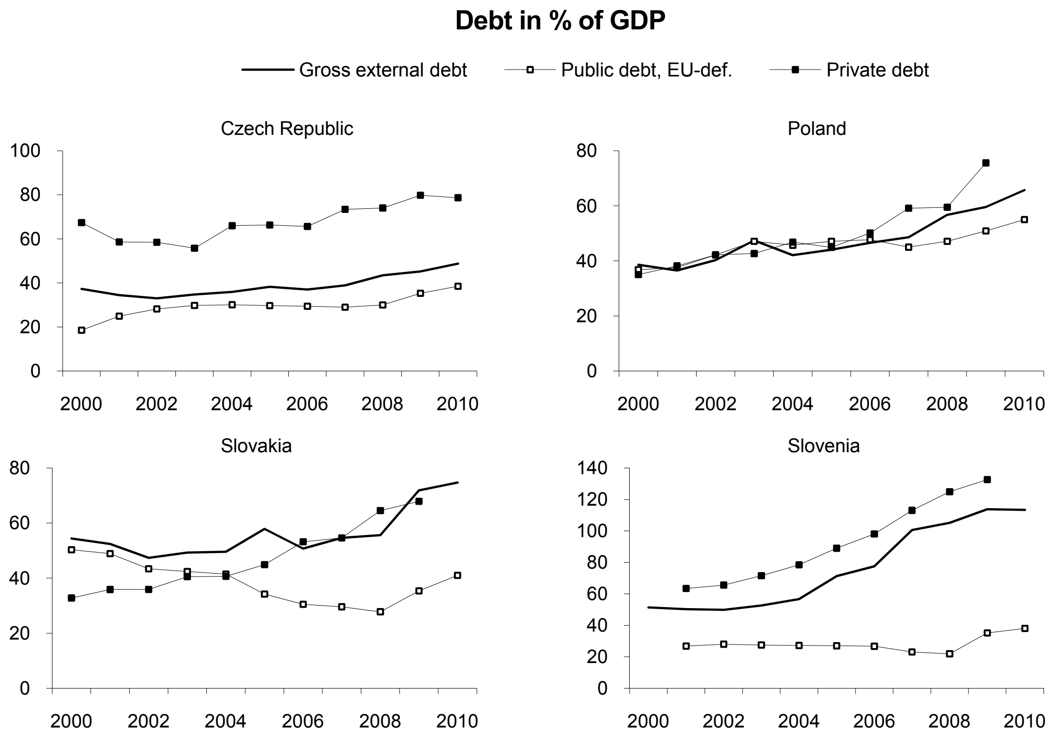
Furthermore we analyse the interaction of net financing positions of different sectors of the economy (household, corporate, public, external) by means of a flow-of-funds analysis both before and after the crisis hit the different economies (section 2 of this chapter) and emphasize differences in patterns between the more debt-driven and the less debt-driven economies. Finally, in a separate econometric exercise (Box 1) we estimate determinants of household savings behaviour – an essential factor in analysing the medium-term impact of changing financial conditions and of the impact of the recession and the following growth slowdown – for a wider range of European economies. We also check for possible changes of such behaviour in the course of the crisis years as well as for differences in behaviour between the sample of European economies as a whole and the group of 'peripheral' or 'lower-income' European economies.

## Private and public debt developments

Overall debt developments have differed across the eurozone, the EU, and transition countries, particularly in the Balkans that are closely connected with the EU.

In one group, Panel 1a, we find Central European countries with relatively stable debt developments before and in the aftermath of the crisis, though Slovenia's private debt development is stronger than in other countries.

Panel 1a



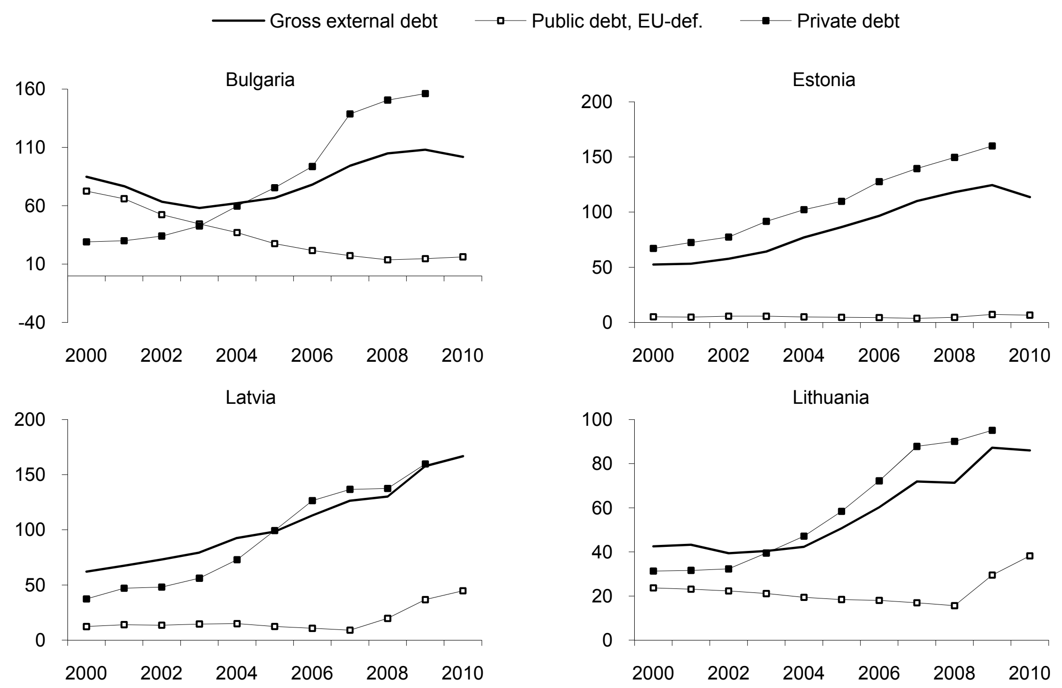

In the other group, Panel 1b, one finds the Baltic countries and also Bulgaria. They had rather low public debt and strong private and foreign debt increases before the crisis. These countries look rather similar to the peripheral countries in the eurozone, Panel 1c, which have also developed high exposure to foreign debts driven mostly, except for Greece, by increases in private debts.

In almost all of these countries the decline or slowdown of private debt developments and also of foreign debts as opposed to public debts can be observed. These developments indicate private sector deleveraging and a parallel increase in public debt in most countries, except in those that have chosen to cut public expenditures.

In countries that have chosen to let public debts substitute at least to an extent private debt, fiscal deficits have of course had to widen or at least not decline. Almost invariably, fiscal deficits have been driven by the increase in public expenditures rather than by the fall of revenues. This can be seen in Panels 2a-c. Countries are grouped in the same way as in Panels 1a-c. The stability of the revenues and the volatility of expenditures as a reflection of GDP changes are clear, though there is some differentiation among the different groups of countries. Some of that may be the effect of lower taxes (e.g. in Slovakia and Bulgaria) or of tax hikes (e.g. Greece and Portugal). But, by and large, revenues do not cover expenditures because of GDP decline and in some cases because of attempts at fiscal stimuli.

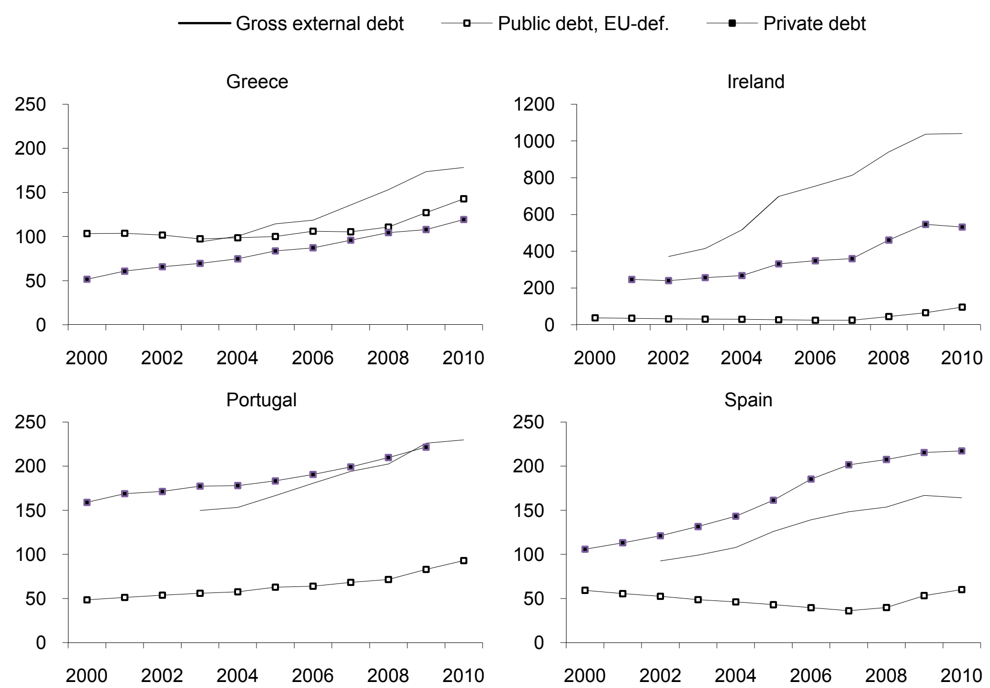
Panel 1b

**Debt in % of GDP**




Panel 1c

**Debt in % of GDP**




*Source:* Eurostat, National Banks and wiiw own calculations.

That suggests that revenues fall more or less with the GDP (except in cases where there were changes in taxation to either decrease the tax burden or to increase revenues), i.e. revenue elasticity to GDP changes seems to be close to one, which is what econometric studies find too.[16] By contrast, expenditures tend to increase because they are partially countercyclical.

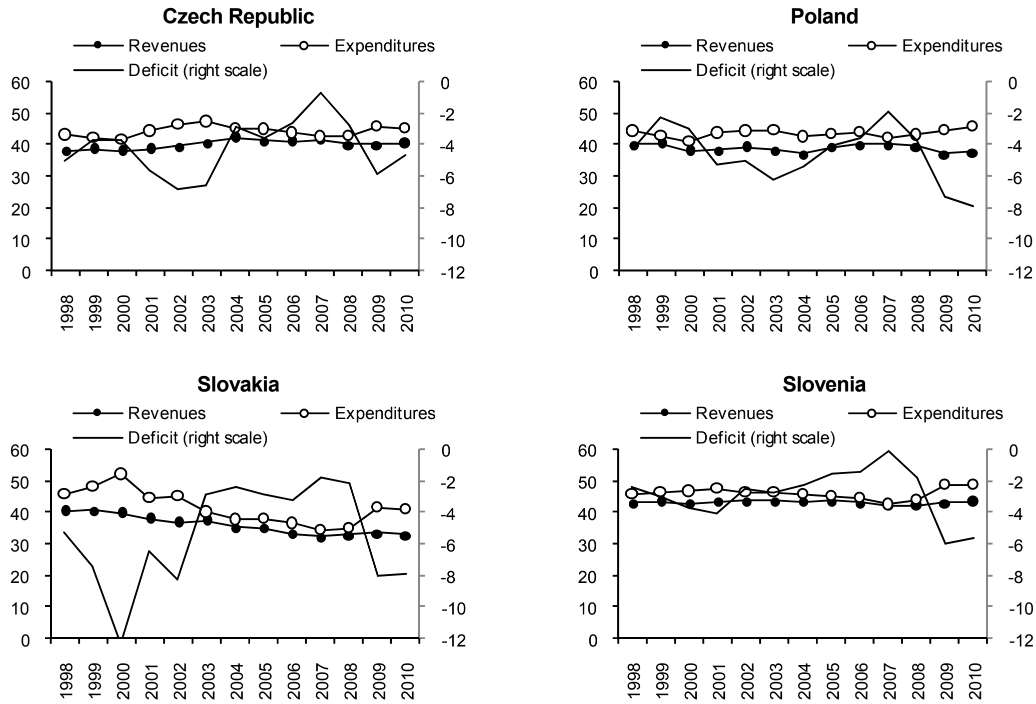
There is also a change in the contribution of the snowball effect (i.e. the contribution to the change of the debt to GDP ratio that comes from the difference between the interest rate on debt and the GDP growth rate). Countries that are recovering faster, including the more developed ones in the eurozone, tend to benefit from the positive snowball effect (i.e. the growth rate being above the interest rate on public debt); these tend to be countries with more stable debt developments (including also Poland, which is able to continue borrowing, publicly and privately, and is enjoying significant inflows of foreign finances).

However, indebted countries are recovering more slowly and some not at all and are also facing a negative snowball effect (interest rates being higher than growth rates), which puts additional pressure on their attempts to deleverage. This may prove to be a longer-term problem for peripheral members of the EMU while it may turn out to be a medium-term problem for most Balkan and Baltic countries. Central European countries are recovering faster and can be expected to continue to benefit from a positive snowball effect on their public debts.

Panel 2a

**Revenues, expenditures, and fiscal deficit**

in % of GDP

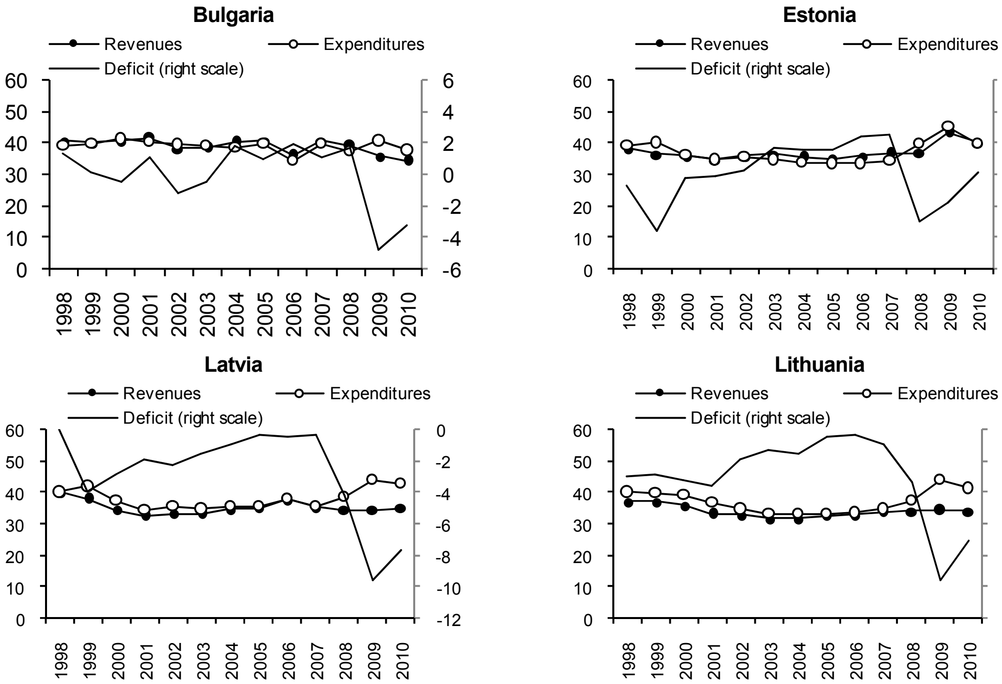



16 See, e.g., M. Larch and A. Turrini (2009), 'The Cyclically-Adjusted Budget Balance in the EU Fiscal Policy Making: A Love at First Sight Turned into a Mature Relationship', *European Economy Economic Papers* 374.

Panel 2b

**Revenues, expenditures, and fiscal deficit**

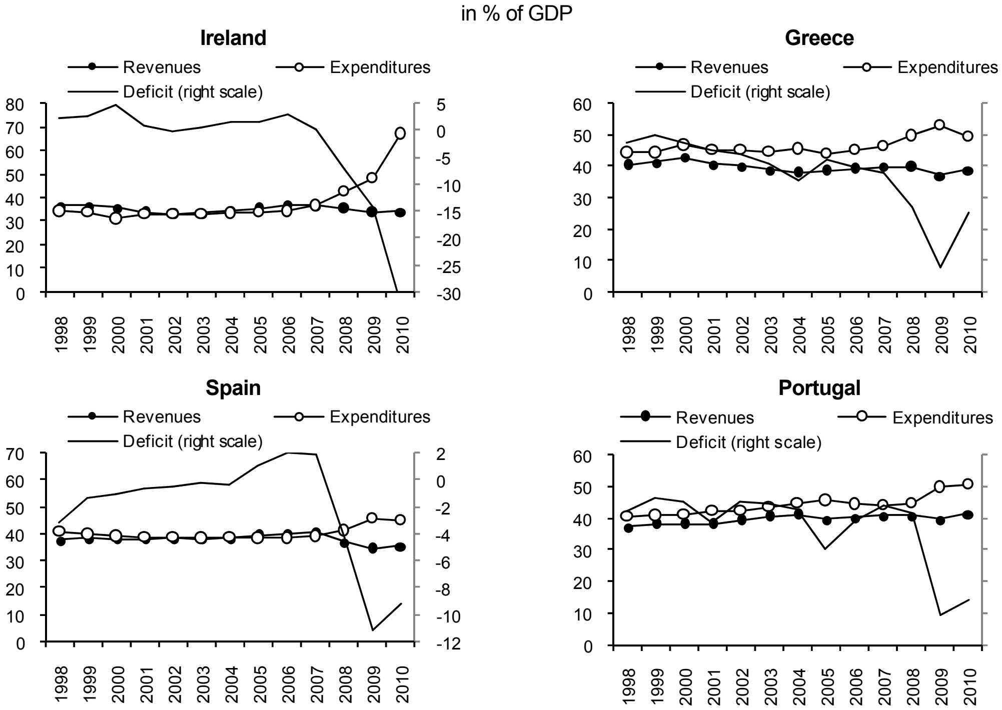
in % of GDP




Panel 2c

**Revenues, expenditures, and fiscal deficit**

in % of GDP




*Source:* Eurostat, National Banks and wiiw own calculations.

Finally, we show evidence on foreign debt developments using a decomposition of foreign debt (in per cent of GDP) into public external debt, private sector external debt and foreign debt held through the banking system (see Panel 3). It is particularly the last component which has expanded rapidly in the period leading up to the crisis in a sub-group of CEE economies (Estonia, Latvia, Lithuania, Slovenia) while there was strong growth of direct borrowing from abroad by the private sector in Bulgaria (all these economies were characterized by either fixed exchange rate regimes or became euro members before the crisis such as Slovenia). The growth of private sector (foreign) debt was more measured in the other depicted CEE economies.

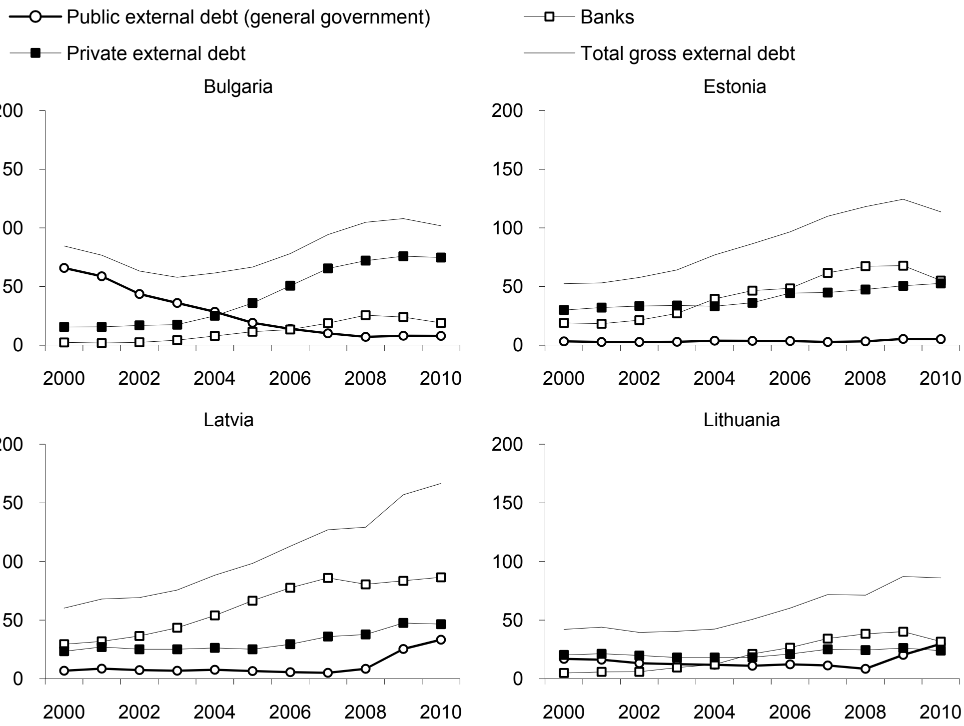
Fast growth of private sector foreign debt either directly or through the banking sector was also a feature of the GIPS economies, with Ireland being a particularly extreme example.

The developments depicted in Panel 3 also show that those economies which had a rather strong build-up of foreign debt through the banking sector before the start of the crisis have experienced a decline in the level of foreign debt held by the banking sector in the most recent years (2009 and 2010). We take this as evidence of deleveraging – a theme which will be more fully explored in section 2 of this chapter.

Panel 3

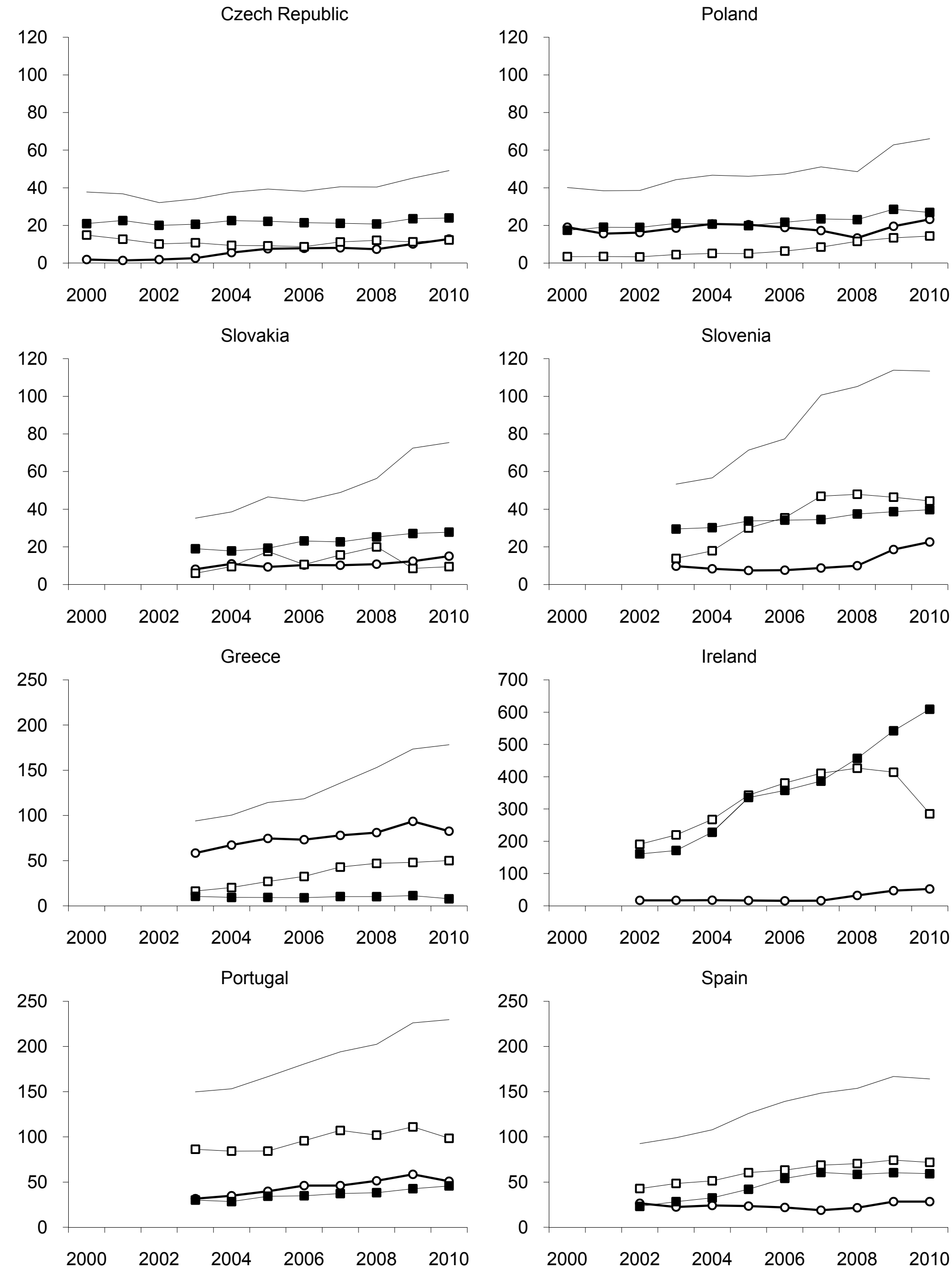
**Gross external debt by sectors**

in % of GDP




(Panel 3 ctd.)

Panel 3 (ctd.)




*Remark:* Private external debt includes other sectors and intercompany lending of direct investment (based on IMF external debt methodology). A split of other sectors into corporations and households is not possible.

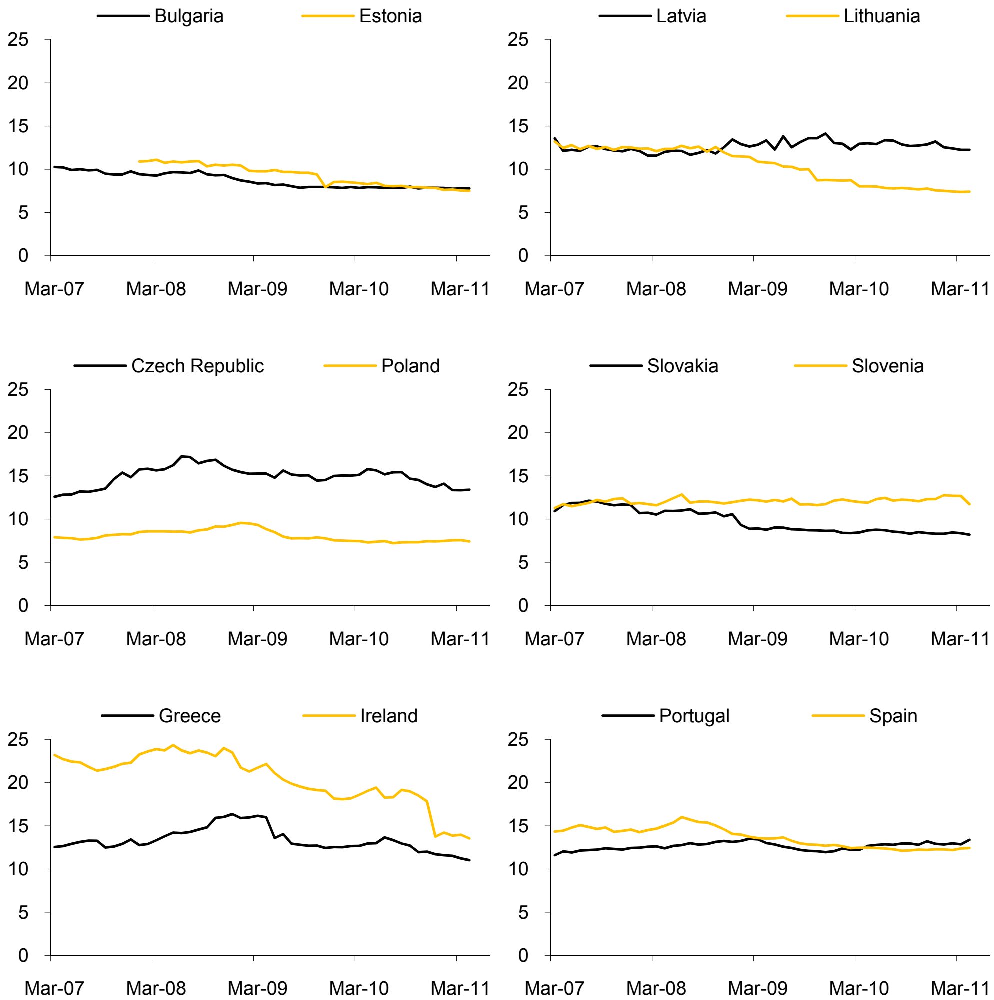
*Source:* World DataBank – Quarterly External Debt Statistics, National Banks, own calculations.

We can obtain additional direct evidence on deleveraging by looking at the leverage ratios (outstanding credits to bank capital) of banks in the different economies (see Panel 4). The general tendency is one of declining leverage ratios in most of the economies.

Panel 4

**Leverage, ratio of banking sector assets to capital**

end of period




*Source:* ECB (EU-27), National Bank statistics (rest of the countries), wiiw own calculations.

Let us conclude: what this section of the chapter showed was that in most of the depicted CEE economies public debt (as a per cent of GDP) was either stationary or on a declining trend before the crisis and generally well below the Maastricht rule (Hungary being the only exception). However, private sector debt – and linked with that foreign debt – grew very rapidly for a range of economies which became vulnerable to the impact of the international financial crisis. Private debt growth was particularly rapid in the fixed exchange rate economies of the Baltics and Bulgaria as well as in countries which recently have become EMU members (Slovenia, Slovakia). This was also a feature of the peripheral countries of the eurozone, the GIPS group.

More recently we can see evidence of a decline or slowdown of private sector debt and also a decline in the holdings of foreign debt by the banking sectors which we take as evidence of private sector deleveraging. Linked with this is a parallel increase in public debt except in those countries which made a massive effort to reduce public spending. As regards future development of public debt, we remain relatively optimistic concerning developments in CEE economies as growth resumes and they are not punished by financial markets through too high interest rates. Higher growth should allow a recovery of tax revenues and bring public expenditure back to its longer-run ratios relative to national income. In the longer term the benefit of a positive snowball effect should continue to contain the public debt to GDP ratios.

A different scenario is currently witnessed in the GIPS economies where the snowball effect operates in the other direction: due to either high public debt levels at the beginning of the financial crisis (Greece), or due to the socialization of private sector debt (bank rescues) leading to rapidly rising public debt levels following the crisis (Ireland, Portugal), these countries are caught in a trap with increasing interest payments, the prospects of possible further bank failures and accompanying rescue operations and punishing responses by financial markets demanding unaffordable interest rates. There are some countries in the Balkans which might have some prospects of falling into this category in the future, but the probabilities are still low.

## Flow of funds and deleveraging

### *Financial balances*

In this section we use the macroeconomic identity of the flow of funds to study the financing relationships across sectors. In particular we are interested in the impact of the crisis and the adjustment processes which the change in financing conditions has induced in spending and savings behaviour in different sectors of the economy. The macroeconomic identity[17] can be stated as follows:

$$(\boldsymbol{SH_t} - \boldsymbol{IH_t}) = (\boldsymbol{IC_t} - \boldsymbol{SC_t}) + (\boldsymbol{G_t} - \boldsymbol{T_t}) + (\boldsymbol{X_t} - \boldsymbol{M_t})$$

This identity must hold for any economy at any point in time: SHt are household savings and IHt household investments proxied by investment in dwellings; ICt is defined as all private investment except investment in dwellings and SCt as corporate savings[18], (Gt- Tt) is the government balance and defined as the difference between government expenditures and tax revenues. Finally (Xt-Mt) is the foreign balance, i.e. exports minus imports.

---

17 The identity can be directly derived from the expenditure approach to calculate GDP (Y). GDP is defined as Y=C+I+(X-M). Subtracting from both sides tax revenues T, and splitting C and I into private and public consumption and investment respectively one can write:

$$(Y\text{-}T)\text{-}CP = IP+(CG+IG)\text{-}T+(X\text{-}M)$$

Since Y-T is equal to the disposable income, subtracting private consumption from it gives private savings SP.

$$SP = (Y\text{-}T)\text{-}CP$$

Splitting both private savings and investment (SP and IP) into household and corporate sector savings and investments, respectively, the equation can be reformulated as:

$$(SH\text{-}IH) = (IC\text{-}SC)+(G\text{-}T)+(X\text{-}M).$$

18 Corporate savings correspond to non-distributed profits of enterprises.

The identity shows the financing interrelationships between the sectors of the economy, as aggregate net investments (net borrowing) of one sector have to be financed by other sectors where savings exceed investments. The household sector has been put on the left side of the equation since, under 'normal'[19] conditions, households tend to save more than they invest, and thus act as a source of finance – especially for the corporate and government sectors. Notably, the external sector in this identity is seen from the standpoint of financing rather than competitiveness. The difference between exports and imports thus represent, in macroeconomic terms, the net transfer of assets or debts between domestic and foreign economies.

### *Private sector borrowing before and after the crisis*

In the following, we select a sample of five CEE countries: i.e. Bulgaria, the three Baltic States and Romania, all of which were characterized by the build-up of a very high debt position in the domestic private sectors. We then analyse the behaviour of their financial balances in two discrete periods – before the crisis and after the crisis. In order to set the developments in this group of economies into perspective, we compare them to: (a) two other CEE economies where the debt build-up has been much more moderate – the Czech Republic and Poland; and (b) the group of the four GIPS countries – Greece, Ireland, Portugal and Spain.

The analysis of the macroeconomic financial balances for the five focal CEE countries indicates that prior to the crisis all of those countries relied heavily on external finance, especially to finance household spending and corporate investment. Thus, in the run-up to the economic crisis, both the household and corporate sectors in all five economies registered very high net borrowing positions that, as Table 1 illustrates, were largely financed by foreign funds. Notably, in Bulgaria, Estonia and Romania household net borrowing in the period 2004-2007 averaged 8% to 16% of GDP per year, while in Latvia corporate net borrowing averaged 14.6% shortly before the crisis. The government balances in all those countries were more or less balanced or even in surplus[20], as in Bulgaria, Estonia and Latvia, whereas the foreign balance was extremely negative and thus in financial terms the main factor contributing to the deficits in the household and corporate sectors.

By way of contrast, in the Czech Republic and Poland the situation prior to the crisis was characterized by the much more moderate net borrowing requirements of the private sector. The situation in the former country in the Czech Republic is comparable to the situation in the net exporting countries in the EU, such as Germany, the Netherlands, Finland and Sweden. Thus, in the period immediately prior to the crisis, the Czech Republic was a net exporting country; it accumulated net assets towards foreign countries. The success it enjoyed in the export market seemed to translate into relatively high corporate profits. Consequently, the corporate financial balance was negative, as savings or non-distributed profits were higher than corporate investment. The Czech household sector was a net saver, while in the government sector expenditures were slightly higher than revenues. Poland

---

[19] 'Normal' is defined here as the pattern that is observed in most of the developed economies.

[20] A negative number for the government balance indicates a budget surplus, as tax revenues are higher than government expenditures.

represents a typical net importer country, where both corporate and government net borrowing are financed from savings surpluses in the household sector and foreign funds.

Before the economic crisis, the situation in the four GIPS countries was different compared to the situation in the CEE countries. Furthermore, there were substantial differences between the four countries as well. Thus, Ireland's huge trade surplus translated into a big net savings position in the corporate sector that more or less funded the borrowing requirements of the household sector[21]. In Spain, things were different; both the external sector and the government sector were financing both household and corporate deficits. In Portugal, it was predominantly the foreign sector that provided funds to the corporate and government sector, while the household sector had a comparatively low net savings position. Greece is a special case. In the period 2004-2007 and even before, both the household and the government sectors were large net borrowers, each with an annual average net borrowing requirement of around 7% of GDP each. This was largely financed through external funds and shortly before the crisis it was also funded by the domestic corporate sector.

The economic and financial crisis caused a significant change in the financial balances of the economy. Thus, an immediate symptom of the crisis was a shift in household balances. The aggregate households in the CEE economies either became net savers or, as in the case of Bulgaria, net borrowing was greatly reduced, while the government sector became a net borrower. Simultaneously net foreign borrowing dropped significantly: 12 percentage points in Latvia, and 4 to 6 percentage points in Romania, Lithuania and Bulgaria. As a matter of fact, Estonia started to build up net foreign assets. The corporate sector became a net lender to other sectors of the economy in Estonia and Lithuania, as well as in Poland. In the other countries, corporate sector borrowing requirements tended to drop to almost zero: in other words, corporate investment and savings were balanced.

Looking more closely at the various components of net savings in the CEE countries (see Annex to Special section, Table A/1), we can detect that household savings and, to a corresponding degree, private consumption, tended to adjust more strongly than household investment. In the period before the crisis, not only net but especially also household savings in Bulgaria and Romania were in fact highly negative: In Bulgaria on average minus 12.6% and in Romania around minus 7% of GDP. They were less negative in the Baltic countries. In both Bulgaria and Romania households spent much more than their actual disposable income. In a closed economy (with households and corporations only) it is doubtful whether such behaviour can be financed without risking a reduction or deterioration of capital stock. Under such circumstances the corporate sector has to save more than it invests, which in the long run bears the risking of eroding the country's long-term growth potential. Hence, it seems that for the most part such behaviour is only possible if sufficient funds are provided through the foreign sector. It might not necessarily be a question of the sustainability of accumulated debt, but rather a question of what happens in the event of foreign financing stopping all of a sudden.

21 This is from a strict macroeconomic perspective. As a matter of fact, before the crisis Irish households accumulated high amounts of foreign debt, which is not readily visible in the financial balances of the economy, as company foreign profits seemed to outweigh household foreign borrowing.

Table 1

**Financing balance of sectors of economy – four-year averages 2000-2011**

in per cent of GDP

| | 2000-2003 | 2004-2007 | 2008-2011 | | 2000-2003 | 2004-2007 | 2008-2011 |
|---|---|---|---|---|---|---|---|
| | | **Bulgaria** | | | | **Spain** | |
| **SH-IH** | -8.1 | -16.6 | -7.5* | SH-IH | 0.7 | -1.7 | 3.7 |
| **IC-SC** | 0.3 | 1.3 | 0.4* | IC-SC | 3.4 | 5.8 | 0.2 |
| **G-T** | -0.1 | -1.9 | 2.5 | G-T | -0.2 | -1.9 | 6.4 |
| **X-M** | -8.3 | -16.0 | -10.4 | X-M | -2.5 | -5.6 | -2.9 |
| | | **Estonia** | | | | **Greece** | |
| **SH-IH** | -1.5 | -7.9 | 0.6 | SH-IH | -6.0 | -7.3 | -2.7 |
| **IC-SC** | 4.3 | 2.5 | -5.4 | IC-SC | 2.9 | -3.7 | -5.1 |
| **G-T** | -0.5 | -1.8 | 2.2 | G-T | 4.2 | 6.8 | 11.7 |
| **X-M** | -5.2 | -8.6 | 3.8 | X-M | -13.1 | -10.4 | -9.2 |
| | | **Lithuania** | | | | **Ireland** | |
| **SH-IH** | 1.7 | -2.7 | 2.2* | SH-IH | -5.8 | -8.4 | 4.6 |
| **IC-SC** | 6.4 | 5.4 | -1.0* | IC-SC | -22.7 | -18.7 | -22.1 |
| **G-T** | 1.2 | 1.3 | 7.9 | G-T | 0.3 | -1.1 | 10.3 |
| **X-M** | -5.8 | -9.4 | -4.7 | X-M | 16.6 | 11.3 | 16.4 |
| | | **Latvia** | | | | **Portugal** | |
| **SH-IH** | -1.2 | -3.5 | 1.6* | SH-IH | 0.1 | 0.6 | 2.9 |
| **IC-SC** | 7.9 | 14.6 | 0.5* | IC-SC | 5.2 | 4.4 | 2.7 |
| **G-T** | 0.6 | -0.2 | 6.4 | G-T | 4.0 | 4.8 | 7.5 |
| **X-M** | -9.7 | -17.9 | -5.3 | X-M | -9.1 | -8.6 | -7.3 |
| | | **Romania** | | | | | |
| **SH-IH** | -2.5 | -8.7 | -0.4* | | | | |
| **IC-SC** | 2.2 | 1.9 | 1.5* | | | | |
| **G-T** | 1.8 | 0.6 | 6.3 | | | | |
| **X-M** | -6.5 | -11.3 | -8.2 | | | | |
| | | **Czech Republic** | | | | | |
| **SH-IH** | 1.3 | 1.3 | 1.6 | | | | |
| **IC-SC** | 2.0 | -2.5 | -7.8 | | | | |
| **G-T** | 1.8 | 0.9 | 4.5 | | | | |
| **X-M** | -2.5 | 2.9 | 4.9 | | | | |
| | | **Poland** | | | | | |
| **SH-IH** | 5.9 | 3.7 | 2.6 | | | | |
| **IC-SC** | 5.8 | 2.3 | -2.3 | | | | |
| **G-T** | 4.1 | 3.4 | 6.5 | | | | |
| **X-M** | -4.1 | -1.9 | -1.6 | | | | |

*Notes:* Bulgaria, Lithuania, Latvia and Romania last period: average 2008-2010. Ireland first period: 2002-2003.
* Estimated.

*Source:* AMECO Database, own calculations.

Although there is some lack of sectoral information on the CEE countries for the period after the crisis, the Estonian example shows that net household savings did indeed change dramatically: from a 2.4% GDP deficit to a 4.5% surplus both during and after the crisis. In the Czech Republic and

Poland alike, which on average did not rely (or not overly) on foreign financing of household savings, there has been far less adjustment in terms of GDP. It is very likely that the Estonian pattern is indicative for developments in the other four CEE focus countries. Although no recent data are available we can proxy the change in household behaviour by analysing the pattern of private consumption before and after the crisis (see Annex to Special section, Table A/2).

The deleveraging process also shows in the corporate sectors' behaviour. Generally corporate savings, i.e. non-distributed profits, as a share of GDP were less affected by the crisis, in the Czech Republic and Poland they even increased, not only in relative terms to GDP, but also in absolute terms. It was corporate investment that was affected dramatically by the crisis. This was especially the case in the Baltic States, where the corporate investment rate in GDP almost halved in the period after the crisis compared to before the crisis. To illustrate the point, in Estonia it dropped from around 26% of GDP in the period 2004-2007 to 14% in the period 2008-2011. The trend was similar in Latvia where it declined from a pre-crisis 30% to a post-crisis 17% (for the period 2008-2010). It also declined in Bulgaria and the Czech Republic, although the decline was much less pronounced than that in the Baltics.

The deleveraging process, the change in private sector spending and savings behaviour might also be reflected in patterns of import demand before and after the crisis. As noted above the overspending in the household sectors in Bulgaria and Romania, and to a lesser extent in the Baltic countries, was only possible because of external finance on the one hand and the external supply of goods and services on the other. The plausibility of this argument is to some extent confirmed by the change in aggregate imports before and after the crisis (see Annex to Special section, Table A/4). Thus, in all CEE countries where foreign financing was important, except Lithuania, import demand, measured as a percentage of GDP, declined quite steeply: 9 percentage points on average in Estonia and Latvia; 5 percentage points in Bulgaria; and 2 percentage points in Romania. By way of contrast, imports as a share of GDP in both the Czech Republic and Poland remained constant or even increased. That change in import propensity stands in sharp contrast to the change in exports which after the crisis tended to increase, if only slowly.

Overall therefore, the analysis of the CEE financial balances shows clear symptoms of the more difficult financing conditions and the evaporation of funds, especially foreign finance, during and after the crisis has had quite a dramatic impact on the CEE countries. Ultimately that impact was reflected in a dramatic decline in GDP; to a large extent this was the consequence of the countries' reliance on foreign borrowing to finance private household consumption and investment, as well as corporate investment. It might not have been so much a question of determining in principle how sustainable an extended period of accumulating foreign debt might be since, after all, those countries were growing at a rapid pace. It seems to be much more a question of how that growth can be financed. Under normal conditions financing domestic spending primarily through capital imports from abroad might be sustainable even in the longer term; however, it is a risky business, should the foreign sector stop lending before the recipient countries have developed the potential to finance their growth internally, which means de facto to be successful in closing their current account gaps by improving their net-export performance.

Box 1

## The determinants of household savings

The literature on the determinants of macroeconomic household savings is vast. On theoretical grounds the permanent income or life-cycle hypothesis with individuals smoothing their consumption over the life-cycle acts as a basis for the analysis of the determinants. More recently these assumptions have been relaxed due to the inclusion of imperfect markets. Hence, a number of explanatory variables have been tested in order to explain household savings as a share of GDP. For an overview of the literature of empirical cross-country studies see Hüfner and Koske (2010). Most models contain the following standard explanatory variables: GDP proxies income of the households; Ferrucci and Miralles (2007) use for instance GDP growth as a proxy. Credit to GDP represents the liquidity constraint as in Sarantis and Stewart (2001). The budget balance (Hondroyiannis, 2006) and corporate savings (Callen and Thimann, 1997) are part of the financial balance identity equation (see section 2 of this chapter), together with household savings and the external sector. Finally most models contain also the interest rate as well as inflation and terms of trade (Loayza et al., 2000).

In our own model we explain the following relationship specific for European countries in the period before and during the world financial crisis from 2000 to 2010 as defined in this equation:

$$\Delta HHS_{it} = \alpha_0 + \alpha_1 \Delta HHS_{it-1} + \alpha_2 \Delta CIN_{it} + \alpha_3 \Delta EXP_{it} + \alpha_4 GRO_{it} + \alpha_5 \Delta HHD_{it} + \alpha_6 \Delta PED_{it} + \alpha_7 \Delta INT_{it} + \alpha_8 APR_{it} + u_{it}.$$

The Δ's indicate the first difference of the respective variable. The model's components are thus either expressed in first differences or in percentage changes in order to avoid problems of potential non-stationarity. On the left-hand side of the equation we have net macroeconomic household savings in % of GDP (*HHS*) for country *i* in year *t*. This refers to household savings less household investment in housing. The *α*'s represent the coefficients to be estimated. Among the explanatory right-hand side variables we include the lagged value of HHS in order to control for endogeneity and to make the model dynamic. We also add the macroeconomic corporate investment balance (*CIN*), which is corporate investment less savings, and the net exports (*EXP*) from the financial balance identity equation. We cannot add the government balance as well due to collinearity. The model contains also GDP growth (*GRO*) as change in % against the previous year. Moreover we include the gross household indebtedness ratio to GDP (*HHD*) as well as the private sector (corporations and households) gross external debt share in GDP (*PED*) in order to check whether the external private liquidity constraint is more binding than the domestic household liquidity constraint. There is also the overall nominal effective interest rate on foreign borrowings included (*INT*), the only interest rate proxy we found to be comparable across European countries. Finally, in order to control for both the inflation and the terms of trade we add appreciation of the real exchange rate in euro per national currency unit as a change in % against the previous year (*APR*). This appears especially relevant for a number of European countries which have not yet adopted the euro but are highly euroized. The error term is represented by *u*. The financial balance data stem from the AMECO Database, the remaining data are taken from the wiiw Database. The countries covered are all EU member countries.

We estimate the model with a random effects panel data estimator in a robust way. The results are presented in Table 2. Due to data limitations the baseline model covers only 18 countries. However, the overall fit of the model is quite well with an $R^2$ of over 70%.

Table 2

**The determinants of household savings**

**Dependent variable: Δ Household savings**

| **Explanatory variables:** | **Baseline model 1** | **Baseline model 2** | **2000-2008 model** | **CESEE and GIIPS model** |
|---|---|---|---|---|
| Lagged Δ Household Savings | -0.177 * | -0.148 ** | 0.023 | -0.163 ** |
| Δ Corporate Investment Balance | 0.491 *** | 0.442 *** | 0.574 *** | 0.542 *** |
| Δ Net Exports | 0.780 *** | 0.679 *** | 0.782 *** | 0.828 *** |
| GDP growth | -0.118 *** | -0.181 *** | -0.101 ** | -0.136 *** |
| Δ Household Debt | 0.023 | - | - | - |
| Δ Private External Debt | 0.042 *** | 0.036 *** | 0.034 * | 0.039 *** |
| Δ Effective External Interest Rate | -0.192 | - | - | - |
| Appreciation | -0.051 * | -0.065 ** | -0.018 | -0.046 |
| Countries | 18 | 24 | 24 | 15 |
| N | 118 | 176 | 136 | 113 |
| $R^2$ | 70.1 | 61.4 | 55.3 | 67.5 |

*Note:* Own calculations; random effects robust estimator; levels of significance indicated by: * significant at the 10% level, ** significant at the 5% level, *** significant at the 1% level.

In the baseline model the coefficient of the lagged dependent variable is negative. This implies that there was a reversal of the household savings rate to a long-run state in the period analysed, which can be observed when examining the development of the household savings rate before and after the crisis event. The coefficients of both the corporate investment balance and the net exports are positive and highly significant. Both variables represent demand for capital. In the first case corporations invest more than they save and hence need capital, *i.e.* savings from the households; in the second case external demand on the aggregate needs the financing of its imports. Given that these two variables stem from the financial balance identity equation we also estimated the model without them and found that the coefficients of the remaining variables did not change dramatically. Interestingly, in the baseline model the coefficient of the GDP growth variable appears to be negative and hence the consumption smoothing life-cycle theory can be rejected for this sample. This seems to reflect the imperfect capital and labour markets in the analysed consumption boom and bust period. However, the net exports variable could alternatively also be interpreted as an income variable. The household debt as compared to the private external debt share in GDP is insignificant in explaining household savings rates. The latter is positive and significant and seems to be more binding as an investment constraint, thereby increasing the household savings rate. The coefficient of the effective external interest rate appears to be insignificant in our sample. Throughout the literature the interest rate coefficients appear to be rather unstable, in some studies with a positive sign, in others negative and in a few also insignificant such as in Loayza et al. (2000). Moreover, our interest rate proxy does not necessarily represent the actual interest paid for new savings and credits. However, no other comparable interest indicator was available. Finally the coefficient of the real exchange rate appreciation variable is negative, indicating that for instance in periods of appreciation euro-denominated debts shrink for non-euro countries and hence less has to be saved. Alternatively, this implies also less income from net export earnings.

In the baseline model 2 we then excluded the insignificant variables which do not change the results for the other coefficients significantly. As a robustness check we excluded in our third model the crisis years 2009 and 2010. Here the main difference to baseline model 2 is the fact that the lagged dependent variable becomes insignificant, which is understandable given that the reversal of the household savings rates took place mainly after the crisis event. Also the significance of the private external debt coefficient drops to the 10% level, which indicates that high external indebtedness was less of an investment constraint for the households before the crisis. Finally, the appreciation coefficient becomes insignificant as well. Probably the variation in appreciation was not that large before the crisis outbreak. In our final specification we applied baseline model 2 to the countries of CESEE and the GIIPS (Greece, Ireland, Italy, Portugal, Spain) only. The results are similar to the baseline model 2 results with the sole exception being that the appreciation coefficient becomes insignificant. Again this is probably due to the lack of variation in the appreciation development for the sample of CESEE and GIIPS only. Overall the model seems to be quite robust with the demand variables corporate investment and net exports, the income variable GDP growth and the private external debt variable being the most stable ones.

## References

Callen, T. and C. Thimann (1997), Empirical determinants of household saving: Evidence from OECD countries, *IMF Working Papers*, 97/181.

Ferrucci, G. and C. Miralles (2007), Saving behavior and global imbalances – the role of emerging market economies, *ECB Working Papers*, No. 842.

Hondroyiannis, G. (2006), 'Private saving determinants in European countries: A panel cointegration approach', *Social Science Journal*, Vol. 43, pp. 553-569.

Hüfner, F. and I. Koske (2010), Explaining Household Saving Rates in G7 Countries: Implications for Germany, *OECD Economics Department Working Papers*, No. 754.

Loayza, N., K. Schmidt-Hebbel and L. Serven (2000), 'What drives private saving across the World?', *Review of Economics and Statistics*, Vol. 82, No. 2, pp. 165-181.

Sarantis, N. and C. Stewart (2001), 'Saving behaviour in OECD countries: Evidence from panel cointegration tests', *The Manchester School*, Vol. 69, Issue 0, pp. 22-41.

## Annex to Special section

Table A/1

### Household savings and investment in dwellings – CEE – four-year averages 2000-2011

in % of GDP

| | 2000-2003 | 2004-2007 | 2008-2011 | | 2000-2003 | 2004-2007 | 2008-2011 |
|---|---|---|---|---|---|---|---|
| | | **Bulgaria** | | | | **Spain** | |
| **Idw** | 1.9 | 4.0 | 5.2 | Idw | 6.9 | 9.0 | 5.7 |
| **Sh** | -6.3 | -12.6 | . | Sh | 7.5 | 7.2 | 9.4 |
| | | **Estonia** | | | | **Greece** | |
| **Idw** | 2.4 | 5.5 | 3.9 | Idw | 7.2 | 7.6 | 4.0 |
| **Sh** | 1.0 | -2.4 | 4.5 | Sh | 1.2 | 0.4 | 1.3 |
| | | **Lithuania** | | | | **Ireland** | |
| **Idw** | 1.5 | 2.5 | 2.7 | Idw | 9.1 | 13.0 | 4.6 |
| **Sh** | 3.2 | -0.2 | 2.2 | Sh | 3.9 | 4.6 | 9.3 |
| | | **Latvia** | | | | **Portugal** | |
| **Idw** | 2.1 | 3.2 | 3.2 | Idw | 7.4 | 5.7 | 4.1 |
| **Sh** | 0.9 | -0.4 | 4.9 | Sh | 7.5 | 6.2 | 7.0 |
| | | **Romania** | | | | | |
| **Idw** | 1.3 | 2.0 | 2.5 | | | | |
| **Sh** | -1.2 | -6.8 | -0.7 | | | | |
| | | **Czech Republic** | | | | | |
| **Idw** | 3.1 | 3.2 | 3.6 | | | | |
| **Sh** | 4.4 | 4.5 | 5.1 | | | | |
| | | **Poland** | | | | | |
| **Idw** | 2.8 | 2.8 | 2.9 | | | | |
| **Sh** | 8.7 | 6.5 | 5.5 | | | | |

*Notes:* BGR: Idw: 2008-2010, Sh: no data for 2008-2011, LTU: Sh: 2008-2009, LVA: Idw: 2008-2010, Sh:2008-2009, ROM: Sh: 2008, IRL: Sh: 2002-2003

*Source:* AMECO Database, own calculations.

Table A/2

## Private consumption – four-year averages 2000-2011, in per cent of GDP and annual average growth

| | % of GDP | | | Growth in %, annual average | | |
|---|---|---|---|---|---|---|
| | **2000-2003** | **2004-2007** | **2008-2011** | **2000-2003** | **2004-2007** | **2008-2011** |
| **CEE** | | | | | | |
| BGR | 69.4 | 68.7 | 63.0 | 5.23 | 6.4 | -2.2 |
| EST | 56.0 | 55.5 | 51.5 | 8.04 | 7.9 | -5.5 |
| LTU | 64.4 | 64.7 | 65.6 | 7.64 | 8.4 | -2.2 |
| LVA | 62.4 | 63.2 | 62.7 | 7.15 | 10.3 | -4.7 |
| ROM | 68.1 | 68.6 | 63.3 | 4.17 | 7.0 | -1.4 |
| CZE | 51.8 | 48.9 | 50.6 | 2.13 | 3.8 | 2.4 |
| POL | 65.5 | 62.8 | 61.4 | 3.06 | 3.3 | 4.0 |
| **GIPS** | | | | | | |
| ESP | 58.7 | 57.6 | 57.9 | 1.97 | 3.5 | 0.3 |
| GRC | 72.2 | 71.7 | 74.2 | 3.72 | 4.4 | -1.3 |
| IRL | 47.7 | 46.7 | 50.1 | 4.18 | 5.8 | -2.2 |
| PRT | 63.4 | 65.0 | 66.5 | 0.43 | 2.3 | -0.3 |

*Source:* AMECO Database, own calculations.

Table A/3

## Investment and savings – corporations – CEE – four-year averages 2000-2011

in % of GDP

| | 2000-2003 | 2004-2007 | 2008-2011 | 2000-2003 | 2004-2007 | 2008-2011 |
|---|---|---|---|---|---|---|
| | | **Bulgaria** | | | **Spain** | |
| **Ic** | 14.6 | 21.2 | 20.3 | 16.4 | 17.3 | 15.3 |
| **Sc** | 14.3 | 19.9 | . | 13.0 | 11.5 | 15.1 |
| | | **Estonia** | | | **Greece** | |
| **Ic** | 23.6 | 26.4 | 13.9 | 12.6 | 10.2 | 8.6 |
| **Sc** | 19.4 | 23.9 | 19.2 | 9.7 | 13.8 | 13.8 |
| | | **Lithuania** | | | **Ireland** | |
| **Ic** | 16.0 | 19.4 | 10.8 | 10.1 | 9.9 | 5.4 |
| **Sc** | 9.7 | 14.0 | 12.7 | 31.9 | 28.6 | 27.5 |
| | | **Latvia** | | | **Portugal** | |
| **Ic** | 22.8 | 29.6 | 16.7 | 15.5 | 14.9 | 13.2 |
| **Sc** | 14.9 | 15.0 | 15.5 | 10.3 | 10.5 | 10.5 |
| | | **Romania** | | | | |
| **Ic** | 16.8 | 19.7 | 19.3 | | | |
| **Sc** | 14.6 | 17.8 | 17.8 | | | |
| | | **Czech Republic** | | | | |
| **Ic** | 21.7 | 18.7 | 14.6 | | | |
| **Sc** | 19.7 | 21.1 | 22.4 | | | |
| | | **Poland** | | | | |
| **Ic** | 14.8 | 14.7 | 13.3 | | | |
| **Sc** | 8.9 | 12.4 | 15.6 | | | |

*Note:* BGR: Ic: 2008-2010, Sc: no data for 2008-2011, LTU: Sc: 2008-2009, LVA: Ic: 2008-2010, Sc: 2008-2009, ROM: Sc: 2008, IRL: Sc: 2002-2003.

*Source:* AMECO Database, own calculations.

Table A/4

## Exports and imports – four-year averages 2000-2011, in % of GDP

| | 2000-2003 | 2004-2007 | 2008-2011 | 2000-2003 | 2004-2007 | 2008-2011 |
|---|---|---|---|---|---|---|
| | | **Bulgaria** | | | **Spain** | |
| **X** | 48.8 | 53.3 | 56.1 | 27.8 | 26.2 | 26.1 |
| **M** | 57.1 | 69.2 | 64.6 | 30.3 | 31.8 | 29.0 |
| | | **Estonia** | | | **Greece** | |
| **X** | 76.1 | 72.8 | 75.8 | 22.5 | 22.5 | 21.8 |
| **M** | 81.4 | 81.4 | 72.0 | 35.6 | 32.9 | 31.0 |
| | | **Lithuania** | | | **Ireland** | |
| **X** | 49.6 | 55.7 | 64.7 | 93.9 | 81.3 | 96.7 |
| **M** | 55.4 | 65.1 | 68.6 | 78.4 | 70.0 | 80.3 |
| | | **Latvia** | | | **Portugal** | |
| **X** | 41.5 | 44.8 | 49.6 | 28.1 | 29.8 | 31.5 |
| **M** | 51.3 | 62.6 | 53.9 | 37.2 | 38.4 | 38.8 |
| | | **Romania** | | | | |
| **X** | 34.0 | 32.6 | 33.8 | | | |
| **M** | 40.5 | 43.9 | 41.3 | | | |
| | | **Czech Republic** | | | | |
| **X** | 62.7 | 74.7 | 77.4 | | | |
| **M** | 65.2 | 71.8 | 72.5 | | | |
| | | **Poland** | | | | |
| **X** | 29.0 | 38.9 | 40.8 | | | |
| **M** | 33.1 | 40.9 | 42.4 | | | |

*Source:* AMECO Database, own calculations.


*Anton Mihailov*

# Bulgaria:
## Will the export-led recovery be sustained?

***GDP grew by 1.5% year on year in the first quarter of 2011 thanks to a continuing export boom. The unusually robust export performance contributed to a reversal in the current account balance; the latter turned positive in 2011. However, domestic demand has remained depressed, with both private consumption and fixed investment, in particular, shrinking still further in the first quarter. The outlook for 2011 and thereafter is moderately positive, yet uncertainties prevail with respect to the sustainability of the current export-led recovery.***

The extraordinary export boom that started in 2010 continued in the first months of the current year: in current euro terms, exports of goods (BOP definition) in the first quarter of 2011 were 56% higher than a year earlier and by 30% higher than in the first quarter of the pre-crisis 2008. The concomitant recovery in the manufacturing industry also strengthened considerably in the first quarter of 2011 with quarterly gross output some 14% higher than a year earlier.

An additional indication of the unusual strength of the export boom has been the reversal in the current account balance. The rolling 12-month current account balance turned positive in 2011 (something that had not been experienced since 1998) and this tendency will likely prevail in the course of 2011 and probably afterwards. This was a rather spectacular turnaround given the fact that the current account deficit was above 20% of GDP only three years earlier.

In terms of the direction of trade, exports grew substantially both to traditional EU partners (such as Germany, Greece, Belgium, Romania) and to non-EU countries (in particular, Turkey, Russia, China). Minerals and fuels still account for a large share of exports (partly reflecting higher prices in recent months) but there is also a continuing rise in the share of higher value added manufactured products in the total composition of trade.

While these figures are positive signs, the overall picture of Bulgaria's economic performance in the beginning of 2011 was not so rosy. In contrast to exports, domestic demand has remained depressed with both private consumption and especially fixed investment shrinking further in the first quarter, after two consecutive years of sharp contraction. Thus real private consumption in the first quarter of 2011 was more than 10% down from the pre-crisis first quarter of 2008 and real gross fixed capital formation was almost 40% below its level of the years earlier. Accordingly, the construction sector has remained deeply depressed.

Against the backdrop of these contrasting developments, GDP in the first quarter grew by 1.5% from a year earlier, well below the 3.1% rate of growth recorded in the fourth quarter of 2010 yet much more than in the pre-year first quarter. Domestic demand as a whole made a significant negative contribution to GDP growth, reversing the situation from the previous quarter. The positive GDP growth in the first quarter was exclusively due to a large positive contribution of net exports which offset the negative impact of contracting domestic demand.

Poor domestic demand conditions are a reflection of several negative factors. At the macroeconomic level, economic policy during the past two years or so has been extremely hectic and unsupportive to economic activity, combining lack of clear policy direction with drastic cuts in public investment and ill conceived tax measures. The continuing reduction in public investment has been especially detrimental to economic activity: in the first quarter of 2011 total nominal budgetary spending on public investment was a mere 53% of the amount spent a year earlier (bearing in mind the re-trenchment already effectuated in 2010!). This has undoubtedly added to the further contraction in gross fixed capital formation. In addition, the budget still has large overdue liabilities to the business sector. The process of piling up such liabilities started in the last months of 2009 when their amount snowballed to BGN 800 million. Although their absolute level has been declining in 2010, at the end of March 2011 they still amounted to BGN 432 million.

Second, financial flows in the economy by and large reversed their direction as compared to the situation before the crisis. While in that period commercial banks were systematically borrowing funds abroad and channelling these funds to the corporate and household sectors in the form of credit, at present banks are mostly borrowing from the household sector in the form of deposits and then channelling these funds abroad, paying back maturing liabilities and reducing their foreign exposures. In the context of a currency board arrangement (implying absence of monetary policy) the authorities have no policy instruments to address such reversals of financial flows. Consequently, banks' domestic credit activity remains fairly limited with aggregate net new credit for the economy as a whole close to zero in the first month of the year. The picture is similar in cross-border inter-firm loans (reflected in the FDI statistics): recently there have been large repayments of old cross-border inter-firm loans. In some months in the beginning of 2011 this has even resulted in negative overall FDI inflows.

Such a reversal in macroeconomic financial flows has affected adversely liquidity in the corporate sector, with negative implication for both current economic activity and firms' investment. Another indication of this situation is the continuing surge in substandard and non-performing loans which reached the level of 19.3% at the end April, up from 13.7% a year earlier. At these levels, bad loans are already becoming a burden to the banking system; their further escalation may pose risks to its overall stability. Nevertheless, at present the banking system as a whole is generally perceived as stable, in particular, thanks to its strong capital base. Bulgarian banks do not have exposure to Greek debt and the main source of external risk can mainly be associated with potential contagion in the case of a possible escalation of the Greek crisis which could trigger massive withdrawal of funds by foreign creditors from emerging markets in general.

The picture is mixed also regarding other aspects of macroeconomic performance. After a seasonal upturn during the winter, inflationary pressures seem to be subsiding and are not likely to resurge in the short run in view of the weak domestic demand. As to unemployment, the two available measures point in the opposite direction: according to registration statistics, the unemployment rate has been on a downward trend since the start of the year whereas LFS statistics suggests an upsurge in the unemployment rate compared to the previous quarter. This discrepancy may well suggest a rise in those discouraged to maintain their status of registered unemployed.

Despite a relative improvement in the cash balance of the consolidated government in the first quarter of 2011 compared to the same period of the previous year, both tax revenues and the fiscal balance have been below current year targets. Compared to the previous year, there has been a moderate rise in revenue from VAT and excises and a decrease in public expenditure (the latter mostly due to the cuts in public investment). The cash deficit of the consolidated general government at the end of March stood at almost BGN 1 billion (1.4% of annual GDP) given that the government target for the year as a whole is BGN 2.2 billion. The government has been financing the deficit mostly by drawing deeper into the fiscal reserve: at the end of March, the reserve stock dropped by a further BGN 1.3 billion (almost 2% of annual GDP) from its level at the end of December 2010.

As the pace of output in recent months has been rather uneven, the sustainability of the current export-led recovery is still questionable. Importantly, there is no evidence yet of improving consumer and, especially, investor confidence. The export boom was made possible thanks to higher rates of utilization of production capacities and/or new capacity put into operation in recent years. However, if business investment remains subdued, this would undermine the supply-side potential to maintain the pace of export growth even if external demand remains strong (which in itself is not guaranteed).

On balance, the unexpectedly strong export boom provides some room for a possible, though conditional, upgrade of Bulgaria's growth forecasts. Under the assumptions that exports would continue to grow strongly and that private consumption turns the corner in the course of the year, GDP for 2011 as a whole could grow by some 3%. The U-turn in the current account balance has already gathered sufficient momentum to suggest that it may well remain in positive territory for the year as a whole. By contrast, the labour market has been performing below expectations in the beginning of the year suggesting higher rates of unemployment than initially expected. There have been no major developments regarding the prices dynamics, with annual average inflation rates expected to remain moderate. If these trends are sustained in 2011, they could also provide room for a moderate upgrade of the growth forecasts in 2012 and 2013.

Future macroeconomic performance, however, hinges very much on how economic policy would respond to the current and forthcoming challenges. The past two years did not provide evidence of any countercyclical policy efforts, or efforts to support economic activity on the part of the government. The economy has now started to recover despite, rather than thanks to, the effects of the government policy stance. This situation adds further uncertainty as to the short-term outlook for the Bulgarian economy.

Table BG

## Bulgaria: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 7659.8 | 7623.4 | 7585.1 | 7534.3 | . | . | 7540 | 7520 | 7500 |
| Gross domestic product, BGN mn, nom. | 60184.6 | 69295.0 | 68321.6 | 70474.3 | 14319.3 | 15902.8 | 75500 | 81500 | 88000 |
| annual change in % (real) | 6.4 | 6.2 | -5.5 | 0.2 | -4.8 | 1.5 | 3 | 3.5 | 3.5 |
| GDP/capita (EUR at exchange rate) | 4000 | 4600 | 4600 | 4800 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 10100 | 10900 | 10400 | 10600 | . | . | . | . | . |
| Consumption of households, BGN mn, nom. | 41300.8 | 45765.7 | 42942.1 | 42844.4 | 9619.8 | 9980.6 | . | . | . |
| annual change in % (real) | 9.1 | 3.4 | -7.6 | -1.3 | -5.8 | -2.1 | 1 | 1.5 | 2 |
| Gross fixed capital form., BGN mn, nom. | 17263.9 | 23282.6 | 19724.3 | 16546.4 | 3170.2 | 3109.1 | . | . | . |
| annual change in % (real) | 11.8 | 21.9 | -17.6 | -16.5 | -22.1 | -12.4 | -5 | 5 | 10 |
| Gross industrial production 2) | | | | | | | | | |
| annual change in % (real) | 9.6 | 0.6 | -17.4 | 1.1 | -4.4 | 10.3 | 10 | 8 | 8 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -21.0 | 33.0 | -1.6 | -3.3 | . | . | . | . | . |
| Construction industry 3) | | | | | | | | | |
| annual change in % (real) | 27.9 | 12.6 | -14.5 | -17.9 | -26.1 | -14.8 | . | . | . |
| Employed persons - LFS, th, average | 3252.6 | 3360.7 | 3253.6 | 3052.8 | 3011.3 | 2890.7 | 3000 | 3050 | 3100 |
| annual change in % | 4.6 | 3.3 | -3.2 | -6.2 | -7.7 | -4.0 | -1.7 | 1.7 | 1.6 |
| Unemployed persons - LFS, th, average | 240.2 | 199.7 | 238.0 | 348.1 | 341.0 | 395.5 | . | . | . |
| Unemployment rate - LFS, in %, average | 6.9 | 5.6 | 6.8 | 10.2 | 10.2 | 12.0 | 11 | 10 | 9 |
| Reg. unemployment rate, in %, end of period | 6.9 | 6.3 | 9.1 | 9.2 | 10.1 | 9.5 | . | . | . |
| Average gross monthly wages, BGN | 430.6 | 524.5 | 591.8 | 642.0 | 619.0 | 671.0 | . | . | . |
| annual change in % (real, gross) | 10.4 | 8.4 | 9.8 | 5.9 | 9.0 | 6.1 | . | . | . |
| Consumer prices (HICP), % p.a. | 7.6 | 12.0 | 2.5 | 3.0 | 1.9 | 4.5 | 4 | 4 | 4 |
| Producer prices in industry, % p.a. | 7.7 | 10.9 | -6.5 | 8.6 | 4.0 | 13.2 | . | . | . |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 40.8 | 39.3 | 36.0 | 34.5 | 38.2 | . | . | . | . |
| Expenditures | 39.7 | 37.6 | 40.7 | 37.7 | 45.0 | . | . | . | . |
| Net lending (+) / net borrowing (-) | 1.1 | 1.7 | -4.7 | -3.2 | -6.8 | . | -3 | -2.5 | -2 |
| Public debt, EU-def., in % of GDP | 17.2 | 13.7 | 14.6 | 16.2 | 14.9 | 14.7 | 17 | 18 | 19 |
| Central bank policy rate, % p.a., end of period 4) | 4.6 | 5.8 | 0.6 | 0.2 | 0.2 | 0.2 | . | . | . |
| Current account, EUR mn | -7756 | -8162 | -3117 | -356 | -554 | 253 | 1000 | 500 | 0 |
| Current account in % of GDP | -25.2 | -23.0 | -8.9 | -1.0 | -7.6 | 3.1 | 2.6 | 1.2 | 0.0 |
| Exports of goods, BOP, EUR mn | 13512 | 15203 | 11699 | 15589 | 3058 | 4758 | 19000 | 21000 | 23000 |
| annual growth rate in % | 12.5 | 12.5 | -23.0 | 33.3 | 15.0 | 55.6 | 22 | 11 | 10 |
| Imports of goods, BOP, EUR mn | 20758 | 23800 | 15874 | 18002 | 3625 | 4711 | 20500 | 23000 | 25500 |
| annual growth rate in % | 18.1 | 14.7 | -33.3 | 13.4 | -4.9 | 29.9 | 14 | 12 | 11 |
| Exports of services, BOP, EUR mn | 4760 | 5375 | 4918 | 5282 | 742 | 816 | 5800 | 6100 | 6400 |
| annual growth rate in % | 13.7 | 12.9 | -8.5 | 7.4 | -6.7 | 9.9 | 10 | 5 | 5 |
| Imports of services, BOP, EUR mn | 3586 | 4045 | 3617 | 3380 | 736 | 682 | 3400 | 3700 | 4000 |
| annual growth rate in % | 9.9 | 12.8 | -10.6 | -6.6 | -12.3 | -7.3 | 1 | 9 | 8 |
| FDI inflow, EUR mn | 9046 | 6729 | 2413 | 1639 | 53 | -5 | 1500 | 1500 | 1800 |
| FDI outflow, EUR mn | 207 | 516 | -86 | 180 | 29 | 22 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 11216 | 11928 | 11943 | 11612 | 10083 | 9261 | . | . | . |
| Gross external debt, EUR mn | 29017 | 37157 | 37724 | 36679 | 37268 | 36099 | . | . | . |
| Gross external debt in % of GDP | 94.3 | 104.9 | 108.0 | 101.8 | 103.4 | 93.5 | . | . | . |
| Average exchange rate BGN/EUR | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.956 | 1.956 | 1.956 |
| Purchasing power parity BGN/EUR | 0.7838 | 0.8358 | 0.8686 | 0.8790 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer prices refer to NACE Rev. 2.
1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) Private enterprises with 5 and more employees, all enterprises in public sector. - 4) Base interest rate. This is a reference rate based on the average interbank LEONIA rate of previous month (Bulgaria has a currency board).

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Leon Podkaminer*

# The Czech Republic:
## Fiscal consolidation amid elevated political tensions

***Economic growth in the current year will slow down. Fiscal consolidation measures – if consistently implemented – will restrict household consumption. However, it is hoped that fixed investment will register a modest take-off. Foreign trade, depending predominantly on exports to Germany, has assumed the lead – and positive - role. Monetary policy is expected to remain relaxed, thus helping to check currency appreciation. The political situation will remain highly volatile.***

The consolidation of public finances has been the overwhelming economic priority of the centre-right coalition government of Petr Nečas, in office since May 2010. Already in that year important (albeit somewhat 'ad hoc') decisions were implemented to reduce the size of the contemporaneous deficit of the public sector. Additional tax revenue amounting to 1.8% of GDP was collected and public expenditure was additionally cut by about 1% of GDP. Those emergency actions reduced the public sector deficit reported for 2010 to 4.7% of GDP (down from close to 6% recorded in 2009). But by reducing the growth rate of government consumption from 2.6% in 2009 to a mere 0.3%[22], the fiscal consolidation was partly responsible for a relatively slow pace of GDP recovery in 2010 (2.3%). The consolidation measures that are currently implemented have been worked out more systematically – and constitute a part of the long-term overall economic (but in fact also social) strategy which aims at the elimination of the deficit in 2016.[23] For 2011 these measures stipulate additional (personal) taxation amounting to 0.5% of the projected GDP and additional expenditure cuts of about 1.6% of the GDP. Additional cuts in social benefits (including unemployment benefits and sickness pay) are to reduce public expenditure by 0.3% of GDP, cuts in wages of government sector employees by another 0.3%, additional cuts in other expenditure items by some 0.9%. Government consumption is to fall 3.4% in 2011. All in all, the consolidation measures are to reduce the public sector fiscal deficit to 4.2% of the projected GDP in 2011. But, according to the official Convergence Programme, GDP growth is assumed to weaken to 1.9% in 2011.

The GDP growth recorded (provisionally) in the first quarter of 2011 stands at a respectable 3.1%, much higher than planned. To some extent the recorded GDP growth reflects the 'low-base effect' as meaningful GDP recovery started only in the second quarter of 2010. Private consumption fell, as generally expected, if not much. Growth of private consumption is negatively affected by the fiscal consolidation measures (higher personal taxation and lower social transfers, restraints on the government sector's wage bill) and remains weak – even though both employment and nominal wages

[22] Government consumption rose by 1.5% in the first half of 2010 – but declined in the second half (by 0.4%).

[23] See: 'Convergence Programme of the Czech Republic', Czech Finance Ministry, April 2011.

in the business sector (primarily in industry) have risen (slightly) in the first quarter of 2011. In real terms the household sector's disposable income probably remained flat. Moreover, the growth rate of loans extended to the household sector continues to decline. This is rather understandable as interest rates on consumer credit (other than mortgage loans) remain very high (over 14%), reflecting pessimistic perceptions of households' financial stance. However, government consumption fell only 1.2% – way off the 3.2% that would have been consistent with the fiscal consolidation plan. It is not clear yet why the cuts in government consumption did not follow the plan. One possibility is political in character. Grave tensions have recently surfaced, threatening the survival of the current coalition government. The prospect of early elections may have blunted the enthusiasm for the consistent implementation of some austerity measures.

In contrast to interest rates on consumer loans, the rates on loans to the business sector are fairly moderate (ranging between 3% and 4%) and generally decreasing. This does not induce any meaningful recovery in business sector borrowing. The weak demand for loans primarily reflects firms' cautious assessment of the overall sales developments in the coming quarters. Given the levels of spare production capacities, firms find it possible to expand production without incurring more external financing. A more pronounced demand for such financing (including for bank loans) has to await an authentic and sustained push into creation of new production capacities.

The bulk of growth registered in the first quarter of 2011 was generated by foreign trade in goods and non-factor services. In real terms exports rose by 16.7%, imports by 14%. The importance of exports is attested also by available statistics on sales of industrial production. While direct export sales increased by close to 22% (at current prices) in the first quarter of 2011, domestic sales rose only slightly over 5%.[24] Recent data on new orders placed with industry do not signal any change in destination of industrial production. In March 2011 the value of new export orders rose by 20% (year on year) while the value of domestic orders fell by close to 5%.

While the strong foreign trade performance is of course very welcome, it carries – in the Czech case – some risks. First of all, because of its current role as a chief determinant of overall growth, it exposes the whole national economy to the whims of business climate developments abroad. Worse still, Czech foreign trade (and industry) is singularly dependent on the developments in a single partner country: Germany. Rising Czech exports to Germany have recently been of crucial importance for the overall dynamics of exports. Germany has recently been absorbing about one third of the country's merchandise exports (while supplying one fourth of its merchandise imports). The overall Czech trade surplus has recently been matched by its surplus in trade with Germany. Now, as long as the German economy performs well, Czech foreign trade may thrive too. But should Germany slow down, the Czech export and industrial machinery may have to slow down as well. This could have highly negative consequences for the overall economy.

Summing up, growth in the current year will be slowing down from the level achieved in the first quarter. The 'low-base effects' will no longer be present while the effects of fiscal consolidation

24 All industrial sales rose by 12.9% in nominal terms, roughly as much as in real terms.

measures – if consistently implemented – will be restricting private (and total) consumption. Signs of a take-off in fixed investment (both private and public) have surfaced in the first quarter: hopefully more investment materializes soon. What remains as a reasonably secure source of growth is foreign trade, with exports to Germany playing the lead role. No doubt the internal productivity and cost developments will support positive developments in foreign trade. Also, the interest rate policy of the Czech National Bank may be expected to be supportive – by acting to moderate the appreciation of the domestic currency.

The prospects for 2012 (and beyond) are highly uncertain. In an optimistic scenario, Germany fares well – and Czech exports (and industry) perform well too. In due time, this might then be expected to activate a self-supporting expansion of investment (by both domestic and foreign parties) in fixed productive assets. Rising wages, household income and consumption would then follow, with the trade performance gradually losing in importance. Of course, less optimistic scenarios are no less possible, starting with one in which the German economy returns to its traditional (pre-crisis) near-stagnation. Even if Germany performs well (due to its own continuing export offensive), the transition from an export-led to an investment-led growth path would not be unproblematic. In the first place it is not clear why the new productive capacities (particularly by foreign parties) should be installed in the Czech Republic – in preference to other equally (or more) attractive locations in other New Member States. Of course, there are 'structural reforms' to be implemented in 2012 and beyond. These reforms, which are integral parts of the longer-term fiscal consolidation strategy, stipulate further downsizing of public spending (e.g. on health, social protection and education), advanced deregulation of business activities, and further flexibilization of the labour market. The reforms may enhance the investment attraction of the Czech Republic and make it more competitive even vs. some non-European emerging markets. On the other hand these reforms, if consistently enforced, may make the Czech Republic increasingly unattractive to its own labour force – and to its voting population. For that reason the reform (and consolidation) impetus may well get blunted. In effect by becoming more inward-oriented, growth in 2012 (and beyond) may also get faster and more robust.

Table CZ

## Czech Republic: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 10334 | 10424 | 10487 | 10514 | . | . | 10540 | 10580 | 10610 |
| Gross domestic product, CZK bn, nom. | 3535.5 | 3689.0 | 3625.9 | 3669.8 | 870.1 | 888.9 | 3780 | 3950 | 4180 |
| annual change in % (real) | 6.1 | 2.5 | -4.2 | 2.3 | 1.2 | 3.1 | 2.2 | 2.5 | 3.7 |
| GDP/capita (EUR at exchange rate) | 12300 | 14200 | 13100 | 13800 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 19900 | 20200 | 19300 | 19500 | . | . | . | . | . |
| Consumption of households, CZK bn, nom. | 1659.6 | 1804.2 | 1804.3 | 1835.4 | 430.0 | 439.6 | . | . | . |
| annual change in % (real) | 4.8 | 3.6 | -0.3 | 0.4 | -0.4 | -0.5 | 1 | 2.5 | 3 |
| Gross fixed capital form., CZK bn, nom. | 890.3 | 883.2 | 814.0 | 771.1 | 171.7 | 176.2 | . | . | . |
| annual change in % (real) | 10.8 | -1.5 | -7.9 | -4.6 | -7.8 | 3.7 | 2 | 4 | 6 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 10.6 | -1.9 | -13.6 | 10.0 | 6.8 | 12.7 | 8 | 7 | 8 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 3.1 | 6.8 | -3.5 | -4.6 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 7.0 | -0.2 | -0.8 | -7.1 | -21.4 | 5.9 | . | . | . |
| Employed persons - LFS, th, average | 4922.0 | 5002.5 | 4934.3 | 4885.2 | 4829.2 | 4864.4 | 4910 | 4930 | 4950 |
| annual change in % | 1.9 | 1.6 | -1.4 | -1.0 | -2.4 | 0.7 | 0.5 | 0.5 | 0.5 |
| Unemployed persons - LFS, th, average | 276.6 | 229.8 | 352.2 | 383.5 | 422.7 | 376.2 | . | . | . |
| Unemployment rate - LFS, in %, average | 5.3 | 4.4 | 6.7 | 7.3 | 8.2 | 7.3 | 7.3 | 7.0 | 6.5 |
| Reg. unemployment rate, in %, end of period | 6.0 | 6.0 | 9.2 | 9.8 | 9.7 | 9.2 | . | . | . |
| Average gross monthly wages, CZK 2) | 20957 | 22592 | 23344 | 23797 | 22673 | 23144 | . | . | . |
| annual change in % (real, gross) | 4.3 | 1.4 | 2.3 | 0.4 | 1.9 | 0.4 | 0.8 | 1.5 | 2 |
| Consumer prices (HICP), % p.a. | 2.9 | 6.3 | 0.6 | 1.2 | 0.4 | 1.9 | 2.0 | 2.0 | 2.0 |
| Producer prices in industry, % p.a. | 2.6 | 0.4 | -1.5 | 0.1 | -3.9 | 3.2 | 2.5 | . | . |
| General governm. budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 41.8 | 40.2 | 40.1 | 40.5 | . | . | 41.2 | 41.2 | . |
| Expenditures | 42.5 | 42.9 | 45.9 | 45.2 | . | . | 45.8 | 45.2 | . |
| Net lending (+) / net borrowing (-) | -0.7 | -2.7 | -5.8 | -4.7 | . | . | -4.6 | -4.1 | -3.5 |
| Public debt, EU-def., in % of GDP | 29.0 | 30.0 | 35.3 | 38.5 | . | . | 41.3 | 42.9 | 44.0 |
| Central bank policy rate, % p.a., end of period 3) | 3.50 | 2.25 | 1.00 | 0.75 | 1.00 | 0.75 | 1.5 | 2.0 | 2.0 |
| Current account, EUR mn | -4090 | -962 | -4396 | -5563 | 248 | 811 | -4000 | -5000 | -5200 |
| Current account in % of GDP | -3.2 | -0.7 | -3.2 | -3.8 | 0.7 | 2.2 | -2.6 | -3.0 | -3.0 |
| Exports of goods, BOP, EUR mn | 89379 | 99158 | 77006 | 95398 | 21503 | 26968 | 111000 | 122000 | 132000 |
| annual growth rate in % | 18.1 | 10.9 | -22.3 | 23.9 | 19.8 | 25.4 | 16 | 10 | 8 |
| Imports of goods, BOP, EUR mn | 85038 | 95031 | 73946 | 93298 | 20391 | 25684 | 107000 | 120000 | 130000 |
| annual growth rate in % | 15.8 | 11.8 | -22.2 | 26.2 | 18.7 | 26.0 | 15 | 12 | 8 |
| Exports of services, BOP, EUR mn | 12311 | 14849 | 14594 | 16350 | 3475 | 3926 | 18000 | 20000 | 22000 |
| annual growth rate in % | 11.0 | 20.6 | -1.7 | 12.0 | 3.2 | 13.0 | 11 | 12 | 10 |
| Imports of services, BOP, EUR mn | 10526 | 12210 | 12125 | 13743 | 2854 | 3260 | 15000 | 17000 | 19000 |
| annual growth rate in % | 10.9 | 16.0 | -0.7 | 13.3 | 2.2 | 14.2 | 12 | 12 | 10 |
| FDI inflow, EUR mn | 7667 | 4467 | 2082 | 5104 | 1846 | 715 | 4000 | . | . |
| FDI outflow, EUR mn | 1187 | 2964 | 685 | 1283 | 664 | 170 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 23456 | 26386 | 28556 | 31357 | 29110 | 29486 | . | . | . |
| Gross external debt, EUR mn | 51642 | 59689 | 61940 | 71379 | 62918 | . | . | . | . |
| Gross external debt in % of GDP | 40.6 | 40.4 | 45.2 | 49.2 | 43.3 | . | . | . | . |
| Average exchange rate CZK/EUR | 27.77 | 24.95 | 26.44 | 25.28 | 25.88 | 24.37 | 24.5 | 24 | 24 |
| Purchasing power parity CZK/EUR | 17.17 | 17.54 | 17.94 | 17.87 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer price index refer to NACE Rev. 2.
1) Preliminary. - 2) Enterprises with 20 and more employees, including part of the Ministry of Defence and the Ministry of the Interior. From 2009 all enterprises covered. - 3) Two-week repo rate.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Sebastian Leitner*

# Baltic States:
## Recovering again on the fast lane

***Particularly Estonia, exports since the end of 2010 have expanded much more firmly than expected. Similarly, an upsurge in gross fixed investments has been the main growth driver in Latvia and Lithuania, while household consumption will also gain some momentum at a later stage. We expect GDP to increase between 3.6% in Latvia and 5.7% in Estonia in 2011. Each of the three countries will grow between 4% and 5% in the two years thereafter, when growth in external demand will abate. Despite faster GDP growth, the situation in the labour markets will remain disappointing for a long time to come.***

In the Baltic States, particularly Estonia, exports have expanded much faster than expected since the end of 2010. This has led to a substantial upward revision of economic growth forecasts. In Latvia and Lithuania, a revival of gross fixed investment acts as the main growth driver, while household consumption will gain some momentum as well. For 2011 we expect GDP growth in the range of 3.6% (Latvia) to 5.7% (Estonia). In the subsequent two years, when growth in external demand will be abating, each of the three countries will grow by 4% to 5%. Despite faster growth, the situation in the labour markets will remain disappointing for a longer period. Unemployment rates, at an average 5% in the Baltic States before the crisis, more than tripled up to mid-2010 and will be reduced to 9.5% in Estonia and 12.5% in Latvia and Lithuania only by 2013.

### Estonia

In the first quarter of 2011 soaring exports continued to be the main growth driver for the Estonian economy. This time the upswing in external demand was triggered not only by Sweden and the eastern neighbours, but also by the US and the EU's new member states. While in 2010 currency appreciations led to a rise in unit labour costs (ULC) in many NMS, in Estonia a decline of ULC resulted from strong employment cuts in manufacturing and a general wage restraint. The improvement in external competitiveness facilitated growth rates of more than 50% in goods exports in nominal terms, and a more than 30% increase in industrial production in real terms. At the same time the structure of Estonian exports has been upgrading. Almost 30% of exports are now composed of machinery and equipment. As the medium-term growth forecasts for the main export markets are quite positive, external demand will remain to serve as a strong stimulus for the Estonian economy.

Household consumption, after having stabilized in the second half of 2010, is reviving again: in the first quarter of 2011 it grew by 5.4% year on year in real terms. The recovery in the labour market has led to slight rises in nominal wages. Real wages, however, are still declining due to rising consumer prices. Therefore household demand will recover only gradually in the medium term. At the same time, the investment activity of enterprises is on the rise again, particularly in manufacturing, transport and business services. The ongoing process of restocking represents a strong impulse for domestic demand.

Rising prices for imported food and raw materials caused inflation to climb to above 5% p.a. in the past half year. Although the pressure from trade-induced price rises is expected to abate somewhat, the substantial economic upswing in 2011 will result in rising nominal wages and therefore also higher core inflation. Thus, we expect consumer prices to rise by about 5.5% on average in 2011, while in the coming two years only a slight deceleration of inflation is going to take place.

The economic revival in 2010 and the first quarter of 2011 caused employment to grow again, particularly in manufacturing and business services but more recently also in construction. However, the overall employment is still nearly 10% below the pre-crisis level. The unemployment rate amounted to 14.4% in the first quarter of 2011. Although forecasts of economic growth are favourable, unemployment rates are expected to fall below 10% only in 2013 in line with a more substantial and lasting upswing of domestic demand.

In 2010 Estonia was the only EU country to attain a fiscal surplus, which amounted to 0.1% of GDP. This achievement, however, was in part the result of sizeable sales of Kyoto carbon units and a delay of planned public investments. We expect that in both 2011 and 2012 public finances are going to deteriorate somewhat. Since the entry to the eurozone has been accomplished and one-off austerity measures are going to expire, a somewhat laxer fiscal policy stance is to be expected. Nevertheless, the budget deficit will remain very low (and public debt almost non-existent). The Estonian medium-term state budget strategy approved in April 2011 foresees a fiscal surplus to be attained again in 2013.

As expected, the introduction of the euro at the beginning of the year did not bring about any major changes. However, the FDI inflow started to pick up more swiftly than in other new EU member states. For 2011 we expect the revival of economic activity to become stronger and more broadly based. The growth drivers of 2010 – the replenishment of inventories and export activity (increasing still stronger than imports) – will still play an important role. But, as already observed in the first quarter of 2011, the upswing of gross fixed investment and household consumption is becoming more pronounced. The increase in employment and a slight rebound in wages should help household demand to give an additional, if still small impulse. Thus, with stronger domestic demand and rising imports the current account balance will turn into deficit – albeit small. In 2012 and 2013, we expect GDP to grow at a somewhat slower pace, by 4.5% and 4.8%, respectively. External demand will lose some of its dynamism. At the same time the deleveraging process of households and enterprises will come to an end, allowing private demand and imports to increase again more swiftly.

## Latvia

After gross fixed capital investment still declined substantially throughout 2010, the first quarter of 2011 witnessed a strong revival of investments (+28% year on year in real terms). This was particularly driven by expenditures on machinery and equipment of public utilities and the transport sector. However, the growth of capital investments is likely to be somewhat lower on average in 2011, as bank loans to the private sector are still on the decline. Household consumption continued to grow more strongly than expected in the first quarter of 2011, increasing by 3.6% year on year in real terms. But, due to rising consumer prices, real wages continue to be restrained and the share of non-performing loans still amounted to almost 20% in the first quarter of 2011.

Latvian exports also performed strongly in the first quarter of 2011, rising by more than 40% year on year in nominal terms. But the rise in domestic demand also triggered a renewed increase in imports of goods and services. Thus, net trade – after providing a positive stimulus to GDP growth during the past three years when domestic demand was deeply depressed – is contributing negatively to GDP growth in 2011 and thereafter. The still eminent weakness of Latvia's tradable goods sector can also be indentified when comparing trade figures and industry performance. Although exports developed quite strongly (in nominal terms), the real growth of industrial production, at only 11% year on year, remained relatively low in the first quarter.

As in other CESEEs, also in Latvia the rising prices of imported food and energy caused inflation to resurge to 3.8% in the first quarter of 2011. Due to the tax hikes adopted in order to accomplish fiscal consolidation, consumer prices are to increase further throughout 2011, although with 4.5% annually still quite moderately. In the following two years price increases should abate somewhat, since the government intends to refrain from further consolidation measures on the revenue side. Moreover, the tight situation on the labour market will keep wages restrained for a longer period. The economic recovery has not resulted in a significant revival of employment yet. Particularly jobs in industry still declined slightly. The unemployment rate fell only somewhat, to 16.6% in the first quarter of 2011. Given the strict consolidation path pursued by the Latvian government, the situation on the labour market will improve only gradually, and the unemployment rate will still exceed 12% on average in 2013.

In April 2011 the parliament approved amendments to the 2011 budget law in order to accelerate fiscal consolidation. The adopted austerity measures include further tax hikes on excises and natural gas for final consumers. The reduction of maternity leave and sickness benefits that were introduced as one-off measures in the course of the economic crisis will be extended until the end of 2014. With those measures introduced, the Latvian government expects to reduce the budget deficit to 4.2% of GDP in 2011 and further to 2.5% in 2012, which could enable the country to join the eurozone at the beginning of 2014 as intended. Nevertheless, inflationary developments may hamper the achievement of that goal. In May 2011 the IMF and the EU Commission approved the next tranche of their rescue package. The Latvian authorities however do not intend to draw on the amount but re-entered the international capital market by successfully placing a USD 500 million ten-year bond at a rate of 5.25%.

On 23 July the Latvian electorate are called to a referendum on the dissolution of the parliament which was initiated at the end of May by President Valdis Zatlers after lawmakers had blocked an anti-corruption investigation against Ainars Slesers, the head of the pro-business opposition party 'For a Good Latvia'. In June the parliament refused Zatlers a second term as president of Latvia, but opted for Andris Berzins, a former banker, to become his successor. Nevertheless, in the upcoming referendum Latvians will most probably vote for early parliamentary elections in September. It is expected that Prime Minister Dombrovski will again be backed by the electorate as was the case in last year's vote. Therefore no substantial changes are to be awaited concerning fiscal and economic policies in the medium term.

For the whole year 2011, we expect the Latvian GDP to grow by 3.6% in real terms, after three years of decline by more than 20% cumulatively. Gross fixed investment, especially in industrial sectors, as well as the process of restocking are expected to act as the main growth drivers this year. The financial situation of indebted households and high unemployment will allow private consumption to increase only slightly, while the government's consolidation measures will further reduce public consumption. Although the current account will still remain positive in 2011, net trade will contribute negatively to overall economic activity. In the years 2012 and 2013, GDP growth is likely to pick up further to 3.8% and 4% respectively in real terms, mainly thanks to the ongoing revival of capital investments. A slight amelioration of the labour market situation and some revival of real incomes should allow households to expand consumption more swiftly again.

## Lithuania

With 6.9% growth in the first quarter of 2011, Lithuania was the second fastest growing economy in the European Union after Estonia. This was predominantly caused by an enormous surge in gross fixed capital investment, by more than 40% year on year in real terms, and the restocking activity. In Lithuania not only investments in transport equipment and machinery, but also in dwellings and other buildings rebounded. Therefore construction activity grew as well, by nearly 16% in the first quarter of 2011.

Also household consumption, which had declined until the fourth quarter of 2010, resumed growth and rose by 5.5% in real terms in the first quarter of 2011. Wages had started to recover already in the second half of 2010, nevertheless rising consumer prices caused real incomes of households to keep declining. Given the slow recovery in the labour market we expect consumption to develop less swiftly throughout 2011; it will rise only gradually in the next two years, by 3.3% and 4% respectively.

As in Estonia, Lithuanian goods exports continued their fast expansion in the first months of 2011. The nominal growth of almost 50% in the first quarter of the year is to a large degree driven by the revival of prices for oil products, which represent Lithuania's most important export product. Moreover, external demand developed above average also for chemical products and transport equipment as well as for food products. The upswing furthermore triggered overall industrial production, which grew by about 15% in the first quarter in real terms. However, also imports rebounded strongly along with the rise of domestic demand, by 27% year on year in real terms according to national accounts figures. With the revival of economic activity the trade deficit has started to widen again and the current account deficit is likely to reach at least 2% of GDP on average in 2011.

Also in Lithuania the rise of food and energy prices resulted in inflation to rise again (3.2% in the first quarter of 2011). However, also core inflation started to pick up slightly. Therefore we expect consumer prices to increase by 4.5% this year and inflation to remain at this level during 2012 and 2013. Although economic activity has started to revive strongly, growth in employment remains sluggish, particularly in manufacturing and construction where job losses were the most dramatic during the crisis. Only in the private services sectors is employment creation gaining some momentum. In the first quarter of 2011 the unemployment rate still amounts to 17.2%. In the coming three years an amelioration of the situation in the labour market will take place only gradually, with emigration again playing a role in reducing unemployment figures. First results of the Lithuanian 2011 Household and Population Census show that the resident population of Lithuania has been reduced much more than expected by emigration since the EU accession. Thus population figures have to be revised downwards from 3.2 million to only 3 million.

As opposed to the case of Latvia, the Lithuanian government does not stick to the demanding aim of joining the eurozone as early as in 2014. The consolidation path in Lithuania foresees a reduction of the deficit to 5.3% in 2011. The revival of economic growth and the increases in VAT rates will most likely permit to attain this goal. However, the aim to move towards a deficit of 3% in 2012 seems overambitious, at least without implementing further expenditure cuts and measures on the revenue side. The government discusses the introduction of wealth taxes on residential real estate and motor vehicles, a further increase in excise duties and an acceleration of the ongoing pension reforms. It is unclear however when these measures will become effective and how long the freeze of wages in the public sector (which have been cut substantially during the crisis) can be sustained. We therefore expect the budget deficit to decline to 4% of GDP in 2012 and to fall slightly below the 3% line only in 2013, provided a strengthening of domestic demand.

In 2011 we expect economic growth to reach 5% in real terms. Gross capital formation will again be the strongest driver of the upswing. However, also a slight increase in household consumption will back up domestic demand. With the move of the current account into deficit, net trade again starts to contribute negatively to overall growth. Economic activity is likely to abate somewhat in 2012 and 2013 compared to this year. The strong revival of exports will subside, but domestic demand should regain some momentum due to rising wages and a revival of lending activity. Thus we expect GDP to grow by 4.4% and 4.6% respectively in real terms in the subsequent two years.

Table EE

## Estonia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 1341.7 | 1340.7 | 1340.3 | 1340.1 | . | . | 1339 | 1338 | 1338 |
| Gross domestic product, EUR mn, nom. | 15827 | 16107 | 13861 | 14501 | 3236 | 3709 | 16200 | 17700 | 19400 |
| annual change, % (real) | 6.9 | -5.0 | -13.9 | 3.1 | -2.6 | 8.5 | 5.7 | 4.5 | 4.8 |
| GDP/capita (EUR at exchange rate) | 11800 | 12000 | 10300 | 10800 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 17400 | 17000 | 15000 | 15900 | . | . | . | . | . |
| Consumption of households, EUR mn, nom. | 8470 | 8690 | 6993 | 7000 | 1640 | 1831 | . | . | . |
| annual change in % (real) | 8.6 | -5.5 | -18.8 | -1.9 | -7.7 | 5.4 | 1.7 | 1.7 | 2.5 |
| Gross fixed capital form., EUR mn, nom. | 5452 | 4610 | 2991 | 2703 | 610 | 708 | . | . | . |
| annual change in % (real) | 6.0 | -15.0 | -32.9 | -9.2 | -20.2 | 12.0 | 9 | 9 | 10 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 6.4 | -5.2 | -24.0 | 20.9 | 5.5 | 32.3 | 23 | 18 | 15 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 12.5 | -1.2 | 2.8 | -2.5 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 13.5 | -13.3 | -29.8 | -12.4 | -34.2 | . | . | . | . |
| Employed persons - LFS, th, average | 655.3 | 656.5 | 595.8 | 570.9 | 553.6 | 591.3 | 595 | 610 | 620 |
| annual change in % | 1.4 | 0.2 | -9.2 | -4.2 | -9.6 | 6.8 | 4 | 3 | 2 |
| Unemployed persons - LFS, th, average | 32.0 | 38.4 | 95.1 | 115.9 | 136.9 | 99.3 | . | . | . |
| Unemployment rate - LFS, in %, average | 4.7 | 5.5 | 13.8 | 16.9 | 19.8 | 14.4 | 13 | 11.5 | 9.5 |
| Reg. unemployment rate, in %, end of period | 2.2 | 4.6 | 13.3 | 10.1 | 14.7 | 10.2 | . | . | . |
| Average gross monthly wages, EUR | 725 | 825 | 784 | 792 | 758 | 792 | . | . | . |
| annual change in % (real, gross) | 13.0 | 3.2 | -4.9 | -1.8 | -2.6 | -0.9 | . | . | . |
| Consumer prices (HICP), % p.a. | 6.7 | 10.6 | 0.2 | 2.7 | 0.0 | 5.2 | 5.5 | 4.5 | 4.5 |
| Producer prices in industry, % p.a. | 8.1 | 8.0 | 0.7 | 3.2 | -0.1 | 4.9 | . | . | . |
| General governm. budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 36.9 | 37.0 | 43.4 | 40.1 | . | . | 39.1 | 38.5 | 38.3 |
| Expenditures | 34.4 | 39.9 | 45.2 | 40.0 | . | . | 39.9 | 40.3 | 39.8 |
| Net lending (+) / net borrowing (-) | 2.5 | -2.9 | -1.8 | 0.1 | . | . | -0.8 | -1.8 | -1.5 |
| Public debt, EU-def., in % of GDP | 3.7 | 4.6 | 7.2 | 6.6 | . | . | 6.1 | 6.9 | 6.5 |
| Central bank policy rate, % p.a., end of period 2) | 7.0 | 7.0 | 2.8 | 0.9 | 1.6 | 1.0 | . | . | . |
| Current account, EUR mn | -2721 | -1568 | 628 | 517 | 6 | -63 | -100 | -500 | -800 |
| Current account in % of GDP | -17.2 | -9.7 | 4.5 | 3.6 | 0.2 | -1.7 | -0.6 | -2.8 | -4.1 |
| Exports of goods, BOP, EUR mn | 8142 | 8539 | 6536 | 8819 | 1780 | 2744 | 11900 | 14000 | 16800 |
| annual growth rate in % | 4.7 | 4.9 | -23.5 | 34.9 | 17.9 | 54.1 | 35 | 18 | 20 |
| Imports of goods, BOP, EUR mn | 10871 | 10664 | 7096 | 9033 | 1911 | 2861 | 12000 | 14400 | 17600 |
| annual growth rate in % | 7.9 | -1.9 | -33.5 | 27.3 | 11.5 | 49.7 | 33 | 20 | 22 |
| Exports of services, BOP, EUR mn | 3196 | 3513 | 3159 | 3403 | 700 | 770 | 3900 | 4400 | 4800 |
| annual growth rate in % | 11.3 | 9.9 | -10.1 | 7.7 | 2.3 | 10.0 | 15 | 13 | 9 |
| Imports of services, BOP, EUR mn | 2245 | 2288 | 1814 | 2093 | 465 | 561 | 2500 | 2800 | 3100 |
| annual growth rate in % | 13.4 | 1.9 | -20.7 | 15.4 | 5.9 | 20.5 | 19 | 12 | 11 |
| FDI inflow, EUR mn | 1992 | 1179 | 1209 | 1197 | 251 | 427 | 1800 | . | . |
| FDI outflow, EUR mn | 1276 | 760 | 1110 | 291 | 51 | 195 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn 3) | 2236 | 2814 | 2758 | 1904 | 2656 | 155 | | . | . |
| Gross external debt, EUR mn | 17406 | 19039 | 17256 | 16481 | 17113 | 16255 | . | . | . |
| Gross external debt in % of GDP | 110.0 | 118.2 | 124.5 | 113.7 | 118.0 | 100.3 | . | . | . |
| Average exchange rate EUR/EUR | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1 | 1 | 1 |
| Purchasing power parity EUR/EUR | 0.6834 | 0.7062 | 0.6905 | 0.6808 | . | . | . | . | . |

*Note:* Estonia has introduced the Euro from 1 January 2011. Up to and including 2010 all time series in EKK as well as the exchange rates and PPP rates have been divided for statistical purposes by the conversion factor 15.6466 (EKK per EUR) to a kind of statistical EUR (euro-fixed).

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

1) Preliminary. - 2) TALIBOR one-month interbank offered rate (Estonia has a currency board). 3) From January 2011 (Euro introduction) only the foreign currency reserves nominated in non-euro currency are included.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.

Table LV

## Latvia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 2276.1 | 2266.1 | 2254.8 | 2235.0 | . | . | 2220 | 2210 | 2200 |
| Gross domestic product, LVL mn, nom. | 14779.8 | 16188.2 | 13082.8 | 12735.9 | 2852.8 | 3070.9 | 13800 | 14800 | 16000 |
| annual change in % (real) | 10.0 | -4.2 | -18.0 | -0.3 | -6.1 | 3.5 | 3.6 | 3.8 | 4 |
| GDP/capita (EUR at exchange rate) | 9300 | 10200 | 8200 | 8000 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 13900 | 14100 | 12200 | 12600 | . | . | . | . | . |
| Consumption of households, LVL mn, nom. | 9087.1 | 10052.4 | 7941.2 | 7908.0 | 1870.0 | 2019.3 | . | . | . |
| annual change in % (real) | 14.9 | -5.3 | -24.1 | -0.1 | -6.2 | 3.6 | 2.2 | 2.2 | 2.5 |
| Gross fixed capital form., LVL mn, nom. | 4975.1 | 4748.5 | 2806.8 | 2286.3 | 339.5 | 449.4 | . | . | . |
| annual change in % (real) | 7.5 | -13.5 | -37.3 | -19.5 | -44.4 | 28.4 | 14 | 11 | 11.5 |
| Gross industrial production 2) | | | | | | | | | |
| annual change in % (real) | 1.1 | -3.2 | -18.1 | 14.9 | 5.5 | 10.7 | 13 | 10 | 8 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 10.8 | 0.2 | -0.7 | -3.6 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 13.6 | -3.1 | -34.9 | -23.4 | -43.4 | -15.1 | . | . | . |
| Employed persons - LFS, th, average | 1118.0 | 1124.5 | 983.1 | 945.0 | 916.1 | 944.3 | 970 | 1010 | 1040 |
| annual change in % | 2.8 | 0.6 | -12.6 | -3.9 | -12.5 | 3.1 | 3 | 4 | 3 |
| Unemployed persons - LFS, th, average | 71.3 | 90.5 | 203.2 | 215.0 | 235.8 | 188.3 | . | . | . |
| Unemployment rate - LFS, in %, average | 6.0 | 7.5 | 17.1 | 18.7 | 20.5 | 16.6 | 15.5 | 14 | 12.5 |
| Reg. unemployment rate, in %, end of period | 4.9 | 7.0 | 16.0 | 14.3 | 17.3 | 14.4 | . | . | . |
| Average gross monthly wages, LVL | 398 | 479 | 461 | 445 | 432 | 452 | . | . | . |
| annual change in % (real, net) | 19.9 | 6.2 | -5.6 | -6.5 | -9.0 | 0.2 | . | . | . |
| Consumer prices (HICP), % p.a. | 10.1 | 15.2 | 3.3 | -1.2 | -3.9 | 3.8 | 4.5 | 3.5 | 4 |
| Producer prices in industry, % p.a. | 16.1 | 11.4 | -4.6 | 2.8 | -4.8 | 8.2 | . | . | . |
| General government budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 35.4 | 34.6 | 34.6 | 35.2 | . | . | 36.7 | 36.5 | 37.0 |
| Expenditures | 35.8 | 38.8 | 44.2 | 42.9 | . | . | 41.5 | 40.4 | 39.0 |
| Net lending (+) / net borrowing (-) | -0.3 | -4.2 | -9.6 | -7.6 | . | . | -4.8 | -3.5 | -2.0 |
| Public debt, EU-def., in % of GDP | 9.0 | 19.7 | 36.7 | 44.7 | . | . | 48.5 | 49.5 | 49.0 |
| Central bank policy rate, % p.a., end of period 3) | 6.0 | 6.0 | 4.0 | 3.5 | 3.5 | 3.5 | . | . | . |
| Current account, EUR mn | -4710 | -3014 | 1598 | 643 | 351 | 52 | 100 | -300 | -600 |
| Current account in % of GDP | -22.3 | -13.1 | 8.6 | 3.6 | 8.7 | 1.2 | 0.5 | -1.4 | -2.7 |
| Exports of goods, BOP, EUR mn | 6020 | 6531 | 5253 | 6728 | 1374 | 1924 | 8700 | 10400 | 12600 |
| annual growth rate in % | 22.1 | 8.5 | -19.6 | 28.1 | 15.1 | 40.1 | 29 | 20 | 21 |
| Imports of goods, BOP, EUR mn | 11074 | 10603 | 6575 | 7884 | 1647 | 2227 | 9900 | 11900 | 14500 |
| annual growth rate in % | 22.6 | -4.3 | -38.0 | 19.9 | -2.1 | 35.2 | 26 | 20 | 22 |
| Exports of services, BOP, EUR mn | 2707 | 3088 | 2747 | 2773 | 615 | 648 | 2900 | 3200 | 3600 |
| annual growth rate in % | 27.6 | 14.1 | -11.0 | 0.9 | -9.7 | 5.5 | 5 | 10 | 13 |
| Imports of services, BOP, EUR mn | 1974 | 2169 | 1625 | 1660 | 356 | 390 | 1800 | 2000 | 2300 |
| annual growth rate in % | 24.5 | 9.9 | -25.1 | 2.2 | -8.6 | 9.5 | 8 | 11 | 15 |
| FDI inflow, EUR mn | 1705 | 869 | 68 | 260 | -104 | 238 | 500 | . | . |
| FDI outflow, EUR mn | 270 | 169 | -44 | 12 | 45 | -25 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 3860 | 3514 | 4572 | 5472 | 5321 | 4997 | . | . | . |
| Gross external debt, EUR mn | 26835 | 29763 | 29097 | 29940 | 29175 | 29243 | . | . | . |
| Gross external debt in % of GDP | 127.1 | 129.2 | 157.0 | 166.6 | 162.3 | 150.2 | . | . | . |
| Average exchange rate LVL/EUR | 0.7001 | 0.7027 | 0.7057 | 0.7087 | 0.7083 | 0.7048 | 0.71 | 0.71 | 0.71 |
| Purchasing power parity LVL/EUR | 0.4663 | 0.5057 | 0.4764 | 0.4513 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer price index refer to NACE Rev. 2.
1) Preliminary. - 2) Enterprises with 20 and more employees. - 3) Refinancing rate of National Bank.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.

Table LT

## Lithuania: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 3375.6 | 3358.1 | 3339.5 | 3286.5 | . | . | 3240 | 3210 | 3180 |
| Gross domestic product, LTL mn, nom. | 98669.1 | 111482.6 | 91525.9 | 94641.9 | 20421.2 | 22991.3 | 103800 | 112800 | 123200 |
| annual change in % (real) | 9.8 | 2.9 | -14.7 | 1.3 | -2.0 | 6.9 | 5 | 4.5 | 4.5 |
| GDP/capita (EUR at exchange rate) | 8500 | 9600 | 7900 | 8300 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 14700 | 15300 | 12900 | 14200 | . | . | . | . | . |
| Consumption of households, LTL mn, nom. | 63508.4 | 73027.2 | 62814.5 | 60841.0 | 13953.6 | 15191.4 | . | . | . |
| annual change in % (real) | 12.0 | 3.7 | -17.7 | -4.5 | -8.9 | 5.5 | 2.5 | 3.3 | 4 |
| Gross fixed capital form., LTL mn, nom. | 27918.8 | 28370.0 | 15666.9 | 15198.5 | 2248.0 | 3202.3 | . | . | . |
| annual change in % (real) | 23.0 | -5.2 | -40.0 | 0.0 | -30.0 | 41.0 | 20 | 13 | 12 |
| Gross industrial production (sales) | | | | | | | | | |
| annual change in % (real) | 2.4 | 5.5 | -14.6 | 6.7 | -2.8 | 14.8 | 13 | 10 | 8 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 8.2 | 8.8 | 1.0 | -6.3 | . | . | . | . | . |
| Construction industry | | | | | | . | | | |
| annual change in % (real) | 22.2 | 4.0 | -48.5 | -7.7 | -42.9 | 15.9 | . | . | . |
| Employed persons - LFS, th, average | 1534.2 | 1520.0 | 1415.9 | 1343.7 | 1328.4 | 1340.4 | 1360 | 1400 | 1430 |
| annual change in % | 2.3 | -0.9 | -6.8 | -5.1 | -7.3 | 0.9 | 1.2 | 2.9 | 2.1 |
| Unemployed persons - LFS, th, average | 69.0 | 94.3 | 225.1 | 291.1 | 293.4 | 277.6 | . | . | . |
| Unemployment rate - LFS, in %, average | 4.3 | 5.8 | 13.7 | 17.8 | 18.1 | 17.2 | 16 | 14 | 12.5 |
| Reg. unemployment rate, in %, end of period [2] | 3.3 | 4.4 | 12.5 | 14.4 | 14.3 | 13.6 | . | . | . |
| Average gross monthly wages, LTL | 1802.4 | 2151.7 | 2056.0 | 1988.1 | 2031.2 | 2071.6 | . | . | . |
| annual change in % (real, net) | 17.0 | 10.1 | -7.2 | -4.3 | -6.7 | -1.4 | . | . | . |
| Consumer prices (HICP), % p.a. | 5.8 | 11.1 | 4.2 | 1.2 | -0.4 | 3.2 | 4.5 | 4 | 4.5 |
| Producer prices in industry, % p.a. | 7.0 | 18.2 | -13.5 | 10.3 | 6.3 | 15.4 | . | . | . |
| General goverm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 33.8 | 34.1 | 34.5 | 34.2 | . | . | 33.7 | 34.0 | 34.6 |
| Expenditures | 34.8 | 37.4 | 44.0 | 41.3 | . | . | 39.0 | 38.0 | 37.4 |
| Net lending (+) / net borrowing (-) | -1.0 | -3.3 | -9.5 | -7.1 | . | . | -5.3 | -4.0 | -2.8 |
| Public debt, EU-def., in % of GDP | 16.9 | 15.6 | 29.5 | 38.2 | . | . | 40.5 | 42.5 | 43.0 |
| Central bank policy rate, % p.a., end of period [3] | 6.8 | 7.8 | 1.6 | 1.1 | 0.9 | 1.1 | . | . | . |
| Current account, EUR mn | -4149 | -4227 | 1128 | 506 | 16 | -33 | -600 | -1000 | -1500 |
| Current account in % of GDP | -14.5 | -13.1 | 4.3 | 1.8 | 0.3 | -0.5 | -2.0 | -3.1 | -4.2 |
| Exports of goods, BOP, EUR mn | 12509 | 16077 | 11797 | 15717 | 3055 | 4573 | 20400 | 24500 | 29600 |
| annual growth rate in % | 11.1 | 28.5 | -26.6 | 33.2 | 11.1 | 49.7 | 30 | 20 | 21 |
| Imports of goods, BOP, EUR mn | 16788 | 20263 | 12628 | 16896 | 3333 | 4990 | 22000 | 26800 | 33000 |
| annual growth rate in % | 15.0 | 20.7 | -37.7 | 33.8 | 13.5 | 49.7 | 30 | 22 | 23 |
| Exports of services, BOP, EUR mn | 2931 | 3240 | 2657 | 3115 | 626 | 776 | 3200 | 3400 | 3700 |
| annual growth rate in % | 1.8 | 10.5 | -18.0 | 17.2 | 9.1 | 24.0 | 3 | 6 | 9 |
| Imports of services, BOP, EUR mn | 2471 | 2835 | 2140 | 2136 | 434 | 514 | 2400 | 2600 | 2900 |
| annual growth rate in % | 22.4 | 14.7 | -24.5 | -0.2 | -3.9 | 18.4 | 12 | 8 | 12 |
| FDI inflow, EUR mn | 1473 | 1396 | 124 | 475 | -27 | 232 | 700 | . | . |
| FDI outflow, EUR mn | 437 | 229 | 157 | 96 | -7 | -8 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 5165 | 4458 | 4495 | 4968 | 4608 | 4941 | . | . | . |
| Gross external debt, EUR mn | 20547 | 23032 | 23125 | 23584 | 23935 | 23838 | . | . | . |
| Gross external debt in % of GDP | 71.9 | 71.3 | 87.2 | 86.0 | 87.3 | 79.2 | . | . | . |
| Average exchange rate LTL/EUR | 3.4528 | 3.4528 | 3.4528 | 3.4528 | 3.45 | 3.45 | 3.45 | 3.45 | 3.45 |
| Purchasing power parity LTL/EUR | 1.9822 | 2.1714 | 2.1324 | 2.0317 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer prices refer to NACE Rev. 2.
1) Preliminary. - 2) In % of working age population. - 3) VILIBOR one-month interbank offered rate (Lithuania has a currency board).

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Sándor Richter*

# Hungary:
## One-sided growth – only exports matter

***Post-crisis growth has been driven solely by external demand. Investment and consumption are suffering on account of legal uncertainties and impaired financial intermediation. For 2011, nationalizing the assets of private pension funds will secure a one-off fiscal surplus. International investors have demonstrated their appreciation of the Government's fiscal plans. The slow export-based recovery is expected to continue in 2011.***

The Hungarian economy has been leaving recession behind. Economic growth amounted to 2.5% in the first quarter of 2011, the best quarterly result since late 2006. The post-crisis growth has been noticeably one-sided, driven almost exclusively by external demand. Both fixed investment and consumption suffer from legal uncertainties and decelerated financial transmission provided by a distressed banking system.

According to provisional national accounts data, industry and agriculture recorded positive contributions to GDP change in the first quarter; construction declined while the sector with the biggest weight, services, stagnated. Concerning the use of the GDP, final consumption of households was still declining slightly. Gross capital formation expanded by over 8%, but this figure conceals the completely diverging developments in gross fixed investment and inventories. The former declined again (by 1.6%), while the change in inventories (plus statistical discrepancy) contributed to GDP growth by no less than plus 1.7 percentage points. Finally, net exports, as was the case in each quarter since early 2009, contributed positively to the GDP change (by plus 1.2% percentage points) in the first quarter of 2011.

Industrial production expanded by 12% in the first quarter. The two dominating clusters (computers, electronic and optical products; the automotive industry) producing close to 40% of the industrial output fared well with 18% and 13% expansion, respectively, with products placed predominantly on foreign markets. Mainly the domestic market oriented food industry, with about one tenth of total industrial output, practically stagnated. Altogether in industry foreign sales increased by 17% while the more than 5% drop in domestic sales clearly shows the prevailing miserable state of domestic demand. New orders point to a further upturn, this time in domestic sales as well. The good news is that approximately half of the output expansion in industry came from increased employment and the rest from productivity growth, thus at least in this segment of the economy the period of jobless growth has come to an end.

Contrary to industry, construction is still in crisis. Output declined by 7% in the first quarter, the sector's current performance is as low as it was a decade ago. The reason for this is, first, shrinking housing construction (one third drop in the first quarter) partly due to missing readiness to provide or raise credits, respectively, for housing projects. Second, there are further cutbacks in public investment and a slowdown of EU co-financed projects' implementation related to the change of government a year ago.

Though investment declined in the first quarter, there are diverging tendencies here as well. A robust, close to 40% expansion was recorded in manufacturing and the energy supply, as opposed to a strong decline in transport and storage, real estate activities and public administration. Concerning the type of investment, construction dropped by 8% while machinery investment expanded by 4.2%.

Retail trade turnover has been stagnating as households refrained from buying durable consumer goods, clothing and shoes, travelled less by car and purchased less new and used cars than in the first three months of 2010.

Lively foreign demand has been the main facilitator of economic growth: exports (in current euro terms) increased by 23.5%, imports by 21.7% in the first quarter of 2011. With this dynamic growth Hungary's foreign trade performance reached again the pre-crisis level. Deliveries to each immediate neighbouring country of Hungary and also to the Czech Republic, Poland and Bulgaria recorded remarkably strong growth (30-40%), while the expansion of exports to Hungary's main export market Germany was high but remained below the average.

A radical upturn in employment (1 million new jobs within ten years, 400,000 new jobs in this four-year election period) was a central issue in Prime Minster Orbán's election programme. The achieved results are modest yet: in January-April the participation rate, compared to the respective period of 2010, stagnated, the employment rate improved by just 0.3 percentage points. The unemployment rate declined modestly. A key question of the coming years is how and to what extent the government will manage to realize its ambitious intentions for re-launching public work programmes after eliminating the respective schemes launched by the previous government.

A critical issue in the revitalization of domestic demand is the reanimation of financial intermediation. In the first quarter of 2011 net lending both for households and businesses declined, a phenomenon that has been prevailing for more than one and a half years. Conditions for lending were deteriorating both for the business sector and households (for the purchase of consumer goods) in the first quarter of the year while they remained strict for housing. Demand for housing credits further declined. Banks are in a squeeze: they are charged with a sectoral tax for the second year now, with a rate substantially higher than anywhere in the EU, and the share of non-performing loans is on the rise. An especially critical segment is that of mortgage credits based on the Swiss franc (CHF) which is now substantially stronger (relative to the forint) than it was in the period when most of those credits were raised; this has markedly increased the involved households' debt service burden, which is to be paid in forint. This and the new government's promise to help households coping with this problem led to an ever increasing part of clients who either cannot or, counting on the promised bailout, do not wish to service their debt. The government announced a relief scheme at the end of May 2011. Up to the end of 2014 households indebted in foreign exchange (predominantly in CHF) may opt for a lower HUF/foreign exchange rate (in the case of the CHF 180 instead of the current market rate 210-220) to calculate their actual debt service. The difference will be accumulated on a special account and will have to be paid back later topped by the interest charged for the set-aside part. However, this will only be a genuine relief if the HUF/CHF rate returns to its earlier 'normal' level. If not, debtors will have to face an increased debt service after 2014 and carry the burden of exchange rate risk. The relief scheme was approved simultaneously with the partial lifting of a moratorium on the eviction of dwellers and allowing again foreclosure. These are measures that may help resolve the current stalemate in the area of housing credits.

Nearly one year after its inauguration the Orbán government dropped its philosophy 'first economic growth and then the consolidation of the budget' and with an overnight turn declared the war on public debt. This is more than mere rhetoric: the scapegoats for high public debt have been named (key figures of the previous government) and their criminalization has been initiated. The fight for reducing public debt has the features of a patriotic movement, private persons and firms are encouraged voluntarily to contribute to a fund created for diminishing public debt. Beyond these spectacular elements and more importantly, the respective government measures bear the features of a (non-existent) emergency situation. Government decisions of far-reaching consequences for those involved have been announced in various segments of the pension system, social welfare system, education and culture without preliminary consultation with stakeholders or using the long-established institutions of interest reconciliation. As experts have been typically excluded from the preparatory work, most measures are mere improvizations full of contradictions, and are followed by similarly improvized and hasty corrections.

Whether this (in post-transition Central Europe) unprecedented concentration of executive power will help decrease public debt is highly uncertain. For 2011 the nationalized assets of the private pension funds will ensure a 2% (relative to the GDP) fiscal surplus – technically. Without this one- off item the deficit would be higher than 3% of the GDP. For the years 2012 and 2013 and beyond, the uncertainties are mounting. While the 16% flat personal income tax rate – as the central achievement of the Orbán government – will probably prevail, the sectoral taxes were promised to be phased out by 2013, just as the current excessively high charge on financial institutions are expected to be significantly lowered. The recently approved measures of the government concerning unemployment benefits cuts, the compulsory re-activation of army officers, members of the police and fire brigades involved in early retirement systems, the plans to diminish the number of universities, etc. are restrictions and not genuine reforms. These latter are still to be elaborated. The reform-bashing rhetoric of Fidesz in its eight-year opposition, the lack of readiness on the part of the government to use the fora of interest reconciliation and, last but not least, the government's hesitation to rely on expert support in the elaboration of policy measures hint at difficult times to come. A clear sign of that is the current wave of embittered protests against the fiscal restrictions by various involved occupation groups of the society, from members of the police and the fire brigades to young medical doctors.

Despite all the above-listed problems the government has met with no difficulties in rolling over the public debt. The placement of newly issued government bonds has been a success story even if the yields were fairly high. Hungary's sovereign CDS spreads have been sinking (to about 250) compared to late 2010 (around 400) but they are still higher than they were (around 200) in the previous government's last months in office. This may be explained, apart from the favourable investment climate in emerging Europe in general, by the favourable reception of the government's Széll Kálmán Plan and the updated convergence programme. International investors may have appreciated the government's spectacular turn towards fighting the country's fiscal problems and pay, as for now, less attention to the risks of realization.

All in all, the slow recovery is expected to continue and the annual GDP growth will amount to about 2.5% in 2011. Domestic demand will be sluggish with some acceleration possible towards the end of the year. The principally export-based character of the recovery will prevail, however, in 2012 and probably 2013 as well it will be accompanied by a sluggish recovery of domestic demand, mainly of household consumption. Accordingly the current account balance will pose no problems in the medium run while public finance (debt, deficits, reforms) remain in the focus of international markets.

Table HU

## Hungary: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 10056 | 10038 | 10023 | 10004 | 10010 | 9978 | 10002 | 10000 | 9998 |
| Gross domestic product, HUF bn, nom. | 25321.5 | 26753.9 | 26054.3 | 27119.8 | 6016.3 | 6302.9 | 28600 | 30300 | 31900 |
| annual change in % (real) | 0.7 | 0.9 | -6.7 | 1.2 | 0.1 | 2.5 | 2.5 | 3 | 3 |
| GDP/capita (EUR at exchange rate) | 10000 | 10600 | 9300 | 9800 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 15600 | 16100 | 15300 | 15700 | . | . | . | . | . |
| Consumption of households, HUF bn, nom. | 13306.0 | 14091.9 | 13487.9 | 13879.7 | 3270.2 | 3390.2 | . | . | . |
| annual change in % (real) | 0.2 | 0.5 | -8.1 | -2.0 | -3.7 | -0.8 | 0.5 | 1.5 | 2.5 |
| Gross fixed capital form., HUF bn, nom. | 5408.3 | 5727.3 | 5441.6 | 5239.3 | 915.7 | 924.2 | . | . | . |
| annual change in % (real) | 3.7 | 3.2 | -9.3 | -6.9 | -4.8 | -1.6 | 3 | 7 | 8 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 7.9 | -0.2 | -17.6 | 10.4 | 5.2 | 12.2 | 10 | 12 | 12 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -12.5 | 27.7 | -10.1 | -6.0 | . | | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | -14.0 | -5.2 | -4.4 | -10.1 | -10.9 | -7.0 | 0 | 10 | 10 |
| Employed persons - LFS, th, average | 3926.2 | 3879.4 | 3781.8 | 3781.2 | 3719.3 | 3732.5 | 3820 | 3860 | 3900 |
| annual change in % | -0.1 | -1.2 | -2.5 | 0.0 | -1.2 | 0.4 | 1 | 1 | 1 |
| Unemployed persons - LFS, th, average | 312.0 | 329.1 | 420.7 | 474.8 | 497.8 | 489.8 | . | . | . |
| Unemployment rate - LFS, in %, average | 7.4 | 7.8 | 10.0 | 11.2 | 11.8 | 11.6 | 11 | 9.5 | 8.5 |
| Reg. unemployment rate, in %, end of period | 10.1 | 10.9 | 13.6 | 13.3 | 14.5 | 14.7 | . | . | . |
| Average gross monthly wages, HUF 2) | 185018 | 198741 | 199837 | 202576 | 206860 | 210036 | . | . | . |
| annual change in % (real, net) | -4.6 | 0.8 | -2.3 | 1.9 | 5.6 | -1.0 | . | . | . |
| Consumer prices (HICP), % p.a. | 7.9 | 6.0 | 4.0 | 4.7 | 5.8 | 4.3 | 4.2 | 3.5 | 3.5 |
| Producer prices in industry, % p.a. | 0.3 | 4.6 | 4.5 | 6.3 | -0.9 | 5.2 | . | . | . |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 45.0 | 45.2 | 46.1 | 44.6 | . | . | . | . | . |
| Expenditures | 50.0 | 48.8 | 50.5 | 48.9 | . | . | . | . | . |
| Net lending (+) / net borrowing (-) | -5.0 | -3.6 | -4.5 | -4.3 | . | . | 2 3) | -3 | -3 |
| Public debt, EU-def., in % of GDP | 66.1 | 72.3 | 78.4 | 80.2 | . | . | 74 | 73 | 72 |
| Central bank policy rate, % p.a., end of period 4) | 7.50 | 10.00 | 6.25 | 5.75 | 5.50 | 6.00 | . | . | . |
| Current account, EUR mn | -6965 | -7749 | 361 | 2029 | 597 | . | 1000 | 500 | 0 |
| Current account in % of GDP | -6.9 | -7.3 | 0.4 | 2.1 | 2.7 | . | 0.9 | 0.5 | 0.0 |
| Exports of goods, BOP, EUR mn | 68362 | 72684 | 58428 | 70359 | 16005 | . | 77700 | 85500 | 94100 |
| annual growth rate in % | 17.1 | 6.3 | -19.6 | 20.4 | 17.6 | . | 11 | 10 | 10 |
| Imports of goods, BOP, EUR mn | 68500 | 73233 | 55028 | 65688 | 14755 | . | 72200 | 78800 | 86400 |
| annual growth rate in % | 12.6 | 6.9 | -24.9 | 19.4 | 12.3 | . | 10 | 9 | 10 |
| Exports of services, BOP, EUR mn | 12574 | 13804 | 13305 | 14384 | 3309 | . | 15500 | 17100 | 18800 |
| annual growth rate in % | 15.6 | 9.8 | -3.6 | 8.1 | 12.5 | . | 8 | 10 | 10 |
| Imports of services, BOP, EUR mn | 11524 | 12843 | 11956 | 11980 | 2697 | . | 12900 | 14200 | 15600 |
| annual growth rate in % | 19.5 | 11.4 | -6.9 | 0.2 | -5.5 | . | 8 | 10 | 10 |
| FDI inflow, EUR mn | 2861 | 4926 | 1498 | 1202 | 421 | . | 600 | . | . |
| FDI outflow, EUR mn | 2646 | 2076 | 1956 | 625 | 807 | . | . | . | . |
| Gross reserves of NB, excl. gold, EUR mn | 16305 | 23807 | 30648 | 33667 | 33852 | 35601 | . | . | . |
| Gross external debt, EUR mn | 103988 | 123536 | 136133 | 136928 | 140937 | . | . | . | . |
| Gross external debt in % of GDP | 103.2 | 116.1 | 146.5 | 139.1 | 143.2 | . | . | . | . |
| Average exchange rate HUF/EUR | 251.35 | 251.51 | 280.33 | 275.48 | 268.68 | 272.46 | 270 | 275 | 275 |
| Purchasing power parity HUF/EUR | 161.73 | 165.03 | 170.18 | 172.99 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer prices refer to NACE Rev. 2.
1) Preliminary. - 2) Enterprises with 5 and more employees. - 3) Including the one-off effect of nationalization of the private pension funds' assets. Without that effect the general government balance is forecasted to attain -3.5% of GDP. - 4) Base rate (two-week NB bill).

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Leon Podkaminer*

# Poland:
## Solid growth continues

***The robust GDP growth is expected to continue. Growth will be driven primarily by domestic demand – in terms of both consumption and investment. Improvements in industrial labour productivity will help to contain the impact of any eventual currency appreciation. Trade developments will play a secondary – but increasingly negative - role. Whereas fiscal consolidation will proceed at a fairly gradual pace, monetary policy seems determined to combat inflation more vigorously than elsewhere in the EU.***

The GDP grew by a solid 4.4% in the first quarter of 2011, roughly as fast as in the second half of 2010 but much faster than a year ago (when it rose 3%). Growth of private consumption remained strong while public consumption grew less dynamically. Inventories continued to increase and contributed 0.9 percentage points (p.p.) to the overall GDP growth rate. However, gross fixed investment seems to have taken off at last as well. The real growth rates of exports and imports of goods and non-factor services differed little: the contribution of foreign trade to the overall GDP growth was small (-0.1 p.p.). Value added rose strongly in construction and industrial activities (14% and 7.8% respectively).

The robust expansion of sales of industry has continued. Over the first four months of 2011 there has been a strong acceleration of sales of capital and intermediate industrial goods (of domestic origin). The construction sector, whose sales grew sluggishly in 2009-2010, recorded a spectacular growth in the first quarter of 2011 (primarily in civil engineering and in specialized construction activities). Employment in industry and construction has risen too, albeit at much lower speeds than output, implying growth in labour productivity. Labour productivity increased also in most service sector branches. Wages, though increasing (also in real terms), have trailed behind productivity, implying further cuts in unit labour costs. Profitability indicators for most branches of the nonfinancial corporate sector have improved. In the first quarter of 2011 the net profits of the whole non-financial corporate sector rose by some 20% over the same period of 2010 (to an equivalent of about EUR 5.5 billion); net profits of manufacturing corporations rose by close to 34%.

Also the financial corporate sector performed generally quite well – and the banking sector even very well. Net profits earned by banks in the first quarter of 2011 approached an equivalent of EUR 950 million and were some 52% higher than a year earlier. The banks' liquidity position remains strong; the capital-adequacy ratio for the banking system is high by international standards (13.75% at the end of March 2011) and the share of 'impaired' credits is stable at less than 9%. The share of credits denominated in foreign currencies is stable at about 33% of the stock of credits outstanding. The share of foreign-exchange credits in credits extended to non-financial firms is also stable at about 25%. But it may be remembered that credit liabilities of both households and the non-financial sector are still fairly low in relation to their disposable incomes. For example, the household sector's bank liabilities are about 30% of its disposable income (in the euro area that ratio approaches 100%).

The deficit of the central government budget was some 20% lower in the first four months of 2011 than in the same period of 2010. Most of the improvement is due to rising revenue from indirect taxation (partly owing to higher VAT rates). But total spending has not been curtailed. The situation of the consolidated public finances will be improving over the course of the current year also on account of the partial re-nationalization of the so-called second pillar of the pension system (in effect since 1 May 2011). Most of the employees' mandatory contributions to the privately-managed pension funds are to end up supporting the public pay-as-you-go system. Improvements on the fiscal front will keep the public debt to GDP ratio safely below the 55%. It may be remembered that the public foreign debt to non-residents currently accounts for less than 24% of the GDP. Reportedly, none of that debt is short-term and the bulk of it is long-term (with maturity of five years or more). Poland's sovereign debt position is fairly good (also because of high foreign reserves held by the National Bank of Poland).

The second half of 2011 should witness a self-supporting, if unspectacular, overall growth. Continuing growth in gross fixed investment by the private sector is expected to play a central role in it. (In the first quarter of 2011 the private sector's investment outlays rose by over 6%, while the public sector's declined – despite the infrastructure investment co-financed by transfers from the EU). The high liquidity reserves of the corporate sector firms (until now idly accumulating on their bank deposits) could then be put into more rewarding applications. In actual fact the most recent business climate poll (conducted by the National Bank[25]) indicates that optimistic opinions are becoming quite frequent among the corporate sector's managers (especially of larger firms). The role of most identifiable barriers to growth of larger firms (including the barrier of inadequate demand) is assessed as weakening while the levels of production capacity utilization are assessed as fairly high. But the smaller firms seem to be still following the 'wait-and-see' tactics. The fast – and largely unexpected – rise in prices of raw materials and intermediate inputs may have enhanced the levels of uncertainty among the managers of many smaller businesses, thereby moderating (or postponing) the realization of their investment plans.

The Polish currency was quite strong in the first quarter of 2011, at least vs. the euro. The strength of the zloty may have something to do with the rather high interest rates decreed by the National Bank of Poland. High rates may have been conducive to high inflows of capital (primarily in the form of foreign lending to the domestic corporate sector as well as in the form of portfolio investment targeting Polish treasury bonds). In so far as the capital inflows support the strength of the domestic currency they have hardly beneficial effects on the export (and import-competing) segments of the economy. Of course, given high international prices of energy carriers and other raw materials, a strong currency may help restrict the size of 'imported inflation'. This consideration may be important

25 http://www.nbp.pl/home.aspx?c=/ascx/koniunktura_prezentacja.ascx.

for Poland's Monetary Policy Council which – unlike the governing bodies of other Central Banks in Europe or elsewhere – has been bent on increasing the policy interest rates. The wisdom of this strategy is of course problematic not only because of its likely effects on developments in foreign trade (via currency appreciation). Also the strategy's effects on the expansion of foreign-sourced (as distinct from domestic-sourced) lending to native firms and households are potentially dangerous.

Poland's EU Presidency, starting soon, is the third one falling on a New Member State. The previous ones were not particularly productive. No doubt the Polish authorities will try to make it a success. But a success may be hard to achieve given the turbulences convulsing the euro area and the gathering tensions on the EU outer borders. Meeting these challenges may in fact be beyond the capacity of even the EU heavyweights. The realistically achievable goals of the Polish Presidency (sealing the EU accession of Croatia, making some progress on Ukraine-EU trade agreement) may leave the much greater problems (e.g. an expansion of the next EU budget) to be tackled later – or by someone else in any case. The fact that Poland's parliamentary elections will be held in October – at the Presidency's mid-term – is yet another factor that will quite certainly reduce the authorities' ability to act efficiently. Moreover, should the current coalition led by Donald Tusk be voted out of power (not an utterly impossible outcome), Poland's Presidency might end up in a mess comparable to the one crowning the Czech Presidency.

Poland's economic policy and economic performance during the next year or two may not depend on shorter-term political events, be they domestic or international. However, Poland's (and other NMS) longer-term economic prospects will critically depend on how Europe manages the challenges it now faces. For this reason the approaching Polish Presidency is potentially very important also for other NMS.

Table PL

## Poland: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 38121 | 38126 | 38152 | 38190 | 38175 | 38204 | 38180 | 38170 | 38150 |
| Gross domestic product, PLN bn, nom. | 1176.7 | 1275.4 | 1343.7 | 1412.8 | 324.1 | 349.0 | 1520 | 1620 | 1730 |
| annual change in % (real) | 6.8 | 5.1 | 1.7 | 3.8 | 3.0 | 4.4 | 3.8 | 4.2 | 4.3 |
| GDP/capita (EUR at exchange rate) | 8200 | 9500 | 8100 | 9300 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 13600 | 14100 | 14300 | 15200 | . | . | . | . | . |
| Consumption of households, PLN bn, nom. | 701.6 | 773.8 | 809.4 | 857.8 | 217.0 | 234.3 | . | . | . |
| annual change in % (real) | 4.9 | 5.7 | 2.1 | 3.3 | 2.2 | 3.9 | 3.8 | 4.5 | 4.5 |
| Gross fixed capital form., PLN bn, nom. | 253.7 | 283.9 | 285.2 | 276.1 | 39.9 | 42.4 | . | . | . |
| annual change in % (real) | 17.5 | 9.6 | -1.1 | -1.9 | -11.4 | 6.0 | 4 | 6 | 7 |
| Gross industrial production (sales) 2) | | | | | | | | | |
| annual change in % (real) | 9.3 | 2.6 | -3.7 | 11.1 | 10.1 | 9.1 | 8 | 7 | 6 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 5.2 | 1.3 | 4.7 | -11.4 | . | . | . | . | . |
| Construction industry 2) | | | | | | | | | |
| annual change in % (real) | 16.4 | 9.8 | 4.7 | 3.9 | -16.7 | 18.7 | . | . | . |
| Employed persons - LFS, th, average | 15240.5 | 15799.8 | 15868.0 | 15960.5 | 15574.0 | 15875.0 | 15950 | 16270 | 16680 |
| annual change in % | 4.4 | 3.7 | 0.4 | 0.6 | -0.9 | 1.9 | -0.1 | 2.0 | 2.5 |
| Unemployed persons - LFS, th, average | 1618.8 | 1210.7 | 1411.1 | 1699.3 | 1839.0 | 1771.0 | . | . | . |
| Unemployment rate - LFS, in %, average | 9.6 | 7.1 | 8.2 | 9.6 | 10.6 | 10.0 | 10 | 8.5 | 7.5 |
| Reg. unemployment rate, in %, end of period | 11.4 | 9.5 | 11.9 | 12.3 | 13 | 13.1 | 10.5 | 9.5 | 9.0 |
| Average gross monthly wages, PLN | 2672.6 | 2942.2 | 3101.7 | 3225.0 | 3340.9 | 3478.9 2) | 3460 | 3710 | 3960 |
| annual change in % (real, gross) | 5.5 | 5.9 | 2.0 | 1.5 | -0.2 | 0.4 2) | 2 | 3 | 4 |
| Consumer prices (HICP), % p.a. | 2.6 | 4.2 | 4.0 | 2.7 | 3.4 | 3.6 | 3.5 | 2.5 | 2.5 |
| Producer prices in industry, % p.a. | 2.0 | 2.4 | 3.9 | 2.3 | -1.4 | 7.7 | 2.5 | 2.5 | 2.0 |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 40.3 | 39.5 | 37.2 | 37.8 | . | . | 40.0 | 40.1 | . |
| Expenditures | 42.2 | 43.2 | 44.5 | 45.7 | . | . | 45.8 | 43.7 | . |
| Net lending (+) / net borrowing (-) | -1.9 | -3.7 | -7.3 | -7.9 | . | . | -5.8 | -3.6 | -3 |
| Public debt, EU-def., in % of GDP | 45.0 | 47.1 | 50.9 | 55.0 | . | . | 55.4 | 55.1 | 52 |
| Central bank policy rate, % p.a., end of period 3) | 5.0 | 5.0 | 3.5 | 3.5 | 3.5 | 3.8 | 4.3 | 4.5 | 4.0 |
| Current account, EUR mn 4) | -14701 | -17399 | -6752 | -11989 | -1130 | -3516 | -14000 | -16000 | -18000 |
| Current account in % of GDP 4) | -4.7 | -4.8 | -2.2 | -3.4 | -1.4 | -4.0 | -3.6 | -3.9 | -4.2 |
| Exports of goods, BOP, EUR mn 4) | 105883 | 120953 | 101715 | 122402 | 28441 | 32010 | 134600 | 148100 | 157000 |
| annual growth rate in % | 13.4 | 14.2 | -15.9 | 20.3 | 18.5 | 12.5 | 10 | 10 | 6 |
| Imports of goods, BOP, EUR mn 4) | 118249 | 138691 | 104817 | 128404 | 29123 | 33123 | 143800 | 163900 | 177000 |
| annual growth rate in % | 19.5 | 17.3 | -24.4 | 22.5 | 17.6 | 13.7 | 12 | 14 | 8 |
| Exports of services, BOP, EUR mn 4) | 21018 | 24207 | 20717 | 24528 | 4897 | 5978 | 27000 | 29700 | 32100 |
| annual growth rate in % | 28.6 | 15.2 | -14.4 | 18.4 | 7.7 | 22.1 | 10 | 10 | 8 |
| Imports of services, BOP, EUR mn 4) | 17583 | 20729 | 17294 | 21899 | 4308 | 5115 | 24700 | 27900 | 30700 |
| annual growth rate in % | 11.5 | 17.9 | -16.6 | 26.6 | 14.1 | 18.7 | 13 | 13 | 10 |
| FDI inflow, EUR mn 4) | 17241 | 10135 | 9893 | 7325 | 3527 | 4457 | 9000 | . | . |
| FDI outflow, EUR mn 4) | 4018 | 3071 | 3711 | 3554 | 361 | 2489 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 42675 | 42299 | 52734 | 66253 | 60570 | 71720 | . | . | . |
| Gross external debt, EUR mn | 159106 | 174265 | 195025 | 233677 | 202797 | . | . | . | . |
| Gross external debt in % of GDP | 51.2 | 48.0 | 62.8 | 66.1 | 57.3 | . | . | . | . |
| Average exchange rate PLN/EUR | 3.7837 | 3.5121 | 4.3276 | 3.9947 | 3.99 | 3.94 | 3.9 | 3.9 | 4.0 |
| Purchasing power parity PLN/EUR | 2.2697 | 2.3745 | 2.4700 | 2.4290 | . | . | . | . | . |

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

1) Preliminary. - 2) Enterprices with 10 and more employees. - 3) Reference rate (7-day open market operation rate) - 4) Including Special Purpose Entities (SPEs).

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Gábor Hunya*

# Romania: Slowly emerging from the dark

***The economy is emerging from a protracted period of depression. Recovery is driven by net exports and the accumulation of stocks, while domestic consumption and gross fixed capital formation continue to contract still further. Implementation of the 2011 budget execution is on track and should meet the deficit target for the current year. The forecast for the election year 2012 points to an acceleration of economic growth and no increase in fiscal austerity. This will be followed by renewed stabilization measures and slower economic growth in 2013.***

The Romanian economy is emerging from a long depression: GDP grew by 1.7% year on year in the first quarter of 2011. Growth was driven by net exports and stocks accumulation while both private and public consumption, as well as gross fixed capital formation, were further contracting. Private consumption was depressed due to the lasting effects of the wage cuts and VAT hikes as of mid-2010. It is no good news for future development that the investment activity in the economy has not rebounded either. Not only does the construction activity remain depressed, but investments in machinery declined as well. Nevertheless, both consumption and investment may pick up in the second half of the year at least due to the vanishing effect of last year's austerity measures.

Industry, driven largely by export demand, has been the only production sector supporting economic growth. Manufacturing production soared both in the basic industries producing chemicals and metals, and in the more sophisticated branches of electrical machinery and transport equipment. The French-owned car manufacturer Automobile Dacia was the main exporter, along with the Nokia mobile phone assembly plant. Wage growth in industry lagged behind inflation and labour productivity soared, giving another boost to competitiveness. In the coming months agricultural production and the food industry are expected to recover as this year – unlike in the two previous ones – there have been no major natural calamities.

The domestic corporate sector is still under severe financial and market constraints. As of end-April 2011, non-government loans increased by 2.1% year on year (down 5.7% in real terms), composed of a 3.6% expansion in foreign currency-denominated loans (in RON terms) and a 0.1% decline in RON-denominated loans (down 7.8% in real terms). Contracting real credit shows that companies and banks are still very risk-averse concerning future financing. The ratio of non-performing loans to the total credit portfolio rose from 10% in April 2010 to 15% a year later. But recently both deposit and lending interest rates to new customers, on a slim market, have declined. Although bankruptcy procedures have become less frequent compared to the soaring numbers over the previous year and a half, the financial situation of SMEs is still precarious.

Unemployment has declined further and has been traditionally one of the lowest among the NMS despite still modest economic recovery and ongoing labour shedding in the public services sector. Migration, temporary work abroad and the subsistence survival on farms may be underlying reasons. Recent government measures have increased labour market flexibility with no immediate effect however on the labour market. The expiration of unemployment benefit periods reduced the number of registered unemployed who switched to inactivity, the grey economy or foreign employment; the employment rate remains rather low (about 50%).

Net exports were the main demand-side driver of GDP growth (beyond the accumulation of stocks) in the first quarter of 2011, backed by a strong expansion of goods exports (+39.4% in nominal EUR terms) and more moderated growth of goods imports (+24.8%). The services balance and the incomes balance worsened moderately while current transfers recovered. Migrants are apparently again in a position to increase their remittances after two years of contraction. The reserves of the National Bank grew somewhat more than the inflow of IMF credits and reached 5% of GDP while the external debt to GDP ratio declined. Under improving international financial circumstances the country has no financing problems even with slightly expanding current account deficits in the future.

The policy rate of the National Bank has remained unchanged for a year now. The recent nominal currency appreciation coincided with a rising inflation rate thus giving no guidance concerning a policy change. Energy and food price rises have mostly been imported while effects of last year's VAT hikes are also present. In view of contradicting market signals the National Bank could do nothing but to raise the yearend inflation target. We increased the forecast for the average annual inflation to 6.5% which is the highest among the NMS. In April 2011 the RON/EUR exchange rate was back to where it had been a year before; in real terms the local currency became considerably stronger – so far with no effect on eroding competitiveness.

Austerity has been in the focus of fiscal policy. The deficit for the first five months of 2011, just 1.2% of GDP, indicates that budget execution is on track to meet the deficit target for the current year (4.4% of GDP on a cash basis; 5% on accrual, ESA basis). Due to the public sector wage cuts of last year and the ongoing reduction of public employment, wage expenditures declined. Further savings are expected by the healthcare sector reform but its implementation may suffer delays. Overall real wages continued to decline rapidly, due partly to public sector wage restraint and partly to soaring inflation.

Economic policy will continue to be under the surveillance of the IMF and the European Union, which have extended Romania a combined almost EUR 5 billion precautionary stand-by facility for two years starting in May. Under this deal, the IMF will disburse EUR 3.5 billion, while the EU and the World Bank contribute with another EUR 1.4 billion and EUR 400 million, respectively. The target laid down in the loan conditions is to reduce the budget deficit to 3% of GDP in 2012. We find this goal over-ambitious – especially in an election year. The wording of the agreement suggests that the condition is a soft recommendation. Funds were made available but the government does not intend to draw them except in case of emergency.

There is a pressing task however, not only due to the multilateral loan conditions, to improve the way state-owned companies are managed. Many of them make losses and do not pay their suppliers, causing a widespread deadlock in the economy. Both the fiscal revenue target and the management improvement target in state-owned enterprises could be served by privatization. The sale of public stakes in large energy companies may boost revenues but go against the government's desire to build national champions in the energy sector. The issue of privatization may stir further controversy and suffer delays. Further in 2012, the government intends to boost investments, lower social security contributions and raise wages for civil servants to compensate them for the salary cuts of 2010, at least in nominal terms.

The recently recovering capital inflows and diminishing financing costs for public debt, if lasting, may support the government in increasing spending in the election year 2012. In the wiiw forecast we reckon with a clear election cycle with accelerating growth and no further fiscal austerity. This would be followed by renewed stabilization measures and slower economic growth in 2013. Historical experience supports this boom-bust scenario as it had been the case in the previous three election years. The expected difference to past experience is that the amplitude of the current election cycle will be smaller than in the past.

Table RO

## Romania: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 21547 | 21514 | 21480 | 21460 | . | . | 21440 | 21410 | 21400 |
| Gross domestic product, RON mn, nom. | 416007 | 514700 | 498008 | 513641 | 97263 | 106724 | 549100 | 604800 | 656000 |
| annual change in % (real) | 6.3 | 7.3 | -7.1 | -1.3 | -2.2 | 1.7 | 2 | 4 | 3 |
| GDP/capita (EUR at exchange rate) | 5800 | 6500 | 5500 | 5700 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 10400 | 11700 | 10900 | 11000 | . | . | . | . | . |
| Consumption of households, RON mn, nom. | 273418 | 327928 | 304699 | 314564 | 65097 | 68846 | . | . | . |
| annual change in % (real) | 12.0 | 9.0 | -10.5 | -1.6 | -4.5 | -0.6 | 0 | 4 | 2.5 |
| Gross fixed capital formation, RON mn, nom. | 125645 | 164279 | 130603 | 116793 | 17407 | 18102 | . | . | . |
| annual change in % (real) | 30.3 | 15.6 | -25.3 | -13.1 | -28.3 | -2.2 | 1 | 5 | 6 |
| Gross industrial production [2] | | | | | | | | | |
| annual change in % (real) | 10.3 | 2.6 | -5.5 | 5.5 | 4.3 | 11.4 | 8 | 6 | 5 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -17.7 | 21.2 | -2.2 | 1.6 | . | . | . | . | . |
| Construction industry [2] | | | | | | | | | |
| annual change in % (real) | 33.2 | 26.7 | -15.0 | -13.2 | -21.3 | -4.4 | . | . | . |
| Employed persons - LFS, th, average | 9353.3 | 9369.1 | 9243.5 | 9239.4 | 8934.3 | . | 9190 | 9240 | 9240 |
| annual change in % | 0.7 | 0.2 | -1.3 | 0.0 | -1.2 | . | -0.5 | 0.5 | 0 |
| Unemployed persons - LFS, th, average | 640.9 | 575.5 | 680.7 | 725.1 | 787.2 | . | . | . | . |
| Unemployment rate - LFS, in %, average | 6.4 | 5.8 | 6.9 | 7.3 | 8.1 | . | 7.6 | 7 | 7 |
| Reg. unemployment rate, in %, end of period | 4.0 | 4.4 | 7.8 | 6.9 | 8.4 | 5.9 | . | . | . |
| Average gross monthly wages, RON | 1396 | 1761 | 1845 | 1891 | 1994 | 1988 | . | . | . |
| annual change in % (real, net) | 14.7 | 16.5 | -1.5 | -4.1 | 0.9 | -7.3 | . | . | . |
| Consumer prices (HICP), % p.a. | 4.9 | 7.9 | 5.6 | 6.1 | 4.6 | 7.5 | 6.5 | 4 | 4 |
| Producer prices in industry, % p.a. | 7.5 | 15.3 | 1.8 | 6.3 | 3.5 | 10.7 | . | . | . |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 33.7 | 32.6 | 32.1 | 34.3 | . | . | . | . | . |
| Expenditures | 36.3 | 38.3 | 40.6 | 40.8 | . | . | . | . | . |
| Net lending (+) / net borrowing (-) | -2.6 | -5.7 | -8.5 | -6.4 | . | . | -5 | -5 | -4 |
| Public debt, EU-def., in % of GDP | 12.6 | 13.4 | 23.6 | 30.8 | . | . | 33 | 34 | 35 |
| Central bank policy rate, % p.a., end of period [3] | 7.50 | 10.25 | 8.00 | 6.25 | 6.50 | 6.25 | . | . | . |
| Current account, EUR mn | -16758 | -16178 | -4938 | -4952 | -1544 | -634 | -4000 | -6000 | -6500 |
| Current account in % of GDP | -13.4 | -11.6 | -4.2 | -4.1 | -6.5 | -2.5 | -3.1 | -4.3 | -4.3 |
| Exports of goods, BOP, EUR mn | 29542 | 33656 | 29091 | 37266 | 7902 | 11017 | 46200 | 51700 | 57900 |
| annual growth rate in % | 13.8 | 13.9 | -13.6 | 28.1 | 20.0 | 39.4 | 24 | 12 | 12 |
| Imports of goods, BOP, EUR mn | 47365 | 52729 | 35959 | 43164 | 9189 | 11471 | 50100 | 57600 | 64500 |
| annual growth rate in % | 25.4 | 11.3 | -31.8 | 20.0 | 13.1 | 24.8 | 16 | 15 | 12 |
| Exports of services, BOP, EUR mn | 6885 | 8751 | 7061 | 6474 | 1370 | 1467 | 6900 | 7600 | 8400 |
| annual growth rate in % | 23.3 | 27.1 | -19.3 | -8.3 | -21.1 | 7.1 | 7 | 10 | 10 |
| Imports of services, BOP, EUR mn | 6475 | 8091 | 7352 | 7111 | 1650 | 1771 | 7600 | 8400 | 9200 |
| annual growth rate in % | 16.0 | 25.0 | -9.1 | -3.3 | -4.8 | 7.3 | 7 | 10 | 10 |
| FDI inflow, EUR mn | 7280 | 9501 | 3490 | 2687 | 486 | 379 | 2500 | . | . |
| FDI outflow, EUR mn | 206 | 186 | -61 | 147 | 32 | -9 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 25325 | 25977 | 28249 | 32606 | 32027 | 32767 | . | . | . |
| Gross external debt, EUR mn | 58628 | 72354 | 81163 | 90908 | 86528 | 93404 | . | . | . |
| Gross external debt in % of GDP | 47.0 | 51.8 | 69.1 | 74.6 | 71.0 | 71.4 | . | . | . |
| Average exchange rate RON/EUR | 3.3353 | 3.6826 | 4.2399 | 4.2122 | 4.1148 | 4.2234 | 4.2 | 4.3 | 4.3 |
| Purchasing power parity RON/EUR | 1.8625 | 2.0484 | 2.1354 | 2.1738 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer prices refer to NACE Rev. 2.
1) Preliminary. - 2) Enterprises with 4 and more employees. - 3) One-week repo rate.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Doris Hanzl-Weiss*

# Slovakia:
## Robust exports, strained labour market

***wiiw expects a respectable GDP growth of 4% for 2011 and the two years thereafter. Growth is mainly driven by net exports, the major driver being foreign demand for products of the Slovak automotive industry – most orders coming from Germany. Domestic demand will remain subdued owing to the fiscal austerity measures that are being implemented. Although the labour market is showing some positive signs, unemployment remains high.***

During the first quarter of 2011 Slovakia's GDP continued its upturn starting in the first quarter of 2010 and expanded remarkably (3.5%). The main driving force behind GDP growth has been foreign demand for products of the Slovak car industry coming mostly from Germany – Slovakia's main trading partner. Exports and imports (goods and services) increased by 15.6% and 11.3% respectively in the first quarter of 2011. At the same time, domestic demand remained subdued. This results from a combination of lower public consumption (-2.5%) and stagnating private consumption. Both are consequences of the fiscal austerity measures which aim at a reduction of the government budget deficit and which have been introduced this year, when major austerity measures (see below) should be implemented. Real wages have stagnated as well, not only due to austerity measures but also because of a surge in inflation, while unemployment remains high. The good news is that gross capital formation grew modestly, by 2.2%, with gross fixed capital formation expanding by 1.2%.

By the end of 2010, industrial production exceeded the 2008 pre-crisis level. Industrial output increased by 11.5% in the first quarter of 2011, with manufacturing expanding by 13.4%. The highest growth (27.7%) was recorded in the transport equipment sector (i.e. production of cars) – the largest industrial sector in the Slovak Republic – followed by the machinery and equipment sector with 25.1% growth. The important metal and fabricated metal products sector increased its output by 9.6%. A decline was reported only in one sector: food, beverages and tobacco. The contribution to GDP was still negative for agriculture, construction and services in the first quarter of 2011.

Inflation is on the rise, with HICP rising by 3.5% in the first quarter of 2011 – mainly on account of increases in food and energy prices and the adjustment of indirect taxes (VAT, excise tax). Hence, our forecast for HICP has to be revised from 2% to 3% for this year.

Several positive signs have appeared on the labour market. Slow recovery started by the end of last year, with an increase in employment by 0.5% (against the previous year's period) and employment growth accelerated in the first quarter of 2011, when total employment increased by 2%. The unemployment rate improved slightly but still amounted to 13.9% in the first quarter of 2011. Moreover, this average masks large regional disparities. Regional unemployment rates are highest in the eastern part of the country (Košice region, 19.3%). This can be explained by a combination of structural features such as low labour mobility, skill mismatches, low FDI presence (due to underdeveloped infrastructure) and also the largest share of Roma community. The new Labour Code under preparation should result in more flexibility on the labour market.

With government expenditures growing strongly and revenues remaining the same in 2010, the fiscal deficit again reached 8% of GDP last year – one of the highest in the EU. The public debt to GDP ratio is rapidly increasing (to 41% in 2010); nevertheless, it is still lower than the EU average of 80%. Fiscal consolidation is set to take place in the period 2011-2013, the main part of the burden falling on the current year (measures summing up to 2.5 percentage points of GDP this year and to 1 percentage point of GDP in 2012 and 2013 each). For 2011, measures on the expenditure side include cuts in the public wage bill and a decline in the consumption of goods and services. On the revenue side, VAT was temporarily raised by 1 percentage point to 20%, some excise taxes increased (e.g. on tobacco). The government's very ambitious deficit target is for 4.9% of GDP this year. However, we expect it to exceed 5%, as revenues may not live up to expectations and risks prevail on the expenditure side (healthcare system). A reform of tax legislation and the social security contribution system is under preparation.

Foreign direct investment inflows had plunged during the economic crisis in 2009 and even turned negative in that year as some investors liquidated their exposure. In 2010 – despite the rapid recovery of GDP – FDI grew only modestly. For 2011 stronger inflows are expected since the main automotive companies – all located in the prosperous western region of Slovakia – announced additional investment plans for the years to come: (1) VW Bratislava intends to invest EUR 1 billion over the next five years, with the previous volume summing up to EUR 1.9 billion until 2010. The focus will be put on new production technologies and on expanded production of cars in Bratislava and of car components in Martin. A new press shop for EUR 85 million is planned to be built at VW's Bratislava plant until 2012. (2) PSA Peugeot Citroën, located in Trnava, plans to invest EUR 120 million in the production of a new car model. It will start a third work shift in spring 2012. (3) The main supplier to KIA, Mobis Slovakia, will build a new brake production plant located near Žilina, which is to open in 2012. Overall, industrial new orders increased by 20% in the first quarter of 2011. The economic sentiment indicator was at its height at the beginning of the year and then fell in March and April, only to rise again in May. It is now only 2.5% lower than the long-term average and was driven by increasing confidence in services, industry and consumers.

For the year 2011 and the next two years, wiiw expects robust GDP growth at about 4% – no change compared to our previous assessment. This upbeat forecast rests on the optimistic assumption that the economic environment remains favourable and growth continues in Slovakia's major trading partners, particularly in Germany and the Czech Republic. Net exports will continue to be the major driving force behind this development. A recovery of private consumption is not expected for this year, as the labour market remains precarious in spite of modest improvement. Despite a pick-up in FDI, unemployment will not be reduced considerably. Private consumption may recover somewhat next year, as purchasing power will finally resume thanks to higher employment, and austerity measures will be felt less severely. Investment will continue to take on.

Table SK

## Slovakia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1)] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 5397.3 | 5406.6 | 5418.6 | 5430.0 | . | . | 5440 | 5450 | 5440 |
| Gross domestic product, EUR mn, nom. | 61555.0 | 67007.3 | 63050.7 | 65905.5 | 15148.5 | 15833 | 69200 | 72700 | 77100 |
| annual change in % (real) | 10.6 | 5.8 | -4.8 | 4.0 | 4.7 | 3.5 | 4 | 4 | 4 |
| GDP/capita (EUR at exchange rate) | 10200 | 11900 | 11600 | 12100 | . | . | 12700 | 13300 | 14200 |
| GDP/capita (EUR at PPP) | 17000 | 18100 | 17200 | 18100 | . | . | . | . | . |
| Consumption of househ., EUR mn, nom. | 33902.0 | 37604.3 | 37714.3 | 37928.0 | 9203.0 | 9534.8 | . | . | . |
| annual change in % (real) | 6.9 | 6.1 | 0.3 | -0.3 | -0.1 | -0.1 | 1 | 3 | 4 |
| Gross fixed capital form., EUR mn, nom. | 16096.5 | 16575.9 | 12991.1 | 13390.4 | 3054.3 | 3118.8 | . | . | . |
| annual change in % (real) | 9.0 | 1.0 | -19.9 | 3.7 | -3.4 | 1.2 | 4 | 5 | 6 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 17.0 | 3.3 | -13.8 | 18.8 | 19.7 | 11.5 | 8 | 8 | 6 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -4.5 | 10.6 | -12.3 | -9.9 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 5.7 | 11.9 | -11.2 | -4.6 | -13.9 | -2.5 | . | . | . |
| Employed persons - LFS, th, average | 2357.7 | 2433.7 | 2366.3 | 2317.5 | 2283.1 | 2332.0 | 2360 | 2380 | 2400 |
| annual change in % | 2.4 | 3.2 | -2.8 | -2.1 | -4.4 | 2.1 | 2 | 1 | 1 |
| Unemployed persons - LFS, th, average | 295.7 | 255.7 | 323.5 | 389.2 | 407.1 | 375.6 | . | . | . |
| Unemployment rate - LFS, in %, average | 11.1 | 9.5 | 12.0 | 14.4 | 15.1 | 13.9 | 13 | 12 | 12 |
| Reg. unemployment rate, in %, end of period | 8.0 | 8.4 | 12.7 | 12.5 | 12.9 | 13.1 | 12 | 11 | 10 |
| Average gross monthly wages, EUR | 669 | 723 | 745 | 765 | 725 | 746 | . | . | . |
| annual change in % (real, gross) | 4.4 | 3.4 | 1.4 | 2.0 | 1.6 | -0.4 | 1 | . | . |
| Consumer prices (HICP), % p.a. | 1.9 | 3.9 | 0.9 | 0.7 | 0.0 | 3.5 | 3 | 3 | 3 |
| Producer prices in industry, % p.a. | -1.4 | 2.5 | -6.6 | 0.1 | -3.4 | 5.3 | 4 | 2 | 2 |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 32.5 | 32.9 | 33.6 | 33.1 | . | . | . | . | . |
| Expenditures | 34.3 | 35.0 | 41.5 | 41.0 | . | . | . | . | . |
| Net lending (+) / net borrowing (-) | -1.8 | -2.1 | -8.0 | -7.9 | . | . | -5.4 | -5.0 | -4.5 |
| Public debt, EU-def., in % of GDP | 29.6 | 27.8 | 35.4 | 41.0 | . | . | 45.1 | 47.4 | 47 |
| Central bank policy rate, % p.a., end of period [2)] | 4.3 | 2.5 | 1.0 | 1.0 | 1.0 | 1.0 | . | . | . |
| Current account, EUR mn | -2912 | -4021 | -2023 | -2270 | -247 | 57 | -3000 | -3600 | -4000 |
| Current account in % of GDP | -5.3 | -6.2 | -3.2 | -3.4 | -1.6 | 0.4 | -4.3 | -5.0 | -5.2 |
| Exports of goods, BOP, EUR mn | 42260 | 49521 | 39715 | 48791 | 10655 | 13209 | 54000 | 57000 | 60000 |
| annual growth rate in % | 26.7 | 17.2 | -19.8 | 22.9 | 18.8 | 24.0 | 10 | 6 | 5 |
| Imports of goods, BOP, EUR mn | 42916 | 50280 | 38528 | 48652 | 10366 | 12854 | 53000 | 56000 | 59000 |
| annual growth rate in % | 19.8 | 17.2 | -23.4 | 26.3 | 12.3 | 24.0 | 9 | 6 | 5 |
| Exports of services, BOP, EUR mn | 5140 | 6001 | 4522 | 4409 | 983 | 1066 | 4800 | 5400 | 6200 |
| annual growth rate in % | 18.9 | 16.8 | -24.6 | -2.5 | -4.2 | 8.4 | 10 | 12 | 15 |
| Imports of services, BOP, EUR mn | 4751 | 6488 | 5768 | 5141 | 1259 | 1187 | 5700 | 6400 | 7400 |
| annual growth rate in % | 25.4 | 36.6 | -11.1 | -10.9 | -11.5 | -5.7 | 10 | 12 | 15 |
| FDI inflow, EUR mn | 2636 | 3323 | -35 | 397 | 309 | 147 [1-2m] | 1500 | 2000 | . |
| FDI outflow, EUR mn | 441 | 376 | 311 | 247 | -10 | 23 [1-2m] | . | . | . |
| Gross reserves of NB excl. gold, EUR mn [3)] | 12280 | 12674 | 481 | 541 | 516 | 573 | . | . | . |
| Gross external debt, EUR mn | 30156 | 37286 | 45338 | 49262 | 46290 | 50686 [Jan] | . | . | . |
| Gross external debt in % of GDP | 54.9 | 57.7 | 71.9 | 74.7 | 70.2 | 73.2 | . | . | . |
| Average exchange rate EUR/EUR | 1.1211 | 1.0377 | 1.0000 | 1.0000 | 1.00 | 1.00 | 1 | 1 | 1 |
| Purchasing power parity EUR/EUR | 0.6720 | 0.6836 | 0.6755 | 0.6712 | . | . | . | . | . |

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

1) Preliminary. - 2) From 2009 official refinancing operation rates for euro area (ECB), two-week repo rate of NB before . - 3) From January 2009 (euro introduction) foreign currency reserves denominated in non-euro currencies only.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Hermine Vidovic*

# Slovenia:
## Political mess reduces ability to act

***GDP which is driven primarily by foreign demand will grow by 2% in 2011. The enterprise sector is currently facing liquidity problems and needs to deleverage, thus there is little room for investments. Somewhat faster growth can only be expected in the years to come, as long as investment enjoys a recovery and private consumption registers some improvement. For the latter to happen, however, the labour market will have to improve as well. Given the ongoing fiscal consolidation, public investment will need time to recover. Solving the political problems will be one of the main prerequisites for a return to a sustainable growth path.***

Slovenia's GDP continued to grow at a moderate pace in the first quarter of 2011. The modest increase was backed by rising foreign demand and a resumption of growth in household consumption, while investment continued to shrink (already for the tenth consecutive quarter). Gross fixed capital formation fell by another 6%, affecting primarily construction. Government consumption on the other hand reported a modest increase. Apart from economic problems, the country's centre-left coalition led by Prime Minister Borut Pahor lost its majority in the parliament when the pensioners' party DeSUS left the coalition in May over a dispute on the pension reform, which it strongly opposed. In late June also ZARES, another coalition party, withdrew from the cabinet.

The positive tendencies in industrial production that had prevailed in 2010 continued and even strengthened during the first months of 2011, with output up by nearly 10%; above-average growth is reported for the production of capital goods and intermediate goods. Almost all industrial branches within manufacturing increased their output. In the construction sector, contracting significantly in both 2009 and 2010, the negative tendencies continued particularly in residential building; output dropped by 24% in the first quarter of 2011. There is still a huge number of unsold apartments, and public works – motorway construction in particular – have been phasing out. The construction sector has not recovered from the crisis yet and is still in a critical financial situation; only recently the Court of Ljubljana ended the compulsory settlement procedure in Slovenia's biggest construction company SCT, and started the bankruptcy procedure.

In external trade, during the first four months both goods exports and imports expanded, by 18% and 20% respectively in nominal terms. Though increasing, the trade deficit remained low as compared to a year earlier. Also in services trade, exports and imports accelerated, rising by 16% and 9% respectively; hence, the services trade surplus grew by about one third. Owing to the improvement in services trade and a surplus in the current transfer balance, the current account deficit was negligible (EUR 48 million). As opposed to the pre-crisis years, when Slovenia was a net exporter of FDI, inward foreign investments exceeded Slovenian investments abroad during the first months of 2011.

The situation on the labour market continued to deteriorate. Labour Force Survey data indicate that the number of employed fell remarkably in the first quarter of 2011, by 3.8%; the unemployment rate rose to 8.5%, which is still below the EU-27 average but high by Slovenian standards. In comparison, unemployment based on registration data has shown a steady increase since September 2008, putting the unemployment rate at 12.2% by the end of March 2011. Unemployment may further increase in the coming months due to the possible closing-down of enterprises. The crisis has hit first of all labour-intensive sectors such as the textile industry, employing females with low or no qualification, and the construction sector where older low-qualified workers were affected most.

After the European Commission's approval of a recapitalization of the country's two largest banks, the Slovenian government has subscribed almost all shares (worth EUR 250 million) issued by Nova Ljubljanska Banka (NLB), raising its ownership in the bank to over 50%, while the state's share in Nova Kreditna Banka Maribor (NKMB) remained unchanged. The recapitalization had become necessary because of deteriorating capital adequacy ratios. In 2010 the Slovenian banking sector posted close to EUR 50 million losses. Slovenian banks are very exposed to highly indebted companies in the construction and real estate sectors, but also in leveraged buy-out holding companies. Given the poor situation of these companies further bank losses are to be expected. According to the IMF financial soundness indicator measure, non-performing loans increased to 8.2% of the banks' total gross loans in the fourth quarter of 2010. A strategy discussed recently by the minister of finance envisages that the state remains the key owner not only of NLB but also of NKMB and the country's biggest insurance company Zavarovalnica Triglav. Provided that the state remains the single largest owner, a reduction of its stakes in these institutions to 25% plus one share would be an option. NLB and NKMB currently account for more than 40% of Slovenia's banking assets and Triglav for 36% of the insurance market.

Slovenia's fiscal deficit has increased quite significantly during the crisis period caused primarily by stimulus packages initiated by the government in order to cushion the impact of the crisis. In 2009 and 2010 some 1.8% and 0.2% of the GDP were used, among other things, for short-term working arrangements, the reduction of the corporate income tax or R&D subsidies for companies. Thus, the general government deficit rose from 1.8% in 2008 to almost 6% thereafter – a huge jump especially in the Slovenian context. In 2010 the general government deficit declined to 5.6% thanks to growing revenues. As for 2011 the deficit is expected to increase again to slightly less than 6%, mainly because of the government recapitalization of banks. Public debt grew in line with rising budget deficits from 22% of the GDP in 2008 to 38% in 2010, and is likely to increase to 43% in 2011 – which is still very low by current European standards.

In order to reduce the fiscal deficit the Slovenian government envisages postponing the elimination of wage disparities in the public sector (and implementing the measure only when economic conditions allow), not to index wages to inflation in 2011 and 2012, reducing public sector employment and a number of structural reforms. The most debated among these reforms is the pension reform which was adopted by the government in November 2010. It includes a gradual increase of the statutory retirement age to 65 years for both males and females until 2020, an extension of the period for calculating the pension base and incentives for employers to employ older workers. As elsewhere, however, trade unions opposed this reform. In Slovenia, they pushed for a referendum on the issue, which was eventually held on 5 June. According to the vote, over 70% of the electorate not surprisingly rejected the pension reform. So far Prime Minister Pahor, whose government lost the majority in parliament in May, has refused to resign, because 'his resignation would not lead automatically to new elections' (according to the constitution the Slovenian president can call early elections only if the parliament has failed to elect a new prime minister in three attempts). The next regular parliamentary elections are scheduled for autumn 2012. As an immediate consequence of the lost referendum, the prime minister announced additional saving measures to ensure the stability of the budget: accordingly a revision of the budget should be adopted by the parliament in July, envisaging a cut in expenditures for merchandise, services and investments.

wiiw still adheres to its earlier GDP forecast of 2% in 2011, driven primarily by foreign demand and to a lesser extent by domestic demand. Somewhat higher growth (2.5%) can only be expected in 2012, provided a recovery of investment and a further improvement in private consumption. Given the moderate growth prospects, employment will continue to decrease in 2011 and increase slightly, if at all, only from 2012 onwards. Unemployment (LFS) is expected to come down only gradually. The recovery of household consumption is, however, conditioned on an improvement on the labour market. Given fiscal consolidation, public investment will need some time to recover and will regain strength only in 2012. Solving the political problems would be one of the main preconditions for further action and the return to a sustainable growth path.

Table SI

## Slovenia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 2018.1 | 2021.3 | 2039.7 | 2047.0 | 2047.0 | 2050.2 | 2050 | 2050 | 2050 |
| Gross domestic product, EUR mn, nom. | 34568.2 | 37304.7 | 35384.4 | 36061.0 | 8239.2 | 8504.9 | 37700 | 39610 | 41820 |
| annual change in % (real) | 6.9 | 3.7 | -8.1 | 1.2 | -1.1 | 2.0 | 2 | 2.5 | 3 |
| GDP/capita (EUR at exchange rate) | 17100 | 18400 | 17300 | 17600 | 4000 | 4100 | 18400 | 19300 | 20400 |
| GDP/capita (EUR at PPP) | 22100 | 22800 | 20800 | 21300 | . | . | . | . | . |
| Consumption of households, EUR mn, nom. | 17944.2 | 19477.5 | 19355.9 | 20016.7 | 4485.5 | 4676.8 | . | . | . |
| annual change in % (real) | 6.7 | 2.9 | -0.5 | 0.5 | -0.9 | 1.2 | 1.5 | 1.5 | 2 |
| Gross fixed capital form., EUR mn, nom. | 9571.3 | 10743.4 | 8471.6 | 8027.7 | 1765.9 | 1706.1 | . | . | . |
| annual change in % (real) | 13.0 | 8.5 | -21.6 | -6.7 | -10.5 | -6.1 | -3.5 | 3 | 4 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 7.1 | 2.4 | -17.3 | 6.8 | -0.3 | 9.7 | 8 | 6 | 6 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 3.9 | -1.3 | -1.3 | 1.0 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 18.5 | 15.5 | -20.9 | -16.9 | -18.9 | -24.1 | . | . | . |
| Employed persons - LFS, th, average | 985 | 996 | 981 | 966 | 965 | 928 | 940 | 950 | 960 |
| annual change in % | 2.5 | 1.1 | -1.5 | -1.5 | 0.3 | -3.8 | -3 | 1 | 1 |
| Unemployed persons - LFS, th, average | 50 | 46 | 61 | 75 | 74 | 86 | . | . | . |
| Unemployment rate - LFS, in %, average | 4.8 | 4.4 | 5.9 | 7.3 | 7.1 | 8.5 | 8 | 7.5 | 7 |
| Reg. unemployment rate, in %, end of period | 7.3 | 7.0 | 10.3 | 11.8 | 10.6 | 12.2 | 11.5 | 10.5 | 10 |
| Average gross monthly wages, EUR | 1285 | 1391 | 1439 | 1495 | 1460 | 1505 | . | . | . |
| annual change in % (real, net) | 4.2 | 2.0 | 2.5 | 2.1 | 2.1 | 1.6 | . | . | . |
| Consumer prices (HICP), % p.a. | 3.8 | 5.5 | 0.9 | 2.1 | 1.7 | 2.2 | 2.5 | 2.5 | 2.5 |
| Producer prices in industry, % p.a. | 4.4 | 3.9 | -1.4 | 2.0 | -1.2 | 5.7 | 4 | 2.5 | 2 |
| General governm.budget, EU-def., % GDP | | | | | | | | | |
| Revenues | 42.4 | 42.3 | 43.1 | 43.4 | . | . | 43.3 | 43.1 | 43 |
| Expenditures | 42.5 | 44.1 | 49.0 | 49.0 | . | . | 49.1 | 48.1 | 47.5 |
| Net lending (+) / net borrowing (-) | -0.1 | -1.8 | -6.0 | -5.6 | . | . | -5.8 | -5.0 | -4.5 |
| Public debt, EU-def., in % of GDP | 23.1 | 21.9 | 35.2 | 38.0 | . | . | 42.8 | 46 | 50 |
| Central bank policy rate, % p.a., end of period [2] | 4.0 | 2.5 | 1.0 | 1.0 | 1.0 | 1.0 | . | . | . |
| Current account, EUR mn | -1646 | -2490 | -526 | -409 | -107 | -87 | -450 | -600 | -720 |
| Current account in % of GDP | -4.8 | -6.7 | -1.5 | -1.1 | -1.3 | -1.0 | -1.2 | -1.5 | -1.7 |
| Exports of goods, BOP, EUR mn | 19799 | 20048 | 16167 | 18380 | 4203 | 5021 | 21300 | 24100 | 27200 |
| annual growth rate in % | 16.3 | 1.3 | -19.4 | 13.7 | 6.8 | 19.5 | 16 | 13 | 13 |
| Imports of goods, BOP, EUR mn | 21465 | 22699 | 16866 | 19354 | 4338 | 5304 | 23000 | 26200 | 29600 |
| annual growth rate in % | 18.1 | 5.7 | -25.7 | 14.8 | 6.1 | 22.3 | 19 | 14 | 13 |
| Exports of services, BOP, EUR mn | 4146 | 5043 | 4300 | 4363 | 925 | 1076 | 5000 | 5600 | 6200 |
| annual growth rate in % | 16.0 | 21.6 | -14.7 | 1.5 | 0.7 | 16.3 | 15 | 11 | 10 |
| Imports of services, BOP, EUR mn | 3098 | 3549 | 3187 | 3307 | 692 | 769 | 3700 | 4100 | 4600 |
| annual growth rate in % | 20.1 | 14.6 | -10.2 | 3.8 | 1.8 | 11.3 | 11 | 11 | 12 |
| FDI inflow, EUR mn | 1106 | 1330 | -418 | 628 | 82 | 86 | 500 | . | . |
| FDI outflow, EUR mn | 1316 | 948 | 120 | 129 | 121 | -4 | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 666 | 623 | 671 | 695 | 639 | 656 | . | . | . |
| Gross external debt, EUR mn | 34783 | 39234 | 40276 | 40897 | 40977 | 42884 | . | . | . |
| Gross external debt in % of GDP | 100.6 | 105.2 | 113.8 | 113.4 | 113.6 | 113.8 | . | . | . |
| Average exchange rate EUR/EUR | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1 | 1 | 1 |
| Purchasing power parity EUR/EUR | 0.7749 | 0.8087 | 0.8356 | 0.8265 | . | . | . | . | . |

*Note:* Gross industrial production, construction output and producer prices refer to NACE Rev. 2.
1) Preliminary. - 2) From 2007 official refinancing operation rates for euro area (ECB), main refinancing rate of NB before.

*Source:* wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.


*Hermine Vidovic*

# Croatia:
## EU membership within reach

***GDP growth in 2011 should finally rebound, the proviso being that external demand, particularly the demand for tourism services, improves. High unemployment may hamper a more pronounced recovery in household consumption. The burdens associated with high foreign debt servicing and reducing the budget deficit will remain the most serious challenges in the years to come. Prospects of joining the EU in 2013 may stimulate foreign investment flows; a negative referendum on accession to the EU would be a clear setback.***

First signs of a fragile recovery in the third quarter of 2010 turned out to be misleading and Croatia's GDP continued to decline thereafter. In the first quarter of 2011 GDP was down by 0.8%. The main reason for this decrease was the poor performance of domestic demand: household consumption remained stagnant, government consumption was negative and investments continued to fall (-6.7%). In contrast to most other CESEE countries, external trade performed disappointingly, with Croatian exports even contracting and highlighting competitiveness problems. In construction, where output had shrunk in 2009-2010, the negative tendencies continued but slowed somewhat, with output down by 8%. Currently there is no evidence of recovery in the construction sector: there is still a high number of unsold apartments on the market, investments of the corporate sector are on the decline and a new cycle of infrastructure investments has not yet started. The slowdown in industrial production became even more pronounced in 2011, with output down by 2.6% during the first four months of the year. Within manufacturing (-2.7%), half of all sectors recorded a decline in production; the output of shipbuilding, the production of basic pharmaceutical products and electrical equipment decreased by 14% each. Signs of recovery are beginning to appear in the production of food and beverages, manufacture of coke, rubber and plastics and machinery and equipment. As a result of even more strongly declining employment, productivity in industry increased by 2%.

Foreign trade, based on customs statistics, showed low dynamics during the first quarter of the year, with goods exports contracting by 4% and imports rising modestly (1%). The main reason behind the decline in export growth was the steep fall (30%) in exports of shipbuilding – the country's most important export sector. The resulting trade deficit increased by about EUR 200 million to EUR 1.5 billion compared to a year earlier. Taking into account the rising trade deficit and assuming no significant change in the services sector trade surplus, the current account deficit has slightly increased. At the end of February 2011 foreign debt stood at EUR 46 billion, thus remaining almost unchanged compared to December 2010. In the first two months of the year enterprises and banks increased their foreign debt, while the government has reduced its foreign obligations.

The situation on the Croatian labour market has not stabilized yet. Data from the Croatian Pension Institute (HZMO) indicate that the number of employed fell by 2.4% during the first quarter of 2011. This decline is also confirmed by information obtained from the Statistical Office: accordingly the number of employees contracted most strongly in real estate activities (-13.5%) and construction (-11%), while increases in employment are observed in the non-market services sectors, such as public administration, education, and health and social work activities. Registered unemployment jumped to 19.6% by the end of February – and fell slightly thereafter. Final Labour Force Survey data for 2010 indicate an unemployment rate of 11.8%. The downward pressure on wages that was felt in the past two years has continued in 2011; during the first quarter of the year real net wages fell by 0.4%.

Information about the general government deficit varies between 4.3% (according to the Ministry of Finance) and 5% of GDP (IMF). As for 2011 the deficit is targeted at 5% of GDP, but considering the sluggish economic recovery (translating into lower than anticipated revenues) and the fact that 2011 is an election year, the deficit may climb to about 6%. In 2011 about HRK 28 billion (close to EUR 4 billion) will be needed to cover the budget deficit and to refinance outstanding debt; this amount is envisaged to come from savings made last year, by taking loans from international financial institutions which are already agreed and by new bond issues. In March 2011 the Croatian government issued a ten-year bond worth USD 1.5 billion in a US private placement market. A Eurobond issue has been announced for later this year as well. Public debt has increased substantially over recent years, from 29% of GDP in 2008 to 41% in 2010. If including guarantees and obligations of the Croatian Bank for Reconstruction and Development, the debt to GDP ratio would have amounted to 58.6% in 2010.

In 2010 the ratio of non-performing loans to total loans increased to 11.2% from 7.8% a year earlier, while at the same time bad corporate loans rose from 13% to 18%; in this context the situation of small firms is very critical. According to the IMF non-performing loans will continue to increase in 2011 and the total non-performing loan share may reach about 15%. Overall, the banking sector still appears to be well capitalized and profitable: at the end of 2010 the capital adequacy ratio amounted to 18% and was higher than before the crisis. The Croatian National Bank expects credits to enterprises and the population to grow by about 7% each in 2011. In 2010 total deposits increased by 4.5%, of which deposits held in foreign currencies rose by 9%, while kuna deposits contracted by 11%. This has further increased the level of euroization: the share of foreign currency deposits increased from 70% in 2008 to 81% in 2010.

After the European Commission's announcement that it had completed the membership negotiations with Croatia on 10 June, the EU member states decided to close the remaining four chapters by the end of June. This should allow the signature of the accession treaty by the end of 2011 and Croatia could theoretically join the EU on 1 July 2013. After the signature, the accession treaty has to be ratified by the parliaments of all 27 current EU member states and by the European Parliament; it also has to pass a referendum in Croatia. Until accession, the EU will closely monitor the implementation of the commitments Croatia has to achieve – particularly in the areas of judiciary, competition (shipyards) and freedom of movement – before becoming an EU member. The date for the referendum in Croatia has not yet been fixed: the government would prefer to organize the referendum before the forthcoming parliamentary elections in autumn 2011, while the opposition is in favour of holding the referendum only after the elections. Current opinion polls show no clear majority for Croatia's EU accession.

For 2011, wiiw sticks to its earlier forecast, expecting the GDP growth to rebound to 1% conditioned on an improvement of external demand, tourism in particular. Domestic demand will recover only gradually as a consequence of high unemployment. A somewhat stronger recovery of GDP expected for 2012 and 2013 will result in a narrowing of the budget deficit. Considering 2011 is an election year, the outlook for essential reforms including an improvement of the fiscal situation is poor. 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 unemployment rate is expected to stagnate in 2011 and decrease only slowly thereafter. This may hamper a more pronounced recovery in household consumption. The current account deficit will remain within more moderate limits than before the crisis, ranging between 3% and 4% in the years to come. Servicing high foreign debt and bringing down the budget deficit will remain the most serious challenges in the coming years. The prospect of joining the EU in 2013 may stimulate foreign investment flows to Croatia; a negative referendum would be a clear setback.

Table HR

## Croatia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 4436.0 | 4434.5 | 4429.1 | 4416.9 | 4416.9 | . | 4435 | 4435 | 4435 |
| Gross domestic product, HRK mn, nom. | 318308 | 345015 | 335189 | 334564 | 77565 | 78956 | 346400 | 360400 | 380500 |
| annual change in % (real) | 5.1 | 2.2 | -6.0 | -1.2 | -2.3 | -0.8 | 1 | 2 | 3 |
| GDP/capita (EUR at exchange rate) | 9800 | 10800 | 10300 | 10400 | . | . | 10700 | 11100 | 11800 |
| GDP/capita (EUR at PPP - wiiw) | 15200 | 15900 | 15100 | 15100 | . | . | . | . | . |
| Consumption of households, HRK mn, nom. | 184979 | 197943 | 185651 | 186098 | 44129 | 45223 | . | . | . |
| annual change in % (real) | 6.3 | 0.8 | -8.5 | -0.9 | -4.0 | -0.1 | 0.4 | 2 | 2.7 |
| Gross fixed capital form., HRK mn, nom. | 83514 | 95572 | 83386 | 72373 | 16296 | 15291 | . | . | . |
| annual change in % (real) | 7.1 | 8.2 | -11.8 | -11.3 | -13.9 | -6.7 | -6 | 3 | 5 |
| Gross industrial production [2] | | | | | | | | | |
| annual change in % (real) | 4.9 | 1.2 | -9.2 | -1.4 | -0.5 | -3.6 | -2 | 3 | 4 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -3.9 | 8.0 | -0.8 | . | . | . | . | . | . |
| Construction industry [2] | | | | | | | | | |
| annual change in % (real) | 2.4 | 11.8 | -6.5 | -15.9 | -18.6 | -8.5 | . | . | . |
| Employed persons - LFS, th, average | 1615 | 1636 | 1605 | 1541 | 1563 | . | 1510 | 1520 | 1540 |
| annual change in % | 1.8 | 1.3 | -1.8 | -4.0 | -2.8 | . | -2 | 0.5 | 1 |
| Unemployed persons - LFS, th, average | 171 | 149 | 160 | 206 | 197 | . | . | . | . |
| Unemployment rate - LFS, in %, average | 9.6 | 8.4 | 9.1 | 11.8 | 11.2 | . | 12 | 11 | 10 |
| Reg. unemployment rate in %, end of period | 14.7 | 13.7 | 16.7 | 18.8 | 18.4 | 19.3 | 18.5 | 18 | 17 |
| Average gross monthly wages, HRK | 7047 | 7544 | 7711 | 7679 | 7634 | 7675 | 7700 | 7750 | 7800 |
| annual change in % (real, net) | 2.2 | 0.8 | 0.2 | -0.5 | -1.7 | -0.4 | . | . | . |
| Consumer prices, % p.a. | 2.9 | 6.1 | 2.4 | 1.1 | 0.9 | 2.2 | 2.5 | 2 | 2.5 |
| Producer prices in industry, % p.a. [3] | 3.5 | 8.3 | -0.4 | 4.3 | 3.5 | 6.4 | 5 | 3.5 | 3 |
| General governm.budget, nat.def., % GDP [4] | | | | | | | | | |
| Revenues | 39.8 | 39.1 | 38.2 | 37.0 | . | . | 35.8 | 35.4 | 37.0 |
| Expenditures | 41.0 | 39.9 | 41.3 | 41.4 | . | . | 41.8 | 40 | 42.0 |
| Deficit (-) / surplus (+) [5] | -1.2 | -0.9 | -3.2 | -4.3 | . | . | -6.0 | -5.0 | -5.0 |
| Public debt, EU-def., in % of GDP [6] | 32.5 | 29.0 | 35.2 | 40.1 | . | . | 45.2 | 48.4 | 52.0 |
| Central bank policy rate, % p.a., end of period [7] | 4.1 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | . | . | . |
| Current account, EUR mn | -3236.1 | -4335.5 | -2506.0 | -654.3 | -1362.4 | . | -1200 | -1600 | -1800 |
| Current account in % of GDP | -7.5 | -9.1 | -5.5 | -1.4 | -12.8 | . | -2.5 | -3.2 | -3.5 |
| Exports of goods, BOP, EUR mn | 9192.5 | 9814.0 | 7703.2 | 9099.5 | 2033.3 | . | 9100 | 9600 | 10500 |
| annual growth rate in % | 8.6 | 6.8 | -21.5 | 18.1 | 5.4 | . | 0 | 6 | 9 |
| Imports of goods, BOP, EUR mn | 18626.5 | 20607.8 | 15090.1 | 15044.8 | 3316.6 | . | 15300 | 16400 | 17500 |
| annual growth rate in % | 10.8 | 10.6 | -26.8 | -0.3 | -9.4 | . | 2 | 7 | 7 |
| Exports of services, BOP, EUR mn | 9114.8 | 10090.6 | 8453.9 | 8496.3 | 787.9 | . | 8800 | 9200 | 9800 |
| annual growth rate in % | 6.9 | 10.7 | -16.2 | 0.5 | 1.9 | . | 3 | 5 | 6 |
| Imports of services, BOP, EUR mn | 2847.4 | 3132.7 | 2778.3 | 2694.1 | 664.3 | . | 2700 | 2800 | 2900 |
| annual growth rate in % | 0.8 | 10.0 | -11.3 | -3.0 | 4.0 | . | 2 | 3 | 3 |
| FDI inflow, EUR mn | 3679.0 | 4218.4 | 2095.6 | 439.9 | 591.2 | . | 1000 | . | . |
| FDI outflow, EUR mn | 211.2 | 972.8 | 888.8 | -153.4 | 62.0 | . | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 9307.4 | 9120.9 | 10375.8 | 10660.3 | 10008.1 | 11423.8 | . | . | . |
| Gross external debt, EUR mn [8] | 33720.8 | 40590.0 | 45244.3 | 46440.2 | 45039.4 | 46433.0 Feb | . | . | . |
| Gross external debt in % of GDP [8] | 77.7 | 85.0 | 99.1 | 101.1 | 98.1 | 97.9 | . | . | . |
| Average exchange rate HRK/EUR | 7.3360 | 7.2232 | 7.3396 | 7.2862 | 7.2854 | 7.4003 | 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) On accrual basis. - 5) Including change in arrears and non-recorded expenditures. - 6) According to ESA'95, excessive deficit procedure. - 7) Average weighted repo rates. - 8) From 2008 new reporting system (estimated data for non-financial enterprises).

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


*Vladimir Gligorov*

# Macedonia:
## Stability preserved

***The crisis has had a milder effect than in most other countries in the region. GDP decline was only 0.9% in 2009. Recovery was also unremarkable: GDP growth of only 0.7% in 2010. Some acceleration, about 2%, is expected for 2011. Unlike most other countries in the region, employment has been on the increase throughout the crisis, although the unemployment rate remains at a very high level: some 30%. In summary, the real economy creates the impression of stability, albeit at a low level of activity.***

The crisis had a milder effect than in most countries in the region. GDP decline was only 0.9% in 2009. The recovery was also unimpressive with GDP growth of only 0.7% in 2010. Some speed-up, of about 2%, is expected for 2011. Industrial production has started to recover after registering negative growth for two years in a row. Similarly, exports have been growing strongly and faster than imports so that the trade deficit and especially the current account narrowed last year though it is expected to widen somewhat this year. Unlike in most other countries in the region, employment has been growing throughout the crisis though the unemployment rate stays at a very high level of about 30%. Altogether, the real economy shows a picture of stability, albeit at a low level of activity.

The government's reaction to the crisis has been to rely more than usually on public consumption. As the country follows a strict peg with the euro, the policy usually followed is one of balanced budget. Since the eruption of the crisis, fiscal deficits have been somewhat below 3% of GDP and this relatively mild fiscal stimulus has had positive stabilization effects. Prices have also been increasing very slowly with some speed-up at the beginning of this year. Public debt has been increasing, but the level, about 34% of GDP, does not present serious worries. Foreign debt is somewhat higher, about 64% of GDP, and is set to grow due to the expected widening of the current account and because of new borrowing from the IMF. Credit growth and thus private debt have never been all that high and are not expected to increase in the short term.

Prospects in the near future are of slow recovery because the contribution of net exports will diminish and consumption will continue to be subdued. Investment growth has never been very strong, and there are no significant domestic or foreign resources forthcoming to change that. Thus, the overall picture is one of macroeconomic stability, with some issues with the growth of foreign debt, and slow recovery.

Politically, the mildness of the crisis has benefited the current government that was re-elected in the early elections at the beginning of June. This election is an indication of growing political stabilization. Inter-ethnic conflicts have ceased to be a major source of insecurity, and intra-ethnic conflicts, previously visible during the general elections, have also been subdued. The remaining major problem is that of finding an accommodation with the Greek opposition to the name of Macedonia which stands in the way to the start of negotiations for membership in the EU. There are no signs at present that progress is being made in these negotiations. The re-election of the right-wing Macedonian party will not advance them while the economic problems that Greece is facing have not been conducive to a more conciliatory stance on the Greek side. Whether the speed-up of EU prospects of the neighbouring Serbia and Montenegro will have positive effects on Macedonian prospects remains to be seen.

During the crisis and in the short run, the Greek crisis has not affected the Macedonian economy significantly. In the longer run, a stagnating Greek economy will be a drag on Macedonia's growth prospects too. Clearly, a banking crisis in Greece, if it were to erupt, would have major consequences due to the fact that the largest bank in Macedonia is owned by the National Bank of Greece. Barring that, continuous financial and political problems in Greece will not have a positive effect on the Macedonian economy. The dependence of the real economy on the Greek economy is small, however, so the negative effects should not be too large.

Table MK

## Macedonia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 2043.6 | 2046.9 | 2050.7 | 2054.0 | . | . | 2060 | 2065 | 2070 |
| Gross domestic product, MKD mn, nom. [2] | 364989 | 411728 | 409100 | 423862 | 90709 | . | 445000 | 472000 | 501000 |
| annual change in % (real) [2] | 6.1 | 5.0 | -0.9 | 0.7 | -1.7 | . | 2 | 3 | 3 |
| GDP/capita (EUR at exchange rate) | 2900 | 3200 | 3300 | 3400 | . | . | . | . | . |
| GDP/capita (EUR at PPP - wiiw) | 7700 | 8500 | 8400 | 8600 | . | . | . | . | . |
| Consumption of households, MKD mn, nom. [2,3] | 279880 | 330399 | 312022 | 319975 | 73 | . | . | . | . |
| annual change in % (real) [2,3] | 8.1 | 7.4 | -3.1 | 2.5 | 0.6 | . | 2 | 3 | 3 |
| Gross fixed capital form., MKD mn, nom. [2] | 71557 | 86403 | 81872 | 84000 | . | . | . | . | . |
| annual change in % (real) [2] | 17.1 | 5.4 | -2.0 | 0.0 | . | . | 3 | 4 | 4 |
| Gross industrial production [4,5] | | | | | | | | | |
| annual change in % (real) | 3.7 | 5.5 | -7.7 | -4.3 | -9.2 | 13.8 | 5 | 5 | 5 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -1.5 | 4.1 | 3.0 | 5.0 | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 9.7 | -9.6 | -2.1 | 5.8 | 1.6 | 8.7 Jan | 5 | 5 | 5 |
| Employed persons - LFS, th, average | 590.2 | 609.0 | 629.9 | 637.8 | 615.9 | . | 650 | 660 | 670 |
| annual change in % | 3.5 | 3.2 | 3.4 | 1.3 | -0.4 | . | 1.5 | 1.5 | 2 |
| Unnemployed persons - LFS, th, average | 316.9 | 310.4 | 298.9 | 300.4 | 309.6 | . | . | . | . |
| Unemployment rate - LFS, in %, average | 34.9 | 33.8 | 32.2 | 32.0 | 33.5 | . | 31 | 31 | 31 |
| Reg. unemployment rate, in %, end of period | . | . | . | . | . | | . | . | . |
| Average gross monthly wages, MKD [4,6] | 24136 | 26229 | 29922 | 30225 | 29879 | 30212 | . | . | . |
| real growth rate, % (net wages) [5] | 5.5 | 1.9 | 25.0 | 1.4 | 2.8 | -2.1 | . | . | . |
| Consumer prices, % p.a. | 2.3 | 8.3 | -0.8 | 1.6 | 0.5 | 4.1 | 3 | 3 | 3 |
| Producer prices in industry, % p.a. [4,7] | 2.5 | 10.3 | -6.5 | 8.5 | 7.3 | 13.6 | . | . | . |
| General governm. budget, nat.def., % GDP [8] | | | | | | | | | |
| Revenues | 32.8 | 33.1 | 31.1 | 30.9 | . | . | . | . | . |
| Expenditures | 32.2 | 34.1 | 33.7 | 33.3 | . | . | . | . | . |
| Deficit (-) / surplus (+) | 0.6 | -0.9 | -2.6 | -2.5 | . | . | -2 | -1 | -1 |
| Public debt, nat.def., in % of GDP | 33.3 | 28.7 | 32.0 | 34.0 | . | . | 35 | 35 | 33 |
| Central bank policy rate, in %, p.a., Dec [9] | 4.8 | 7.0 | 8.5 | 4.1 | 7.3 | 4.0 | . | . | . |
| Current account, EUR mn | -421.2 | -862.2 | -449.3 | -191.1 | -81.8 | -204.4 | -300 | -400 | -400 |
| Current account in % of GDP | -7.1 | -12.8 | -6.7 | -2.8 | -6.0 | . | -4.1 | -5.2 | -4.9 |
| Exports of goods, BOP, EUR mn | 2472.2 | 2692.6 | 1920.9 | 2492.8 | 482.4 | 681.2 | 2700 | 3000 | 3300 |
| annual growth rate in % | 29.2 | 8.9 | -28.7 | 29.8 | 20.5 | 25.4 | 10 | 10 | 10 |
| Imports of goods, BOP, EUR mn | 3653.3 | 4455.1 | 3472.0 | 3960.6 | 779.2 | 1145.1 | 4200 | 4600 | 5300 |
| annual growth rate in % | 25.3 | 21.9 | -22.1 | 14.1 | -8.0 | 21.4 | 5 | 10 | 15 |
| Exports of services, BOP, EUR mn | 594.5 | 688.1 | 618.3 | 692.9 | 134.5 | 180.2 | 700 | 800 | 800 |
| annual growth rate in % | 24.5 | 15.7 | -10.1 | 12.1 | -5.1 | 16.2 | 5 | 10 | 5 |
| Imports of services, BOP, EUR mn | 569.4 | 682.3 | 590.3 | 633.0 | 128.2 | 156.9 | 700 | 800 | 900 |
| annual growth rate in % | 25.2 | 19.8 | -13.5 | 7.2 | -10.1 | 0.6 | 5 | 10 | 10 |
| FDI inflow, EUR mn | 506.0 | 399.9 | 145.0 | 221.4 | 50.9 | 204.1 | 200 | 200 | 250 |
| FDI outflow, EUR mn | -0.9 | -9.5 | 8.1 | 1.5 | 0.8 | 0.3 | 0 | 0 | 0 |
| Gross reserves of NB, excl. gold, EUR mn | 1400.1 | 1361.0 | 1429.4 | 1482.7 | 1426.9 | 1678.3 | . | . | . |
| Gross external debt, EUR mn | 2841.1 | 3304.2 | 3780.4 | 4299.3 | 3809.0 | . | . | . | . |
| Gross external debt in % of GDP | 47.6 | 49.2 | 56.7 | 62.4 | 55.3 | . | . | . | . |
| Average exchange rate MKD/EUR | 61.18 | 61.27 | 61.32 | 61.52 | 61.40 | 61.51 | 61.2 | 61.2 | 61.2 |
| Purchasing power parity MKD/EUR | 23.14 | 23.57 | 23.79 | 24.09 | . | . | . | . | . |

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) Quarterly data according to Nace Rev.2 . - 5) Enterprises with 10 and more employees. - 6) From 2009 including allowances for food and transport, no comparable growth rates available. - 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.


*Vladimir Gligorov*

# Montenegro:
## Policy challenges

***The decline in output was quite marked: about 6% in 2009. In 2010 the economy did not recover all that much. GDP growth will pick up speed somewhat in 2011, increasing to 2%. It is expected that the EU will set a date for the start of negotiations on accession: possibly December this year. That will be of benefit to the financial markets, as the state is borrowing in commercial markets. It will also mean increased transfers from EU funds.***

The output decline was quite strong, about 6%, in 2009. There was not much of a recovery in 2010, but there is going to be some speed-up, up to 2%, of GDP growth in 2011. However, the ride was more turbulent than the growth figures indicate. The banking sector almost collapsed and had to be supported by massive injections of public money; industrial production also experienced a strong decline; and employment fell by about 5% within two years.

The government could rely on money it had saved in good times and also foreign investments did not decline in 2009; in fact, there was a record inflow of foreign direct investments in that year. Even in 2010 the FDI inflow was on a level close to the pre-crisis average. Also, a decision was taken to hold early elections early into the crisis so that political stability was ensured by the re-election of the incumbent government. In addition, at the end of 2010, Prime Minister Djukanovic resigned and the government was reconstructed with a new prime minister, Igor Luksic, and some new ministers. Also, social stability was preserved by the decision to subsidize some of the industrial sectors heavily hit by sharply declining sales. This refers to the aluminium plant in particular as it had to be saved from bankruptcy, which would have led to serious social unrests. Aluminium is a major exporting item and the plant is now contributing significantly to the recovery of exports.

Prospects in the short run are for more recovery, though at a slow pace. Like most other Balkan economies, consumption has to grow rather slowly while investments and net exports should be the driving forces of growth. This turnaround cannot be achieved in the short run. In addition, for it to be done gradually and sustainably, foreign investments have to continue to flow in. The current account deficit is large and will preferably continue to narrow gradually. If so, in the medium run a return to growth rates which are around the potential ones, i.e. around 5%, could be achieved. That would also ensure fiscal sustainability which is important given that Montenegro uses the euro and has to rely on fiscal policy for adjustments.

It is expected that the EU will set the date for the start of negotiations in December of this year. That will help with the financial markets, as the state is borrowing in commercial markets, and will also mean increased transfers from the EU funds.

Table ME

## Montenegro: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 626.2 | 628.8 | 630.0 | 631.5 | . | . | 632 | 633 | 634 |
| Gross domestic product, EUR mn, nom. [2] | 2680.5 | 3085.6 | 2981.0 | 3025.0 | . | . | 3200 | 3400 | 3600 |
| annual change in % (real) [2] | 10.7 | 6.9 | -5.7 | 0.5 | . | . | 2 | 3 | 3 |
| GDP/capita (EUR at exchange rate) | 4300 | 4900 | 4700 | 4800 | . | . | . | . | . |
| GDP/capita (EUR at PPP - wiiw) | 10000 | 10800 | 9700 | 9800 | . | . | . | . | . |
| Consumption of households, EUR mn, nom. [2] | 2369.0 | 2814.8 | 2503.7 | 2500.0 | . | . | . | . | . |
| annual change in % (real) [3] | 8 | 7 | -4 | 0 | . | . | 2 | 2 | 3 |
| Gross fixed capital form., EUR mn, nom. [2] | 867.1 | 1180.2 | 797.6 | 800.0 | . | . | . | . | . |
| annual change in % (real) [3] | 10 | 8 | -6 | -2 | . | . | 2 | 2 | 5 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 0.1 | -2.0 | -32.2 | 17.5 | -13.9 | -0.4 | 3 | 5 | 5 |
| Net agricultural production | . | . | . | . | . | . | . | . | . |
| annual change in % (real) | -11.0 | 10.0 | 3.0 | 2.0 | . | . | . | . | . |
| Construction output total [4] | . | . | . | . | . | . | . | . | . |
| annual change in % (real) | 23.6 | 20.7 | -19.2 | -10.0 | . | . | 0 | 5 | 5 |
| Employed persons - LFS, th, average [5] | 217.4 | 218.8 | 212.9 | 208.2 | 207.8 | . | 210 | 212 | 214 |
| annual change in % | 21.9 | 0.6 | -2.7 | -2.2 | -2.2 | . | 1 | 1 | 1 |
| Unemployed persons - LFS, th, average [5] | 52.1 | 45.3 | 50.9 | 50.9 | 51.5 | . | . | . | . |
| Unemployment rate - LFS, in %, average [5] | 19.3 | 17.2 | 19.3 | 19.6 | 19.9 | . | 20 | 20 | 20 |
| Reg. unemployment rate, in %, end of period [6] | 16.5 | 14.4 | 15.1 | 16.9 | 16.2 | 17.1 | 18 | 18 | 17 |
| Average gross monthly wages, EUR [7] | 497 | 609 | 643 | 715 | 695 | 749 | . | . | . |
| annual change in % (real, net) | 15.0 | 14.6 | 7.6 | 3.0 | 6.5 | 5.2 | . | . | . |
| Consumer prices, % p.a. | 4.2 | 7.4 | 3.4 | 0.5 | 0.6 | 2.5 | 3 | 3 | 3 |
| Producer prices in industry, % p.a. [8] | 8.5 | 14.0 | -3.9 | -0.9 | -5.7 | 4.3 | . | . | . |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 61.1 | 49.1 | 45.5 | 42.0 | . | . | . | . | . |
| Expenditures | 52.9 | 47.5 | 49.0 | 45.0 | . | . | . | . | . |
| Deficit(-)/Surplus(+) | 8.2 | 1.7 | -3.5 | -3.0 | . | . | -3 | -1 | -1 |
| Public debt, nat. def., in % of GDP | 27.5 | 29.0 | 38.2 | 42.0 | . | . | 44 | 42 | 41 |
| Central bank policy rate, % p.a., end of period [9] | 9.1 | 9.4 | 9.4 | 9.5 | 9.5 | 9.7 | 9 | 9 | 9 |
| Current account, EUR mn | -1077.5 | -1583.7 | -896.3 | -778.3 | -243.2 | -188.5 | -700 | -700 | -800 |
| Current account in % of GDP | -40.2 | -51.3 | -30.1 | -25.7 | . | . | -21.9 | -20.6 | -22.2 |
| Exports of goods, BOP, EUR mn | 483.4 | 450.4 | 296.3 | 356.6 | 60.3 | 115.7 | 390 | 410 | 430 |
| annual growth rate in % | -25.4 | -6.8 | -34.2 | 20.4 | -21.1 | 91.7 | 10 | 5 | 5 |
| Imports of goods, BOP, EUR mn | 2090.6 | 2552.3 | 1668.0 | 1674.0 | 314.6 | 352.8 | 1810 | 1990 | 2190 |
| annual growth rate in % | 39.6 | 22.1 | -34.6 | 0.4 | -11.5 | 12.1 | 8 | 10 | 10 |
| Exports of services, BOP, EUR mn | 673.0 | 750.6 | 680.5 | 747.0 | 50.5 | 60.9 | 820 | 900 | 990 |
| annual growth rate in % | 61.0 | 11.5 | -9.3 | 9.8 | -8.5 | 20.7 | 10 | 10 | 10 |
| Imports of services, BOP, EUR mn | 234.0 | 351.2 | 295.9 | 300.6 | 67.7 | 58.3 | 300 | 320 | 340 |
| annual growth rate in % | 5.9 | 50.1 | -15.8 | 1.6 | 5.4 | -13.9 | 0 | 5 | 5 |
| FDI inflow, EUR mn | 682.7 | 655.7 | 1099.4 | 574.2 | 135.7 | 111.8 | 600 | 1000 | 800 |
| FDI outflow, EUR mn | 115.0 | 73.7 | 32.9 | 22.1 | 2.5 | 2.4 | 10 | 50 | 50 |
| Gross reserves of NB, excl. gold, EUR mn [10] | 259.0 | 216.6 | 172.8 | 170.0 | 165.8 | 164.0 | . | . | . |
| 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 | 30.2 | . | . | . | . | . |
| Purchasing power parity EUR/EUR [11] | 0.4293 | 0.4562 | 0.4865 | 0.4896 | . | . | . | . | . |

1) Preliminary. - 2) According to ESA'95 (including shadow economy, real growth rates based on previous year prices). - 3) wiiw estimate. - 4) Gross value added. - 5) Until 2007 as of October. - 6) In % of unemployed plus employment (excluding individual farmers). - 7) From 2007 wage data refer to employees who received wages (previously wages were divided by all registered employees in enterprises). - 8) Domestic output prices. - 9) Average weighted lending interest rate of commercial banks (Montenegro uses the euro as national currency). - 10) Refer to reserve requirements of Central Bank. - 11) Benchmark results 2005 from Eurostat and wiiw estimates.

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


*Josef Pöschl*

# Turkey: A sound or overheated and relapse-threatened economy?

***Record GDP growth, 8.9% in 2010 and 11% in the first quarter of 2011, heightened the country's attractiveness to international investors. Nonetheless, that rapid growth, coming as it does in tandem with a trade deficit that expanded rapidly and has become alarmingly high, has triggered fears of the bubble bursting all of a sudden. The central bank has not responded by increasing interest rates, but has chosen to impose higher reserve requirements on commercial banks. Signs of growth deceleration have already become visible in the course of the current year; however, the extent to which this can be attributed to monetary policy is still unclear. Fiscal policy may also become more restrictive, with the ruling party having secured a landslide victory in the elections. The forecast hints at the possibility of the boom gradually cooling down.***

Rapidly expanding markets and accordingly high and growing profits have supported international investors' perception of Turkey as one of the globe's El Dorado's. Increasingly however, the more cautious ones among them feel alerted by Turkey's high and widening trade and current account deficits. Throughout 2011, the deficit has increased from month to month and surpassed the previous year's levels by far. In May, the publication of new high trade deficit figures triggered a decline in Istanbul's Stock Market Index; the main responsible were sales by foreign investors. This may be interpreted as not much more than a short blinking of a warning signal, whereas a positive evaluation of Turkey's economy continues to prevail. Quite possibly, international rating agencies will publish credit upgrades up to investment grade. If so, strong capital inflows will continue to cover not only rising current account deficits, but also increase currency reserves. In recent years, only a small fraction of this inflow has been foreign direct or portfolio investment. Mostly, it was loans. In recent months, with approval by the Capital Markets Board, several commercial banks have launched large bond issues, which help them to keep their lending business at high gear, in spite of the central bank's efforts to squeeze loan expansion from over 35% (December 2010) down to 25% by the end of this year.

To slow down loan expansion, the central bank has chosen a strategy that is rather unusual but makes a lot of sense. It consists in keeping the policy rate constant at a relatively low level (6.25%), at the same time pushing up the commercial banks' reserve requirements (starting from December 2010 by about ten percentage points in four steps). This policy lowered bank profits and reduced their stock market value. A further increase in reserve requirements has become unlikely. So far, this policy may have prevented loan growth from being even more pronounced rather than slowing it down. It remains to be seen whether deceleration will follow in the second half of the year.

The government expresses support for the policy of loan growth slowdown. However, the first half of 2011 was characterized by a fierce fight for votes in the parliamentary elections scheduled for 12 June, and in such a situation any government would be happy about economic prosperity and refrain from all kinds of austerity measures. Several aspects have created favourable conditions for revenue collection or will do so in the future. The high real and even higher nominal GDP growth boosts the government's revenues. An amnesty offering a three-year period for paying overdue tax, social security premiums and public utility bills received over 5 million responses. After the application deadline (31 May) proceeds of over EUR 25 billion were counted. A new commercial code will oblige all equity companies to subscribe to an electronic trade register, something which will make grey economy activities more difficult. Last but not least, from the very beginning of Recep Erdogan's term in office as prime minister, sales of state property have generated additional room for manoeuvre. In this way, the government was able to finance large investments into infrastructure, thus the promises of future huge investments such as by-passing the Bosporus Straights, new metro lines in larger cities, intercity high-speed railways, and ambitious energy projects (including nuclear power plants) do not sound unrealistic in the ears of a large part of the population.

Turkey's distribution of wealth and income is extremely unequal, and this provokes a need for huge security expenditures, both public and private. Erdogan-led governments did quite well in improving social security and living conditions of citizens with low income; many of the latter regard Erdogan both as an advocate of their needs and as a person energetic enough to push through whatever he wants. As the Brazilian experience shows, support for the poor can have a growth-stimulating impact. In the second half of 2011, fiscal policy may become a bit more restrictive.

By keeping its policy rate low, the central bank did not fuel inflation, which has fluctuated between 6% and 10% for a number of years now. A higher rate could stimulate capital inflow and push the currency towards appreciation – something that would lead to even higher trade deficits because of loss of competitiveness of domestic producers of tradable goods and services. Depending on the strength of capital inflows, the central bank performs daily US dollar purchases (50 billion up to end of May, 40 billion in June).

Some segments of Turkey's manufacturing are quite competitive, such as textiles and clothing, in spite of strong competition from East Asia after the global trade liberalization. Also the producers of transport equipment, household appliances and agricultural products are strong. However, rising incomes have swelled the demand for high-tech products, most of which are not part of the product range of Turkish producers, as a recent report[26] stresses. As in most emerging markets, imports of helicopters, airplanes, cell phones, consumer electronics and IT equipment or medical and other precision instruments are high. This is one of the reasons for the rising trade deficit. Another one are the high and rising quantities and prices of energy, most of which needs to be imported. Up to now, investment into new industrial equipment as well as into the construction of industrial and residential buildings has followed rather traditional patterns, as awareness of energy-saving technologies is low. About three thirds of Turkey's population live now in urban areas including nineteen cities with more

[26] Report issued by the Istanbul Chamber of Certified Public Accounts.

than one million habitants. Apartment buildings with standard public utility supply are the rule. In many cases, each flat has its own air conditioning. Mobility is high, with combustion engines as the driving force; pedestrians and even more so bicyclists are the pariahs. The government has done a lot with regard to public investment into environmental protection such as wastewater treatment plants, but industrial production and the lifestyle of most of the 73 million citizens remain characterized by high energy intensity and high pollution.

In past years, an important stimulus of GDP growth was migration of labour force from sectors that generate only low value added, such as agriculture, to those generating higher value added, such as manufacturing. This type of stimulus is now drying out.

Recent research has identified de-industrialization tendencies, or more precisely 'de-manufacturing': Investment priorities are switching from manufacturing to energy.[27] With regard to the problem of trade deficits this is no good news, as manufacturing is the sector with the highest export intensity. Good news, however, is that export activities are no longer confined mainly to the western part of Turkey, i.e. the Marmara and Aegean Sea areas, but have become more widespread and are increasingly found in the very east of the country thanks to an open-border and trade liberalization policy.

Turkey may well continue on a path of high long-term growth, but this will require a switch to a new industrial policy facilitating energy saving and a widening of the product range, as well as securing sufficient supply of skilled labour. Equally important will be sound macroeconomics including exchange rate stability. In the short term, dependence on high capital inflows will keep the economy vulnerable to all kinds of shocks. There are several reasons why we forecast a growth deceleration in the second half of 2011 as well as for 2012 and 2013: After the shock in early 2009, the expansion of production could rely on existing capacities, but in the meantime capacity utilization has returned to standard levels, so that further expansion of production needs the backing by capacity expansion; in recent months there has been a marked deceleration in the seasonally adjusted month-on-month growth of industrial production; fiscal policies will curtail public expenditure growth at least to some degree; the central bank's efforts to slow down loan expansion will have an impact; and the recent decline in Istanbul's real estate sales is likely to have a negative impact on private residential-building and construction-related activities. If we ask whether Turkey's economy is sound or overheated and relapse-threatened, the answer may be that it is basically sound in most respects, not necessarily overheated, but nevertheless relapse-threatened.

Internal inflationary pressure has been low in recent months and years. However, external pressure will keep inflation above 5%, as global energy and food prices will follow a long-term growth trend due to income growth which will face less limitation than the expansion of supply.

[27] 'De-Industrialization: A dangerous trend in Turkish economy?', TEPAV (Economic Policy Research Foundation of Turkey), 2011. The study is based on merger and acquisition applications filed to the Turkish Competition Authority.

Close to one million young people enter the Turkish labour market every year: this is a major growth stimulus, but at the same time it is a challenge for the educational system to keep path with skill requirements. The reliability of labour market data is limited as they report on labour relations, the full reflection of which in official figures is difficult. The unemployment rate is likely to keep fluctuating around 10%.

Table TR

## Turkey: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average [2] | 70215 | 71095 | 72050 | 73003 | . | . | 73200 | 73900 | 74600 |
| Gross domestic product, TRY bn, nom. | 843.2 | 950.5 | 952.6 | 1105.1 | 241.6 | 284.9 | 1250 | 1380 | 1520 |
| annual change in % (real) | 4.7 | 0.4 | -4.8 | 8.9 | 12.0 | 11.0 | 6.0 | 4.5 | 4.0 |
| GDP/capita (EUR at exchange rate) | 6700 | 7000 | 6100 | 7600 | . | . | 7800 | 8900 | 9700 |
| GDP/capita (EUR at PPP - wiiw) | 11300 | 11700 | 10700 | 11800 | . | . | 12400 | 13200 | 14500 |
| Consumption of households,TRY bn, nom. | 601.2 | 663.9 | 680.8 | 786.1 | 182.0 | 213.5 | . | . | . |
| annual change in % (real) | 5.5 | -0.3 | -2.3 | 6.6 | 7.5 | 12.1 | 5 | 4 | 3 |
| Gross fixed capital form., TRY bn, nom. | 180.6 | 189.1 | 160.7 | 206.9 | 43.8 | 63.8 | . | . | . |
| annual change in % (real) | 3.1 | -6.2 | -19.0 | 29.9 | 16.8 | 33.6 | 15 | 10 | 10 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 7.0 | -0.6 | -9.7 | 13.1 | 17.3 | 14.2 | 10 | 7 | 7 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -7.3 | . | . | . | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 5.5 | -7.6 | -16.3 | 17.8 | 9.4 | . | 12 | 9 | 9 |
| Employed persons - LFS, th, avg. | 20750 | 21193 | 21271 | 22593 | 21267 | 22802 | 23000 | 23450 | 23800 |
| annual change in % | 1.5 | 2.1 | 0.4 | 6.2 | 7.5 | 7.2 | 1.8 | 2.0 | 1.5 |
| Unemployed persons - LFS, th, average | 2019 | 2279 | 3053 | 2696 | 3173 | 2637 | 2520 | 2600 | 2700 |
| Unemployment rate - LFS, in %, average | 8.9 | 9.8 | 12.7 | 10.7 | 13.0 | 10.4 | 9.9 | 10.0 | 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 | 4.3 | 7.0 | 6 | 6 |
| Producer prices in industry, % p.a. | 6.0 | 13.0 | 1.0 | 6.2 | 4.6 | 10.1 | 8.5 | 7 | 6 |
| General governm. budget, EU-def., % GDP [3] | | | | | | | | | |
| Revenues | . | 32.3 | 33.8 | 34 | . | . | | | |
| Expenditures | . | 34.5 | 40.6 | 38 | . | . | | | |
| Deficit (-) / surplus (+) | -1.0 | -2.2 | -6.8 | -4 | . | . | -2.8 | -2.2 | -2 |
| Public debt, EU-def., in % of GDP [3] | 39.4 | 39.5 | 43.8 | 41.2 | . | . | 39.7 | 38.1 | 38 |
| Central bank policy rate, %, p.a., end of period [4] | 20.0 | 17.5 | 9.0 | 6.5 | 7.0 | 6.25 | 6.25 | 6.25 | 6.25 |
| Current account, EUR mn | -27915 | -28108 | -9995 | -36578 | -7245 | -16181 | -55000 | -62000 | -68000 |
| Current account in % of GDP | -5.9 | -5.6 | -2.3 | -6.6 | -6.3 | -12.3 | -9.7 | -9.4 | -9.4 |
| Exports of goods, BOP, EUR mn | 84001 | 95484 | 78616 | 91307 | 20144 | 24201 | 100000 | 110000 | 121000 |
| annual change in % | 12.9 | 13.7 | -17.7 | 16.1 | 0.4 | 20.1 | 10 | 10 | 10 |
| Imports of goods, BOP, EUR mn | 118053 | 131095 | 96145 | 133934 | 26525 | 39297 | 162000 | 180000 | 200000 |
| annual change in % | 10.3 | 11.0 | -26.7 | 39.3 | 26.2 | 48.2 | 21 | 11 | 11 |
| Exports of services, BOP, EUR mn | 21116 | 23928 | 23923 | 25773 | 3561 | 4271 | 30000 | 34000 | 38000 |
| annual growth rate in % | 4.7 | 13.3 | 0.0 | 7.7 | -5.0 | 19.9 | 16 | 13 | 12 |
| Imports of services, BOP, EUR mn | 11408 | 12186 | 12105 | 14879 | 2940 | 3498 | 17000 | 18500 | 20000 |
| annual growth rate in % | 22.0 | 6.8 | -0.7 | 22.9 | 1.0 | 19.0 | 14 | 9 | 8 |
| FDI inflow, EUR mn | 16238 | 13217 | 6085 | 6723 | 1123 | 2892 | 10000 | 11000 | 8000 |
| FDI outflow, EUR mn | 1568 | 1707 | 1110 | 1338 | 324 | 689 | 1500 | 1500 | 1500 |
| Gross reserves of CB, excl. gold, EUR mn | 49804 | 51022 | 49088 | 60411 | 51520 | 61094 | 65000 | 68000 | 65000 |
| Gross external debt, EUR mn | 169471 | 201449 | 186351 | 216669 | 197994 | 210332 | . | . | . |
| Gross external debt in % of GDP | 35.9 | 40.4 | 42.3 | 39.1 | 35.8 | 37.0 | . | . | . |
| Average exchange rate TRY/EUR | 1.7865 | 1.9064 | 2.1631 | 1.9965 | 2.0868 | 2.1576 | 2.20 | 2.10 | 2.10 |
| Purchasing power parity TRY/EUR | 1.0642 | 1.1456 | 1.2368 | 1.2838 | . | . | 1.38 | 1.41 | 1.41 |

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

1) Preliminary. - 2) TSI projections. - 3) According to ESA'95 excessive deficit procedure. - 4) From 2010 one-week repo rate, overnight lending rate before.

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


*Mario Holzner*

# Albania:
## Adolescent development

***The political system is still showing signs of pubescence. The recent municipal elections culminated in a fierce dispute over the outcome of the ballot in the country's capital, Tirana. Nevertheless, in terms of economic development things seem to be improving. The growth rate for 2011 is expected to be slightly over 4%. A similar growth rate is expected for 2012 and a somewhat higher rate for 2013. The main drivers are further export growth and an improvement in consumer and business confidence.***

Once again the Albanian political system has proved to be still in puberty. The municipal elections of 8 May 2011 have ended in a fierce dispute over the outcome of the vote in the capital Tirana. According to the unofficial preliminary results, incumbent mayor and socialist opposition leader Edi Rama had won the elections in Tirana by 10 votes. However, after a controversial recount of stray ballots the conservative party-dominated Electoral Commission declared the conservative government candidate Lulzim Basha to be the winner of the Tirana race. Apparently the legal basis for opening the ballot boxes to count the stray votes is unclear. The final result has been appealed in the Electoral College. Whatever the outcome of the election will be, Albanians once again have the impression that elections are not fully fair and according to European standards. The Albanian political system seems to be still in adolescence. This will act as a further drawback for Albania's wish to enter EU accession negotiations in the near future.

In economic terms Albania is doing better than expected. Compared to earlier forecasts the growth rate for 2011 is expected to be almost a percentage point higher at 4.1%. A similar growth rate is expected for 2012 and a somewhat higher one for 2013. Main drivers are the further expansion of exports as well as an improvement of the consumer and business confidence. The Albanian export boom is continuing. This is mainly based on the sustained increase in electricity exports by about 55% in lek terms in early 2011 as weather conditions and international energy price developments were favourable for Albania's hydro power industry. However, comparing customs data for the first four months of 2011 with the same period in 2010 reveals that exports of construction materials and metals increased by an even higher rate of 74%. This group of goods contributed to about one third of the overall nominal export increase which stood at 38%. Although rather small, a further devaluation of the Albanian lek was certainly not hampering the export growth either. The import growth of 17% was much less dynamic. It is reassuring that about a quarter of the increase in imports was due to imports of machinery, equipment and spare parts, which hints at a revival of investment activity.

This seems to be confirmed by the marked improvement of the Industry Confidence Indicator in the last quarter of 2010. The Indicator has now returned to its long-term average after being in the negative zone starting from the fourth quarter of 2008. Also business expectations for 2011 are optimistic. The credit standards to businesses eased strongly during the fourth quarter of 2010. In particular business loan demand for working capital and investment financing increased substantially.

Although the Consumer Confidence Indicator deteriorated somewhat over the last two quarters of 2010, the general trend since early 2009 is positive and the Indicator values are significantly above the long-term average. Also the credit standards to households eased over the fourth quarter of 2010 and household loan demand expectations for 2011 are optimistic. While overall retail trade still performs quite sluggishly, sales of motor vehicles increased by nearly 10% in the last quarter of 2010 as compared to the same period a year earlier. This index tends to be a good indicator for future household demand. Consequently we expect a slight increase in household demand in 2011.

In the wake of the municipal elections, general government expenditures have risen strongly. While revenues stagnated, expenditures increased by 17% in the first four month of 2011 as compared to the same period a year earlier. For the whole year we thus may expect a positive contribution of government demand to GDP growth.

Although imports, fuelled by rising domestic demand, are expected to increase at a slower rate than exports, the sheer volume of imports will make the current account deficit increase slightly in 2011. This is also due to the fact that remittances started to decrease in 2010. Compared to 2009 private transfers decreased by almost 4%. This may be related to the economic crisis in neighbouring Greece, which is a major host country for Albanian migrants.

Overall the outlook for 2011 appears to be rather optimistic. Growth is expected to stay at around 4% in both 2011 and 2012. Growth will not be back to pre-crisis levels as the formerly vibrant construction sector seems to be still rather stagnating. However, the recent increase in construction permits raises hopes for a certain recovery. With the exchange rate expected to appreciate again, imports will grow faster than exports and the current account will further deteriorate in 2012. Only by 2013 can we expect a growth rate of about 5% which is closer to the long-term average growth rate. The next parliamentary elections in 2013 should act as a litmus test for Albania's maturity to enter accession negotiations with the EU. A start of negotiations could serve 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 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average [1] | 3161.3 | 3182.0 | 3194.4 | 3210.0 | . | . | 3220 | 3240 | 3260 |
| Gross domestic product, ALL bn, nom. [2] | 967.7 | 1088.1 | 1143.6 | 1220 | 300 | . | 1300 | 1400 | 1530 |
| annual change in % (real) [2] | 5.9 | 7.7 | 3.3 | 4 | 2.2 | . | 4.1 | 3.9 | 5 |
| 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 | 3 | . | . | 4 | 7 | 9 |
| 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 | 5 | 11 |
| Gross industrial production [3] | | | | | | | | | |
| annual change in % (real) | -9.7 | 9.4 | 0.6 | 20.0 | 21.2 | . | 7 | 13 | 7 |
| Gross agricultural production [4] | | | | | | | | | |
| annual change in % (real) | 2.7 | 7.3 | 3.3 | 9.0 | 8.4 | . | 3 | 4 | 3 |
| Construction output total [3] | | | | | | | | | |
| annual change in % (real) | 12.2 | 10.7 | 0.2 | -25.0 | -18.4 | . | 2 | 3 | 8 |
| Employed persons - LFS, th, Oct | 1197.7 | 1123.3 | 1160.0 | 1100.0 | . | . | 1060 | 1100 | 1150 |
| annual change in % | . | -6.2 | 3.3 | -5.2 | . | . | -4 | 4 | 5 |
| Employment reg. total, th pers., end of period | 965.5 | 974.1 | 899.3 | 916.9 | 900.7 | 920.4 | 920 | 930 | 970 |
| annual change in % | 3.3 | 0.9 | -7.7 | 2.0 | -7.4 | 2.2 | 0 | 1 | 4 |
| Unemployed persons - LFS, th, Oct | 184.8 | 168.6 | 185.0 | 210 | . | . | 200 | 190 | 180 |
| Unemployment rate - LFS, in %, Oct | 13.5 | 13.0 | 13.8 | 15 | . | . | 15 | 14 | 13 |
| Reg. unemployment rate, 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 | 42000 | 45500 | . | . | . |
| annual change in % (real, gross) | 21.6 | -1.1 | 11.7 | 3.0 | 6.6 | 4.1 | 4 | 5 | 10 |
| Consumer prices, % p.a. | 2.9 | 3.4 | 2.3 | 3.5 | 4.3 | 4.0 | 4 | 4 | 4 |
| Producer prices in industry, % p.a. | 3.5 | 6.5 | -1.6 | 0.1 | -0.2 | 3.1 | 4 | 5 | 6 |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 26.0 | 26.8 | 26.2 | 27 | . | . | 28 | 29 | 29 |
| Expenditures | 29.6 | 32.3 | 33.2 | 30 | . | . | 32 | 33 | 36 |
| Deficit (-) / surplus (+) | -3.5 | -5.5 | -7.0 | -3 | . | . | -4 | -4 | -7 |
| Public debt, nat. def., in % of GDP [5] | 53.9 | 55.2 | 61.6 | 61 | . | . | 61 | 61 | 62 |
| Central bank policy rate, % p.a., end of period [6] | 6.3 | 6.3 | 5.3 | 5.0 | 5.3 | 5.3 | 5.3 | 5.3 | 5.5 |
| Current account, EUR mn | -831.1 | -1370.2 | -1345.5 | -1056.3 | -235.3 | -246.4 | -1100 | -1400 | -2000 |
| Current account in % of GDP | -10.6 | -15.5 | -15.5 | -11.9 | -10.9 | . | -11.8 | -13.0 | -16.3 |
| Exports of goods, BOP, EUR mn | 786.3 | 917.5 | 750.7 | 1171.5 | 254.9 | 370.6 | 1350 | 1500 | 1700 |
| annual growth rate in % | 24.7 | 16.7 | -18.2 | 56.1 | 45.1 | 45.4 | 15 | 11 | 13 |
| Imports of goods, BOP, EUR mn | 2890.4 | 3348.9 | 3054.4 | 3254.2 | 673.9 | 779.1 | 3600 | 4200 | 5100 |
| annual growth rate in % | 26.2 | 15.9 | -8.8 | 6.5 | -2.7 | 15.6 | 11 | 17 | 21 |
| Exports of services, BOP, EUR mn | 1415.1 | 1687.8 | 1718.4 | 1702.5 | 259.31 | 289.2 | 1950 | 2300 | 2600 |
| annual growth rate in % | 22.3 | 19.3 | 1.8 | -0.9 | -14.4 | 11.5 | 15 | 18 | 13 |
| Imports of services, BOP, EUR mn | 1402.3 | 1618.4 | 1597.5 | 1520.8 | 272.4 | 335.3 | 1600 | 1800 | 2200 |
| annual growth rate in % | 18.0 | 15.4 | -1.3 | -4.8 | -20.0 | 23.1 | 5 | 13 | 22 |
| FDI inflow, EUR mn | 481.1 | 675.4 | 706.4 | 827.4 | 165.8 | 57.5 | 600 | 700 | 800 |
| FDI outflow, EUR mn | 11.1 | 55.4 | 26.1 | -9.5 | 0.2 | 3.6 | 20 | 30 | 40 |
| Gross reserves of NB excl. gold, EUR mn | 1415.9 | 1626.1 | 1607.8 | 1842.1 | 1631.3 | 1733.7 | . | . | . |
| Gross external debt, EUR mn | 2098.6 | 3092.1 | 3323.4 | 3697.2 | 3388.3 | 3724.5 | . | . | . |
| Gross external debt in % of GDP | 26.8 | 34.9 | 38.4 | 41.8 | 38.3 | 40.1 | . | . | . |
| Average exchange rate ALL/EUR | 123.63 | 122.80 | 132.06 | 137.79 | 138.6 | 139.46 | 140 | 130 | 125 |
| Purchasing power parity ALL/EUR [7] | 52.39 | 53.08 | 55.32 | 56.22 | . | . | . | . | . |

1) Preliminary. - 2) According to ESA'95 (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) Based on IMF data. - 6) One-week repo rate. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

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


*Josef Pöschl*

# Bosnia and Herzegovina:
## Some chance of getting things moving

***Exports expanded substantially in 2010 and the first months of 2011, but this did not trigger much GDP growth, as the export sector's GDP contribution is rather small. Large parts of the business sector are still in worse shape than they were before the crisis; the public sector finds it difficult to make ends meet. The flow of funds from Paris Club creditors will remain interrupted pending the establishment of a new central government after the elections held in October 2010. Households continue to rely heavily on remittances. Prospects of EU accession are poor.***

In Bosnia and Herzegovina (BiH) as well, the crisis has finally been overcome. GDP resumed growth already in 2010, slightly at least, and in 2011 significant export expansion is fuelling the growth of industrial production. 2008-2010 GDP figures give the impression that Bosnia and Herzegovina (BiH) is among those countries where the impact of the global economic crisis was moderate. The crisis shows, however, still an impact on the micro level. In addition to high production cost and stagnant domestic demand, companies are now also burdened with increased indebtedness. During the crisis total debt vis-à-vis commercial banks rose by 40% (2010 compared to 2007) to EUR 5500 per capita, so the result of a survey. If so, this debt increase should be the result of non-servicing of loans rather than new borrowing; and only part of it should have been categorized as non-performing. The banking sector reports a share of non-performing loans of close to 12%, which is not that high by international standards, but substantially higher than it was in the past. The banking sector as a whole made losses in 2010. Some of the large industrial companies have also made losses. Even the country's large oil refinery has accumulated high losses in past years and needs an overhaul to become profitable. Energoinvest, in former times one of the country's industrial flagships, went bankrupt in February, and it is not clear yet which parts of the company will survive. In addition, a number of BiH companies had to stop activities in Libya. Compared to new start-ups, the number of closures of small and medium-sized enterprises has been high in recent months.

From 2008 to 2011, total public debt per end of year increased from 30% to about 38% of GDP. Under circumstances of modest recovery, the government sector is struggling with deficits on all levels. To cover some of its deficit, the government of the Republika Srpska entity has issued treasury bills, and the government of the Federation of BiH is likely to do the same. Deficit financing has become more difficult as fresh money from the IMF in the context of the stand-by agreement as well as from the World Bank will not be an issue as long as BiH is unable to form a new government on the state level (Council of Ministers). This will happen in October 2011 at the earliest. After the parliamentary elections of 3 October 2010, it took politicians nine months to make the new parliaments operational and to form governments on lower levels within the complicated constitutional architecture. The months of deadlock are strengthening the camp of those looking for an opportunity to dissolve BiH.

Dissolution of the country is unlikely to ever happen, and the desire for this to occur is likely to lose terrain within the current decade. In any case, however, for the time being the dogged tension between centrist and centrifugal forces has adverse economic consequences which are enormous. First, it shifts the focus away from the economy’s urgent needs in regulatory terms. Second, it alienates investors, both local and foreign ones, as figures clearly reflect.

That economic recovery is merely lukewarm originates from the fact that the burden for households and enterprises (e.g. in terms of indebtedness) has increased, whereas the structures, most of which are unfavourable for economic activities, have not changed.

One field where pre-crisis structures have re-emerged is that of balance of payment patterns. These have been characterized by high trade deficits financed by remittances from abroad and capital imports. In the first four months of the year, exports increased by about 25% and imports by about 20%. While the high growth of exports is good news, the high growth of imports is alarming, as it comes under conditions of a merely modest economic recovery. As the volume of exports is much smaller than that of imports, in absolute terms the increase in imports surpassed that of exports (by about EUR 120 million) and the trade deficit widened accordingly.

Remittances from abroad (including an estimate of unofficial transfers) have fallen somewhat in the course of the crisis, but were back to EUR 1.7 billion (or about 14% of GDP) in 2010. Contrary to pre-crisis years, FDI flows are now of almost negligible size. FDI inflows are often related to privatization initiatives. A total of 21 enterprises are earmarked for privatization in 2011, but most likely only a few cases will be realized.

Similarly to the pre-crisis years, the country is trapped in an unfavourable political constellation and therefore unable to make full use of its economic potential. The public sector (including public administration, defence and social security institutions) remains the country’s third largest employer (with an employment of 72,000 persons at end of March). Employment in this sector is on the rise, while it is declining in manufacturing and wholesale trade, the sectors with the largest employment (133,000 and 127,000 employees respectively).

For the period 2011-2013 GDP is likely to grow much less than immediately before the crisis, by about 3% at best. At the same time, inflation will be somewhat elevated. This follows from increases in world market prices for energy and food, items with a high weight in the average BiH consumer basket. In addition, in the Federation the regulatory agency raised the prices of electricity. Unemployment increased in the course of the crisis and will remain high (between 25% and 30% according to LFS methodology) – any substantial improvement is not in sight. In the political arena, Croatia’s forthcoming accession to the EU will have an impact. There will be pressure from citizens to speed up the integration process. This pressure will become even stronger, should Serbia obtain candidate status soon. A new central government could use this pressure for getting things moving.

Table BA

## Bosnia and Herzegovina: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 3842.9 | 3842.3 | 3843.0 | 3843.0 | . | . | 3843 | 3843 | 3842 |
| Gross domestic product, BAM mn, nom. 2) | 21778.4 | 24717.6 | 24003.7 | 24750.0 | . | . | 26300 | 27600 | 29000 |
| annual change in % (real) 2) | 6.2 | 5.7 | -3.0 | 0.9 | . | . | 2.2 | 3 | 3 |
| GDP/capita (EUR at exchange rate) | 2900 | 3300 | 3200 | 3300 | . | . | 3500 | 3700 | 3900 |
| GDP/capita (EUR at PPP - wiiw) | 6300 | 6600 | 6300 | 6600 | . | . | . | . | . |
| GDP by expend. approach, BAM mn, nom. 2) | 24385.7 | 28166.9 | 27842.5 | . | . | . | . | . | . |
| Consumption of households, BAM mn, nom. 2) | 19911.6 | 22468.0 | 21630.5 | 22080 | . | . | . | . | . |
| annual change in % (real) 2) | 5.9 | 6.0 | -3.9 | -0.1 | . | . | 0.2 | 2 | 2 |
| Gross fixed capital form., BAM mn, nom. 2) | 6142.7 | 7565.1 | 5951.0 | 6080 | . | . | . | . | . |
| annual change in % (real) 2) | 28.2 | 16.1 | -22.4 | 0.0 | . | . | 5.4 | 3.6 | 4.3 |
| Gross industrial production 3) | | | | | | | | | |
| annual change in % (real) | 6.4 | 11.0 | -3.3 | 1.6 | 1.3 | 10.5 | 10 | 10 | 10 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -3.1 | 8.8 | 0.7 | . | . | . | . | . | . |
| Employed persons - LFS, th, April | 849.6 | 890.2 | 859.2 | 842.8 | 842.8 | . | 840 | 845 | 850 |
| annual change in % | 4.8 | 4.8 | -3.5 | -1.9 | -1.9 | . | -0.3 | 0.6 | 0.6 |
| Employees total - reg., th, average | 686.1 | 705.6 | 697.6 | 688.2 | 700.0 | 695.3 | 685 | 690 | 700 |
| annual change in % | 5.0 | 2.9 | -1.1 | -1.3 | -0.3 | -0.7 | -0.5 | 0.7 | 1.4 |
| Unemployed persons - LFS, th, April | 346.7 | 272.0 | 272.3 | 315.1 | 315.1 | . | 315 | 310 | 300 |
| Unemployment rate - LFS, in %, April | 29.0 | 23.4 | 24.1 | 27.2 | 27.2 | . | 27 | 27 | 26 |
| Reg. unemployment rate, in %, end of period | 42.5 | 40.6 | 42.4 | 42.7 | 42.6 | 43.3 | 43 | 42 | 42 |
| Average gross monthly wages, BAM | 954 | 1113 | 1204 | 1217 | 1203 | 1249 | 1250 | 1300 | 1400 |
| annual change in % (real, net) | 8.4 | 8.4 | 5.6 | -0.9 | -1.5 | -0.9 | . | . | . |
| Consumer prices, % p.a. | 1.5 | 7.5 | -0.4 | 2.1 | 1.7 | 3.3 | 4 | 2 | 2 |
| Producer prices in industry, % p.a. 4) | . | 8.6 | -3.2 | 0.9 | -1.9 | . | . | . | . |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 45.2 | 44.1 | 43.1 | 42.5 | . | . | 43.0 | 44.0 | 44.0 |
| Expenditures | 44.0 | 46.3 | 47.6 | 47.0 | . | . | 46.5 | 46.5 | 46.0 |
| Deficit (-) / surplus (+) | 1.2 | -2.2 | -4.5 | -4.5 | . | . | -3.5 | -2.5 | -2.0 |
| Public debt, nat. def., in % of GDP 5) | 29.6 | 30.8 | 35.4 | 39.1 | . | . | 38 | 39 | 40 |
| Central bank policy rate, % p.a., end of period 6) | . | . | . | . | . | . | . | . | . |
| Current account, EUR mn 7) | -1190.6 | -1797.7 | -761.6 | -696.8 | -48.3 | . | -900 | -800 | -800 |
| Current account in % of GDP | -10.7 | -14.2 | -6.2 | -5.5 | . | . | -6.7 | -5.7 | -5.4 |
| Exports of goods, BOP, EUR mn 7) | 3091.5 | 3522.0 | 2920.2 | 3729.3 | 820.7 | . | 4500 | 5100 | 5500 |
| annual growth rate in % | 15.0 | 13.9 | -17.1 | 27.7 | 25.2 | . | 21 | 13 | 8 |
| Imports of goods, BOP, EUR mn 7) | 7233.6 | 8344.6 | 6330.1 | 6976.8 | 1413.2 | . | 8300 | 9400 | 10000 |
| annual growth rate in % | 18.7 | 15.4 | -24.1 | 10.2 | -1.6 | . | 19 | 13 | 6 |
| Exports of services, BOP, EUR mn 7) | 1061.7 | 1132.0 | 1033.8 | 970.7 | 179.1 | . | 1050 | 1120 | 1200 |
| annual growth rate in % | 17.4 | 6.6 | -8.7 | -6.1 | -14.6 | . | 8 | 7 | 7 |
| Imports of services, BOP, EUR mn 7) | 422.3 | 467.7 | 461.8 | 447.8 | 72.3 | . | 480 | 500 | 520 |
| annual growth rate in % | 14.2 | 10.8 | -1.3 | -3.0 | -8.4 | . | 7 | 4 | 4 |
| FDI inflow, EUR mn 7) | 1519.8 | 636.3 | 176.8 | 47.9 | -33.7 | . | 100 | 300 | 400 |
| FDI outflow, EUR mn 7) | 20.5 | 9.2 | -6.7 | 35.2 | 29.7 | . | 0 | 0 | 0 |
| Gross reserves of NB excl. gold, EUR mn 8) | 3424.9 | 3218.9 | 3143.8 | 3267.6 | 3131.7 | 3108.8 | . | . | . |
| Gross external debt, EUR mn 9) | 2025.4 | 2168.0 | 2676.2 | 3213.5 | 2897.3 | 3186.3 | . | . | . |
| Gross external debt in % of GDP | 18.2 | 17.2 | 21.8 | 25.4 | 22.9 | 23.7 | . | . | . |
| Average exchange rate BAM/EUR | 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) 2007 and 2008 wiiw estimates based on weighted averages for the two entities (Federation BH and Republika Srpska). - 4) Domestic output prices. - 5) Based on IMF data. - 6) Bosnia and Herzegovina has a currency board. There is no policy rate and even no money market rate available. - 7) Converted from national currency with the average exchange rate. - 8) Including investment in foreign securities. - 9) Gross external public debt. - 10) Benchmark results 2005 from Eurostat and wiiw estimates.

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


*Vladimir Gligorov*

# Serbia:
## Slow and unbalanced recovery

***GDP growth this year is expected to be 2.5%. Next year, it should accelerate to 3%. An inflation rate of more than 10% has raised concerns as to stability. Much will depend on the outcome of the general elections next year. Social pressures and unrest usually accelerate in the run-up to the elections; they have already become more than apparent. It is also expected that negotiations on EU membership will start next year: something that should have a stabilizing effect.***

GDP growth is expected to be 2.5% this year. Next year, it should accelerate to 3%. These are official forecasts, backed by the IMF though. The initial estimate of the first-quarter GDP growth is also 3%.

There is, however, significant uncertainty about the accuracy of the growth rates in the last two years and thus also concerning those of the current estimates and forecasts. The reason is that the final figure for the decline of GDP in 2009 is 3.5%. However, doubts are raised from within the statistical office about the accuracy of that figure and some expect that it will be corrected to a decline of 6.5% in 2009. The final assessment of GDP growth in 2010 is still to come anyway and initial estimates of quarterly GDP growth are notoriously unreliable. Without even doubting the currently released figures, such large uncertainties about the real GDP growth figures do not inspire confidence in the official pronouncements and forecasts.

There are two additional considerations. For one, the output gap is hard to assess because potential output growth, and thus level, are not known while the reported real growth rates are not reliable. That makes it difficult to reconcile official estimates of GDP decline in 2009 and its recovery in 2010 and 2011 with the much greater reduction of employment. From October 2008 to October 2010 employment declined by about 15% (about 400,000 jobs lost). This is consistent with a huge loss in potential output – certainly larger than that implied by the reported figures of actual real GDP decline.

For another, inflation has accelerated since mid-2010 and the headline inflation rate is currently close to 15% annualized. The central bank is arguing that this is mostly due to one-time price increases and that inflation will come down without too much monetary tightening, though the reference rate of the central bank has been increasing in the last year or so. It is still negative in real terms at least at headline inflation but most probably in terms of inflationary expectations too. In addition, the dinar has appreciated by about 10% against the euro and there are further pressures in the same direction. Currently, therefore, there is appreciation with accelerating inflation. If it turned out that some stabilization measures proved necessary, growth might disappoint next year. That seems to be what is expected because parliamentary elections will be held in the first half of next year and the next government will have to assess the measures it needs to take to stabilize the economy.

Even if the current forecasts prove correct, recovery will have to be considered slow because growth of employment cannot be expected to be strong. In fact, at the projected growth rates, the output gap will continue to widen, which also means that the labour market will continue to be depressed. In addition, there are structural changes that need to take place and will keep both the growth of GDP and of employment low. Jobs in the services sector are not coming back and jobs are being lost in agriculture too. Manufacturing has declined significantly in this crisis and is recovering very slowly. Whatever growth there is in manufacturing, it is connected with the growth of exports, which has been quite strong since the end of 2009. However, exports are driven mostly by sectors and companies that have been export-oriented before the crisis. Those have been helped by the strong depreciation of the dinar in 2009 and 2010. Investments in new production for export have been few and may not be forthcoming given the appreciation of the dinar. Much hope is being put on the revival of the automotive industry due to investments by Fiat. The scope and the scale of that investment still remain to be determined.

The prospects for this and the next few years are that GDP growth will be between 3% and 4% and that stability will be preserved. Much will depend on the outcome of next year's general elections. Social pressures and unrests usually accelerate before the elections and this is already happening. The aim is to secure as good a starting point as possible before the new government comes in and starts to work on a programme of stabilization and reforms. In the last two elections that was enough to basically block incoming governments from taking any austerity and reform measures. This time around those measures may prove to be unavoidable and, when taken, they will determine the medium-term prospects.

Table RS

## Serbia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 7381.6 | 7350.2 | 7320.8 | 7300.0 | . | . | 7280 | 7250 | 7220 |
| Gross domestic product, RSD bn, nom. 2) | 2276.9 | 2661.4 | 2713.2 | 3100.0 | . | . | 3500 | 3900 | 4300 |
| annual change in % (real) 2) | 6.9 | 5.5 | -3.1 | 1.8 | 0.4 | 3.4 | 2.5 | 3 | 3 |
| GDP/capita (EUR at exchange rate) | 3900 | 4400 | 4000 | 4100 | . | . | . | . | . |
| GDP/capita (EUR at PPP - wiiw) | 8200 | 9000 | 8300 | 9000 | . | . | . | . | . |
| Consumption of households, RSD nn, nom. 2) | 1714.0 | 2023.6 | . | . | . | . | . | . | . |
| annual change in % (real) 2)3) | 6 | 6 | -2 | 2 | . | . | 2 | 2 | 2 |
| Gross fixed capital form., RSD bn, nom. 2) | 552.3 | 632.4 | . | . | . | . | . | . | . |
| annual change in % (real) 2)3) | 12 | 8 | -5 | -4 | . | . | 3 | 4 | 4 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) 4) | 3.7 | 1.1 | -12.1 | 2.9 | 1.1 | 5.6 | 3 | 5 | 5 |
| Gross agricultural production | | | | | . | . | | | |
| annual change in % (real) | -8.0 | 9.0 | 5.0 | 0.0 | . | . | 5 | 5 | 5 |
| Construction output total 5) | | | | | . | . | | | |
| annual change in % (real) | 10.8 | 4.6 | -14.3 | -10.0 | . | . | 0 | 5 | 5 |
| Employed persons - LFS, th, Oct 6) | 2655.7 | 2821.7 | 2616.4 | 2396.2 | . | . | 2400 | 2400 | 2420 |
| annual change in % | 1.0 | . | -7.3 | -8.4 | . | . | 0 | 0 | 1 |
| Unemployed persons - LFS, th, Oct 6) | 585.5 | 445.4 | 503.0 | 568.7 | . | . | . | . | . |
| Unemployment rate - LFS, in %, Oct 6) | 18.1 | 13.6 | 16.1 | 19.2 | . | . | 20 | 20 | 20 |
| Reg. unemployment rate, in %, end of period | 25.4 | 24.0 | 24.8 | 25.9 | 26.4 | 26.8 | 27 | 27 | 27 |
| Average gross monthly wages, RSD 4)7) | 38744 | 45674 | 44147 | 47450 | 44326 | 48803 | . | . | . |
| annual change in % (real, net) 4)7) | 19.5 | 3.9 | 0.2 | 0.7 | 1.5 | -2.3 | . | . | . |
| Consumer prices, % p.a. | 7.0 | 13.5 | 8.6 | 6.8 | 4.6 | 12.8 | 10 | 8 | 6 |
| Producer prices in industry, % p.a. 8) | 5.9 | 12.4 | 5.6 | 12.7 | 11.1 | 18.2 | . | . | . |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 44.0 | 43.0 | 42.3 | 39.5 | . | . | . | . | . |
| Expenditures | 46.0 | 45.6 | 46.7 | 43.9 | . | . | . | . | . |
| Deficit (-) / surplus (+), % GDP | -2.0 | -2.6 | -4.5 | -4.4 | . | -3.2 | -5 | -4 | -3 |
| Public debt, nat.def., in % of GDP | 29.8 | 27.9 | 32.6 | 36.0 | 31.1 | 43.5 | 43 | 45 | 45 |
| Central bank policy rate, % p.a., end of period 9) | 10.0 | 17.8 | 9.5 | 11.5 | 9.0 | 12.3 | 12 | 10 | 10 |
| Current account, EUR mn | -5052.6 | -7054.1 | -2084.4 | -2082.0 | -759.8 | -843.8 | -2600 | -3500 | -3900 |
| Current account in % of GDP | -17.7 | -21.6 | -7.2 | -6.9 | . | -11.8 | -8.0 | -9.9 | -10.0 |
| Exports of goods, BOP, EUR mn | 6382.5 | 7416.0 | 5977.8 | 7402.5 | 1473.4 | 1951.6 | 8500 | 9400 | 10300 |
| annual growth rate in % | 24.9 | 16.2 | -19.4 | 23.8 | 13.9 | 32.5 | 15 | 10 | 10 |
| Imports of goods, BOP, EUR mn | 13451.3 | 15917.2 | 11096.3 | 12175.8 | 2659.2 | 3268.9 | 13400 | 14700 | 16200 |
| annual growth rate in % | 33.3 | 18.3 | -30.3 | 9.7 | -4.8 | 22.9 | 10 | 10 | 10 |
| Exports of services, BOP, EUR mn | 2304.0 | 2741.4 | 2500.0 | 2667.1 | 536.7 | 631.4 | 2900 | 3200 | 3500 |
| annual growth rate in % | 25.3 | 19.0 | -8.8 | 6.7 | -5.6 | 17.6 | 10 | 10 | 10 |
| Imports of services, BOP, EUR mn | 2565.1 | 2926.1 | 2481.7 | 2661.9 | 554.8 | 603.9 | 2900 | 3200 | 3500 |
| annual growth rate in % | 36.4 | 14.1 | -15.2 | 7.3 | -8.6 | 8.8 | 10 | 10 | 10 |
| FDI inflow, EUR mn | 2512.6 | 2017.5 | 1410.1 | 1003.1 | 333.2 | 325.4 | 1500 | 1500 | 2000 |
| FDI outflow, EUR mn | 691.8 | 193.1 | 37.6 | 143.0 | 49.7 | 18.8 | 50 | 100 | 100 |
| Gross reserves of NB, excl. gold, EUR mn | 9440.7 | 7938.5 | 10277.7 | 9554.9 | 10093.7 | 9490.2 | . | . | . |
| Gross external debt, EUR mn | 17139.0 | 21088.0 | 22487.0 | 23786.4 | 22942.6 | 22671.9 | . | . | . |
| Gross external debt in % of GDP | 60.2 | 64.6 | 77.9 | 79.0 | 76.2 | 70.0 | . | . | . |
| Average exchange rate RSD/EUR | 79.98 | 81.47 | 93.94 | 102.90 | 98.60 | 103.99 | 108 | 110 | 110 |
| Purchasing power parity RSD/EUR 10) | 37.59 | 40.41 | 44.49 | 47.07 | . | . | . | . | . |

1) Preliminary. - 2) According to ESA'95 (non-observed economy partially incuded). - 3) wiiw estimate. - 4) Quarterly data accrording to NACE Rev. 2. - 5) Gross value added. - 6) From 2008 extended survey as of April and October. - 7) From 2009 including wages of employees working for sole proprietors. - 8) Domestic output prices. - 9) Two-week repo rate. - 10) Benchmark results 2005 from Eurostat and wiiw estimates.

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


*Olga Pindyuk*

# Kazakhstan:
## Strong growth continues, but problems in the banking sector remain

***GDP growth for 2011 is forecast at 7% thanks to high global oil prices. Oil exports are hampered by shortcomings in terms of both transport infrastructure and production capacities. In the biennium 2012-2013 the Kazakh economy will grow by 6%. Both consumer and investment demand will rise, the latter more rapidly. The banking sector has not yet fully recovered from the crisis. As asset cleansing gets underway in the banking sector, the economy will benefit from a gradual improvement in access to funding. As a result of high global food prices, CPI in 2011 will increase to 8%. In the biennium 2012-2013, inflation will slow down to around 7%.***

Kazakhstan's economy showed a strong performance in the first quarter of 2011 – real GDP growth reached 6.6% year on year, which was only 0.5 percentage points lower than in the first quarter of 2010. The biggest contribution to growth was made by wholesale and retail trade (14.6% real growth year on year), mining (5%) and manufacturing (8%). In manufacturing, it was primarily metallurgy that contributed to the fast growth. The real estate sector, which accounts for almost 10% of the economy, showed sluggish dynamics with 0.5% real growth year on year, reflecting still persisting consequences of the housing bubble burst.

We revise upwards our GDP forecast for 2011 primarily due to higher than previously expected global oil prices. The more favourable global commodities market situation will cause merchandise exports to grow faster in 2011 – by 20% in euro terms.

In 2012-2013, merchandise exports growth will slow down to 10% and 8% respectively in euro terms as oil prices are not expected to surge further, and limitations of the oil transit infrastructure will be a bottleneck for faster export growth volumes. Currently, Kazakhstan has almost reached the limits of oil pipelines capacity; now new investment is needed to expand it. Recently Caspian Pipeline Consortium members have agreed to invest over USD 5 billion to double by 2014 the capacity of the major Kazakh pipeline that connects the country's oil fields to Russian terminals in the Black Sea. The oil production sector also poses limitations for export growth. Though the first phase of the Kashagan oil field operation is expected later this year (producing 0.37 million b/d), full-scale operation of the field, which would allow Kazakhstan to double its oil production (to about 3 million b/d), is likely to be postponed again – until after 2015 – due to issues related with the high costs of the project.

As indicated by the wholesale and retail trade dynamics, consumer demand is exhibiting strong growth. The major factors behind this trend are rising salaries – both in the private and public sector – and social transfers. In particular, pensions were raised by 30% at the beginning of 2011, students' scholarships and wages of public sector employees will increase by 30% starting from July 2011. Higher tax revenues (primarily due to higher oil export tax receipts) and the improved GDP forecast for 2011 allowed the Kazakh government to revise the current year budget and increase government expenditures by the equivalent of about USD 2 billion (or 1% of GDP), thus a further increase in social expenditures is likely. Employment has also been picking up: in the first quarter of 2011 it rose by 1.3% year on year. As a result of those trends, we expect real household consumption to increase by 6% in 2011. Continuing growth of real household income will provide for real household consumption growth by 5% in 2012 and 2013.

Gross fixed capital formation is forecasted to grow by 10% in real terms in 2011, the bulk of it being directed to oil extraction and transport infrastructure. The construction sector will remain lethargic in 2011, with only 4% real growth. In 2012-2013, however, we expect the housing market to revive as financing conditions will ease, and construction sector growth will jump to 8-10% in real terms. Already now there are signs of a market recovery, as housing prices started to rise by 6-7% year on year; yet the pre-crisis level of prices is still out of sight – on the secondary housing market prices are still 20% lower than in 2007. The expected ease of access to financing will also be felt in other sectors which will be able to expand their investment projects. As a result, we forecast real gross fixed capital formation to increase by 7% in both 2012 and 2013.

Strong consumer and investment demand will cause an acceleration of import growth in 2011: we expect merchandise imports to outperform exports in terms of growth and increase by 25% in euro terms. In 2012-2013, the growth of merchandise imports will slow down somewhat, to 15% and 10% respectively. The current account balance is expected to remain positive during the forecasting period at a level of about 3% of GDP.

Inflation has picked up recently in Kazakhstan, reaching 8.6% year on year in April 2011. The biggest contribution to the CPI increase comes from food prices, reflecting the global food market trends. In March 2011, the National Bank of Kazakhstan increased its key interest rate by 0.5 percentage points to 7.5% in an attempt to tighten its monetary policy. In addition, administrative measures to stabilize food prices were adopted by the government – a reduction of the annual 2010-2011 grain export quota by 1 million tonnes to 6 million tonnes. However, we believe that these measures will not be sufficient to bring the inflation down by much, especially taking into account the quite expansionary fiscal policy. We therefore revise upwards our forecast of CPI for 2011, to 8%. In 2012-2013, inflation will slow down to around 7% in annual terms.

Starting from February 2011, the National Bank of Kazakhstan has officially switched from the earlier exchange rate corridor policy to a managed float. However, de facto the Bank remains strongly committed to maintaining stability of the exchange rate and has been intervening heavily to oppose revaluation pressures. During January to April 2011, the tenge revalued only by 2% with respect to the US dollar, while gross forex reserves were increased by almost USD 9 billion to USD 37 billion, and National Oil Fund assets were increased by USD 5.5 billion to USD 36 billion. The National Bank has been sterilizing its interventions through sales of short-term NBK notes. We expect an only mild revaluation of the tenge over 2011-2013 to 140 KZT/USD on average in 2013.

Though Kazakh banks have ample liquidity as deposits have been increasing relatively fast – by 12% year on year in April 2011; the loans dynamics remains rather stagnant – slight growth of the loans volume started only in March 2011 and reached 2% year on year in April 2011. The major reason for that performance is the persisting high share of non-performing loans in banks' assets (25% of total loans at the end of April 2011), which makes them unwilling to take the risk of issuing new loans. The National Bank of Kazakhstan is currently developing policies to tackle the cleansing of banks' assets. In particular, a fund is being set up that will purchase non-performing loans from banks. Besides, the government intends to support writing off bad loans by banks through subsidies and tax benefits, and to stimulate the creation of companies managing bad assets. These measures, however, are likely to bring any significant effect only starting from the next year.

On 3 April 2011, presidential elections took place in Kazakhstan. The incumbent President Nursultan Nazarbayev, who has been running the country for about 20 years, remained in his post. The opposition did not participate in the elections – either by choice, or because they failed to pass the vetting process; also, the unexpectedly early date of the elections left them without enough time to launch a campaign. The three candidates who were running against Nazarbayev had no chance of winning and some even expressed publicly their support for Nazarbayev, thus admitting that this was not a real political contest. External election observers from OSCE also noted significant legal shortcomings of the election process, in particular restrictions on potential candidates and on the freedom of assembly. The outcome of the presidential elections is not going to bring about any significant changes to the political system or government policies; rather further stability is to be expected.

Table KZ

## Kazakhstan: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | Forecast | | |
| Population, th pers., average | 15484 | 15674 | 15880 | 16210 | 16049 | 16475 | 16500 | 16600 | 16700 |
| Gross domestic product, KZT bn, nom. | 12850 | 16053 | 17008 | 21648 | 4021 | 4910 | 26600 | 29900 | 33600 |
| annual change in % (real) | 8.9 | 3.3 | 1.2 | 7.0 | 7.1 | 6.6 | 7 | 6 | 6 |
| GDP/capita (EUR at exchange rate) | 4900 | 5800 | 5200 | 6800 | . | . | 8600 | 9700 | 11100 |
| GDP/capita (EUR at PPP - wiiw) | 8800 | 8800 | 8600 | 9300 | . | . | . | . | . |
| Consumption of households, KZT bn, nom. | 5641 | 6871 | 7913 | 9602 | 1836 | . | 10900 | 12200 | 13600 |
| annual change in % (real) | 10.9 | 6.3 | 0.6 | 10.9 | 3.8 | . | 6 | 5 | 5 |
| Gross fixed capital form., KZT bn, nom. | 3857 | 4309 | 4727 | 5249 | 722 | . | 6700 | 7500 | 8500 |
| annual change in % (real) | 17.3 | 1.0 | -0.8 | 3.8 | 8.3 | . | 10 | 7 | 7 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 5.0 | 2.1 | 2.7 | 10.0 | 11.5 | 6.0 | 6 | 5 | 5 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 8.9 | -6.4 | 13.9 | -11.7 | 2.4 | 1.8 | 12 | 5 | 5 |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 5.7 | 1.9 | -3.2 | 1.0 | -8.7 | 3.1 | 4 | 8 | 10 |
| Employed persons - LFS, th, average | 7631.8 | 7857.2 | 7903.4 | 8114.2 | 8029.3 | 8134.5 | 8280 | 8360 | 8440 |
| annual change in % | 3.1 | 3.0 | 0.6 | 2.7 | 2.5 | 1.3 | 2 | 1 | 1 |
| Unemployed persons - LFS, th, average | 578.8 | 557.8 | 554.5 | 496.5 | 526.2 | 475.9 | . | . | . |
| Unemployment rate - LFS, in %, average | 7.3 | 6.6 | 6.6 | 5.8 | 6.2 | 5.5 | 5.5 | 5.3 | 5.2 |
| Reg. unemployment rate, in %, end of period | 0.8 | 0.7 | 0.6 | . | 1.0 | . | . | . | . |
| Average gross monthly wages, KZT | 53238 | 60734 | 67639 | 77611 | 67839 | 80195 | . | . | . |
| annual change in % (real, gross) | 17.8 | -2.6 | 3.8 | 7.6 | 0.9 | 9.0 | . | . | . |
| Consumer prices, % p.a. | 10.8 | 17.1 | 7.3 | 7.1 | 7.6 | 8.7 | 8 | 7 | 6.5 |
| Producer prices in industry, % p.a. | 12.4 | 36.8 | -22.0 | 25.2 | 45.5 | 23.0 | 18 | 5 | 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 | -2.0 | -1.0 |
| Public debt, nat. def., in % of GDP | 7.1 | 8.3 | 12.2 | 14.8 | . | . | 13 | 11 | 11 |
| 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 | -3126 | 3252 | 2002 | 3547 | 4500 | 4200 | 4400 |
| Current account in % of GDP | -7.9 | 4.7 | -3.8 | 2.9 | 10.2 | 14.4 | 3.2 | 2.6 | 2.4 |
| Exports of goods, BOP, EUR mn 3) | 35309 | 48905 | 31506 | 45814 | 9789 | 13549 | 55200 | 60700 | 65600 |
| annual growth rate in % | 14.3 | 38.5 | -35.6 | 45.4 | 56.3 | 38.4 | 20 | 10 | 8 |
| Imports of goods, BOP, EUR mn 3) | 24288 | 26128 | 20770 | 24065 | 4027 | 5383 | 30000 | 34500 | 37900 |
| annual growth rate in % | 26.4 | 7.6 | -20.5 | 15.9 | -14.3 | 33.7 | 25 | 15 | 10 |
| Exports of services, BOP, EUR mn 3) | 2603 | 3007 | 3036 | 3196 | 651 | 699 | 3400 | 3600 | 3900 |
| annual growth rate in % | 15.9 | 15.5 | 1.0 | 5.3 | -13.2 | 7.4 | 6 | 6 | 8 |
| Imports of services, BOP, EUR mn 3) | 8566 | 7556 | 7204 | 8508 | 1686 | 1761 | 10000 | 11200 | 12500 |
| annual growth rate in % | 22.7 | -11.8 | -4.7 | 18.1 | 6.0 | 4.4 | 18 | 12 | 12 |
| FDI inflow, EUR mn 3) | 8120 | 9732 | 9876 | 7501 | 2458 | 2344 | 8400 | 9100 | 10000 |
| FDI outflow, EUR mn 3) | 2303 | 818 | 2236 | 5878 | 14 | 463 | 2500 | 2700 | 2900 |
| Gross reserves of NB excl. gold, EUR mn | 11970 | 13711 | 16184 | 21360 | 20146 | 24959 | . | . | |
| Gross external debt, EUR mn | 65791 | 76278 | 78933 | 90029 | . | . | . | . | |
| Gross external debt in % of GDP | 85.9 | 84.1 | 95.5 | 81.4 | . | . | . | . | |
| Average exchange rate KZT/EUR | 167.75 | 177.04 | 205.67 | 195.67 | 204.86 | 199.91 | 189 | 186 | 182 |
| Purchasing power parity KZT/EUR, wiiw 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 wiiw estimates.

*Source:* National statistics (National Bank, Agency of Statistics etc). Forecasts by wiiw.


*Peter Havlik*

# Russian Federation:
## Economic growth, political stalemate

***The economy has been growing by about 4% per year. Huge fluctuations in prices and inventories are affecting the reliability of GDP growth figures. Inflation has accelerated and remains stubbornly close to 10%. The long-term strategic target of economic diversification and modernization remains high on the agenda. The wiiw forecast reckons with continued, yet unspectacular, GDP growth over the period 2011-2013. With some luck, inflation may remain in single digits during 2011 and the budget deficit will evolve into a surplus. We have every expectation of President Medvedev being re-elected and the ruling Medvedev-Putin tandem continuing after March 2012.***

The Russian economy has currently been growing at a rather moderate rate – especially in the emerging market and BRICs context – of about 4% per 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) and also given the strong recovery of oil prices and the related surge in Russian export revenues. With oil prices exceeding 100 USD per barrel in the first quarter of 2011 (nearly 40% more than in the previous year's period) export revenues were up by more than 20%. Simultaneously, imports were rising even faster (by close to 40% in nominal EUR terms) thus dampening the robustness of the export-led recovery. Huge fluctuations in prices and inventories, along with statistical discrepancies, are affecting GDP growth figures.

In 2011 again, large gaps between the nominal and real growth rates of exports and imports, together with the ongoing replenishment of inventories, exert a disproportionate impact on forecast GDP. Preliminary official data published in June 2011 put the real GDP growth for the first quarter of the year at 4.1% while the GDP deflator accelerated to 14.1%. Yet similarly to previous years there are considerable inconsistencies: the official estimates for 2010 suggest that domestic demand remained relatively subdued as final consumption expenditure grew by just 2.5% and gross fixed capital formation increased by 6%. Still the overall gross investment jumped by nearly 30% owing to the increase in inventories. At the same time, real net exports contracted by about 20% since the volume of exports grew by 7% while imports soared by 25%.[28]

[28] Wide fluctuations in individual components of GDP are not unusual: in the crisis year 2009, inventories and net exports moved in the opposite direction as the former were cut during the crisis while the export surplus surged owing to deep import cuts. Needless to say, such large swings involve serious valuation and other statistical problems, thus leaving much room for uncertainty and future adjustments. The discrepancy between nominal and real growth rates of exports and imports was particularly high in 2010: in nominal euro terms, both exports and imports increased by nearly 40% and the export surplus rose by more than EUR 30 billion (+37%) according to balance of payments data.

The latest economic data provide a mixed picture as well: The growth of industry and goods transport has slowed down in the first months of 2011. Construction output has ceased to fall after two years of contraction but gross fixed investments dropped. Agriculture is recovering from last year's drought and forest fires: the 2011 grain harvest is expected to reach about 95 million tonnes and the export ban imposed one year ago was lifted as of 1 July 2011. Household consumption and retail trade turnover rose somewhat in the first quarter of 2011 – despite declining real incomes and stagnating real wages (both suffering from price increases yet growing in euro terms thanks to the rouble's nominal appreciation).

The inflation slowdown (and even producer price deflation) that occurred during the 2009 crisis was short lived. Inflation has accelerated since late 2010 and remains stubbornly high: the annual consumer price inflation is approaching 10%, in particular due to food price hikes (especially vegetables). The producer price inflation even exceeded 20% in the first quarter of 2011 as a consequence of rising energy and metals prices. It can be expected that the rising producer prices will be eventually felt by consumers as well. The only factor (apart from a slight tightening of monetary policy) mitigating inflationary pressures is the above-mentioned nominal rouble appreciation – a by-product of surging export revenues and related foreign exchange inflows. After a short-lived depreciation during the peak of the crisis at the turn of 2008/2009, real appreciation – by some 20% against the euro since the beginning of 2010 – has been one of the factors behind surging imports. That notwithstanding, foreign exchange reserves are being gradually replenished, although capital flight again accelerated in late 2010-early 2011, most likely due to political uncertainties before the pending Duma and especially presidential elections in December 2011 and March 2012, respectively. The banking sector has consolidated: both deposits and credits have been growing, and 2010 bank profits have probably reached the pre-crisis level. The share of non-performing loans hovers at around 7% (though at least one third of credits have been restructured); the volume of new mortgages doubled between the first quarters of 2010 and 2011.

As mentioned in our previous assessments, the crisis has not been used as a stimulus for an overhaul of economic policies towards a more favourable business climate. And Russia has become even more dependent on exports of commodities; restructuring, modernization and the 'innovation development' preached by the authorities already for a couple of years have so far been just slogans. The costs of anti-crisis measures implemented from late 2008 added up to some 10% of GDP; judging by the sharp fall in consumption and particularly of investment during 2009, their effects have been rather disappointing. Largely due to surging exports and related tax revenues, but also due to expenditure cuts as fiscal stimuli have been gradually phased out (at least as a proportion of GDP), the federal budget turned from deficit into a surplus between January-April 2010 and the same period of 2011. At the same time, the non-oil budget deficit remains high, at more than 10% of GDP, which underlines the Russian economy's vulnerability to oil price fluctuations.

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. Apart from priority modernization areas announced already in early 2008 before the crisis hit (innovation, institutions, infrastructure and investment), the sectoral programmes include energy, nuclear technologies, global information technologies, medical equipment and pharmaceuticals. The highly publicized innovation centre Skolkovo near Moscow has become a (controversial) symbol of the current innovation drive. Russia's accession to WTO (postponed once more in June 2009 on the pretext of forming a Customs Union with Belarus and Kazakhstan) came back on the agenda and may be finalized before the end of 2011. The privatization plan for the period 2011-2013 has recently been (re)launched again.

The anxiety surrounding the forthcoming Duma (December 2011) and presidential elections (March 2012) fuels uncertainty. There is a lot of speculation whether it will be Putin or Medvedev (less likely both) who will announce his candidacy. The electorate is becoming increasingly apathetic and the leadership's concern is how to mobilize the voters (the Russian president is elected directly by a popular vote). In May 2011, Prime Minister Putin initiated a new 'National Front' movement on the basis of the no-thrill and largely discredited United Russia party. Other political moves in the pre-election reshuffles were the dismissal of the Federation Council speaker S. Mironov and the announcement of one of the key Russian oligarchs, M. Prokhorov, to head the liberal opposition party Pravoye Delo (a creation of Kremlin spin doctors according to some pundits). President Medvedev, who attempts to strike a more liberal tone, and Prime Minister Putin have so far been silent regarding their candidacy in the presidential elections (though none of them excluded it either)

The current wiiw forecast reckons with continued, yet unspectacular GDP growth during 2011-2013. The GDP growth forecast for 2011 has been revised slightly upwards owing to higher than originally expected export revenues and the related increase in domestic spending, in particular the pick-up of investment (partly associated with the forthcoming elections). Still, growth will be much lower than in the pre-crisis period and will gradually diminish given the stabilized oil prices (Urals costing around USD 100 per barrel). This baseline scenario assumes no abrupt policy changes or external shocks. Real export growth will continue to be sluggish at best since the volumes of exported oil and gas will hardly increase in the forecasting period (and there will be not much else to export since the progress in export diversification will be limited), while import volumes will 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 stay in single digits during 2011 and the budget deficit will turn into a surplus again.

Yet the high oil prices are a double-edged sword: on the one hand, export revenues (and taxes) fill government revenues enabling the state to finance various spending programmes which range from rising pensions to infrastructure investments. This is helpful – especially in the pre-election period. One the other hand, the Russian economy's growing vulnerability concerning commodity prices is 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 and the labour market situation is gradually improving: unemployment dropped by about 1 million persons within one year. But the shrinking labour force due to demographic factors, emerging skill shortages that are magnified by outward migration (mostly to the West) and the demand for unskilled workers usually met by migrants (mostly from former Soviet republics) are among the challenges constraining future economic growth. Our previous assessment thus remains largely unchanged regarding GDP growth prospects, sources of growth and labour market developments: GDP growth will stay below pre-crisis levels, labour shortages are likely to reappear soon and will definitely put a brake on economic growth already in the medium run. The chances for a successful modernization and restructuring of the economy remain slim – at least in the forecasting period up to 2013. Our bet is on the re-election of President Medvedev and the continuation of the ruling Medvedev-Putin tandem after March 2012.

Table RU

## Russia: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 1) | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average 2) | 142115 | 141956 | 141902 | 142938 | . | . | 139500 | 139000 | 138500 |
| Gross domestic product, RUB bn, nom. 3) | 33247.5 | 41276.8 | 38786.4 | 44939.2 | 9571.9 | 11410.0 | 51600 | 58000 | 64800 |
| annual change in % (real) 3) | 8.5 | 5.2 | -7.8 | 4.0 | 3.5 | 4.1 | 4.5 | 4.4 | 4.1 |
| 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 | 5170.4 | . | . | . | . |
| annual change in % (real) 3) | 14.3 | 10.6 | -4.8 | 3.0 | -0.5 | . | 4.2 | 5.5 | 5 |
| Gross fixed capital form., RUB bn, nom. 3) | 6980.4 | 9200.8 | 8530.7 | 9843.7 | 1385.2 | . | . | | |
| annual change in % (real) 3) | 21.0 | 10.6 | -14.4 | 6.1 | -4.4 | . | 3 | 6 | 6 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 6.3 | 2.1 | -9.3 | 8.2 | 9.5 | 5.9 | 5 | 6 | 5 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 3.4 | 10.8 | 1.4 | -11.9 | 3.6 | 0.7 | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 18.2 | 12.8 | -13.2 | -2.3 | -11.1 | 1.6 | 5 | 8 | 5 |
| Employed persons - LFS, th, average | 70570.5 | 70965.1 | 69284.9 | 69803.0 | 67998.3 | 69426.7 | 69500 | 69300 | 69000 |
| annual change in % | 2.5 | 0.6 | -2.4 | 0.7 | 0.4 | 2.1 | -0.4 | -0.3 | -0.4 |
| Unemployed persons - LFS, th, average | 4589.0 | 4791.5 | 6372.8 | 5645.0 | 6562.0 | 5618.3 | 5500 | 5300 | 5000 |
| Unemployment rate - LFS, in %, average | 6.1 | 6.3 | 8.4 | 7.5 | 8.6 | 7.5 | 7.3 | 7 | 6.8 |
| Reg. unemployment rate, in %, end of period | 2.0 | 2.0 | 2.9 | 2.1 | 3.0 | 2.2 | . | . | . |
| Average gross monthly wages, RUB | 13593.4 | 17290.0 | 18795.0 | 21090.0 | 19514.7 | 21158.7 | 23500 | 25800 | 28500 |
| annual change in % (real, gross) | 17.0 | 10.3 | -2.8 | 4.2 | 3.1 | 0.5 | 4.1 | 4.5 | 5.2 |
| Consumer prices, % p.a. | 9.1 | 14.1 | 11.8 | 7.1 | 7.2 | 9.5 | 9 | 7 | 5 |
| Producer prices in industry, % p.a. 4) | 14.1 | 21.4 | -7.2 | 12.2 | 13.8 | 21.3 | 15 | 10 | 7 |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 40.2 | 38.8 | 35.1 | 35.3 | 36.2 | 38.5 | . | . | . |
| Expenditures | 34.2 | 33.9 | 41.1 | 38.9 | 33.7 | 31.3 | . | . | . |
| Deficit (-) / surplus (+), % GDP | 6.0 | 4.9 | -6.3 | -3.6 | 2.5 | 7.2 | 0 | 0 | 0 |
| Public debt, nat.def., in % of GDP 5) | 6.7 | 5.7 | 8.3 | 8.6 | 7.2 | 8.1 | 8 | 7 | 6 |
| Central bank policy rate, % p.a., end of period 6) | 10.0 | 13.0 | 8.8 | 7.8 | 8.3 | 8.0 | . | . | . |
| Current account, EUR mn 7) | 56818 | 70642 | 34961 | 53899 | 24587 | 23250 | 60000 | 45000 | 40000 |
| Current account in % of GDP | 6.0 | 6.2 | 4.0 | 4.8 | 10.6 | 8.2 | 4.7 | 3.1 | 2.5 |
| Exports of goods, BOP, EUR mn 7) | 258930 | 321792 | 218221 | 303202 | 68118 | 82327 | 330000 | 350000 | 370000 |
| annual growth rate in % | 7.0 | 24.3 | -32.2 | 38.9 | 55.6 | 20.9 | 9 | 6 | 6 |
| Imports of goods, BOP, EUR mn 7) | 163282 | 199148 | 137960 | 188483 | 33748 | 47086 | 230000 | 250000 | 270000 |
| annual growth rate in % | 24.7 | 22.0 | -30.7 | 36.6 | 14.7 | 39.5 | 22 | 9 | 8 |
| Exports of services, BOP, EUR mn 7) | 28681 | 34921 | 29918 | 33702 | 6692 | 7165 | 40000 | 45000 | 50000 |
| annual growth rate in % | 15.7 | 21.8 | -14.3 | 12.6 | 5.2 | 7.1 | 19 | 13 | 11 |
| Imports of services, BOP, EUR mn 7) | 42481 | 51495 | 44185 | 54763 | 10124 | 11187 | 60000 | 70000 | 80000 |
| annual growth rate in % | 19.2 | 21.2 | -14.2 | 23.9 | 8.9 | 10.5 | 10 | 17 | 14 |
| FDI inflow, EUR mn 7) | 40237 | 51177 | 26254 | 31215 | 5962 | . | 45000 | 55000 | 60000 |
| FDI outflow, EUR mn 7) | 33547 | 37934 | 31407 | 39174 | 7566 | . | 40000 | 45000 | 40000 |
| Gross reserves of NB, excl. gold, EUR mn | 318840 | 291916 | 290432 | 335191 | 313085 | 330657 | . | . | . |
| Gross external debt, EUR mn | 316903 | 340688 | 325697 | 369242 | 342734 | 358469 | . | . | . |
| Gross external debt in % of GDP | 33.4 | 30.1 | 37.1 | 33.1 | 30.7 | 27.8 | . | . | . |
| Average exchange rate RUB/EUR | 35.01 | 36.43 | 44.14 | 40.30 | 41.41 | 40.03 | 40 | 40 | 40 |
| Purchasing power parity RUB/EUR, wiiw 8) | 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. - 4) Domestic output prices. - 5) wiiw estimate. - 6) Refinancing rate of Central Bank. - 7) Converted from USD with the average exchange rate. - 8) wiiw estimates based on the 2005 International Comparison Project benchmark.

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


*Vasily Astrov*

# Ukraine:
## IMF programme off-track

***The economy will continue to recover, benefiting from the newly gained political stability. Relatively good budget performance and favourable financing conditions have reduced the willingness to implement the austerity measures, resulting in a suspension of the IMF stand-by programme. In the short and medium term, we expect a continuation of the current growth path of 4-5% per year, driven largely by domestic demand and accompanied by a moderate widening of current account deficits. The free trade negotiations with the EU have advanced recently; they might come to conclusion by the end of 2011.***

Overall, Ukraine's economy is recovering from the global crisis and continues benefiting from the relative political stability following the victory of V. Yanukovych in last year's presidential elections and the formation of a pro-Yanukovych majority in the parliament. According to preliminary data, in the first quarter of 2011 real GDP growth reached a respectable 5.2% year on year and 2.9% against the fourth quarter of 2010 in seasonally adjusted terms. Contrary to the early post-crisis period, economic growth has been driven primarily by domestic demand. The 15.2% increase in retail trade turnover in January-May 2011 (year on year) suggests that private consumption performed strongly, fuelled by rapidly growing real wages. Fixed investments also picked up markedly (by 12% in the first quarter of 2011), and construction finally started recovering, posting a 13.2% increase in output terms in January-May 2011. However, housing construction recorded another decline (by 4.5% in the first quarter of 2011), not least because of still anaemic consumer credit. Exports and imports of goods and services both surged dramatically in January-April 2011 (by 37% and 47% in US dollar terms, respectively), although this very high pace is largely attributed to the low statistical base and will not be sustained for the year as a whole.

At the same time, the recent months have witnessed a setback in implementing a number of 'structural' reforms attached to the USD 15.2 billion IMF stand-by package, resulting in its suspension for the time being.[29] In particular, the hikes in domestic gas tariffs which were supposed to (ideally) eliminate the need for subsidies to the state-owned energy monopolist Naftohaz have not been fully implemented. While the gas tariffs charged to households and district heating companies were initially raised by 50% in August 2010, further hikes have been postponed. Besides, the higher gas prices charged since August 2010 to district heating companies have been passed on to final consumers only partially, resulting in an accumulation of payment arrears to Naftohaz, whose financial situation has hardly improved. Another IMF conditionality – a large-scale pension reform bill, involv-

[29] So far, out of the USD 15.2 billion IMF 'package' agreed in summer 2010, Ukraine received only USD 3.4 billion in the course of the second half of last year.

ing a gradual increase in the retirement age for women (from 55 to 60 years) and men employed in the public sector (from 60 to 62 years) as well as an extension of the required qualification period – has been approved (in the first reading) only in June 2011, i.e. with considerable delay. In our view, the wisdom of the pension reform in its current version is highly questionable, as it will de facto entail painful (and essentially unnecessary) pension cuts to the already poor segments of society and will undermine domestic consumer demand. On the other hand, the hikes in domestic energy prices to cost-recovery levels – though equally unpopular – are indeed badly needed. The recent delays in their implementation provide little incentive for energy-saving behaviour and hardly contribute to improving the energy efficiency – a declared objective of the government.[30]

The setback in implementing unpopular reforms is partly due to the recently sharply plunged approval ratings of the authorities, but also owing to the fact that there is no acute need for IMF funds in the current circumstances: a surplus in the balance of payments, generally rising foreign exchange reserves, and an improving budget situation. The latter is largely thanks to abundant tax revenues: in the first quarter of 2011, the revenues of the general government went up by 17% in real terms year on year, while budget expenditures only by 9%.[31] Besides, budget financing conditions have generally improved. The yields on government (hryvnia-denominated) bonds have plunged to around 8-10%, implying that borrowing costs in real terms are close to, or even below, zero. Also, the government can draw on privatization receipts. The UAH 10 billion privatization target set for 2011 has already been met thanks to the privatization of the fixed line operator Ukrtelecom,[32] with sales of a number of electricity assets being reportedly in the pipeline.

Given strong privatization revenues and provided that IMF lending remains frozen, we expect public debt not to exceed 40% of GDP by the end of 2011 and to decline thereafter thanks to the combination of a relatively restrictive fiscal policy, favourable growth prospects, and persistently high inflation. Despite the delays in gas tariff hikes, consumer price inflation has surged recently (to 11% in May 2011 on a year-on-year basis), fuelled by food and gasoline prices and the 15% hike in electricity tariffs enacted in April 2011. The booming producer prices (around 20% on annual basis) and the likely (at least partial) implementation of the initially announced gas and heating tariff hikes – irrespective of whether cooperation with the IMF will be resumed – suggest that inflationary pressures will most probably remain strong.

Otherwise, economic prospects are relatively favourable. In the short and medium term, we expect a continuation of the current growth path of 4-5% per year, driven largely by domestic demand. Private consumption will be backed mainly by further improvements in real wages, whereas fixed investments will be further helped by the infrastructure projects implemented ahead of the European Football Championship in 2012. The current account deficit will almost certainly widen further, but should

[30] The energy efficiency programme for 2010-2015 adopted by the government in March 2010 aims at reducing energy intensity by 20%, environmental emissions by 15%, and heat losses in the housing sector by 50% (compared to 2008).

[31] The situation may however change somewhat until the end of the year given that some provisions of the newly adopted Tax Code, such as the lower corporate profit tax (23% instead of 25% before), entered into force as of April 2011.

[32] In March 2011, a 93% stake at Ukrtelecom was purchased for EUR 970 million by the Austria-based EPIC (European Privatization and Investment Corporation).

be comfortably over-compensated by FDI and other capital inflows. Therefore, the current de facto exchange rate peg of around 8 UAH/USD will most probably be sustained. In the longer run, however, it might become incompatible with the persistently high inflation and the related erosion of external competitiveness.

The negotiations with the EU over a Deep and Comprehensive Free Trade Area (DCFTA), which had been going on since Ukraine joined the WTO in 2008, have reportedly intensified in the recent couple of months. DCFTA would be part of a broader Association Agreement with the EU. According to a number of official statements, the negotiations could be concluded by the end of 2011, although there are still important issues to be settled, including trade in agricultural products, access to markets for aviation services, and the use of geographic product names (champagne, cognac, etc.). In its preliminary version, the DCFTA agreement generally envisages zero duties in bilateral trade, with the exception of the automotive industry (on the Ukrainian side) and agricultural products.

Meanwhile, Russia has recently made attempts to discourage Ukraine from closer integration with the EU and pressured it to join the newly formed trilateral Russia-Belarus-Kazakhstan Customs Union instead. However, Ukraine's accession to the Customs Union appears unlikely and would also be problematic given Ukraine's WTO membership: if Ukraine raises its customs duties for imports from third countries to the level of the Customs Union, these countries – most of which are WTO members – will probably demand compensations. At the same time, preserving close trade links with Russia is essential for Ukraine and would also be compatible with a DCFTA with the EU – particularly if Russia and the EU advance their own integration following Russia's possibly forthcoming accession to the WTO.

Table UA

## Ukraine: Selected Economic Indicators

| | 2007 | 2008 | 2009 | 2010 [1] | 2010 | 2011 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th pers., average | 46509 | 46258 | 46053 | 45871 | 45934 | 45751 | 45700 | 45600 | 45500 |
| Gross domestic product, UAH mn, nom. | 720731 | 948056 | 913345 | 1094607 | 219428 | . | 1258300 | 1440100 | 1633100 |
| annual change in % (real) | 7.9 | 2.3 | -14.8 | 4.2 | 4.8 | 5.2 | 4.5 | 5 | 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 | 149645 | . | . | . | . |
| annual change in % (real) | 17.2 | 13.1 | -14.9 | 7.0 | 1.2 | . | 5.5 | 5.5 | 6 |
| Gross fixed capital form., UAH mn, nom. | 198348 | 250158 | 167644 | 208288 | 33437 | . | . | . | . |
| annual change in % (real) | 23.9 | -1.2 | -50.2 | 4.9 | -7.5 | . | 12 | 10 | 8 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 7.6 | -5.2 | -21.9 | 11.2 | 11.2 | 9.8 | 7.5 | 6.5 | 6 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | -6.5 | 17.1 | -1.8 | -1.0 | 5.3 | 5.3 | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 15.6 | -15.8 | -48.2 | -5.4 | -21.4 | 6.8 | . | . | . |
| Employed persons - LFS, th, average | 20904.7 | 20972.3 | 20191.5 | 20266.0 | 20088.4 | 20108.2 | 20200 | 20250 | 20290 |
| annual change in % | 0.8 | 0.3 | -3.7 | 0.4 | 0.4 | 0.1 | 0 | 0.2 | 0.2 |
| Unemployed persons - LFS, th, average | 1417.6 | 1425.1 | 1958.8 | 1785.6 | 1983.8 | 1924.9 | . | . | . |
| Unemployment rate - LFS, in %, average | 6.4 | 6.4 | 8.8 | 8.1 | 9.0 | 8.7 | 8 | 7.8 | 7.5 |
| Reg. unemployment rate, in %, end of period | 2.3 | 3.0 | 1.9 | 2.0 | 1.8 | 2.2 | . | . | . |
| Average gross monthly wages, UAH [2] | 1351.0 | 1806.0 | 1906.0 | 2239.0 | 1993.0 | 2388.7 | . | . | . |
| annual change in % (real, gross) | 15.0 | 6.8 | -8.9 | 7.4 | 3.3 | 11.3 | . | . | . |
| Consumer prices, % p.a. | 12.8 | 25.2 | 15.9 | 9.4 | 11.2 | 7.7 | 10 | 9 | 8 |
| Producer prices in industry, % p.a. [3] | 19.5 | 35.5 | 6.5 | 20.9 | 17.2 | 20.0 | . | . | . |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 30.5 | 31.4 | 29.9 | 29.0 | 30.6 | . | . | . | . |
| Expenditures | 31.6 | 32.8 | 34.0 | 34.9 | 32.6 | . | . | . | . |
| Deficit (-) / surplus (+) [4] | -1.1 | -1.5 | -4.1 | -6.0 | -2.0 | . | -4 | -3 | -3 |
| Public debt, nat.def., in % of GDP | 12.3 | 20.0 | 34.8 | 39.8 | 29.9 | 35.7 | 39 | 38 | 37 |
| Central bank policy rate, % p.a., end of period [5] | 8.0 | 12.0 | 10.3 | 7.8 | 10.3 | 7.8 | . | . | . |
| Current account, EUR mn [6] | -3849 | -8721 | -1242 | -2173 | 41 | -581 | -3000 | -4000 | -5000 |
| Current account in % of GDP | -3.7 | -7.1 | -1.5 | -2.1 | 0.2 | . | -2.6 | -2.9 | -3.1 |
| Exports of goods, BOP, EUR mn [6] | 36383 | 46274 | 28958 | 39321 | 7533 | 11340 | 43300 | 46800 | 50500 |
| annual growth rate in % | 17.2 | 27.2 | -37.4 | 35.8 | 16.5 | 50.5 | 10 | 8 | 8 |
| Imports of goods, BOP, EUR mn [6] | 44100 | 57270 | 32046 | 45885 | 8420 | 13434 | 51400 | 56500 | 62200 |
| annual growth rate in % | 25.3 | 29.9 | -44.0 | 43.2 | 17.9 | 59.5 | 12 | 10 | 10 |
| Exports of services, BOP, EUR mn [6] | 10337 | 12228 | 9936 | 12856 | 2595 | 3005 | 14800 | 16600 | 18300 |
| annual growth rate in % | 14.9 | 18.3 | -18.8 | 29.4 | 19.3 | 15.8 | 15 | 12 | 10 |
| Imports of services, BOP, EUR mn [6] | 8571 | 11039 | 8248 | 9193 | 1861 | 2050 | 10100 | 11300 | 12900 |
| annual growth rate in % | 17.3 | 28.8 | -25.3 | 11.5 | -10.8 | 10.2 | 10 | 12 | 14 |
| FDI inflow, EUR mn [6] | 7220 | 7457 | 3453 | 4893 | 1107 | 564 [7] | 5000 | 6000 | 7000 |
| FDI outflow, EUR mn [6] | 491 | 690 | 116 | 555 | 441 | . | . | . | . |
| Gross reserves of NB excl. gold, EUR mn | 21634 | 21847 | 17824 | 25096 | 17934 | 24959 | . | . | . |
| Gross external debt, EUR mn | 54421 | 72109 | 72113 | 88361 | 76334 | 85520 | . | . | . |
| Gross external debt in % of GDP | 52.2 | 58.6 | 85.8 | 85.0 | 73.5 | 74.8 | . | . | . |
| Average exchange rate UAH/EUR | 6.918 | 7.708 | 10.868 | 10.533 | 11.068 | 10.849 | 11 | 10.5 | 10 |
| Purchasing power parity UAH/EUR, wiiw [8] | 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) FDI net. - 8) wiiw estimates based on the 2005 International Comparison Project benchmark.

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

# Appendix

# Selected indicators of competitiveness

Table A/1

## GDP per capita at current PPPs (EUR), from 2011 at constant PPPs and population

| | 1991 | 2000 | 2005 | 2008 | 2009 | 2010 | 2012 | 2015 | 2020 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | projection 1) | | |
| Bulgaria | 4400 | 5400 | 8200 | 10900 | 10400 | 10600 | 11400 | 12800 | 15600 | 18900 | 23100 |
| Cyprus | 10700 | 16900 | 20400 | 24400 | 23100 | 24000 | 25000 | 28100 | 34200 | 41600 | 50600 |
| Czech Republic | 8800 | 13000 | 17000 | 20200 | 19300 | 19500 | 20400 | 22900 | 27900 | 34000 | 41400 |
| Estonia | 5500 | 8600 | 13800 | 17000 | 15000 | 15900 | 17600 | 19900 | 24200 | 29400 | 35800 |
| Hungary | 6800 | 10600 | 14200 | 16100 | 15300 | 15700 | 16600 | 18500 | 22500 | 27400 | 33300 |
| Latvia | 6500 | 7000 | 10900 | 14100 | 12200 | 12600 | 13600 | 15300 | 18600 | 22600 | 27500 |
| Lithuania | 7100 | 7500 | 11900 | 15300 | 12900 | 14200 | 15600 | 17700 | 21500 | 26200 | 31800 |
| Malta | 9500 | 15900 | 17700 | 19900 | 19000 | 20400 | 21300 | 24000 | 29200 | 35600 | 43300 |
| Poland | 4500 | 9100 | 11500 | 14100 | 14300 | 15200 | 16500 | 18600 | 22600 | 27500 | 33400 |
| Romania | 4000 | 5000 | 7900 | 11700 | 10900 | 11000 | 11600 | 12900 | 15700 | 19100 | 23300 |
| Slovakia | 5800 | 9600 | 13500 | 18100 | 17200 | 18100 | 19600 | 22000 | 26800 | 32700 | 39800 |
| Slovenia | 8500 | 15200 | 19700 | 22800 | 20800 | 21300 | 22100 | 24300 | 29600 | 36000 | 43800 |
| NMS-12 | 5400 | 8600 | 11700 | 14700 | 14200 | 14800 | 15900 | 17900 | 21700 | 26400 | 32100 |
| Croatia | 7000 | 9500 | 12800 | 15900 | 15100 | 15100 | 15600 | 17400 | 21200 | 25800 | 31400 |
| Macedonia | 4300 | 5100 | 6600 | 8500 | 8400 | 8600 | 9100 | 10200 | 12400 | 15100 | 18400 |
| Montenegro | . | 5600 | 6900 | 10800 | 9700 | 9800 | 10300 | 11400 | 13900 | 17000 | 20700 |
| Turkey | 3800 | 8000 | 9500 | 11700 | 10700 | 11800 | 13100 | 14700 | 17900 | 21700 | 26400 |
| Albania | 1400 | 3500 | 5000 | 6400 | 6500 | 6800 | 7400 | 8400 | 10200 | 12400 | 15100 |
| Bosnia & Herzeg. | . | 3900 | 5200 | 6600 | 6300 | 6600 | 6900 | 7700 | 9300 | 11300 | 13800 |
| Serbia | . | 5000 | 7100 | 9000 | 8300 | 9000 | 9500 | 10600 | 12900 | 15700 | 19100 |
| Kazakhstan | . | 4200 | 7300 | 8800 | 8600 | 9300 | 10600 | 12100 | 14700 | 17900 | 21700 |
| Russia | 7600 | 6600 | 10000 | 13200 | 12000 | 12600 | 13800 | 15600 | 18900 | 23100 | 28100 |
| Ukraine | 4600 | 2800 | 4700 | 6000 | 5100 | 5400 | 5900 | 6700 | 8200 | 10000 | 12100 |
| Austria | 18800 | 25000 | 27900 | 31100 | 29200 | 30700 | 32000 | 34000 | 37500 | 41500 | 45800 |
| Germany | 18100 | 22600 | 26200 | 29000 | 27400 | 29000 | 30400 | 32200 | 35600 | 39300 | 43400 |
| Greece | 12300 | 16000 | 20600 | 23500 | 22100 | 21700 | 21100 | 22300 | 24700 | 27200 | 30100 |
| Portugal | 10700 | 15400 | 17800 | 19500 | 18900 | 19800 | 19100 | 20300 | 22300 | 24700 | 27200 |
| Spain | 12800 | 18500 | 22900 | 25900 | 24300 | 24700 | 25300 | 26800 | 29600 | 32600 | 36100 |
| USA | 21400 | 30600 | 35700 | 36800 | 34600 | 36500 | 38400 | 40800 | 45000 | 49700 | 54900 |
| EU-27 average | 13700 | 19100 | 22500 | 25000 | 23500 | 24500 | 25400 | 27200 | 30300 | 33800 | 37700 |

### European Union (27) average = 100

| | 1991 | 2000 | 2005 | 2008 | 2009 | 2010 | 2012 | 2015 | 2020 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bulgaria | 32 | 28 | 36 | 44 | 44 | 43 | 45 | 47 | 51 | 56 | 61 |
| Cyprus | 78 | 88 | 91 | 98 | 98 | 98 | 98 | 103 | 113 | 123 | 134 |
| Czech Republic | 64 | 68 | 76 | 81 | 82 | 80 | 80 | 84 | 92 | 101 | 110 |
| Estonia | 40 | 45 | 61 | 68 | 64 | 65 | 69 | 73 | 80 | 87 | 95 |
| Hungary | 50 | 55 | 63 | 64 | 65 | 64 | 65 | 68 | 74 | 81 | 88 |
| Latvia | 47 | 37 | 48 | 56 | 52 | 51 | 54 | 56 | 61 | 67 | 73 |
| Lithuania | 52 | 39 | 53 | 61 | 55 | 58 | 61 | 65 | 71 | 78 | 84 |
| Malta | 69 | 83 | 79 | 80 | 81 | 83 | 84 | 88 | 96 | 105 | 115 |
| Poland | 33 | 48 | 51 | 56 | 61 | 62 | 65 | 68 | 75 | 81 | 89 |
| Romania | 29 | 26 | 35 | 47 | 46 | 45 | 46 | 47 | 52 | 57 | 62 |
| Slovakia | 42 | 50 | 60 | 72 | 73 | 74 | 77 | 81 | 88 | 97 | 106 |
| Slovenia | 62 | 80 | 88 | 91 | 89 | 87 | 87 | 89 | 98 | 107 | 116 |
| NMS-12 | 39 | 45 | 52 | 59 | 60 | 60 | 63 | 66 | 72 | 78 | 85 |
| Croatia | 51 | 50 | 57 | 64 | 64 | 62 | 61 | 64 | 70 | 76 | 83 |
| Macedonia | 31 | 27 | 29 | 34 | 36 | 35 | 36 | 38 | 41 | 45 | 49 |
| Montenegro | . | 29 | 31 | 43 | 41 | 40 | 41 | 42 | 46 | 50 | 55 |
| Turkey | 28 | 42 | 42 | 47 | 46 | 48 | 52 | 54 | 59 | 64 | 70 |
| Albania | 10 | 18 | 22 | 26 | 28 | 28 | 29 | 31 | 34 | 37 | 40 |
| Bosnia & Herzeg. | . | 20 | 23 | 26 | 27 | 27 | 27 | 28 | 31 | 33 | 37 |
| Serbia | . | 26 | 32 | 36 | 35 | 37 | 37 | 39 | 43 | 46 | 51 |
| Kazakhstan | . | 22 | 32 | 35 | 37 | 38 | 42 | 44 | 49 | 53 | 58 |
| Russia | 55 | 35 | 44 | 53 | 51 | 51 | 54 | 57 | 62 | 68 | 75 |
| Ukraine | 34 | 15 | 21 | 24 | 22 | 22 | 23 | 25 | 27 | 30 | 32 |
| Austria | 137 | 131 | 124 | 124 | 124 | 125 | 126 | 125 | 124 | 123 | 121 |
| Germany | 132 | 118 | 116 | 116 | 117 | 118 | 120 | 118 | 117 | 116 | 115 |
| Greece | 90 | 84 | 92 | 94 | 94 | 89 | 83 | 82 | 82 | 80 | 80 |
| Portugal | 78 | 81 | 79 | 78 | 80 | 81 | 75 | 75 | 74 | 73 | 72 |
| Spain | 93 | 97 | 102 | 104 | 103 | 101 | 100 | 99 | 98 | 96 | 96 |
| USA | 156 | 160 | 159 | 147 | 147 | 149 | 151 | 150 | 149 | 147 | 146 |
| EU-27 average | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

1) Projection assuming a 2 percentage point growth differential with respect to the EU-15 from 2014.

*Sources:* wiiw Database incorporating national and Eurostat statistics, wiiw estimates.

Table A/2

## Indicators of macro-competitiveness, 2000-2013

EUR based, annual averages

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Bulgaria** | | | | | | | | |
| Producer price index, 2005=100 | 78.6 | 100.0 | 133.8 | 125.1 | 135.9 | 141.3 | 147.4 | 153.7 |
| Consumer price index, 2005=100 | 76.4 | 100.0 | 129.4 | 132.6 | 136.6 | 142.0 | 147.7 | 153.6 |
| GDP deflator, 2005=100 | 78.7 | 100.0 | 126.6 | 132.0 | 136.0 | 141.4 | 147.5 | 153.9 |
| Exchange rate (ER), NC/EUR | 1.9522 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 |
| ER, nominal, 2005=100 | 99.8 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Real ER (CPI-based), 2005=100 | 84.9 | 100.0 | 119.3 | 121.1 | 122.2 | 124.4 | 127.1 | 129.6 |
| Real ER (PPI-based), 2005=100 | 85.4 | 100.0 | 117.7 | 114.3 | 120.3 | 123.2 | 126.2 | 129.1 |
| PPP, NC/EUR | 0.6195 | 0.7161 | 0.8358 | 0.8686 | 0.8790 | 0.90 | 0.92 | 0.94 |
| Price level, EU27 = 100 | 32 | 37 | 43 | 44 | 45 | 46 | 47 | 48 |
| Average monthly gross wages, NC | 225 | 324 | 525 | 592 | 642 | 670 | 710 | 750 |
| Average monthly gross wages, EUR (ER) | 115 | 166 | 268 | 303 | 328 | 340 | 360 | 380 |
| Average monthly gross wages, EUR (PPP) | 362 | 452 | 628 | 681 | 730 | 740 | 770 | 800 |
| GDP nominal, NC mn | 27399 | 45484 | 69295 | 68322 | 70474 | 75500 | 81500 | 88000 |
| Employed persons - LFS, th.,average | 2794.7 | 2981.9 | 3360.7 | 3253.6 | 3052.8 | 3000 | 3050 | 3100 |
| GDP per employed person, NC | 9804 | 15253 | 20619 | 20999 | 23085 | 25200 | 26700 | 28400 |
| GDP per empl. person, NC at 2000 pr. | 9804 | 12001 | 12815 | 12514 | 13359 | 14000 | 14200 | 14500 |
| Unit labour costs, NC, 2005=100 | 84.9 | 100.0 | 151.7 | 175.3 | 178.2 | 177.4 | 185.4 | 191.8 |
| Unit labour costs, ER adj., 2005=100 | 85.1 | 100.0 | 151.7 | 175.3 | 178.2 | 177.4 | 185.4 | 191.8 |
| Unit labour costs, PPP adj., Austria=100 | 16.5 | 18.4 | 25.8 | 28.1 | 28.7 | 28.3 | 29.2 | 29.9 |
| **Czech Republic** | | | | | | | | |
| Producer price index, 2005=100 | 98.3 | 100.0 | 103.2 | 101.6 | 101.7 | 102.5 | 104.5 | 106.6 |
| Consumer price index, 2005=100 | 90.6 | 100.0 | 111.7 | 112.4 | 113.7 | 116.0 | 118.3 | 120.7 |
| GDP deflator, 2005=100 | 88.2 | 100.0 | 106.5 | 109.2 | 108.6 | 109.4 | 111.5 | 113.8 |
| Exchange rate (ER), NC/EUR | 35.60 | 29.78 | 24.95 | 26.44 | 25.28 | 24.5 | 24 | 24 |
| ER nominal, 2005=100 | 119.5 | 100.0 | 83.8 | 88.8 | 84.9 | 82.3 | 80.6 | 80.6 |
| Real ER (CPI-based), 2005=100 | 84.1 | 100.0 | 123.0 | 115.6 | 119.8 | 123.5 | 126.3 | 126.3 |
| Real ER (PPI-based), 2005=100 | 89.2 | 100.0 | 108.3 | 104.5 | 106.1 | 108.6 | 111.0 | 111.1 |
| PPP, NC/EUR | 16.34 | 17.11 | 17.54 | 17.94 | 17.87 | 17.7 | 17.8 | 17.8 |
| Price level, EU27 = 100 | 46 | 57 | 70 | 68 | 71 | 72 | 74 | 74 |
| Average monthly gross wages, NC | 13219 | 18344 | 22592 | 23344 | 23797 | 24500 | 25600 | 26900 |
| Average monthly gross wages, EUR (ER) | 371 | 616 | 906 | 883 | 941 | 1000 | 1070 | 1120 |
| Average monthly gross wages, EUR (PPP) | 809 | 1072 | 1288 | 1301 | 1332 | 1380 | 1440 | 1510 |
| GDP nominal, NC bn | 2189 | 2984 | 3689 | 3626 | 3670 | 3780 | 3950 | 4180 |
| Employed persons - LFS, th., average | 4732 | 4764 | 5003 | 4934 | 4885 | 4910 | 4930 | 4950 |
| GDP per employed person, NC | 462670 | 626335 | 737431 | 734829 | 751199 | 769900 | 801200 | 844400 |
| GDP per empl. person, NC at 2000 pr. | 462670 | 552324 | 610456 | 593561 | 610235 | 620500 | 633400 | 654200 |
| Unit labour costs, NC, 2005=100 | 86.0 | 100.0 | 111.4 | 118.4 | 117.4 | 118.9 | 121.7 | 123.8 |
| Unit labour costs, ER adj., 2005=100 | 72.0 | 100.0 | 133.0 | 133.4 | 138.3 | 144.5 | 151.0 | 153.6 |
| Unit labour costs, PPP adj., Austria=100 | 29.9 | 39.2 | 48.3 | 45.7 | 47.5 | 49.2 | 50.8 | 51.0 |
| **Estonia** | | | | | | | | |
| Producer price index, 2005=100 | 90.6 | 100.0 | 121.7 | 122.6 | 126.6 | 133.8 | 139.9 | 146.3 |
| Consumer price index, 2005=100 | 84.0 | 100.0 | 123.3 | 123.6 | 127.0 | 133.9 | 140.0 | 146.3 |
| GDP deflator, 2005=100 | 80.7 | 100.0 | 128.4 | 128.3 | 130.2 | 137.6 | 143.9 | 150.5 |
| Exchange rate (ER), NC/EUR | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.0 | 1.0 | 1.0 |
| ER, nominal, 2005=100 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Real ER (CPI-based), 2005=100 | 93.2 | 100.0 | 113.7 | 112.8 | 113.5 | 117.3 | 120.4 | 123.4 |
| Real ER (PPI-based), 2005=100 | 98.3 | 100.0 | 107.0 | 112.0 | 112.1 | 116.6 | 119.8 | 122.8 |
| PPP, NC/EUR | 0.5234 | 0.6001 | 0.7062 | 0.6905 | 0.6808 | 0.71 | 0.73 | 0.75 |
| Price level, EU27 = 100 | 52 | 60 | 71 | 69 | 68 | 71 | 73 | 75 |
| Average monthly gross wages, NC | 314 | 516 | 825 | 784 | 792 | 850 | 900 | 960 |
| Average monthly gross wages, EUR (ER) | 314 | 516 | 825 | 784 | 792 | 850 | 900 | 960 |
| Average monthly gross wages, EUR (PPP) | 599 | 860 | 1169 | 1135 | 1164 | 1200 | 1240 | 1290 |
| GDP nominal, NC mn | 6160 | 11182 | 16107 | 13861 | 14501 | 16200 | 17700 | 19400 |
| Employed persons - LFS, th., average | 572.5 | 607.4 | 656.5 | 595.8 | 570.9 | 595 | 610 | 620 |
| GDP per employed person, NC | 10760 | 18409 | 24534 | 23264 | 25401 | 27200 | 29000 | 31300 |
| GDP per empl. person, NC at 2000 pr. | 10760 | 14858 | 15421 | 14632 | 15748 | 16000 | 16300 | 16800 |
| Unit labour costs, NC, 2005=100 | 83.9 | 100.0 | 154.1 | 154.3 | 144.9 | 153.0 | 159.0 | 164.6 |
| Unit labour costs, ER adj., 2005=100 | 83.9 | 100.0 | 154.1 | 154.3 | 144.9 | 153.0 | 159.0 | 164.6 |
| Unit labour costs, PPP adj., Austria=100 | 34.7 | 39.1 | 55.8 | 52.7 | 49.6 | 52.0 | 53.3 | 54.5 |

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Hungary** | | | | | | | | |
| Producer price index, 2005=100 | 86.9 | 100.0 | 111.9 | 116.9 | 124.3 | 127.9 | 131.5 | 134.5 |
| Consumer price index, 2005=100 | 75.3 | 100.0 | 119.1 | 123.9 | 129.7 | 135.1 | 139.9 | 144.8 |
| GDP deflator, 2005=100 | 73.7 | 100.0 | 115.6 | 120.7 | 124.2 | 127.8 | 131.4 | 134.3 |
| Exchange rate (ER), NC/EUR | 260.04 | 248.05 | 251.51 | 280.33 | 275.48 | 270 | 275 | 275 |
| ER, nominal 2005=100 | 104.8 | 100.0 | 101.4 | 113.0 | 111.1 | 108.8 | 110.9 | 110.9 |
| Real ER (CPI-based), 2005=100 | 79.7 | 100.0 | 108.3 | 100.1 | 104.5 | 108.8 | 108.6 | 110.2 |
| Real ER (PPI-based), 2005=100 | 89.9 | 100.0 | 97.0 | 94.5 | 99.1 | 102.4 | 101.6 | 101.8 |
| PPP, NC/EUR | 124.06 | 153.72 | 165.03 | 170.18 | 172.99 | 175.1 | 177.0 | 177.4 |
| Price level, EU27 = 100 | 48 | 62 | 66 | 61 | 63 | 65 | 64 | 65 |
| Average monthly gross wages, NC | 87750 | 158343 | 198741 | 199837 | 202576 | 212100 | 222800 | 236400 |
| Average monthly gross wages, EUR (ER) | 337 | 638 | 790 | 713 | 735 | 790 | 810 | 860 |
| Average monthly gross wages, EUR (PPP) | 707 | 1030 | 1204 | 1174 | 1171 | 1210 | 1260 | 1330 |
| GDP nominal, NC bn | 13369 | 21971 | 26754 | 26054 | 27120 | 28600 | 30300 | 31900 |
| Employed persons - LFS, th., average | 3856 | 3902 | 3879 | 3782 | 3781 | 3820 | 3860 | 3900 |
| GDP per employed person, NC | 3466859 | 5631367 | 6896403 | 6889398 | 7172283 | 7486900 | 7849700 | 8179500 |
| GDP per empl. person, NC at 2000 pr. | 3466859 | 4152926 | 4398216 | 4208551 | 4259075 | 4321200 | 4404700 | 4490300 |
| Unit labour costs, NC, 2005=100 | 66.4 | 100.0 | 118.5 | 124.5 | 124.7 | 128.7 | 132.7 | 138.1 |
| Unit labour costs, ER adj., 2005=100 | 63.3 | 100.0 | 116.9 | 110.2 | 112.3 | 118.3 | 119.7 | 124.5 |
| Unit labour costs, PPP adj., Austria=100 | 27.5 | 41.0 | 44.4 | 39.5 | 40.3 | 42.2 | 42.1 | 43.3 |
| **Latvia** | | | | | | | | |
| Producer price index, 2005=100 | 81.6 | 100.0 | 142.7 | 136.2 | 140.0 | 146.4 | 151.3 | 157.3 |
| Consumer price index, 2005=100 | 81.9 | 100.0 | 135.2 | 139.6 | 137.9 | 144.1 | 149.2 | 155.1 |
| GDP deflator, 2005=100 | 77.8 | 100.0 | 151.2 | 149.0 | 145.6 | 152.2 | 157.3 | 163.5 |
| Exchange rate (ER), NC/EUR | 0.5592 | 0.6962 | 0.7027 | 0.7057 | 0.7087 | 0.7087 | 0.7087 | 0.7087 |
| ER, nominal, 2005=100 | 80.3 | 100.0 | 100.9 | 101.4 | 101.8 | 101.8 | 101.8 | 101.8 |
| Real ER (CPI-based), 2005=100 | 113.1 | 100.0 | 123.6 | 125.8 | 121.2 | 124.0 | 126.1 | 128.6 |
| Real ER (PPI-based), 2005=100 | 110.2 | 100.0 | 124.3 | 122.7 | 121.8 | 125.4 | 127.3 | 129.7 |
| PPP, NC/EUR | 0.2864 | 0.3610 | 0.5057 | 0.4764 | 0.4513 | 0.46 | 0.47 | 0.48 |
| Price level, EU27 = 100 | 51 | 52 | 72 | 68 | 64 | 66 | 67 | 68 |
| Average monthly gross wages, NC | 150 | 246 | 479 | 461 | 445 | 480 | 510 | 540 |
| Average monthly gross wages, EUR (ER) | 267 | 353 | 682 | 653 | 628 | 680 | 720 | 760 |
| Average monthly gross wages, EUR (PPP) | 522 | 681 | 947 | 968 | 986 | 1030 | 1080 | 1120 |
| GDP nominal, NC mn | 4750.8 | 9059.1 | 16188.2 | 13082.8 | 12735.9 | 13800 | 14800 | 16000 |
| Employed persons - LFS, th., average | 941.1 | 1033.7 | 1124.5 | 983.1 | 945.0 | 970 | 1010 | 1040 |
| GDP per employed person, NC | 5048 | 8764 | 14396 | 13308 | 13477 | 14200 | 14700 | 15400 |
| GDP per empl. person, NC at 2000 pr. | 5048 | 6815 | 7401 | 6946 | 7199 | 7300 | 7300 | 7300 |
| Unit labour costs, NC, 2005=100 | 82.1 | 100.0 | 179.5 | 184.1 | 171.4 | 182.3 | 193.7 | 205.1 |
| Unit labour costs, ER adj., 2005=100 | 102.3 | 100.0 | 177.8 | 181.6 | 168.4 | 179.1 | 190.3 | 201.5 |
| Unit labour costs, PPP adj., Austria=100 | 34.5 | 31.9 | 52.6 | 50.6 | 47.0 | 49.7 | 52.1 | 54.5 |
| **Lithuania** | | | | | | | | |
| Producer price index, 2005=100 | 90.1 | 100.0 | 135.7 | 117.3 | 129.5 | 135.2 | 140.6 | 147.0 |
| Consumer price index, 2005=100 | 95.5 | 100.0 | 122.0 | 127.1 | 128.6 | 134.4 | 139.8 | 146.1 |
| GDP deflator, 2005=100 | 92.3 | 100.0 | 126.9 | 122.2 | 124.7 | 130.2 | 135.4 | 141.5 |
| Exchange rate (ER), NC/EUR | 3.695 | 3.453 | 3.453 | 3.453 | 3.453 | 3.45 | 3.45 | 3.45 |
| ER, nominal, 2005=100 | 107.0 | 100.0 | 100.0 | 100.0 | 100.0 | 99.9 | 99.9 | 99.9 |
| Real ER (CPI-based), 2005=100 | 99.0 | 100.0 | 112.5 | 116.1 | 115.0 | 117.8 | 120.4 | 123.3 |
| Real ER (PPI-based), 2005=100 | 91.3 | 100.0 | 119.3 | 107.2 | 114.7 | 118.0 | 120.5 | 123.5 |
| PPP, NC/EUR | 1.745 | 1.777 | 2.171 | 2.132 | 2.032 | 2.09 | 2.13 | 2.19 |
| Price level, EU27 = 100 | 47 | 51 | 63 | 62 | 59 | 61 | 62 | 63 |
| Average monthly gross wages, NC | 971 | 1276 | 2152 | 2056 | 1988 | 2130 | 2290 | 2490 |
| Average monthly gross wages, EUR (ER) | 263 | 370 | 623 | 595 | 576 | 620 | 660 | 720 |
| Average monthly gross wages, EUR (PPP) | 556 | 718 | 991 | 964 | 979 | 1020 | 1070 | 1140 |
| GDP nominal, NC mn | 45737 | 72060 | 111483 | 91526 | 94642 | 103800 | 112800 | 123200 |
| Employed persons - LFS, th., average | 1398 | 1474 | 1520 | 1416 | 1344 | 1360 | 1400 | 1430 |
| GDP per employed person, NC | 32721 | 48891 | 73344 | 64642 | 70434 | 76300 | 80600 | 86200 |
| GDP per empl. person, NC at 2000 pr. | 32721 | 45144 | 53380 | 48860 | 52173 | 54100 | 55000 | 56200 |
| Unit labour costs, NC, 2005=100 | 105.0 | 100.0 | 142.6 | 148.9 | 134.8 | 139.3 | 147.3 | 156.7 |
| Unit labour costs, ER adj., 2005=100 | 98.1 | 100.0 | 142.6 | 148.9 | 134.8 | 139.4 | 147.4 | 156.9 |
| Unit labour costs, PPP adj., Austria=100 | 31.9 | 30.7 | 40.6 | 40.0 | 36.3 | 37.2 | 38.8 | 40.8 |

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Poland** | | | | | | | | |
| Producer price index, 2005=100 | 88.8 | 100.0 | 106.4 | 110.5 | 113.1 | 115.9 | 118.8 | 121.2 |
| Consumer price index, 2005=100 | 87.4 | 100.0 | 108.3 | 112.6 | 115.6 | 119.6 | 122.6 | 125.7 |
| GDP deflator, 2005=100 | 88.1 | 100.0 | 108.7 | 112.7 | 114.2 | 118.4 | 121.1 | 123.9 |
| Exchange rate (ER), NC/EUR | 4.008 | 4.023 | 3.512 | 4.328 | 3.995 | 3.9 | 3.9 | 4.0 |
| ER, nominal, 2005=100 | 99.6 | 100.0 | 87.3 | 107.6 | 99.3 | 96.9 | 96.9 | 99.4 |
| Real ER (CPI-based), 2005=100 | 97.3 | 100.0 | 114.4 | 95.6 | 104.1 | 108.1 | 108.9 | 106.7 |
| Real ER (PPI-based), 2005=100 | 96.6 | 100.0 | 107.2 | 93.8 | 100.9 | 104.2 | 104.9 | 102.3 |
| PPP, PLZ/EUR | 2.117 | 2.234 | 2.375 | 2.470 | 2.429 | 2.48 | 2.49 | 2.50 |
| Price level, EU27 = 100 | 53 | 56 | 68 | 57 | 61 | 64 | 64 | 62 |
| Average monthly gross wages, NC | 1894 | 2361 | 2942 | 3102 | 3225 | 3460 | 3710 | 3960 |
| Average monthly gross wages, EUR (ER) | 472 | 587 | 838 | 717 | 807 | 890 | 950 | 990 |
| Average monthly gross wages, EUR (PPP) | 894 | 1057 | 1239 | 1256 | 1328 | 1400 | 1490 | 1580 |
| GDP nominal, NC bn | 744 | 983 | 1275 | 1344 | 1413 | 1520 | 1620 | 1730 |
| Employed persons - LFS, th., average | 14526 | 14116 | 15800 | 15868 | 15961 | 15950 | 16270 | 16680 |
| GDP per employed person, NC | 51245 | 69661 | 80725 | 84677 | 88518 | 95300 | 99600 | 103700 |
| GDP per empl. person, NC at 2000 pr. | 51245 | 61375 | 65417 | 66206 | 68301 | 70900 | 72500 | 73700 |
| Unit labour costs, NC, 2005=100 | 96.1 | 100.0 | 116.9 | 121.8 | 122.8 | 126.9 | 133.0 | 139.7 |
| Unit labour costs, ER adj., 2005=100 | 96.4 | 100.0 | 133.9 | 113.2 | 123.6 | 130.9 | 137.2 | 140.5 |
| Unit labour costs, PPP adj., Austria=100 | 44.4 | 43.5 | 54.0 | 43.1 | 47.1 | 49.5 | 51.2 | 51.8 |
| **Romania** | | | | | | | | |
| Producer price index, 2005=100 | 39.3 | 100.0 | 135.7 | 138.2 | 147.0 | 154.0 | 163.1 | 171.8 |
| Consumer price index, 2005=100 | 43.2 | 100.0 | 120.7 | 127.4 | 135.2 | 144.0 | 149.7 | 155.7 |
| GDP deflator, 2005=100 | 37.0 | 100.0 | 144.7 | 150.7 | 157.4 | 164.9 | 174.7 | 183.9 |
| Exchange rate (ER), NC/EUR | 1.992 | 3.621 | 3.683 | 4.240 | 4.212 | 4.2 | 4.3 | 4.3 |
| ER, nominal, 2005=100 | 55.0 | 100.0 | 101.7 | 117.1 | 116.3 | 116.0 | 118.8 | 118.8 |
| Real ER (CPI-based), 2005=100 | 87.0 | 100.0 | 109.5 | 99.4 | 103.9 | 108.7 | 108.5 | 110.6 |
| Real ER (PPI-based), 2005=100 | 77.5 | 100.0 | 117.4 | 107.8 | 111.9 | 115.8 | 117.6 | 121.4 |
| PPP, NC/EUR | 0.727 | 1.701 | 2.048 | 2.135 | 2.174 | 2.24 | 2.33 | 2.41 |
| Price level, EU27 = 100 | 37 | 47 | 56 | 50 | 52 | 53 | 54 | 56 |
| Average monthly grross wages, NC | 284 | 968 | 1761 | 1845 | 1891 | 2010 | 2170 | 2310 |
| Average monthly gross wages, EUR (ER) | 143 | 267 | 478 | 435 | 449 | 480 | 500 | 540 |
| Average monthly gross wages, EUR (PPP) | 390 | 569 | 860 | 864 | 870 | 900 | 930 | 960 |
| GDP nominal, NC mn | 80985 | 288955 | 514700 | 498008 | 513641 | 549100 | 604800 | 656000 |
| Employed persons - LFS, th., average | 10508 | 9115 | 9369 | 9244 | 9239 | 9190 | 9240 | 9240 |
| GDP per employed person, NC | 7707 | 31702 | 54936 | 53877 | 55592 | 59700 | 65500 | 71000 |
| GDP per empl. person, NC at 2000 pr. | 7707 | 11733 | 14054 | 13234 | 13074 | 13400 | 13900 | 14300 |
| Unit labour costs, NC, 2005=100 | 44.7 | 100.0 | 151.9 | 169.0 | 175.3 | 181.8 | 189.2 | 195.8 |
| Unit labour costs, ER adj., 2005=100 | 81.2 | 100.0 | 149.3 | 144.3 | 150.7 | 156.7 | 159.3 | 164.9 |
| Unit labour costs, PPP adj., Austria=100 | 30.6 | 35.6 | 49.3 | 44.9 | 47.0 | 48.6 | 48.7 | 49.8 |
| **Slovakia** | | | | | | | | |
| Producer price index, 2005=100 | 81.2 | 100.0 | 104.1 | 97.2 | 97.3 | 101.2 | 103.2 | 105.3 |
| Consumer price index, 2005=100 | 75.3 | 100.0 | 110.4 | 111.4 | 112.2 | 115.6 | 119.0 | 122.6 |
| GDP deflator, 2005=100 | 80.3 | 100.0 | 107.1 | 105.8 | 106.3 | 107.4 | 108.5 | 110.6 |
| Exchange rate (ER), NC/EUR | 1.4141 | 1.2813 | 1.0377 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| ER, nominal, 2005=100 | 110.4 | 100.0 | 81.0 | 78.0 | 78.0 | 78.0 | 78.0 | 78.0 |
| Real ER (CPI-based), 2005=100 | 75.7 | 100.0 | 125.7 | 130.4 | 128.6 | 129.7 | 131.3 | 132.5 |
| Real ER (PPI-based), 2005=100 | 79.8 | 100.0 | 113.0 | 113.7 | 110.4 | 113.0 | 113.2 | 113.2 |
| PPP NC/ EUR | 0.6045 | 0.6765 | 0.6836 | 0.6755 | 0.6712 | 0.67 | 0.66 | 0.66 |
| Price level, EU27 = 100 | 43 | 53 | 66 | 68 | 67 | 67 | 66 | 66 |
| Average monthly gross wages, NC | 379 | 573 | 723 | 745 | 765 | 800 | 850 | 910 |
| Average monthly gross wages, EUR (ER) | 268 | 448 | 697 | 745 | 765 | 800 | 850 | 910 |
| Average monthly gross wages, EUR (PPP) | 628 | 848 | 1058 | 1102 | 1140 | 1200 | 1280 | 1380 |
| GDP nominal, NC mn | 31177 | 49314 | 67007 | 63051 | 65906 | 69200 | 72700 | 77100 |
| Employed persons - LFS, th., average | 2102 | 2215 | 2434 | 2366 | 2318 | 2360 | 2380 | 2400 |
| GDP per employed person, NC | 14834 | 22262 | 27533 | 26645 | 28438 | 29300 | 30500 | 32100 |
| GDP per empl. person, NC at 2000 pr. | 14834 | 17881 | 20655 | 20232 | 21479 | 21900 | 22600 | 23300 |
| Unit labour costs, NC, 2005=100 | 79.8 | 100.0 | 109.2 | 114.8 | 111.1 | 113.9 | 117.3 | 121.8 |
| Unit labour costs, ER adj., 2005=100 | 72.3 | 100.0 | 134.8 | 147.0 | 142.3 | 146.0 | 150.3 | 156.0 |
| Unit labour costs, PPP adj., Austria=100 | 24.9 | 32.5 | 40.6 | 41.8 | 40.5 | 41.3 | 41.9 | 43.0 |

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Slovenia** | | | | | | | | |
| Producer price index, 2005=100 | 85.1 | 100.0 | 110.9 | 109.4 | 111.5 | 116.0 | 118.9 | 121.3 |
| Consumer price index, 2005=100 | 76.4 | 100.0 | 112.3 | 113.3 | 115.6 | 118.5 | 121.5 | 124.5 |
| GDP deflator, 2005=100 | 77.0 | 100.0 | 110.6 | 114.2 | 115.0 | 117.9 | 120.8 | 123.9 |
| Exchange rate (ER), NC/EUR | 0.8622 | 0.9997 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| ER, nominal, 2005=100 | 86.2 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Real ER (CPI-based), 2005=100 | 98.2 | 100.0 | 103.5 | 103.4 | 103.4 | 103.8 | 104.5 | 105.0 |
| Real ER (PPI-based), 2005=100 | 107.0 | 100.0 | 97.5 | 99.8 | 98.8 | 101.1 | 101.8 | 101.8 |
| PPP, NC/EUR | 0.6114 | 0.7311 | 0.8087 | 0.8356 | 0.8265 | 0.83 | 0.84 | 0.84 |
| Price level, EU27 = 100 | 71 | 73 | 81 | 84 | 83 | 83 | 84 | 84 |
| Average monthly gross wages, NC | 800 | 1157 | 1391 | 1439 | 1495 | 1560 | 1620 | 1690 |
| Average monthly gross wages, EUR (ER) | 928 | 1157 | 1391 | 1439 | 1495 | 1560 | 1620 | 1690 |
| Average monthly gross wages, EUR (PPP) | 1308 | 1583 | 1721 | 1722 | 1809 | 1870 | 1930 | 2000 |
| GDP nominal, NC mn | 18481 | 28750 | 37305 | 35384 | 36061 | 37700 | 39610 | 41820 |
| Employed persons - LFS, th., average | 901 | 949 | 996 | 981 | 966 | 940 | 950 | 960 |
| GDP per employed person, NC | 20511 | 30288 | 37451 | 36081 | 37330 | 40100 | 41700 | 43600 |
| GDP per empl. person, NC at 2000 pr. | 20511 | 23335 | 26080 | 24346 | 25004 | 26200 | 26600 | 27100 |
| Unit labour costs, NC, 2005=100 | 78.6 | 100.0 | 107.6 | 119.2 | 120.6 | 120.1 | 122.8 | 125.8 |
| Unit labour costs, ER adj., 2005=100 | 91.2 | 100.0 | 107.6 | 119.2 | 120.5 | 120.0 | 122.8 | 125.7 |
| Unit labour costs, PPP adj., Austria=100 | 63.0 | 65.2 | 65.0 | 67.9 | 68.8 | 68.1 | 68.7 | 69.5 |
| **Croatia** | | | | | | | | |
| Producer price index, 2005=100 | 90.9 | 100.0 | 115.1 | 114.6 | 119.5 | 124.3 | 128.7 | 140.4 |
| Consumer price index, 2005=100 | 87.3 | 100.0 | 112.7 | 115.4 | 116.6 | 119.6 | 121.9 | 125.0 |
| GDP deflator, 2005=100 | 83.1 | 100.0 | 114.8 | 118.7 | 119.9 | 122.9 | 125.4 | 128.5 |
| Exchange rate (ER), NC/EUR | 7.634 | 7.400 | 7.223 | 7.340 | 7.286 | 7.3 | 7.3 | 7.3 |
| ER, nominal, 2005=100 | 103.2 | 100.0 | 97.6 | 99.2 | 98.5 | 98.6 | 98.6 | 98.6 |
| Real ER (CPI-based), 2005=100 | 93.9 | 100.0 | 106.5 | 106.2 | 106.0 | 106.2 | 106.4 | 106.9 |
| Real ER (PPI-based), 2005=100 | 95.6 | 100.0 | 103.7 | 105.5 | 107.5 | 109.8 | 111.7 | 119.5 |
| PPP, NC/EUR | 4.237 | 4.680 | 4.898 | 5.013 | 5.024 | 5.07 | 5.08 | 5.10 |
| Price level, EU27 = 100 | 56 | 63 | 68 | 68 | 69 | 69 | 70 | 70 |
| Average monthly gross wages, NC | 4869 | 6248 | 7544 | 7711 | 7679 | 7900 | 8220 | 8650 |
| Average monthly gross wages, EUR (ER) | 638 | 844 | 1044 | 1051 | 1054 | 1080 | 1130 | 1180 |
| Average monthly gross wages, EUR (PPP) | 1149 | 1335 | 1540 | 1538 | 1529 | 1560 | 1620 | 1690 |
| GDP nominal, NC mn | 178118 | 266652 | 345015 | 335189 | 334564 | 346400 | 360400 | 380500 |
| Employed persons - LFS, th., average | 1553 | 1573 | 1636 | 1605 | 1541 | 1510 | 1520 | 1540 |
| GDP per employed person, NC | 114693 | 169518 | 210954 | 208802 | 217073 | 229400 | 237100 | 247100 |
| GDP per empl. person, NC at 2000 pr. | 114693 | 140854 | 152633 | 146158 | 150411 | 155100 | 157100 | 159700 |
| Unit labour costs, NC, 2005=100 | 95.7 | 100.0 | 111.4 | 118.9 | 115.1 | 114.8 | 118.0 | 122.1 |
| Unit labour costs, ER adj., 2005=100 | 92.8 | 100.0 | 114.2 | 119.9 | 116.9 | 116.4 | 119.6 | 123.8 |
| Unit labour costs, PPP adj., Austria=100 | 53.7 | 54.6 | 57.8 | 57.2 | 55.9 | 55.3 | 56.0 | 57.3 |
| **Macedonia** | | | | | | | | |
| Producer price index, 2005=100 | 95.3 | 100.0 | 121.3 | 113.4 | 123.1 | 126.7 | 130.4 | 134.4 |
| Consumer price index, 2005=100 | 91.9 | 100.0 | 114.3 | 113.4 | 115.2 | 118.7 | 122.3 | 125.9 |
| GDP deflator, 2005=100 | 89.0 | 100.0 | 119.3 | 119.6 | 123.1 | 126.7 | 130.4 | 134.4 |
| Exchange rate (ER), NC/EUR | 60.73 | 61.30 | 61.27 | 61.32 | 61.52 | 61.2 | 61.2 | 61.2 |
| ER, nominal, 2005=100 | 99.1 | 100.0 | 100.0 | 100.0 | 100.4 | 99.8 | 99.8 | 99.8 |
| Real ER (CPI-based), 2005=100 | 102.9 | 100.0 | 105.5 | 103.5 | 102.7 | 104.1 | 105.4 | 106.4 |
| Real ER (PPI-based), 2005=100 | 104.3 | 100.0 | 106.7 | 103.5 | 108.6 | 110.6 | 111.9 | 113.0 |
| PPP, NC/EUR | 22.77 | 21.98 | 23.57 | 23.79 | 24.09 | 24.4 | 24.7 | 24.9 |
| Price level, EU27 = 100 | 37 | 36 | 38 | 39 | 39 | 40 | 40 | 41 |
| Average monthly gross wages, NC [1)] | 17958 | 21330 | 26229 | 29922 | 30225 | 31800 | 33700 | 35800 |
| Average monthly gross wages, EUR (ER) | 296 | 348 | 428 | 488 | 491 | 520 | 550 | 580 |
| Average monthly gross wages, EUR (PPP) | 789 | 970 | 1113 | 1258 | 1255 | 1300 | 1370 | 1440 |
| GDP nominal, NC mn | 236389 | 295052 | 411728 | 409100 | 423862 | 445000 | 472000 | 501000 |
| Employed persons - LFS, th., average | 549.8 | 545.3 | 609.0 | 629.9 | 637.8 | 650 | 660 | 670 |
| GDP per employed person, NC | 429919 | 541129 | 676056 | 649467 | 664527 | 684600 | 715200 | 747800 |
| GDP per empl. person, NC at 2000 pr. | 429919 | 481346 | 504256 | 482983 | 480323 | 480800 | 487700 | 494800 |
| Unit labour costs, NC, 2005=100 | 94.3 | 100.0 | 117.4 | 139.8 | 142.0 | 149.3 | 155.9 | 163.3 |
| Unit labour costs, ER adj., 2005=100 | 95.1 | 100.0 | 117.4 | 139.7 | 141.5 | 149.5 | 156.2 | 163.5 |
| Unit labour costs, PPP adj., Austria=100 | 35.7 | 35.4 | 38.5 | 43.2 | 43.9 | 46.0 | 47.4 | 49.1 |

1) From 2009 including allowances for food and transport.

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Montenegro** | | | | | | | | |
| Producer price index, 2001=100 | 74.0 | 100.0 | 128.1 | 123.1 | 122.0 | 126.6 | 130.6 | 134.2 |
| Consumer price index, 2001=100 | 63.3 | 100.0 | 115.3 | 119.2 | 119.8 | 123.4 | 127.1 | 130.9 |
| GDP deflator, 2001=100 | 67.4 | 100.0 | 138.7 | 142.1 | 143.4 | 148.8 | 153.5 | 157.8 |
| Exchange rate (ER), EUR/EUR | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Real ER (CPI-based), 2001=100 | 64.7 | 92.1 | 97.9 | 100.3 | 98.7 | 99.6 | 100.7 | 101.7 |
| Real ER (PPI-based), 2001=100 | . | 94.4 | 106.4 | 106.2 | 102.0 | 104.1 | 105.5 | 106.4 |
| PPP, NC/EUR | 0.3119 | 0.4202 | 0.4562 | 0.4865 | 0.4896 | 0.50 | 0.51 | 0.51 |
| Price level, EU27 = 100 | 31 | 42 | 46 | 49 | 49 | 50 | 51 | 51 |
| Average monthly gross wages, NC | 151 | 326 | 609 | 643 | 715 | 750 | 790 | 840 |
| Average monthly gross wages, EUR (PPP) | 484 | 777 | 1335 | 1322 | 1460 | 1500 | 1560 | 1650 |
| GDP nominal, NC mn | 1065.7 | 1815.0 | 3085.6 | 2981.0 | 3025.0 | 3200 | 3400 | 3600 |
| Employed persons - LFS, th., average | 230.3 | 178.8 | 218.8 | 212.9 | 208.2 | 210 | 212 | 214 |
| GDP per employed person, NC | 4627 | 10150 | 14102 | 14002 | 14533 | 15200 | 16000 | 16800 |
| GDP per empl. person, NC at 2000 pr. | 4627 | 6846 | 6859 | 6647 | 6833 | 6900 | 7000 | 7200 |
| Unit labour costs, NC, 2005=100 | 68.4 | 100.0 | 186.2 | 202.8 | 219.4 | 227.9 | 236.6 | 244.6 |
| Unit labour costs, PPP adj., Austria=100 | 23.2 | 32.0 | 55.2 | 56.7 | 61.5 | 63.4 | 64.9 | 66.3 |
| **Albania** | | | | | | | | |
| Producer price index, 2005=100 | 85.5 | 100.0 | 111.1 | 109.2 | 109.3 | 113.7 | 119.4 | 126.6 |
| Consumer price index, 2005=100 | 85.5 | 100.0 | 108.9 | 111.4 | 115.3 | 120.0 | 124.8 | 129.7 |
| GDP deflator, 2005=100 | 85.4 | 100.0 | 111.1 | 113.1 | 116.0 | 118.7 | 123.1 | 128.1 |
| Exchange rate (ER), NC/EUR | 132.6 | 124.2 | 122.8 | 132.1 | 137.8 | 140 | 130 | 125 |
| ER, nominal, 2005=100 | 106.8 | 100.0 | 98.9 | 106.3 | 111.0 | 112.7 | 104.7 | 100.7 |
| Real ER (CPI-based), 2005=100 | 88.9 | 100.0 | 101.6 | 95.7 | 93.0 | 93.2 | 102.6 | 108.7 |
| Real ER (PPI-based), 2005=100 | 86.9 | 100.0 | 98.8 | 93.8 | 87.3 | 87.9 | 97.7 | 105.6 |
| PPP, NC/EUR | 49.02 | 52.17 | 53.08 | 55.32 | 56.22 | 56.6 | 57.7 | 58.8 |
| Price level, EU27 = 100 | 37 | 42 | 43 | 42 | 41 | 40 | 44 | 47 |
| Average monthly gross wages, NC | 13355 | 19993 | 27951 | 31900 | 33870 | 36600 | 40700 | 46100 |
| Average monthly gross wages, EUR (ER) | 101 | 161 | 228 | 242 | 246 | 260 | 310 | 370 |
| Average monthly gross wages, EUR (PPP) | 272 | 383 | 527 | 577 | 603 | 650 | 710 | 780 |
| GDP nominal, NC bn | 523 | 815 | 1088 | 1144 | 1220 | 1300 | 1400 | 1530 |
| Employed persons - LFS, th., Oct [2)] | 1067 | 932 | 1123 | 1160 | 1100 | 1060 | 1100 | 1150 |
| GDP per employed person, NC | 490362 | 874565 | 968704 | 985871 | 1109091 | 1226400 | 1272700 | 1330400 |
| GDP per empl. person, NC at 2000 pr. | 490362 | 746612 | 744118 | 744318 | 816288 | 881800 | 882900 | 886700 |
| Unit labour costs, NC, 2005=100 | 101.7 | 100.0 | 140.3 | 160.0 | 154.9 | 155.0 | 172.1 | 194.2 |
| Unit labour costs, ER adj., 2005=100 | 95.3 | 100.0 | 141.9 | 150.5 | 139.7 | 137.5 | 164.4 | 192.9 |
| Unit labour costs, PPP adj., Austria=100 | 22.9 | 22.7 | 29.9 | 29.9 | 27.8 | 27.2 | 32.1 | 37.2 |
| **Bosnia and Herzegovina** | | | | | | | | |
| Producer price index, 2007=100 | . | . | 108.6 | 105.1 | 106.1 | 110.3 | 112.4 | 114.6 |
| Consumer price index, 2005=100 | 91.1 | 100.0 | 115.9 | 115.4 | 117.8 | 122.5 | 125.0 | 127.5 |
| GDP deflator, 2005=100 | 84.7 | 100.0 | 121.1 | 121.2 | 123.8 | 128.8 | 131.2 | 133.8 |
| Exchange rate (ER), NC/EUR | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 |
| ER, nominal, 2005=100 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Real ER (CPI-based), 2005=100 | 101.1 | 100.0 | 106.9 | 105.4 | 105.4 | 107.4 | 107.6 | 107.6 |
| Real ER (PPI-based), 2007=100 | . | . | 102.2 | 102.7 | 100.5 | 102.8 | 102.9 | 102.9 |
| PPP, NC/EUR | 0.8004 | 0.8585 | 0.9700 | 0.9900 | 0.9828 | 1.01 | 1.01 | 1.01 |
| Price level, EU27 = 100 | 41 | 44 | 50 | 51 | 50 | 51 | 51 | 51 |
| Average monthly gross wages, NC | 539 | 796 | 1113 | 1204 | 1217 | 1270 | 1320 | 1370 |
| Average monthly gross wages, EUR (ER) | 276 | 407 | 569 | 615 | 622 | 650 | 670 | 700 |
| Average monthly gross wages, EUR (PPP) | 673 | 928 | 1147 | 1216 | 1238 | 1260 | 1310 | 1360 |
| GDP nominal, NC mn | 11790 | 17157 | 24718 | 24004 | 24750 | 26300 | 27600 | 29000 |
| Employed persons - LFS, th., April [3)] | 635.7 | 641.5 | 890.2 | 859.2 | 842.8 | 840 | 845 | 850 |
| GDP per employed person, NC | 18546 | 26743 | 27765 | 27937 | 29365 | 31300 | 32700 | 34100 |
| GDP per empl. person, NC at 2000 pr. | 18546 | 22652 | 19419 | 19527 | 20084 | 20600 | 21100 | 21600 |
| Unit labour costs, NC, 2005=100 | 82.7 | 100.0 | 163.0 | 175.3 | 172.3 | 175.4 | 177.9 | 180.4 |
| Unit labour costs, ER adj., 2005=100 | 82.7 | 100.0 | 163.0 | 175.3 | 172.3 | 175.4 | 177.9 | 180.4 |
| Unit labour costs, PPP adj., Austria=100 | 27.1 | 30.9 | 46.7 | 47.4 | 46.7 | 47.2 | 47.2 | 47.3 |

2) Until 2006 registered employment data. - 3) Until 2005 registered employees.

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Serbia** | | | | | | | | |
| Producer price index, 2005=100 | 37.6 | 100.0 | 134.9 | 142.4 | 160.5 | 176.8 | 191.3 | 204.7 |
| Consumer price index, 2005=100 | 31.2 | 100.0 | 135.7 | 147.3 | 157.4 | 173.1 | 186.9 | 198.1 |
| GDP deflator, 2005=100 | 29.3 | 100.0 | 133.2 | 140.2 | 157.4 | 173.3 | 187.5 | 200.7 |
| Exchange rate (ER), NC/EUR | 52.55 | 82.91 | 81.47 | 93.94 | 102.90 | 108 | 110 | 110 |
| ER, nominal, 2005=100 | 63.4 | 100.0 | 98.3 | 113.3 | 124.1 | 130.3 | 132.7 | 132.7 |
| Real ER (CPI-based), 2005=100 | 54.6 | 100.0 | 127.3 | 118.7 | 113.4 | 116.4 | 121.2 | 126.0 |
| Real ER (PPI-based), 2005=100 | 64.3 | 100.0 | 120.7 | 114.8 | 114.5 | 118.3 | 123.4 | 129.5 |
| PPP, NC/EUR | 10.25 | 31.75 | 40.41 | 44.49 | 47.07 | 51.0 | 54.2 | 56.9 |
| Price level, EU27 = 100 | 20 | 38 | 50 | 47 | 46 | 47 | 49 | 52 |
| Average monthly gross wages, NC | 3799 | 25514 | 45674 | 44147 | 47450 | 53240 | 58650 | 63410 |
| Average monthly gross wages, EUR (ER) | 72 | 308 | 561 | 470 | 461 | 490 | 530 | 580 |
| Average monthly gross wages, EUR (PPP) | 371 | 803 | 1130 | 992 | 1008 | 1040 | 1080 | 1110 |
| GDP nominal, NC bn | 384 | 1683 | 2661 | 2713 | 3100 | 3500 | 3900 | 4300 |
| Employed persons - LFS, th., average | 3094 | 2733 | 2822 | 2616 | 2396 | 2400 | 2400 | 2420 |
| GDP per employed person, NC | 124197 | 615891 | 943178 | 1036985 | 1293691 | 1458300 | 1625000 | 1776900 |
| GDP per empl. person, NC at 2000 pr. | 124197 | 180652 | 207682 | 216981 | 241121 | 246800 | 254200 | 259600 |
| Unit labour costs, NC, 2005=100 | 21.7 | 100.0 | 155.7 | 144.1 | 139.3 | 152.7 | 163.4 | 172.9 |
| Unit labour costs, ER adj., 2005=100 | 34.2 | 100.0 | 158.5 | 127.1 | 112.3 | 117.3 | 123.1 | 130.4 |
| Unit labour costs, PPP adj., Austria=100 | 13.6 | 37.5 | 55.1 | 41.7 | 36.9 | 38.3 | 39.7 | 41.5 |
| **Russia** | | | | | | | | |
| Producer price index, 2005=100 | 43.4 | 100.0 | 155.7 | 144.5 | 162.1 | 186.5 | 205.1 | 219.5 |
| Consumer price index, 2005=100 | 50.0 | 100.0 | 136.7 | 152.8 | 163.6 | 178.3 | 190.8 | 200.3 |
| GDP deflator, 2005=100 | 45.5 | 100.0 | 154.7 | 157.6 | 175.6 | 192.9 | 207.7 | 223.0 |
| Exchange rate (ER), NC/EUR | 26.03 | 35.26 | 36.43 | 44.14 | 40.30 | 40 | 40 | 40 |
| ER, nominal, 2005=100 | 73.8 | 100.0 | 103.3 | 125.2 | 114.3 | 113.4 | 113.4 | 113.4 |
| Real ER (CPI-based), 2005=100 | 75.1 | 100.0 | 122.0 | 111.5 | 128.0 | 137.7 | 144.8 | 149.0 |
| Real ER (PPI-based), 2005=100 | 63.8 | 100.0 | 132.5 | 105.4 | 125.7 | 143.3 | 154.8 | 162.4 |
| PPP, NC/EUR | 7.54 | 15.06 | 22.08 | 22.85 | 24.86 | 26.9 | 28.4 | 29.9 |
| Price level, EU27 = 100 | 29 | 43 | 61 | 52 | 62 | 67 | 71 | 75 |
| Average monthly gross wages, NC | 2223 | 8555 | 17290 | 18795 | 21090 | 23950 | 27040 | 29810 |
| Average monthly gross wages, EUR (ER) | 85 | 243 | 475 | 426 | 523 | 600 | 680 | 750 |
| Average monthly gross wages, EUR (PPP) | 295 | 568 | 783 | 823 | 848 | 890 | 950 | 1000 |
| GDP nominal, NC bn | 7306 | 21610 | 41277 | 38786 | 44939 | 51600 | 58000 | 64800 |
| Employed persons - LFS, th., average | 65070 | 68169 | 70965 | 69285 | 69803 | 69500 | 69300 | 69000 |
| GDP per employed person, NC | 112273 | 317003 | 581650 | 559810 | 643800 | 742400 | 836900 | 939100 |
| GDP per empl. person, NC at 2000 pr. | 112273 | 144166 | 171042 | 161522 | 166733 | 175000 | 183200 | 191600 |
| Unit labour costs, NC, 2005=100 | 33.4 | 100.0 | 170.3 | 196.1 | 213.2 | 230.6 | 248.7 | 262.2 |
| Unit labour costs, ER adj., 2005=100 | 45.2 | 100.0 | 164.9 | 156.7 | 186.5 | 203.3 | 219.3 | 231.1 |
| Unit labour costs, PPP adj., Austria=100 | 13.1 | 27.3 | 41.7 | 37.3 | 44.6 | 48.2 | 51.3 | 53.5 |
| **Ukraine** | | | | | | | | |
| Producer price index, 2005=100 | 59.0 | 100.0 | 177.5 | 189.0 | 228.5 | 251.4 | 274.0 | 295.9 |
| Consumer price index, 2005=100 | 68.0 | 100.0 | 154.1 | 178.6 | 195.4 | 214.9 | 234.2 | 253.0 |
| GDP deflator, 2005=100 | 55.8 | 100.0 | 181.2 | 204.9 | 235.7 | 259.2 | 282.6 | 305.2 |
| Exchange rate (ER), NC/EUR | 5.029 | 6.389 | 7.708 | 10.868 | 10.533 | 11 | 10.5 | 10 |
| ER, nominal, 2005=100 | 78.7 | 100.0 | 120.6 | 170.1 | 164.9 | 172.2 | 164.4 | 156.5 |
| Real ER (CPI-based), 2005=100 | 95.9 | 100.0 | 117.8 | 95.9 | 106.0 | 109.3 | 122.7 | 136.4 |
| Real ER (PPI-based), 2005=100 | 81.3 | 100.0 | 129.4 | 101.5 | 122.8 | 127.3 | 142.8 | 158.7 |
| PPP, NC/EUR | 1.2208 | 1.9861 | 3.4119 | 3.9167 | 4.3992 | 4.76 | 5.10 | 5.40 |
| Price level, EU27 = 100 | 24 | 31 | 44 | 36 | 42 | 43 | 49 | 54 |
| Average monthly gross wages, NC | 230 | 806 | 1806 | 1906 | 2239 | 2600 | 2990 | 3420 |
| Average monthly gross wages, EUR (ER) | 46 | 126 | 234 | 175 | 213 | 240 | 280 | 340 |
| Average monthly gross wages, EUR (PPP) | 189 | 406 | 529 | 487 | 509 | 550 | 590 | 630 |
| GDP nominal, NC mn | 170070 | 441452 | 948056 | 913345 | 1094607 | 1258300 | 1440100 | 1633100 |
| Employed persons - LFS, th., average | 20175 | 20680 | 20972 | 20192 | 20266 | 20200 | 20250 | 20290 |
| GDP per employed person, NC | 8430 | 21347 | 45205 | 45234 | 54012 | 62300 | 71100 | 80500 |
| GDP per empl. person, NC at 2000 pr. | 8430 | 11921 | 13932 | 12329 | 12800 | 13400 | 14100 | 14700 |
| Unit labour costs, NC, 2005=100 | 40.4 | 100.0 | 191.7 | 228.6 | 258.7 | 286.9 | 313.6 | 344.0 |
| Unit labour costs, ER adj., 2005=100 | 51.3 | 100.0 | 158.9 | 134.4 | 156.9 | 166.6 | 190.8 | 219.8 |
| Unit labour costs, PPP adj., Austria=100 | 15.1 | 27.8 | 40.9 | 32.6 | 38.2 | 40.3 | 45.5 | 51.8 |

(Table A/2 ctd.)

Table A/2 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Forecast | |
| **Austria** | | | | | | | | |
| Producer price index, 2005=100 | 90.9 | 100.0 | 114.0 | 105.5 | 110.8 | 113.0 | 115.3 | 117.2 |
| Consumer price index, 2005=100 | 90.3 | 100.0 | 107.1 | 107.6 | 109.5 | 112.6 | 115.3 | 118.1 |
| GDP deflator, 2005=100 | 92.2 | 100.0 | 105.8 | 106.7 | 108.3 | 110.4 | 112.7 | 114.6 |
| Real ER (CPI-based), 2005=100 | 100.2 | 100.0 | 98.7 | 98.3 | 98.0 | 98.6 | 99.2 | 99.6 |
| Real ER (PPI-based), 2005=100 | 98.6 | 100.0 | 100.2 | 96.4 | 98.1 | 98.5 | 98.7 | 98.4 |
| PPP, NC/EUR | 1.0352 | 1.0596 | 1.0922 | 1.1217 | 1.1062 | 1.113 | 1.114 | 1.111 |
| Price level, EU27 = 100 | 104 | 106 | 109 | 112 | 111 | 111 | 111 | 111 |
| Average monthly gross wages, EUR | 2389 | 2639 | 2923 | 2988 | 3030 | 3110 | 3200 | 3280 |
| Average monthly gross wages, EUR (PPP) | 2307 | 2491 | 2676 | 2663 | 2739 | 2794 | 2871 | 2953 |
| GDP nominal, NC mn | 207529 | 243585 | 283085 | 274320 | 284400 | 297200 | 309400 | 321200 |
| Employed persons - LFS, th., average | 3686 | 3824 | 4090 | 4078 | 4100 | 4120 | 4140 | 4170 |
| GDP per employed person, NC | 56306 | 63692 | 69214 | 67273 | 69400 | 72100 | 74700 | 77000 |
| GDP per empl. person, NC at 2000 pr. | 56306 | 58721 | 60291 | 58121 | 59062 | 60200 | 61100 | 61900 |
| Unit labour costs, NC, 2005=100 | 94.4 | 100.0 | 107.8 | 114.4 | 114.1 | 114.9 | 116.5 | 117.9 |
| Unit labour costs, PPP adjusted | 0.53 | 0.56 | 0.60 | 0.64 | 0.64 | 0.64 | 0.65 | 0.66 |

NC = national currency (including euro-fixed series for euro area countries - EE, SK, SI, AT). ER = Exchange Rate, PPP = Purchasing Power Parity, Price level: PPP/ ER.

The development of unit labour costs is defined as average gross wages per employee relative to labour productivitiy (real GDP per employed person) .

PPP rates have been taken from Eurostat based on the benchmark results 2005. For Albania, Bosnia and Herzegovina, Montenegro and Serbia available data 2005-2010 have been extrapolated by wiiw with GDP deflators. Russia and Ukraine are estimated by wiiw using the OECD PPP benchmark results 2005 and extrapolation with GDP price deflators.

Real exchange rates: Increasing values mean real appreciation.

*Sources:* wiiw Database incorporating national and Eurostat statistics; WIFO; OECD for purchasing power parities, 2005 benchmark year, November 2007; wiiw estimates and forecasts.

Table A/3

## Indicators of macro-competitiveness, 2000-2013

annual changes in %

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 Forecast | 2013 | 2005-08 average |
|---|---|---|---|---|---|---|---|---|---|
| **Bulgaria** | | | | | | | | | |
| GDP deflator | 6.6 | 7.3 | 8.4 | 4.3 | 3.0 | 4.0 | 4.3 | 4.3 | 8.0 |
| Exchange rate (ER), EUR/NC | 0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real ER (CPI-based) | 8.5 | 3.6 | 8.0 | 1.5 | 0.9 | 1.9 | 2.2 | 2.0 | 5.4 |
| Real ER (PPI-based) | 15.4 | 3.4 | 4.4 | -2.9 | 5.3 | 2.4 | 2.5 | 2.3 | 5.0 |
| Average gross wages, NC | 11.7 | 10.7 | 21.8 | 12.8 | 8.5 | 4.4 | 6.0 | 5.6 | 15.7 |
| Average gross wages, real (PPI based) | -5.3 | 2.6 | 9.8 | 20.6 | -0.1 | 0.3 | 1.6 | 1.3 | 5.6 |
| Average gross wages, real (CPI based) | 1.2 | 4.4 | 8.8 | 10.1 | 5.3 | 0.3 | 1.9 | 1.6 | 6.9 |
| Average gross wages, EUR (ER) | 11.9 | 10.6 | 21.8 | 12.8 | 8.5 | 3.6 | 5.9 | 5.6 | 15.7 |
| Employed persons (LFS) | -2.8 | 2.0 | 3.3 | -3.2 | -6.2 | -1.7 | 1.7 | 1.6 | 3.6 |
| GDP per empl. person, NC at 2000 prices | 8.8 | 4.3 | 2.8 | -2.3 | 6.8 | 4.8 | 1.4 | 2.1 | 2.7 |
| Unit labour costs, NC at 2000 prices | 2.7 | 6.2 | 18.5 | 15.5 | 1.6 | -0.4 | 4.5 | 3.4 | 12.7 |
| Unit labour costs, ER (EUR) adjusted | 2.9 | 6.0 | 18.5 | 15.5 | 1.6 | -0.4 | 4.5 | 3.4 | 12.6 |
| **Czech Republic** | | | | | | | | | |
| GDP deflator | 1.5 | -0.4 | 1.9 | 2.5 | -0.6 | 0.8 | 1.9 | 2.0 | 1.5 |
| Exchange rate (ER), EUR/NC | 3.6 | 7.1 | 11.3 | -5.6 | 4.6 | 3.2 | 2.1 | 0.0 | 6.3 |
| Real ER (CPI-based) | 5.6 | 6.5 | 14.1 | -6.0 | 3.6 | 3.1 | 2.3 | 0.0 | 7.0 |
| Real ER (PPI-based) | 10.8 | 3.2 | 5.2 | -3.5 | 1.5 | 2.4 | 2.2 | 0.0 | 2.8 |
| Average gross wages, NC | 3.3 | 5.0 | 7.8 | 3.3 | 1.9 | 3.0 | 4.5 | 5.1 | 6.6 |
| Average gross wages, real (PPI based) | -5.7 | 4.5 | 7.4 | 4.9 | 1.9 | 2.2 | 2.5 | 3.0 | 5.7 |
| Average gross wages, real (CPI based) | -0.6 | 3.3 | 1.4 | 2.7 | 0.8 | 0.9 | 2.4 | 3.0 | 3.3 |
| Average gross wages, EUR (ER) | 7.0 | 12.5 | 20.0 | -2.5 | 6.6 | 6.2 | 7.0 | 4.7 | 13.4 |
| Employed persons (LFS) | -0.7 | 1.2 | 1.6 | -1.4 | -1.0 | 0.5 | 0.4 | 0.4 | 1.5 |
| GDP per empl. person, NC at 2000 prices | 4.3 | 5.1 | 0.8 | -2.8 | 2.8 | 1.7 | 2.1 | 3.3 | 3.8 |
| Unit labour costs, NC at 2000 prices | -1.0 | -0.1 | 7.0 | 6.3 | -0.8 | 1.3 | 2.4 | 1.7 | 2.7 |
| Unit labour costs, ER (EUR) adjusted | 2.6 | 7.0 | 19.0 | 0.3 | 3.7 | 4.5 | 4.5 | 1.7 | 9.2 |
| **Estonia** | | | | | | | | | |
| GDP deflator | 4.5 | 5.4 | 7.2 | -0.1 | 1.4 | 5.7 | 4.6 | 4.6 | 7.9 |
| Exchange rate (ER), EUR/NC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real ER (CPI-based) | 2.1 | 1.9 | 6.7 | -0.8 | 0.6 | 3.3 | 2.7 | 2.5 | 3.7 |
| Real ER (PPI-based) | 2.4 | -2.4 | 1.6 | 4.6 | 0.1 | 4.0 | 2.7 | 2.5 | 1.1 |
| Average gross wages, NC | 10.5 | 10.8 | 13.9 | -5.0 | 1.1 | 7.3 | 5.9 | 6.7 | 15.4 |
| Average gross wages, real (PPI based) | 5.4 | 8.9 | 5.4 | -5.7 | -2.1 | 1.5 | 1.3 | 2.0 | 9.4 |
| Average gross wages, real (CPI based) | 6.3 | 6.4 | 3.0 | -5.2 | -1.6 | 1.7 | 1.3 | 2.1 | 8.4 |
| Average gross wages, EUR (ER) | 10.5 | 10.8 | 13.9 | -5.0 | 1.1 | 7.3 | 5.9 | 6.7 | 15.4 |
| Employed persons (LFS) | -1.2 | 2.0 | 0.2 | -9.2 | -4.2 | 4.2 | 2.5 | 1.6 | 2.5 |
| GDP per empl. person, NC at 2000 prices | 11.3 | 7.3 | -5.3 | -5.1 | 7.6 | 1.6 | 1.9 | 3.1 | 2.7 |
| Unit labour costs, NC at 2000 prices | -0.7 | 3.2 | 20.2 | 0.1 | -6.1 | 5.6 | 3.9 | 3.5 | 12.3 |
| Unit labour costs, ER (EUR) adjusted | -0.7 | 3.2 | 20.2 | 0.1 | -6.1 | 5.6 | 3.9 | 3.5 | 12.3 |
| **Hungary** | | | | | | | | | |
| GDP deflator | 9.5 | 2.3 | 4.7 | 4.4 | 2.9 | 2.9 | 2.9 | 2.2 | 4.3 |
| Exchange rate (ER), EUR/NC | -2.8 | 1.5 | -0.1 | -10.3 | 1.8 | 2.0 | -1.8 | 0.0 | 0.0 |
| Real ER (CPI-based) | 4.8 | 2.7 | 2.2 | -7.6 | 4.4 | 4.1 | -0.2 | 1.5 | 2.7 |
| Real ER (PPI-based) | 5.4 | 0.4 | -1.6 | -2.6 | 4.9 | 3.3 | -0.8 | 0.2 | -0.7 |
| Average gross wages, NC | 13.7 | 8.8 | 7.4 | 0.6 | 1.4 | 4.7 | 5.0 | 6.1 | 8.1 |
| Average gross wages, real (PPI based) | 2.3 | 5.5 | 2.7 | -3.8 | -4.6 | 1.8 | 2.1 | 3.8 | 4.3 |
| Average gross wages, real (CPI based) | 3.5 | 5.1 | 1.3 | -3.3 | -3.2 | 0.5 | 1.5 | 2.5 | 2.6 |
| Average gross wages, EUR (ER) | 10.5 | 10.4 | 7.3 | -9.8 | 3.2 | 7.4 | 2.5 | 6.2 | 8.1 |
| Employed persons (LFS) | 1.2 | 0.0 | -1.2 | -2.5 | 0.0 | 1.0 | 1.0 | 1.0 | -0.1 |
| GDP per empl. person, NC at 2000 prices | 3.6 | 3.2 | 2.1 | -4.3 | 1.2 | 1.5 | 1.9 | 1.9 | 2.2 |
| Unit labour costs, NC at 2000 prices | 9.8 | 5.5 | 5.2 | 5.1 | 0.2 | 3.2 | 3.1 | 4.1 | 5.7 |
| Unit labour costs, ER (EUR) adjusted | 6.7 | 7.0 | 5.2 | -5.7 | 1.9 | 5.3 | 1.2 | 4.1 | 5.8 |
| **Latvia** | | | | | | | | | |
| GDP deflator | 4.2 | 10.1 | 14.4 | -1.5 | -2.3 | 4.6 | 3.3 | 4.0 | 13.6 |
| Exchange rate (ER), EUR/NC | 11.7 | -4.5 | -0.4 | -0.4 | -0.4 | 0.0 | 0.0 | 0.0 | -1.4 |
| Real ER (CPI-based) | 12.5 | -0.1 | 10.7 | 1.8 | -3.7 | 2.4 | 1.7 | 2.0 | 5.4 |
| Real ER (PPI-based) | 11.0 | -1.0 | 4.4 | -1.3 | -0.7 | 2.9 | 1.5 | 1.9 | 5.3 |
| Average gross wages, NC | 6.1 | 16.5 | 20.5 | -3.8 | -3.5 | 7.9 | 6.3 | 5.9 | 22.8 |
| Average gross wages, real (PPI based) | 4.2 | 7.9 | 8.1 | 0.9 | -6.1 | 3.1 | 2.8 | 1.9 | 10.2 |
| Average gross wages, real (CPI based) | 3.4 | 9.0 | 4.5 | -6.8 | -2.3 | 3.2 | 2.7 | 1.8 | 12.0 |
| Average gross wages, EUR (ER) | 18.5 | 11.3 | 20.0 | -4.2 | -3.9 | 8.3 | 5.9 | 5.6 | 21.1 |
| Employed persons (LFS) | -2.8 | 1.6 | 0.6 | -12.6 | -3.9 | 2.6 | 4.1 | 3.0 | 2.5 |
| GDP per empl. person, NC at 2000 prices | 10.0 | 9.0 | -4.8 | -6.2 | 3.7 | 1.4 | 0.0 | 0.0 | 4.3 |
| Unit labour costs, NC at 2000 prices | -3.6 | 6.9 | 26.6 | 2.6 | -6.9 | 6.4 | 6.3 | 5.9 | 17.7 |
| Unit labour costs, ER (EUR) adjusted | 7.7 | 2.2 | 26.1 | 2.1 | -7.3 | 6.4 | 6.3 | 5.9 | 16.1 |

(Table A/3 ctd.)

Table A/3 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 Forecast | 2013 | 2005-08 average |
|---|---|---|---|---|---|---|---|---|---|
| **Lithuania** | | | | | | | | | |
| GDP deflator | 0.9 | 6.7 | 9.8 | -3.7 | 2.0 | 4.5 | 4.0 | 4.5 | 7.9 |
| Exchange rate (ER), EUR/NC | 15.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Real ER (CPI-based) | 14.6 | 0.5 | 7.1 | 3.1 | -0.9 | 2.4 | 2.2 | 2.5 | 3.1 |
| Real ER (PPI-based) | 31.1 | 7.1 | 11.2 | -10.2 | 7.0 | 2.9 | 2.2 | 2.5 | 6.3 |
| Average gross wages, NC | -1.7 | 11.0 | 19.4 | -4.4 | -3.3 | 7.1 | 7.5 | 8.7 | 17.0 |
| Average gross wages, real (PPI based) | -15.4 | -0.5 | 1.0 | 10.5 | -12.4 | 2.6 | 3.4 | 4.0 | 5.4 |
| Average gross wages, real (CPI based) | -2.7 | 8.2 | 7.5 | -8.3 | -4.4 | 2.5 | 3.4 | 4.1 | 10.6 |
| Average gross wages, EUR (ER) | 13.6 | 11.0 | 19.4 | -4.4 | -3.3 | 7.7 | 6.5 | 9.1 | 17.0 |
| Employed persons (LFS) | -4.0 | 2.6 | -0.9 | -6.8 | -5.1 | 1.2 | 2.9 | 2.1 | 1.4 |
| GDP per empl. person, NC at 2000 prices | 7.6 | 5.0 | 3.8 | -8.5 | 6.8 | 3.7 | 1.7 | 2.2 | 5.6 |
| Unit labour costs, NC at 2000 prices | -8.6 | 5.8 | 15.0 | 4.4 | -9.4 | 3.3 | 5.8 | 6.4 | 10.8 |
| Unit labour costs, ER (EUR) adjusted | 5.6 | 5.8 | 15.0 | 4.4 | -9.4 | 3.4 | 5.8 | 6.4 | 10.8 |
| **Poland** | | | | | | | | | |
| GDP deflator | 7.2 | 2.6 | 3.1 | 3.6 | 1.3 | 3.7 | 2.3 | 2.4 | 2.8 |
| Exchange rate (ER), EUR/NC | 5.5 | 12.5 | 7.7 | -18.8 | 8.3 | 2.4 | 0.0 | -2.5 | 6.6 |
| Real ER (CPI-based) | 13.9 | 12.5 | 8.3 | -16.5 | 8.9 | 3.8 | 0.7 | -2.0 | 6.5 |
| Real ER (PPI-based) | 11.2 | 8.4 | 3.8 | -12.5 | 7.5 | 3.3 | 0.7 | -2.5 | 3.8 |
| Average gross wages, NC | 11.6 | 3.8 | 10.1 | 5.4 | 4.0 | 7.3 | 7.2 | 6.7 | 6.7 |
| Average gross wages, real (PPI based) | 3.4 | 3.4 | 7.5 | 1.5 | 1.6 | 4.7 | 4.6 | 4.6 | 4.9 |
| Average gross wages, real (CPI based) | 1.3 | 1.7 | 5.6 | 1.4 | 1.3 | 3.7 | 4.6 | 4.1 | 4.0 |
| Average gross wages, EUR (ER) | 17.7 | 16.8 | 18.6 | -14.4 | 12.6 | 10.2 | 6.7 | 4.2 | 13.6 |
| Employed persons (LFS) | -1.6 | 2.3 | 3.7 | 0.4 | 0.6 | -0.1 | 2.0 | 2.5 | 3.5 |
| GDP per empl. person, NC at 2000 prices | 6.0 | 1.3 | 1.4 | 1.2 | 3.2 | 3.8 | 2.3 | 1.7 | 1.9 |
| Unit labour costs, NC at 2000 prices | 5.3 | 2.5 | 8.6 | 4.2 | 0.8 | 3.4 | 4.9 | 5.0 | 4.6 |
| Unit labour costs, ER (EUR) adjusted | 11.1 | 15.4 | 16.9 | -15.5 | 9.2 | 5.9 | 4.9 | 2.4 | 11.5 |
| **Romania** | | | | | | | | | |
| GDP deflator | 43.3 | 12.2 | 15.2 | 4.1 | 4.4 | 4.8 | 5.9 | 5.3 | 12.9 |
| Exchange rate (ER), EUR/NC | -18.2 | 11.9 | -9.4 | -13.1 | 0.7 | 0.3 | -2.3 | 0.0 | 2.4 |
| Real ER (CPI-based) | 16.9 | 19.4 | -5.8 | -9.2 | 4.6 | 4.6 | -0.2 | 2.0 | 6.9 |
| Real ER (PPI-based) | 25.2 | 16.1 | -1.7 | -8.2 | 3.8 | 3.5 | 1.6 | 3.2 | 8.0 |
| Average gross wages, NC | 47.8 | 18.3 | 26.1 | 4.8 | 2.5 | 6.3 | 8.0 | 6.5 | 21.1 |
| Average gross wages, real (PPI based) | -5.7 | 9.4 | 9.4 | 2.9 | -3.6 | 1.4 | 1.9 | 1.1 | 10.0 |
| Average gross wages, real (CPI based) | 1.5 | 8.4 | 16.9 | -0.8 | -3.4 | -0.2 | 3.8 | 2.4 | 13.1 |
| Average gross wages, EUR (ER) | 20.9 | 32.3 | 14.2 | -9.0 | 3.2 | 6.9 | 4.2 | 8.0 | 24.0 |
| Employed persons (LFS) | -0.3 | -0.5 | 0.2 | -1.3 | 0.0 | -0.5 | 0.5 | 0.0 | 0.6 |
| GDP per empl. person, NC at 2000 prices | 2.7 | 4.6 | 7.2 | -5.8 | -1.2 | 2.5 | 3.7 | 2.9 | 5.8 |
| Unit labour costs, NC at 2000 prices | 43.9 | 13.0 | 17.7 | 11.3 | 3.7 | 3.7 | 4.1 | 3.5 | 14.5 |
| Unit labour costs, ER (EUR) adjusted | 17.7 | 26.5 | 6.6 | -3.4 | 4.4 | 4.0 | 1.7 | 3.5 | 17.2 |
| **Slovakia** | | | | | | | | | |
| GDP deflator | 9.4 | 2.4 | 2.9 | -1.2 | 0.5 | 1.0 | 1.0 | 2.0 | 2.3 |
| Exchange rate (ER), EUR/NC | 3.6 | 3.7 | 8.0 | 3.8 | 0.0 | 0.0 | 0.0 | 0.0 | 6.4 |
| Real ER (CPI-based) | 13.8 | 4.3 | 8.3 | 3.7 | -1.4 | 0.9 | 1.2 | 1.0 | 7.0 |
| Real ER (PPI-based) | 12.2 | 2.9 | 4.2 | 0.6 | -2.9 | 2.4 | 0.2 | 0.0 | 3.8 |
| Average gross wages, NC | 6.5 | 9.2 | 8.1 | 3.0 | 2.8 | 4.6 | 6.3 | 7.1 | 8.3 |
| Average gross wages, real (PPI based) | -4.0 | 5.6 | 5.5 | 10.3 | 2.6 | 0.6 | 4.2 | 5.0 | 6.3 |
| Average gross wages, real (CPI based) | -4.9 | 6.2 | 4.0 | 2.0 | 2.0 | 1.5 | 3.2 | 3.9 | 4.9 |
| Average gross wages, EUR (ER) | 10.3 | 13.2 | 16.8 | 6.9 | 2.8 | 4.6 | 6.3 | 7.1 | 15.2 |
| Employed persons (LFS) | -1.4 | 2.1 | 3.2 | -2.8 | -2.1 | 1.8 | 0.8 | 0.8 | 2.9 |
| GDP per empl. person, NC at 2000 prices | 2.9 | 4.5 | 2.5 | -2.0 | 6.2 | 2.0 | 3.2 | 3.1 | 4.8 |
| Unit labour costs, NC at 2000 prices | 3.6 | 4.5 | 5.4 | 5.1 | -3.2 | 2.6 | 3.0 | 3.8 | 3.3 |
| Unit labour costs, ER (EUR) adjusted | 7.3 | 8.3 | 13.9 | 9.1 | -3.2 | 2.6 | 3.0 | 3.8 | 9.9 |
| **Slovenia** | | | | | | | | | |
| GDP deflator | 5.4 | 1.6 | 4.1 | 3.2 | 0.7 | 2.5 | 2.5 | 2.5 | 3.0 |
| Exchange rate (ER), EUR/NC | -6.3 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 |
| Real ER (CPI-based) | 0.2 | 0.1 | 1.8 | -0.1 | 0.0 | 0.4 | 0.7 | 0.5 | 0.9 |
| Real ER (PPI-based) | -1.7 | -2.4 | -2.3 | 2.4 | -1.1 | 2.4 | 0.7 | 0.0 | -1.2 |
| Average gross wages, NC | 10.6 | 3.6 | 8.3 | 3.4 | 3.9 | 4.4 | 3.8 | 4.3 | 5.7 |
| Average gross wages, real (PPI based) | 3.0 | 1.7 | 4.3 | 4.9 | 1.9 | 0.3 | 1.3 | 2.3 | 2.5 |
| Average gross wages, real (CPI based) | 1.6 | 1.1 | 2.6 | 2.5 | 1.8 | 1.8 | 1.3 | 1.8 | 2.0 |
| Average gross wages, EUR (ER) | 3.7 | 3.4 | 8.3 | 3.4 | 3.9 | 4.4 | 3.8 | 4.3 | 5.6 |
| Employed persons (LFS) | 1.7 | 0.7 | 1.1 | -1.5 | -1.5 | -2.7 | 1.1 | 1.1 | 1.4 |
| GDP per empl. person, NC at 2000 prices | 2.6 | 3.8 | 2.6 | -6.6 | 2.7 | 4.8 | 1.5 | 1.9 | 3.8 |
| Unit labour costs, NC at 2000 prices | 7.8 | -0.2 | 5.6 | 10.8 | 1.2 | -0.4 | 2.3 | 2.4 | 1.8 |
| Unit labour costs, ER (EUR) adjusted | 1.0 | -0.4 | 5.6 | 10.8 | 1.2 | -0.4 | 2.3 | 2.4 | 1.7 |

(Table A/3 ctd.)

Table A/3 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012<br>Forecast | 2013 | 2005-08<br>average |
|---|---|---|---|---|---|---|---|---|---|
| **Croatia** | | | | | | | | | |
| GDP deflator | 4.6 | 3.3 | 6.1 | 3.4 | 1.0 | 2.5 | 2.0 | 2.5 | 4.4 |
| Exchange rate (ER), EUR/NC | -0.7 | 1.3 | 1.6 | -1.6 | 0.7 | -0.2 | 0.0 | 0.0 | 0.9 |
| Real ER (CPI-based) | 3.5 | 2.4 | 3.9 | -0.2 | -0.3 | 0.2 | 0.2 | 0.5 | 2.2 |
| Real ER (PPI-based) | 6.4 | -0.2 | 3.5 | 1.7 | 1.9 | 2.2 | 1.7 | 7.0 | 0.9 |
| Average gross wages, NC | 7.0 | 4.4 | 7.1 | 2.2 | -0.4 | 2.9 | 4.1 | 5.2 | 6.0 |
| Average gross wages, real (PPI based) | -2.5 | 1.7 | -1.1 | 2.7 | -4.5 | -1.1 | 0.5 | -3.6 | 1.6 |
| Average gross wages, real (CPI based) | 0.7 | 1.0 | 0.9 | -0.2 | -1.5 | 0.4 | 2.0 | 2.7 | 2.0 |
| Average gross wages, EUR (ER) | 6.3 | 5.7 | 8.7 | 0.6 | 0.3 | 2.5 | 4.6 | 4.4 | 6.9 |
| Employed persons (LFS) | 4.1 | 0.7 | 1.3 | -1.8 | -4.0 | -2.0 | 0.7 | 1.3 | 1.1 |
| GDP per empl. person, NC at 2000 prices | -0.3 | 3.6 | 0.9 | -4.2 | 2.9 | 3.1 | 1.3 | 1.7 | 2.9 |
| Unit labour costs, NC at 2000 prices | 7.3 | 0.8 | 6.1 | 6.7 | -3.2 | -0.2 | 2.7 | 3.5 | 2.9 |
| Unit labour costs, ER (EUR) adjusted | 6.6 | 2.1 | 7.8 | 5.0 | -2.5 | -0.4 | 2.7 | 3.5 | 3.9 |
| **Macedonia** | | | | | | | | | |
| GDP deflator | 8.2 | 3.8 | 7.5 | 0.3 | 2.9 | 2.9 | 3.0 | 3.1 | 5.5 |
| Exchange rate (ER), EUR/NC | -0.2 | 0.1 | -0.1 | -0.1 | -0.3 | 0.5 | 0.0 | 0.0 | 0.0 |
| Real ER (CPI-based) | 3.6 | -1.6 | 4.3 | -1.9 | -0.8 | 1.4 | 1.2 | 1.0 | 0.9 |
| Real ER (PPI-based) | 7.9 | -0.9 | 3.6 | -3.0 | 4.9 | 1.8 | 1.2 | 1.0 | 1.4 |
| Average gross wages, NC [1] | 9.0 | 2.7 | 8.7 | 9.0 | 1.0 | 5.2 | 6.0 | 6.2 | 6.0 |
| Average gross wages, real (PPI based) | -1.5 | -0.5 | -1.5 | 16.6 | -6.9 | 2.2 | 2.9 | 3.1 | 0.2 |
| Average gross wages, real (CPI based) | 3.1 | 2.2 | 0.3 | 9.9 | -0.6 | 2.1 | 2.9 | 3.1 | 2.4 |
| Average gross wages, EUR (ER) | 8.8 | 2.8 | 8.5 | 9.1 | 0.7 | 5.8 | 5.8 | 5.5 | 6.0 |
| Employed persons (LFS) | 0.8 | 4.3 | 3.2 | 3.4 | 1.3 | 1.9 | 1.5 | 1.5 | 3.9 |
| GDP per empl. person, NC at 2000 prices | 3.6 | 0.1 | 1.7 | -4.2 | -0.6 | 0.1 | 1.4 | 1.5 | 1.2 |
| Unit labour costs, NC at 2000 prices | 5.2 | 2.6 | 6.9 | 13.8 | 1.6 | 5.1 | 4.5 | 4.7 | 4.8 |
| Unit labour costs, ER (EUR) adjusted | 5.0 | 2.7 | 6.7 | 13.7 | 1.3 | 5.6 | 4.5 | 4.7 | 4.8 |
| **Montenegro** | | | | | | | | | |
| GDP deflator | . | 4.3 | 7.7 | 2.4 | 1.0 | 3.7 | 3.2 | 2.8 | 9.7 |
| Real ER (CPI-based) | . | 0.1 | 3.6 | 2.4 | -1.6 | 0.9 | 1.2 | 1.0 | 1.6 |
| Real ER (PPI-based) | . | -2.0 | 7.3 | -0.2 | -3.9 | 2.1 | 1.3 | 0.8 | 2.5 |
| Average gross wages, NC | . | 7.8 | 22.5 | 5.6 | 11.2 | 4.9 | 5.3 | 6.3 | 19.1 |
| Average gross wages, real (PPI based) | . | 5.6 | 7.5 | 9.9 | 12.2 | 1.1 | 2.1 | 3.4 | 11.3 |
| Average gross wages, real (CPI based) | . | 5.4 | 14.1 | 2.1 | 10.6 | 1.8 | 2.3 | 3.2 | 14.3 |
| Employed persons (LFS) | . | -4.5 | 0.6 | -2.7 | -2.2 | 0.9 | 1.0 | 0.9 | 4.0 |
| GDP per empl. person, NC | . | 13.9 | 14.4 | -0.7 | 3.8 | 4.6 | 5.3 | 5.0 | 12.2 |
| GDP per empl. person, NC at 2000 prices | . | 9.1 | 6.2 | -3.1 | 2.8 | 1.0 | 1.4 | 2.9 | 2.3 |
| Unit labour costs, NC at 2000 prices | . | -1.2 | 15.4 | 8.9 | 8.2 | 3.9 | 3.8 | 3.4 | 16.5 |
| Unit labour costs, ER (EUR) adjusted | . | -1.2 | 15.4 | 8.9 | 8.2 | 3.9 | 3.8 | 3.4 | 16.5 |
| **Albania** | | | | | | | | | |
| GDP deflator | 4.0 | 2.6 | 4.4 | 1.7 | 2.6 | 2.4 | 3.6 | 4.1 | 3.3 |
| Exchange rate (ER), EUR/NC | 10.8 | 2.8 | 0.7 | -7.0 | -4.2 | -1.6 | 7.7 | 4.0 | 1.0 |
| Real ER (CPI-based) | 8.8 | 3.0 | 0.3 | -5.8 | -2.8 | 0.3 | 10.0 | 6.0 | 1.1 |
| Real ER (PPI-based) | 15.3 | 3.5 | 0.9 | -5.0 | -7.0 | 0.7 | 11.1 | 8.1 | 0.6 |
| Average gross wages, NC | 10.2 | 5.0 | 2.2 | 14.1 | 6.2 | 8.1 | 11.2 | 13.3 | 10.1 |
| Average gross wages, real (PPI based) | 3.5 | 0.1 | -4.1 | 16.0 | 6.1 | 3.9 | 5.9 | 6.9 | 5.9 |
| Average gross wages, real (CPI based) | 10.2 | 2.6 | -1.1 | 11.6 | 2.6 | 3.9 | 6.9 | 8.9 | 7.1 |
| Average gross wages, EUR (ER) | 22.2 | 8.0 | 2.9 | 6.1 | 1.8 | 5.8 | 19.2 | 19.4 | 11.2 |
| Employed persons (LFS) [2] | -0.8 | 0.3 | -6.2 | 3.3 | -5.2 | -3.6 | 3.8 | 4.5 | -1.0 |
| GDP per empl. person, NC at 2000 prices | 7.5 | 5.4 | 14.8 | 0.0 | 9.7 | 8.0 | 0.1 | 0.4 | 7.3 |
| Unit labour costs, NC at 2000 prices | 2.5 | -0.3 | -11.0 | 14.1 | -3.2 | 0.0 | 11.1 | 12.8 | 2.6 |
| Unit labour costs, ER (EUR) adjusted | 13.6 | 2.5 | -10.4 | 6.1 | -7.2 | -1.5 | 19.6 | 17.3 | 3.6 |
| **Bosnia and Herzegovina** | | | | | | | | | |
| GDP deflator | 4.1 | 3.6 | 7.4 | 0.1 | 2.2 | 4.0 | 1.9 | 2.0 | 5.8 |
| Exchange rate (ER), EUR/NC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real ER (CPI-based) | 2.9 | 0.8 | 3.7 | -1.4 | 0.0 | 1.9 | 0.2 | 0.0 | 1.9 |
| Real ER (PPI-based) | . | . | 2.2 | 0.5 | -2.1 | 2.3 | 0.1 | 0.0 | . |
| Average gross wages, NC | 7.2 | 6.5 | 16.7 | 8.1 | 1.1 | 4.4 | 3.9 | 3.8 | 10.4 |
| Average gross wages, real (PPI based) | . | . | 7.4 | 11.7 | 0.2 | 0.4 | 2.0 | 1.7 | . |
| Average gross wages, real (CPI based) | 2.2 | 3.4 | 8.5 | 8.6 | -1.0 | 0.4 | 1.9 | 1.8 | 5.7 |
| Average gross wages, EUR (ER) | 7.2 | 6.5 | 16.7 | 8.1 | 1.1 | 4.4 | 3.9 | 3.8 | 10.4 |
| Employed persons (LFS) [3] | -0.8 | 0.5 | 4.8 | -3.5 | -1.9 | -0.3 | 0.6 | 0.6 | 2.8 |
| GDP per empl. person, NC at 2000 prices | 17.1 | 3.3 | 0.9 | 0.6 | 2.9 | 2.6 | 2.4 | 2.4 | 2.6 |
| Unit labour costs, NC at 2000 prices | -8.5 | 3.0 | 15.7 | 7.5 | -1.7 | 1.8 | 1.5 | 1.4 | 7.7 |
| Unit labour costs, ER (EUR) adjusted | -8.5 | 3.0 | 15.7 | 7.5 | -1.7 | 1.8 | 1.5 | 1.4 | 7.7 |

1) In 2009 wiiw estimate (including allowances for food and transport). - 2) Until 2007 registered employment data. - 3) Until 2006 registered employees.

(Table A/3 ctd.)

Table A/3 (ctd.)

| | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 Forecast | 2013 | 2005-08 average |
|---|---|---|---|---|---|---|---|---|---|
| **Serbia** | | | | | | | | | |
| GDP deflator | 77.5 | 15.5 | 10.8 | 5.2 | 12.3 | 10.1 | 8.2 | 7.0 | 11.4 |
| Exchange rate (ER), NC/EUR | -52.2 | -12.5 | -1.8 | -13.3 | -8.7 | -4.7 | -1.8 | 0.0 | -2.9 |
| Real ER (CPI-based) | -15.7 | -0.5 | 7.5 | -6.7 | -4.5 | 2.7 | 4.2 | 3.9 | 6.1 |
| Real ER (PPI-based) | -5.4 | -4.1 | 3.8 | -4.9 | -0.2 | 3.3 | 4.3 | 4.9 | 3.7 |
| Average gross wages, NC | 90.7 | 24.1 | 17.9 | -3.3 | 7.5 | 12.2 | 10.2 | 8.1 | 22.1 |
| Average gross wages, real (PPI based) | -5.9 | 8.7 | 4.9 | -8.5 | -4.6 | 1.9 | 1.8 | 1.0 | 9.6 |
| Average gross wages, real (CPI based) | 6.2 | 6.8 | 3.9 | -11.0 | 0.6 | 2.0 | 2.0 | 2.0 | 9.0 |
| Average gross wages, EUR (ER) | -8.8 | 8.6 | 15.7 | -16.2 | -1.9 | 6.3 | 8.2 | 9.4 | 18.6 |
| Employed persons (LFS) | -0.3 | -6.7 | 6.3 | -7.3 | -8.4 | 0.2 | 0.0 | 0.8 | -0.9 |
| GDP per empl. person, NC at 2000 prices | 5.6 | 13.2 | -0.7 | 4.5 | 11.1 | 2.4 | 3.0 | 2.1 | 6.8 |
| Unit labour costs, NC at 2000 prices | 80.7 | 9.6 | 18.7 | -7.5 | -3.3 | 9.6 | 7.0 | 5.9 | 14.3 |
| Unit labour costs, ER (EUR) adjusted | -13.6 | -4.1 | 16.5 | -19.8 | -11.7 | 4.4 | 5.0 | 5.9 | 11.0 |
| **Russia** | | | | | | | | | |
| GDP deflator | 37.7 | 19.3 | 18.0 | 1.9 | 11.4 | 9.9 | 7.7 | 7.3 | 16.5 |
| Exchange rate (ER), NC/EUR | 0.8 | 1.6 | -3.9 | -17.5 | 9.5 | 0.8 | 0.0 | 0.0 | -0.4 |
| Real ER (CPI-based) | 19.5 | 11.8 | 5.8 | -8.7 | 14.8 | 7.6 | 5.1 | 2.9 | 8.1 |
| Real ER (PPI-based) | 44.3 | 17.6 | 9.8 | -20.5 | 19.2 | 14.0 | 8.1 | 4.9 | 11.7 |
| Average gross wages, NC | 46.0 | 26.9 | 27.2 | 8.7 | 12.2 | 13.6 | 12.9 | 10.2 | 26.6 |
| Average gross wages, real (PPI based) | -0.4 | 5.2 | 4.8 | 17.1 | 0.0 | -1.3 | 2.6 | 3.0 | 8.1 |
| Average gross wages, real (CPI based) | 20.9 | 12.8 | 11.5 | -2.8 | 4.8 | 4.2 | 5.5 | 5.0 | 13.7 |
| Average gross wages, EUR (ER) | 47.2 | 28.9 | 22.3 | -10.3 | 22.9 | 14.7 | 13.3 | 10.3 | 26.0 |
| Employed persons (LFS) | 3.4 | 1.3 | 0.6 | -2.4 | 0.7 | -0.4 | -0.3 | -0.4 | 1.3 |
| GDP per empl. person, NC at 2000 prices | 6.4 | 5.0 | 4.6 | -5.6 | 3.2 | 5.0 | 4.7 | 4.6 | 5.6 |
| Unit labour costs, NC at 2000 prices | 37.2 | 20.9 | 21.6 | 15.1 | 8.7 | 8.2 | 7.8 | 5.4 | 19.8 |
| Unit labour costs, ER (EUR) adjusted | 38.3 | 22.8 | 16.9 | -5.0 | 19.1 | 9.0 | 7.8 | 5.4 | 19.3 |
| **Ukraine** | | | | | | | | | |
| GDP deflator | 23.1 | 24.6 | 28.6 | 13.1 | 15.0 | 10.0 | 9.0 | 8.0 | 22.6 |
| Exchange rate (ER), NC/EUR | -12.6 | 3.5 | -10.3 | -29.1 | 3.2 | -4.2 | 4.8 | 5.0 | -3.8 |
| Real ER (CPI-based) | 9.9 | 14.9 | 8.4 | -18.6 | 10.6 | 3.2 | 12.2 | 11.2 | 7.9 |
| Real ER (PPI-based) | 3.0 | 15.8 | 14.4 | -21.6 | 21.0 | 3.7 | 12.2 | 11.2 | 10.6 |
| Average gross wages, NC | 29.6 | 36.7 | 33.7 | 5.5 | 17.5 | 16.1 | 15.0 | 14.4 | 32.3 |
| Average gross wages, real (PPI based) | 7.3 | 17.2 | -1.3 | -0.9 | -2.8 | 5.6 | 5.5 | 5.9 | 10.3 |
| Average gross wages, real (CPI based) | 1.1 | 20.5 | 6.8 | -8.9 | 7.4 | 5.6 | 5.5 | 5.9 | 15.0 |
| Average gross wages, EUR (ER) | 13.3 | 41.4 | 20.0 | -25.1 | 21.2 | 12.9 | 16.7 | 21.4 | 27.3 |
| Employed persons (LFS) | 0.6 | 1.9 | 0.3 | -3.7 | 0.4 | -0.3 | 0.2 | 0.2 | 0.8 |
| GDP per empl. person, NC at 2000 prices | 5.2 | 0.8 | 2.0 | -11.5 | 3.8 | 4.7 | 5.2 | 4.3 | 4.2 |
| Unit labour costs, NC at 2000 prices | 23.2 | 35.7 | 31.1 | 19.3 | 13.2 | 10.9 | 9.3 | 9.7 | 27.0 |
| Unit labour costs, ER (EUR) adjusted | 7.6 | 40.3 | 17.7 | -15.4 | 16.8 | 6.2 | 14.5 | 15.2 | 22.2 |
| **Austria** | | | | | | | | | |
| GDP deflator | 1.1 | 2.1 | 1.9 | 0.8 | 1.5 | 2.0 | 2.1 | 1.7 | 2.0 |
| Real ER (CPI-based) | 0.5 | 0.1 | -0.5 | -0.5 | -0.3 | 0.7 | 0.6 | 0.4 | -0.3 |
| Real ER (PPI-based) | 1.5 | -2.0 | 0.1 | -3.8 | 1.8 | 0.3 | 0.3 | -0.3 | -0.5 |
| Average gross wages, NC | 2.6 | 2.3 | 3.5 | 2.2 | 1.4 | 2.6 | 2.9 | 2.5 | 3.2 |
| Average gross wages, real (PPI based) | -1.3 | 0.2 | -2.7 | 10.4 | -3.4 | 0.7 | 0.8 | 0.8 | -0.7 |
| Average gross wages, real (CPI based) | 0.2 | 0.0 | 0.3 | 1.7 | -0.4 | -0.2 | 0.5 | 0.1 | 0.9 |
| Employed persons (LFS) | 0.4 | 2.1 | 1.5 | -0.3 | 0.5 | 0.5 | 0.5 | 0.7 | 2.2 |
| GDP per empl. person, NC at 2000 prices | 3.2 | 0.3 | 0.6 | -3.6 | 1.6 | 1.9 | 1.5 | 1.3 | 0.7 |
| Unit labour costs, NC at 2000 prices | -0.6 | 2.0 | 2.9 | 6.0 | -0.2 | 0.7 | 1.4 | 1.2 | 2.4 |
| Unit labour costs, ER (EUR) adjusted | -0.6 | 2.0 | 2.9 | 6.0 | -0.2 | 0.7 | 1.4 | 1.2 | 2.4 |

NC = national currency (including euro-fixed series for euro area countries - EE, SK, SI, AT). ER = Exchange Rate, PPI = Producer price index, CPI = Consumer price index. Positive growth of real exchange rates means real appreciation.

*Sources:* wiiw Database incorporating national and Eurostat statistics, wiiw estimates. Forecasts by wiiw.

## Short list of the most recent wiiw publications (as of July 2011

For current updates and summaries see also
wiiw's website at www.wiiw.ac.at

### Recovery: Limp and Battered

by **Leon Podkaminer, Vladimir Gligorov, Mario Holzner, Michael Landesmann, Roman Römisch et al.**

wiiw Current Analyses and Forecasts. Economic Prospects for Central, East and Southeast Europe, No. 8, July 2011
143 pages including 38 Tables and 19 Figures
hardcopy: EUR 80.00 (PDF: EUR 65.00)

---

### Stabilisierung des verhaltenen Aufschwungs in den MOEL

by **Vasily Astrov, Mario Holzner and Sebastian Leitner**

wiiw Research Papers in German language, June 2011
(reprinted from: WIFO-Monatsberichte, Vol. 84, No. 5, May 2011)
14 pages including 5 Tables and 9 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

### wiiw Monthly Report 6/11

edited by **Leon Podkaminer**

- Patterns of new member states' international trade in intermediate products
- Productivity of imports in the transition countries: evidence from the 2000s
- The central bank as hedge fund: the new political economy of central banking
- Statistical Annex: Selected monthly data on the economic situation in Central, East and Southeast Europe

wiiw, June 2011
28 pages including 22 Tables
(exclusively for subscribers to the wiiw Service Package)

---

### wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe, 2011: Diverging Patterns of FDI Recovery

by **Gábor Hunya**. Database and layout by **Monika Schwarzhappel**

wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe, May 2011
121 pages including 96 Tables and 3 Figures
hardcopy: EUR 70.00 (PDF: EUR 65.00), CD-ROM (including hardcopy): EUR 145.00

---

### Assessment of the Labour Market in Serbia

by Vladimir Gligorov, Hermine Vidovic and Kosovka Ognjenović

wiiw Research Reports, No. 371, May 2011
97 pages including 45 Tables and 11 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**wiiw Monthly Report 5/11**

edited by **Leon Podkaminer**

- Unstable Balkans
- Not a very Greek tragedy
- Keynes for the 21st century
- Statistical Annex: Selected monthly data on the economic situation in Central, East and Southeast Europe

wiiw, May 2011

26 pages including 8 Tables

(exclusively for subscribers to the wiiw Service Package)

---

**Arbeitskosten, Steuerbelastung und Wettbewerbsfähigkeit in Österreich im Vergleich mit ausgewählten CEEs**

by **Peter Havlik, Sebastian Leitner and Roman Römisch**

wiiw Statistical Reports, No. 4, April 2011
70 pages including 29 Tables and 10 Figures

hardcopy: EUR 24.00 (PDF: EUR 15.00)

---

**Need for Speed: Is Faster Trade in the EU Trade-Creating?**

by **Cecília Hornok**

wiiw Working Papers, No. 75, April 2011
38 pages including 20 Tables and 6 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**wiiw Monthly Report 4/11**

edited by **Leon Podkaminer**

- Supply-demand imbalances drive food prices
- The gas and electricity sectors of the Western Balkan countries
- Recent problems with private pension funds in Poland
- Statistical Annex: Selected monthly data on the economic situation in Central, East and Southeast Europe

wiiw, April 2011

30 pages including 14 Tables and 4 Figures

(exclusively for subscribers to the wiiw Service Package)

---

**Western Balkans: Employment in the Gas and Electricity Sectors**

by Hermine Vidovic, Vasily Astrov, Edward Christie, Doris Hanzl-Weiss, Mario Holzner, Sebastian Leitner and Waltraut Urban

wiiw Research Reports, No. 370, March 2011
150 pages including 24 Tables and 27 Figures

hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**Subgroup and Shapley Value Decompositions of Multidimensional Inequality – An Application to Southeast European Countries**

by **Sebastian Leitner and Robert Stehrer**

wiiw Working Papers, No. 74, March 2011
37 pages including 19 Tables and 1 Figure

hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**wiiw Monthly Report 3/11**

edited by **Leon Podkaminer**

- Patterns of transition
- Recent trends in the quality of traded goods: NMS are closing the gaps
- Animal spirits
- Statistical Annex: Selected monthly data on the economic situation in Central, East and Southeast Europe

wiiw, March 2011

34 pages including 9 Tables and 8 Figures

(exclusively for subscribers to the wiiw Service Package)

---

**Trade in Intermediate Products and EU Manufacturing Supply Chains**

by **Robert Stehrer, Jyrki Ali-Yrkkö, Doris Hanzl-Weiss, Neil Foster, Petri Rouvinen, Timo Seppälä, Roman Stöllinger and Pekka Ylä-Anttila**

wiiw Research Reports, No. 369, February 2011
174 pages including 57 Tables and 69 Figures

hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**Do Exporters Share Part of their Rents with their Employees? Evidence from Austrian Manufacturing Firms**

by **Sandra M. Leitner and Robert Stehrer**

wiiw Working Papers, No. 73, February 2011
28 pages including 9 Tables and 2 Figures

hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**Recovery – in Low Gear across Tough Terrain**

by **Peter Havlik et al.**

wiiw Current Analyses and Forecasts. Economic Prospects for Central, East and Southeast Europe, No. 7, February 2011

129 pages including 30 Tables and 23 Figures

hardcopy: EUR 80.00 (PDF: EUR 65.00)

---

**wiiw Monthly Report 2/11**

edited by **Leon Podkaminer**

- Hungary: taking stock
- Developments in trade and FDI in services in the Visegrad countries
- The labour market in Serbia: an assessment
- Statistical Annex: Selected monthly data on the economic situation in Southeast Europe, Russia and Ukraine

wiiw, February 2011

42 pages including 20 Tables and 5 Figures

(exclusively for subscribers to the wiiw Service Package)

---

**An Assessment of the Access by Romanian SMEs to Structural Funds**

by **Gábor Hunya et al.**

wiiw Research Reports, No. 368, January 2011
36 pages including 7 Tables and 9 Figures

hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

---

**wiiw Service Package**

The Vienna Institute offers to firms and institutions interested in unbiased and up-to-date information on Central, East and Southeast European markets a package of exclusive services and preferential access to its publications and research findings, on the basis of a subscription at an annual fee of EUR 2,000.

This subscription fee entitles to the following package of **Special Services**:

- A free invitation to the Vienna Institute's **Spring Seminar**, a whole-day event at the end of March, devoted to compelling topics in the economic transformation of the Central and East European region (for subscribers to the wiiw Service Package only).
- Copies of, or online access to, ***The Vienna Institute Monthly Report***, a periodical consisting of timely articles summarizing and interpreting the latest economic developments in Central and Eastern Europe and the former Soviet Union. The statistical annex to each *Monthly Report* contains, alternately, country-specific tables or graphs with monthly key economic indicators, economic forecasts, the latest data from the wiiw Industrial Database and excerpts from the wiiw FDI Database. This periodical is not for sale, it can only be obtained in the framework of the wiiw Service Package.
- Free copies of the Institute's ***Research Reports*** (including ***Reprints***), ***Current Analyses and Forecasts**, **Country Profiles*** and ***Statistical Reports****.*
- A free copy of the ***wiiw Handbook of Statistics*** (published in October/November each year and containing more than 400 tables and graphs on the economies of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Russia, Serbia, the Slovak Republic, Slovenia and Ukraine)
- Free online access to the **wiiw Monthly Database**, containing more than 1200 leading indicators monitoring the latest key economic developments in ten Central and East European countries.
- **Consulting**. The Vienna Institute is pleased to advise subscribers on questions concerning the East European economies or East-West economic relations if the required background research has already been undertaken by the Institute. We regret we have to charge extra for *ad hoc* research.
- Free access to the Institute's specialized economics library and documentation facilities.

Subscribers who wish to purchase wiiw data sets **on CD-ROM** or special publications not included in the wiiw Service Package are granted considerable **price reductions**.

**For detailed information about the wiiw Service Package**
**please visit wiiw's website at www.wiiw.ac.at**

To
The Vienna Institute
for International Economic Studies
Rahlgasse 3
A-1060 Vienna

- ○ Please forward more detailed information about the Vienna Institute's Service Package
- ○ Please forward a complete list of the Vienna Institute's publications to the following address

Please enter me for

- ○ 1 yearly subscription of *Research Reports* (including *Reprints*) at a price of EUR 120.00 (hardcopy, Austria), EUR 135.00 (hardcopy, Europe), EUR 155.00 (hardcopy, overseas) and EUR 48.00 (PDF download with password) respectively
- ○ 1 yearly subscription of *Current Analyses and Forecasts* a price of EUR 150.00 (hardcopy, Austria), EUR 155.00 (hardcopy, Europe), EUR 170.00 (hardcopy, overseas) and EUR 120.00 (PDF download with password) respectively

Please forward

- ○ the following issue of *Research Reports* ..............................................................................................
- ○ the following issue of *Current Analyses and Forecasts* ......................................................................
- ○ the following issue of *Working Papers* .................................................................................................
- ○ the following issue of *Research Papers in German language* ...........................................................
- ○ the following issue of *wiiw Database on Foreign Direct Investment* ..................................................
- ○ the following issue of *wiiw Handbook of Statistics* ..............................................................................
- ○ (other) ....................................................................................................................................................

..........................................................................................................................................................................

Name

..........................................................................................................................................................................

Address

..........................................................................................................................................................................

Telephone Fax E-mail

............................................................ ............................................................

Date Signature

---

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3
Postanschrift: A-1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at
Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.
P.b.b. Verlagspostamt 1060 Wien

---

ISBN-978-3-85209-024-5

ISBN-978-3-85209-024-5