

Developments in selected CESEE countries

Easing of the pandemic fuels growth and inflation^{1,2}

1 Regional overview

The CESEE region continued its recovery from last year's COVID-19-induced economic recession in the first half of 2021. Average regional quarter-on-quarter growth accelerated from 1.2% in the final quarter of 2020 to 2.2% in the second quarter of 2021 and economic activity rebounded to pre-COVID (Q4 2019) levels in five of the ten countries under consideration. With that, and despite some regional heterogeneity, the return to normal economic conditions proceeded rather quickly. This is even more noteworthy as social and economic restrictions to contain the spread of the virus continued to be in place throughout most of the first half of 2021.

In fact, the CESEE economies only reopened in late spring after yet another COVID-19 wave forced governments to reintroduce containment measures. However, the measures were generally less strict than in 2020³ and mainly targeted contact-intensive sectors like services and retail trade, while industrial production remained largely unrestricted. Personal mobility remained at a comparatively high level given the lighter lockdown regime and apparently weaker compliance. Still,

Table 1

Real GDP growth

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Period-on-period change in %									
Slovakia	3.7	2.5	-4.8	-4.3	-7.1	9.0	0.5	-1.4	2.0
Slovenia	4.4	3.3	-4.2	-4.7	-9.5	12.1	-0.2	1.5	1.9
Bulgaria	3.1	3.7	-4.2	0.4	-10.1	4.3	2.2	2.5	0.6
Croatia	2.8	2.9	-8.0	-0.8	-14.9	5.9	4.1	5.4	-0.2
Czechia	3.2	3.0	-5.8	-3.4	-8.9	6.8	0.7	-0.4	1.0
Hungary	5.4	4.6	-5.0	-0.3	-14.4	10.6	1.6	2.0	2.7
Poland	5.4	4.7	-2.5	0.0	-9.3	7.9	-0.4	1.4	1.6
Romania	4.5	4.1	-3.9	0.5	-10.8	4.8	4.0	2.5	1.7
Turkey	3.0	0.9	1.8	0.1	-11.0	15.9	1.7	1.7	0.9
Russia	2.8	2.0	-3.0	-0.2	-4.4	2.4	1.1	1.0	3.5
CESEE average ¹	3.4	2.4	-2.4	-0.3	-7.8	7.2	1.2	1.3	2.2
Euro area	1.9	1.5	-6.3	-3.5	-11.7	12.6	-0.4	-0.3	2.2

Source: Eurostat, national statistical offices.

¹ Average weighted with GDP at PPP.

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² This report focuses primarily on data releases and developments from April 2021 up to October 20, 2021. All growth rates mentioned refer to year-on-year changes and regional figures are aggregated using GDP weights unless otherwise stated. Geographically we cover ten countries: Slovakia, Slovenia, Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Turkey and Russia (indicated as CESEE region or CESEE). The countries are ranked according to their level of EU integration (euro area countries, EU member states, EU candidates and potential candidates and non-EU countries). For statistical information on selected economic indicators for CESEE countries not covered in the main text (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Ukraine), see the statistical annex in this issue.

³ The Oxford COVID-19 government response stringency index hovered around 65 points in the first four months of 2021, compared with about 80 points on average during the first COVID-19 wave in spring 2020.

despite increasing pandemic fatigue, the threat from COVID-19 remains, especially as vaccination rates in CESEE are generally lower than in the EU on average and far below the levels necessary to attain herd immunity. Russia, Bulgaria and Romania, for example, have not yet vaccinated even a third of their population.

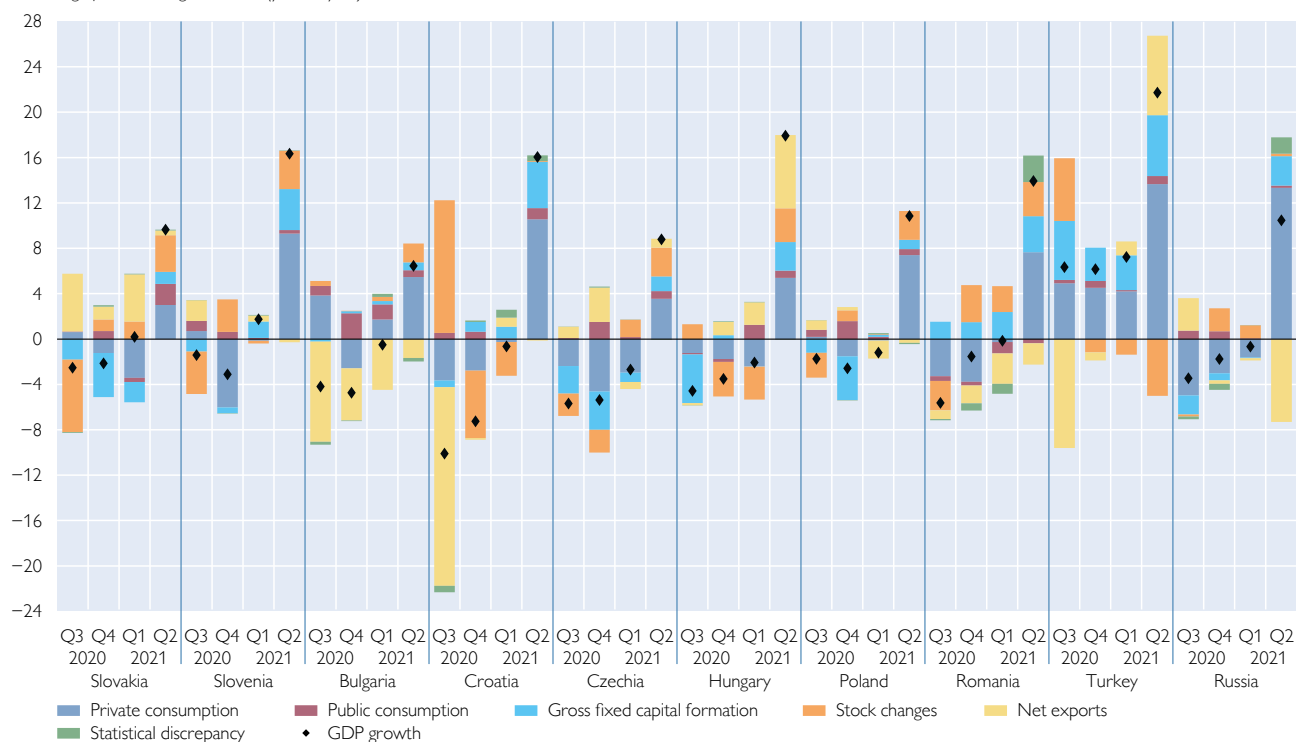
Composition of growth shifts from exports (and investments) in the first quarter to private consumption in the second quarter of 2021

While GDP growth was very much driven by strong industrial dynamics and export activity in the first quarter of 2021, the momentum shifted to domestic demand and especially private consumption once restrictions were eased. Rebounding international demand and world trade had allowed the industrial sector to lead the recovery in late 2020. Global goods trade resurged more swiftly than during the global financial crisis of 2008, surpassing pre-pandemic volumes already in November 2020. World trade accelerated further over the first half of 2021 and grew at the highest rate in more than ten years in the second quarter of 2021. CESEE – as an internationally integrated and highly open economic area – benefited strongly from this development, reflected in firm export growth from late 2020 and throughout the first half of 2021. Export activity was also supported by strong demand for key CESEE export items (especially cars), currency weakness in several countries (especially Russia and Turkey) and by an incipient recovery of tourist

Chart 1

GDP growth and its main components

Percentage points, GDP growth in % (year on year)



Source: Eurostat, national statistical offices.

arrivals already in the second quarter of 2021. The latter fueled services exports in the countries that are most reliant on tourism, i.e. Bulgaria, Croatia and Turkey.

Import demand also strengthened during the first half of 2021, which translated into a moderately negative contribution of the external sector to GDP growth in most countries of the region. Import momentum reflected rising domestic demand. Gross fixed capital formation was the first to reembark on a growth trajectory in the first quarter of 2021, as booming industrial production fueled capacity utilization and export expectations, and as sentiment brightened. In some countries (e.g. Hungary), housing investment also contributed notably to capital formation. As a result, capital expenditure moderately lifted GDP growth already in the first quarter of 2021 in many countries and continued to fuel economic activity also in the second quarter of 2021.

The reopening of retail trade and services in late spring boosted private consumption as pent-up demand and – depending on households' saving ability – accumulated lockdown savings sparked a spending spree. Retail and service confidence indicators surged in the second quarter of 2021 and consumer confidence recovered as well as credit supply conditions eased. In addition, loan moratoria and widely available furlough schemes had sheltered households from the worst of the crisis. This is in stark contrast to the aftermath of the global financial crisis of 2008, when tight financing conditions, rising unemployment, and falling house and equity prices had affected consumer spending across the region for several years after the initial shock.

Labor market recovery exposes structural bottlenecks

Pandemic-induced turbulences, in fact, have not left any secular scars on CESEE labor markets. On the back of public support and more benign general economic conditions, the officially reported unemployment rate based on labor force survey (LFS) methodology declined from an average of 7.3% in February 2021 to 6.5% in August 2021, with Turkey reporting the by far highest unemployment rate (13.2% in August 2021). Especially in some CESEE EU member states, the unemployment rate is currently not substantially higher than it was at its low in 2019. Furthermore, companies again started to report rising labor shortages, especially in manufacturing and construction. In some countries, this was at least in parts due to COVID-related impediments on the inflow of foreign labor (e.g. in Russia). Declining unemployment and unmet labor demand supported wage developments, and nominal wage growth accelerated from its trough in mid-2020 (in some cases substantially so).

With that, problems with insufficient labor supply amid skill mismatches and labor market bottlenecks, that have plagued CESEE labor markets for many years, again came to forefront. Structural labor market shortcomings are also underlined by the fact that companies are struggling to hire new workers despite the actual labor market slack being notably larger than headline unemployment figures might suggest. According to Eurostat data (not available for Russia), persons with an unmet need for employment⁴ accounted for an average of 15.5% of the extended CESEE labor force in the second quarter of 2021. This figure is more than twice as high as

⁴ This includes unemployed and underemployed persons, persons available for the labor market but not seeking employment, as well as persons seeking employment but not available for the labor market.

the average unemployment rate. Employment figures have also not yet embarked on a clear upward trend in most countries. Despite positive base effects, employment growth was stagnant or even negative in the second quarter of 2021 in half the countries under review.

Uptrend in activity and sentiment readings until summer 2021

Buoyed by strong world trade, pent-up demand, abundant job openings and rising wages, the CESEE economies entered the summer months with solid confidence readings and record high activity figures. The European Commission's economic sentiment indicator returned to its long-term average in April and increased further until June 2021. The momentum rested especially on strong improvements of services and retail confidence, while consumer and industrial confidence trended upward as well. Notable improvements were reported also for purchasing managers' indices, that even climbed to historical heights in Poland and Czechia in June 2021.

Industrial production and retail sales were growing at average rates of 25% and 22% respectively in the second quarter 2021, reflecting base effects but also genuinely strong dynamics. In some CESEE EU member states, output growth in industry spiked at spectacular rates of 60% and more. The willingness of CESEE households to make major purchases has increased steadily throughout the year and recently returned to pre-pandemic levels in many countries. This is not only underlined by survey data but also e.g. by new passenger car registrations.

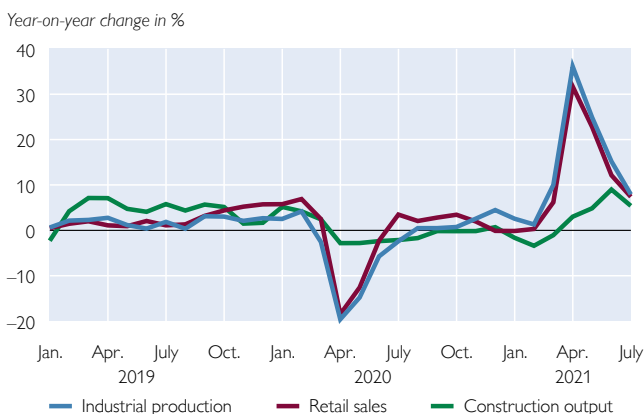
Uptrend interrupted by rising tensions in international supply chains

This strong momentum, however, was not comprehensively sustained in the third quarter of 2021. Sentiment weakened on the back of lower industrial confidence, and activity growth trended down in all sectors. Industrial production even declined somewhat in month-on-month terms in half of the countries under observation in August 2021.

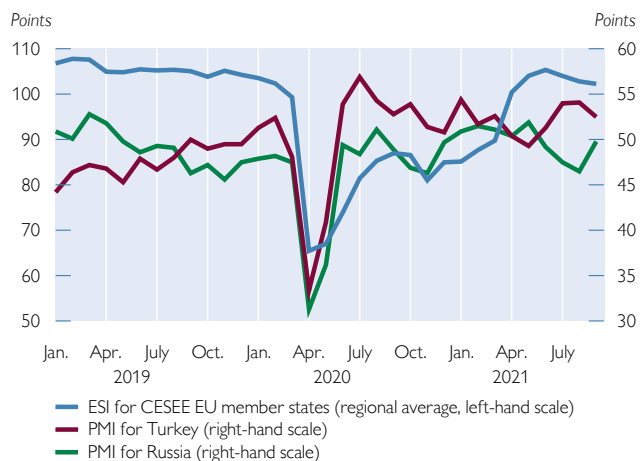
Chart 2

Leading indicators

Activity indicators (CESEE regional average)



Sentiment indicators



Source: Eurostat, wiw, European Commission, Markit.

This cooling-off was related to rising tensions in international supply chains that were increasingly feeding through to production, sentiment and (producer) prices. International manufacturing currently suffers from tight international transport capacities and sector-specific production bottlenecks (e.g. shortages of semiconductors) but also from a broader range of shortages of general inputs (e.g. plastics, paints, metals, wood, rubber products and textiles). A case in point is the car industry, where production sites repeatedly had to be shut down (at least partly). However, problems are clearly not related to a single industry only. Purchasing managers' index surveys suggest that Central European manufacturers are generally struggling with growing backlogs of work coupled with longer supplier delivery times and rising prices of inputs. The respective figures climbed to historically high levels in summer of 2021, before retreating somewhat in the third quarter of 2021.

While these supply-side constraints are in principle a sign of healthy global demand for industrial produce, there is increasing evidence that supply chain bottlenecks are not going to disappear anytime soon and – coupled with labor shortages – could put a brake on the recovery. The IMF, for example, has already reduced its 2021 growth forecast for advanced economies due to such bottlenecks. For more information on prospective developments in CESEE in 2021 and beyond, please consult the recent GDP growth projections in the OeNB's current Outlook for selected CESEE countries and Russia in this issue of Focus of European Economic Integration.

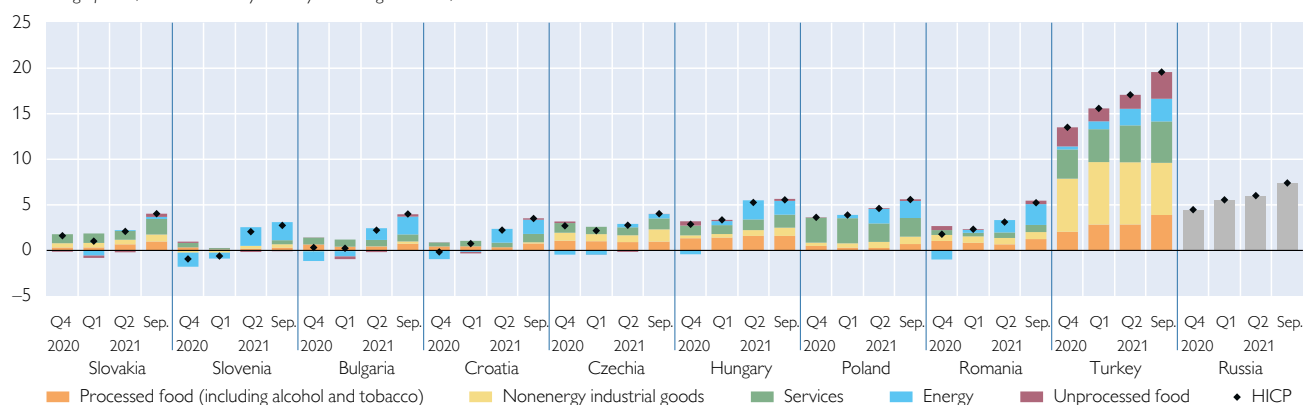
Inflation mounts to highest level in years

Beside its implications for the outlook, supply-side constraints are also notably pushing up producer prices. Producer price growth accelerated strongly throughout 2021 and climbed to its highest level in more than 15 years. By August 2021, it reached an average of around 13% in the CESEE EU member states and as much as 28.5% and 45.4% in Russia and Turkey. While the pass-through of producer prices to consumers was rather limited before the COVID-19 pandemic, the currently

Chart 3

HICP inflation and its main drivers

Percentage points, contribution to year-on-year change in HICP; HICP in %



Source: Eurostat.

Note: CPI data for Russia. No breakdown according to COICOP available.

prevailing buoyant demand conditions could facilitate adding higher production costs onto final consumers prices.

In fact, price pressures for consumers have risen concurrently with producer prices. Harmonized consumer price inflation in the CESEE EU member states accelerated from 2.4% in January to 5% in September 2021, a level last seen in October 2008. In Russia, inflation climbed to 7.4% and in Turkey it even reached 19.6% in September 2021. Especially in Turkey, however, these extraordinary high levels also reflected substantial currency depreciation.

Consumer price increases strongly driven by the energy component

Inflation developments in the review period were strongly influenced by energy prices. Energy prices started to notably fuel inflation in the CESEE EU member states in February and accounted for roughly a third of total price growth by August 2021. While base effects after last year's pandemic-related collapse do play a role, energy prices have also genuinely gone up. The price for raw oil, for example, stood at some USD 78 per barrel (Brent crude) at the end of September 2021. This was the highest level in three years and 25% above its average of 2019. Prices of natural gas have surged too (in many countries to their highest level on record) due to a combination of higher demand, empty storage facilities and limited additional supply from Russia. The global economic recovery and the associated excess demand also clearly showed up in other commodity markets. The HWWI commodity price index (excluding energy), for example, stood some 40% above the level measured in August 2021.

But price pressures affect virtually the whole consumption basket

Price pressures, however, were not restricted to the energy component. Core inflation (i.e. headline inflation adjusted for price changes for energy and unprocessed food items) has generally remained somewhat elevated throughout the pandemic (at around 3% to 3.5% in the CESEE EU member states between April 2020 and September 2021) and notably trended up in several countries in the review period. The rise was particularly strong in Turkey, where core inflation reached 17.5% in September 2021. Throughout the region, cost-push as well as demand-pull factors were at play, above all arising from pent-up demand, disrupted seasonal patterns and imbalances between supply and demand after the reopening of the economies (especially in the services sector). While some of those factors should be of a temporary nature only (which also applies to the positive base effect that is currently observed in the figures), they already sparked a very broad-based price increase across the consumption basket. In September 2021, Eurostat statistics showed annual inflation rates of 3% and more for some 50% of all items in the consumption basket of the CESEE EU member states (of which items with inflation rates of above 5% accounted for 29 percentage points). This share has gone up from around 30% in January 2021 (and some 15 percentage points respectively).

Wage growth is gaining speed and inflation expectations are trending up

Following a three-year period of wage moderation, wage growth has been pushed up again by the labor market recovery and the re-emergence of labor shortages. After a trough at 4.1% in the CESEE EU member states and 4.7% in Russia in the second quarter of 2020, nominal wage growth accelerated to 9.2% and 12.7%

respectively in the second quarter of 2021. So far, higher wages have not yet translated into higher unit labor cost (ULC). While a relatively weak correlation between ULC and price growth was also observed for a prolonged period after the 2008 global financial crisis, the current disconnect might also be a statistical artefact linked to various (and partly opposing) base effects and statistical distortions from the previous recession and the pandemic (e.g. with respect to wage support and furlough schemes and/or delayed reactions of output and prices to economic shocks). Depending on the exact specification and duration of policies, wage growth might be overestimated in some countries.

Recent price developments already show up in survey-based inflation expectations. Currently, a majority of surveyed companies in industry, retail and services expect prices to rise further over the short term according to the European Commission's business and consumer survey. The respective indicators reached ten-year highs in several countries in September 2021. While consumer price expectations are also trending up, indicators still come in somewhat lower than at their peak in April 2020.

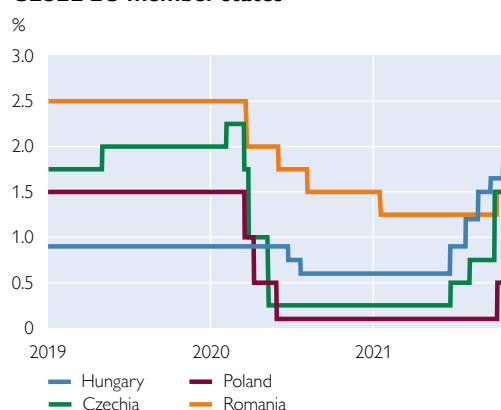
Monetary policy authorities take decisive action

Rising prices and elevated inflation expectations prompted inflation-targeting central banks in the CESEE EU member states to raise their policy rates. The boldest steps were taken in Hungary and Czechia, leading to a gradual rise from 0.6% and 0.25% in June to 1.8% and 1.5%, respectively, in mid-October 2021. In late September 2021, the Czech central bank hiked its policy rate by 75 basis points, breaking the tradition of 25 basis point moves observed ever since the inflation target was adopted in 1997. In early October 2021, the Romanian and the Polish central bank joined the hiking cycle and increased their policy rates by 25 basis points to 1.5% and by 40 basis points to 0.5%, respectively. All four monetary authorities have also revised their near-term inflation forecasts and/or assume higher volatility in inflation and more upside risks in the months to come. In fact, inflation rates are currently running outside the upper tolerance bands of the respective inflation targets in all countries with explicit inflation targets (i.e.

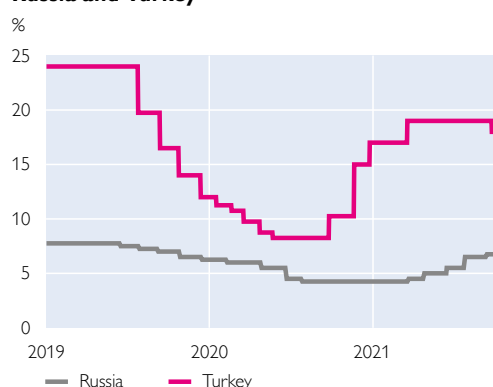
Chart 4

Policy rate developments in selected CESEE countries

CESEE EU member states



Russia and Turkey



Source: Macrobond.

Czechia, Hungary, Poland and Romania) and a return to the targets is only expected in 2022 (mostly around mid-year).

In Russia, annual inflation rose to 7.4% in September 2021, exceeding the inflation target of 4% by a wide margin. Reflecting those price pressures, the Bank of Russia raised its policy rate in five steps from 4.25% in March to 6.75% in early October 2021, citing demand growth in excess of domestic supply potential and the pass-through of higher costs to consumers. It also argued that, given elevated inflation expectations, households may be tempted to frontload purchases, thus possibly stirring price growth even further in view of already tight production capacities. The Bank of Russia expects inflation to slow down in the fourth quarter of 2021 and to return to target in 2022, driven by base effects, monetary tightening and an oil price-supported strengthening of the ruble. However, the central bank explicitly holds open the prospect of further key rate hikes at its upcoming meetings.

The interest rate path chosen by the Turkish central bank deviates somewhat from the patterns observed in the rest of CESEE. Between September 2020 and March 2021, the policy rate was raised forcefully by ultimately 1,075 basis points to 19%. This was followed, in late September 2021, by a 100 basis point cut to 18%. The central bank argued that the recent increase in inflation had been driven by transitory factors such as rises in food and import prices, supply constraints, higher administered prices and demand generated by the lifting of COVID-19 restrictions on some service sector activities. It also stated that last year's monetary tightening and recent macroprudential measures were still curbing credit growth and domestic demand. At the same time, president Erdogan has repeatedly called for lower interest rates. Following the rate cut, downward pressure on the Turkish lira reintensified and the currency depreciated to an historically weak level in October 2021. Currency weakness but also strong inflationary expectations (after price increases had remained in the double digits throughout most of the past four years) will probably add to price pressures in the coming months, while base effects will exert some dampening effect on consumer price growth.

Unlike the Turkish lira, the Russian ruble appreciated in recent months on the back of higher oil prices. The Hungarian forint, the Czech koruna, the Polish zloty and the Romanian leu traded rather stably against the euro in September and October 2021, despite policy rate hikes and the fairly hawkish market outlook for future interest rates. This reflects rising real economic uncertainties related to the ongoing global shortage of production inputs for the vital industrial sectors, the recent deterioration of the pandemic situation throughout most of the region and capital outflows based on the expectations of a possibly tighter monetary policy stance in the euro area and the United States.

The region's external surplus is well supported by improving trade balances

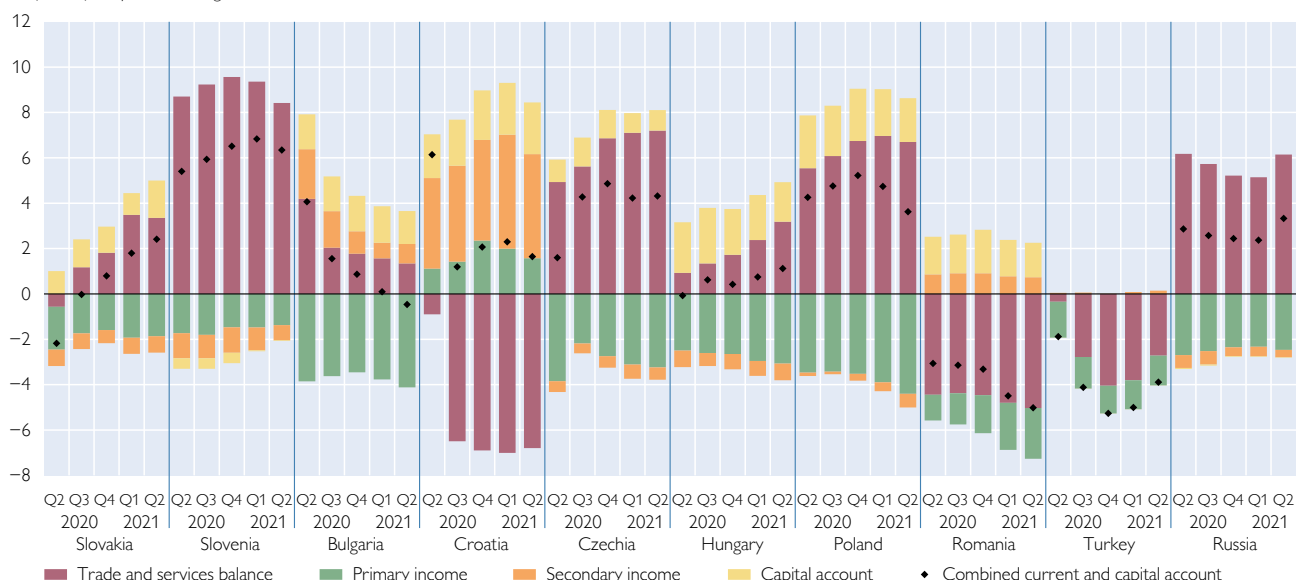
The combined current and capital account balance for the CESEE region as a whole remained clearly positive and amounted to 1.3% of GDP in the second quarter of 2021 (end-2020: 1% of GDP) as strong surpluses in goods and services trade again outweighed structural outflows from primary (especially capital) income.

On the country level, current account developments were mostly driven by changes in the trade balance that reflected the strong international momentum and dynamic export activity. The trade balance notably lifted the external surplus in the review period in Slovakia, Hungary and Russia (aided by high oil prices in the

Chart 5

Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

case of Russia) and kept it on a high level in Slovenia, Czechia and Poland. At the same time, weakening trade balances (also related to lower exports of tourist services) weighed on the external accounts of Bulgaria, Croatia and Turkey. In Turkey, the deterioration has since been halted by the ongoing currency depreciation. Finally, six of the ten countries under review saw their primary income deficits widen, reflecting higher profit repatriations amid the general economic recovery. A larger deficit in primary income lifted Romania's current account deficit to the highest level among all CESEE countries (-5% of GDP).

Capital flows to the region remain volatile in the review period

High-frequency flow data show that, from autumn 2020, global investment funds started to flock back to CESEE bond markets, helping cumulative flows climb toward pre-pandemic levels. This trend was interrupted in February 2021, when bond flows suddenly declined and eventually dried up. From spring 2021 onward, aggregate fund flows for the ten countries under consideration recovered and hovered at around zero. Bond markets became more attractive again especially in the CESEE EU member states, while the situation remained more strained for Russia and Turkey, which repeatedly reported notable fund outflows throughout the review period. In most recent weeks, outflows again increased across the region, reaching close to USD 300 million per week in mid-October 2021 on rising expectations of a tightening policy stance in advanced economies. With that, capital flows to the region remain volatile.

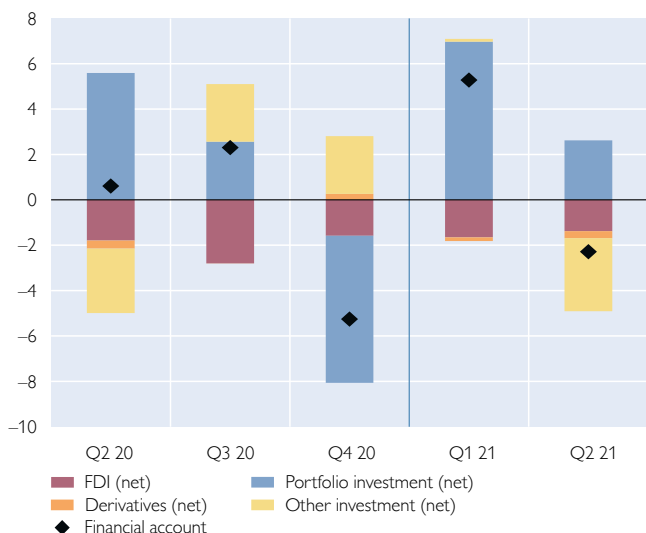
This pattern is very much confirmed by more comprehensive financial account data that show notable inflows of portfolio investments in the final quarter of 2020, followed by equally large outflows in the first quarter of 2021 that again moderated

Chart 6

Capital flows to CESEE

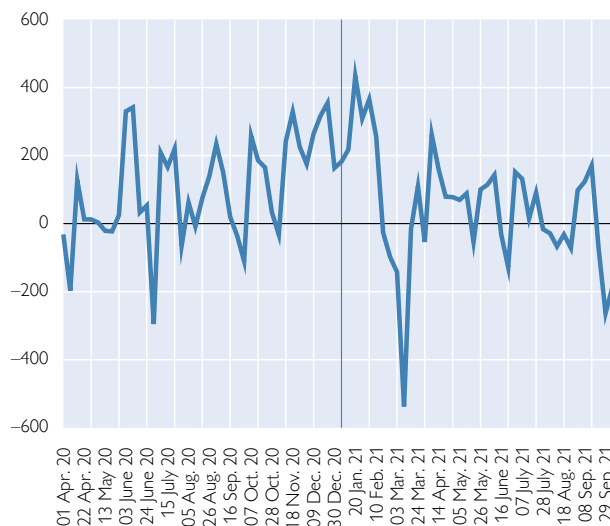
Financial account balance

% of GDP



International fund flows into bond markets

USD million, weekly data



Source: Emerging Portfolio Fund Research (EPFR), Eurostat, national central banks.

Note: Positive values indicate a net outflow of capital, negative values indicate a net inflow of capital.

somewhat in the second quarter of 2021. The second quarter of 2021 also brought about a return of inflows from other investments to the region, for the first time since spring 2020. FDI inflows remained broadly stable throughout the review period and in fact throughout the whole pandemic.

After ten-year government bond yields in CESEE countries remained broadly stable over the summer months, the recent surge of inflation translated into higher price expectations among investors and pushed up nominal yields. Between early September and late October 2021, bond yields increased by some 30 to 40 basis points in Slovenia, Slovakia and Russia, by 75 to 100 basis points in Czechia, Hungary, Poland and Romania and by 270 basis points in Turkey (Croatian yields remained more or less stable). This compares with an increase of about 35 basis points in the euro area and the United States.

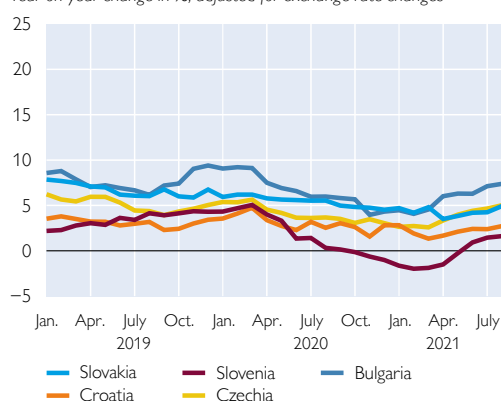
CESEE banking sectors recovered rather quickly from the impact of the previous year's recession

To date, the recession in 2020 has only had a temporary impact on the region's banking sectors. This becomes especially apparent when recent trends are compared to the fundamental disruption triggered by the global financial crisis of 2008. This stark difference was related to the very nature of the shock that sent the region into recession. Moreover, the region's banking sectors entered the downturn on a much stronger footing than in 2008 (i.e. with stronger capital buffers, no excessive loan growth, a much lower foreign currency-denominated exposure and a strengthened regulatory environment).

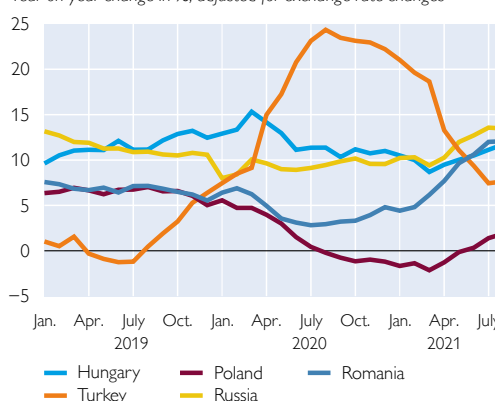
Chart 7

Growth of credit to the private sector

Year-on-year change in %, adjusted for exchange rate changes



Year-on-year change in %, adjusted for exchange rate changes



Source: National central banks.

Strong demand drove up credit growth, while supply conditions remain tight for corporates

Following weakening credit expansion since the first lockdown in early spring 2020 until the second quarter of 2021, credit growth returned to 2019 average levels in most countries in August 2021. This not only reflected policy support (including regulatory action, monetary policy support and public guarantee schemes) but also improving general economic conditions and brightening sentiment after the phasing out of the most severe COVID-19 containment measures. Surveys suggest that credit markets were primarily driven by rising credit demand. While higher demand was initially confined to certain demand segments only (e.g. to working capital needs, debt restructuring and positive housing market prospects), it notably broadened later on. Credit standards tightened across the client spectrum in the first quarter of 2021 (notably on SME and corporate lending) and turned broadly neutral in spring 2021. However, while credit standards for households were generally eased, SMEs and large corporates continued to face tightening. Among other factors, this reflected uncertainties following the temporary suspension of insolvency filing obligations.

NPL ratios might increase somewhat once government support is withdrawn

Nonperforming loan (NPL) ratios trended down somewhat in the review period and stood below their pre-pandemic levels in most countries of the region in mid-2021. This is a sign that borrowers were able to service their debt amid falling interest rates and borrowing costs and despite the economic downturn. All countries also introduced moratoria of some sort on the repayment of loans to alleviate financial strains for borrowers. Loan repayments were renegotiated by no more than 20% of borrowers in most cases according to surveys among individual banks. For the coming quarters, banks nevertheless expect the quality of loan applications to deteriorate across the client spectrum and NPLs to rise as government measures are slowly being withdrawn. Certain evidence to this effect is the high and partly increasing share of so-called stage 2 loans (loans with significantly

higher credit risks since initial recognition) in several countries over the past 12 months.

Crisis provisioning made in 2020 is slowly being released as the banking sector's outlook improves

The general resilience of the CESEE banking sectors is also underlined by the beginning release of (parts) of last year's crisis provisioning, reflecting the improved economic situation and outlook. Against this background, the average return on assets (RoA) increased to 1.2% in mid-2021 (ranging between 0.5% in Poland and 2.5% in Russia). This is 0.4 percentage points above the mid-2020 levels and only moderately below pre-crisis readings. Higher profitability also bolstered capital buffers. The capital adequacy ratio (tier 1) increased in most CESEE countries and hovered between 17% in Slovenia and 25% in Croatia at mid-2021. Substantially lower figures were only reported for Russia and Turkey (10.3% and 13.2%, respectively).

Box 1

Ukraine: economy struggles to recover amid tighter monetary policy conditions following rising inflation

Ukraine's economic recovery suffered a setback in the first half of 2021. Amid renewed COVID-19-related restrictions, GDP shrank in the first quarter, both year on year and quarter on quarter. In the second quarter, growth turned positive in year-on-year terms at 5.7% due to base effects (given a drop by 11.2% in the second quarter of 2020) but continued to fall in quarter-on-quarter terms. At the same time, the growth structure showed some weaknesses, with positive contributions stemming mainly from private consumption backed by robust real wage growth (i.e. due to a minimum wage hike) and a pension increase. Following a steep decline in gross fixed capital formation in 2020, year-on-year investment growth only became positive in the second quarter. Moreover, the economic recovery took a hit from a deeply negative contribution of net exports. Gross exports shrank by almost 10% in the first half of 2021 partly due to weak agricultural output (including last year's poor harvests), while gross imports were on the rise amid strengthening domestic demand. As vaccination progress has remained very low, new pandemic waves might trigger a retightening of containment measures.

Annual consumer price inflation rates moved up further and reached 11% in September, following some deceleration during the summer. Core inflation rates rose to 7.3% in June and stabilized afterward. Against the background of inflationary developments, the National Bank of Ukraine (NBU) tightened monetary policy. Since early 2021, it has raised its key policy rate in four steps by a total of 250 basis points, to 8.5%. In addition, it started to phase out anti-crisis monetary measures (i.e. long-term refinancing operations and interest rate swaps) at end-June, before terminating them from the beginning of the fourth quarter. The NBU expects headline inflation to decline below double-digit levels toward the end of this year and to return to its target of 5% in the course of next year.

The current account balance recorded a small deficit of 0.8% of GDP in the first half of 2021, following a surplus of 6.1% of GDP in the first half of 2020. This deterioration was mainly driven by the primary income balance, which turned to a deficit due to rising dividend payouts and reinvested earnings. As reinvested earnings (together with other types of investment) created net FDI inflows, the basic balance (current account plus net FDI inflows) was clearly positive in the first half of 2021. Official foreign currency reserves have remained largely unchanged since early 2021 and amounted to USD 28.7 billion (covering 4 months of imports) at end-September. Temporarily, official reserves had increased following the disbursement of USD 2.7 billion to Ukraine as part of SDR allocations by the IMF in August, but this increase was reversed in September by external debt repayments of similar magnitude. Looking ahead, Ukraine stands to receive the second tranche (EUR 600 million) of macro-financial assistance from the EU, having recently fulfilled the conditions.

In late September 2021, a virtual IMF mission was launched to work on remaining issues required to conclude the first review of Ukraine's Stand-By Arrangement with the IMF (SBA, originally scheduled for September 2020). The IMF repeatedly stressed the importance of strengthening the governance and autonomy of the National Bank of Ukraine, judicial reform as well as restoring and strengthening the anti-corruption framework. Of course, the IMF also has continued to keep an eye on the fiscal position. The budget plan endorsed by the government in mid-September foresees a budget deficit of 3.5% of GDP for 2022, down from 5.5% expected for 2021. According to the Ukrainian authorities, the talks also covered the extension of the current SBA by 6 to 9 months, in the absence of which the SBA would expire at end-2021.

Western Balkans⁵: removal of COVID-19-related restrictions fueled V-shaped recovery

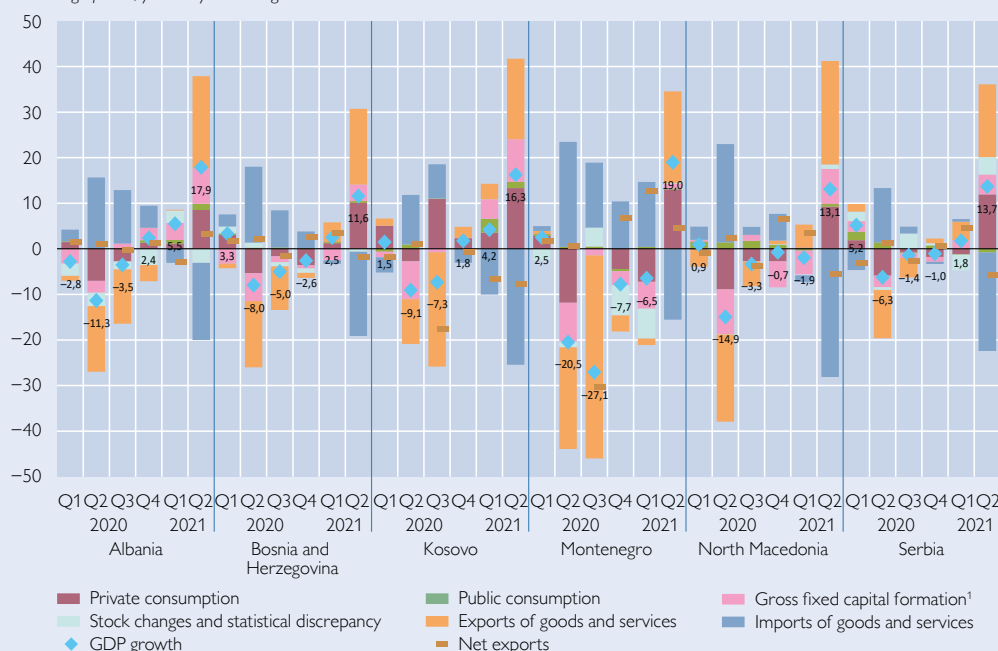
COVID-19 infection rates eased until early/mid-July 2021 in the Western Balkan countries and the spread of the pandemic appeared to have been well contained. However, during the summer, registered infections increased due to international and diaspora travel, the loosening of restrictions and the occurrence of the more infectious COVID-19 delta variant. Developments were diverse at the country level: In Albania, North Macedonia and Bosnia and Herzegovina, new infections peaked around mid-September. Kosovo and Montenegro followed the same pattern except for steeper peaks in early September, with Montenegro exhibiting a somewhat slower deceleration of infection rates than Kosovo. In Serbia, the surge in new cases occurred later than in the other countries, and infection rates continue to be elevated. Vaccination rollout has gained some traction in most Western Balkan countries, yet the share of fully immunized people remains lower than in other European countries and ranges between 15% in Bosnia and Herzegovina and 42% in Serbia.

Turning to economic developments, annual GDP growth recovered in the first quarter of 2021 in most Western Balkan countries. Only in Montenegro and North Macedonia did economic growth remain negative in the first quarter. The removal or weakening of COVID-19-induced restrictions in the second quarter led to an immediate recovery in all Western Balkan countries, yielding double-digit GDP growth in annual terms. In Montenegro, the economy hit hardest by the pandemic, the pickup was strongest with 19% GDP growth (chart B1). Apart from the base effect (strict lockdown measures had a strong adverse effect on GDP growth in the second quarter of 2020), renewed growth is attributable to the improved confidence of

Chart B1

Mostly weak GDP growth in Q1 21, followed by strong recovery

Percentage points, year-on-year GDP growth in %



Source: National statistical offices.

¹ Gross capital formation for Bosnia and Herzegovina, Kosovo and North Macedonia.

⁵ The Western Balkans comprise Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation "Kosovo" is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.

consumers and investors, pent-up demand as well as the recovery of trading partners. Continued support from monetary and fiscal policy added to the rebound.

While the drag of pandemic-induced uncertainties on private consumption in the Western Balkans continued in the first quarter of 2021, private demand became a major pillar of growth in the second quarter, largely supported by more optimistic consumer confidence, easing containment measures, favorable lending conditions (reflected in robust growth of lending to households, see below) and high wage growth in some countries. Moreover, consumption growth benefited from the rebound of remittances. The contribution of public consumption to growth remained rather stable across the Western Balkans and particularly strong in Kosovo, where consumption accelerated by more than 20% in the first quarter and by 9% in the second quarter of 2021, reflecting pandemic-driven support for households in the runup to parliamentary elections in February 2021.

Investment activity likewise gathered pace with improved investor confidence, strong FDI inflows and public investments adding to a sizable base effect. In most countries in the area, investments were also driven by a booming construction sector (in Albania also related to reconstruction after the earthquake of November 2019). In some countries, in particular Albania and Serbia, real estate investments of the diaspora gave impetus for investment growth as well.

Exports of goods and services were also increasing over the first two quarters in line with the resurgence of economic activity in the Western Balkans' main trading partners. Countries, like Albania or Kosovo, with a comparatively high share of exports of crude materials (such as metals or fuel) benefited from increasing global demand for commodities. North Macedonia and Serbia reaped the benefits of being integrated into European supply chains. With machinery and transport equipment accounting for one-third of their exports, they were benefiting strongly from the recovery of their main trading partners in the EU. Imports posted a similar pattern as all other major demand components: After rather weak import growth in the first quarter of 2021 (except for Albania and Kosovo) import growth was strong due the pickup of domestic demand, particularly for construction material. As a consequence, the net contribution of exports to growth turned out to be positive in most Western Balkan countries in the first quarter of 2021 but declined in the second quarter, becoming even deeply negative in Kosovo, North Macedonia and Serbia.

Despite government action to cushion the immediate impact, the pandemic has left its imprint on the already weak labor markets in the region.⁶ Montenegro's labor market was particularly hard hit by the crisis as the unemployment rate (labor force survey data) increased by around 3 percentage points beyond pre-crisis levels. Several other countries, however, registered lower unemployment rates than one year earlier or more or less unchanged rates in the second quarter of 2021. Initial expectations at the outset of the pandemic fortunately did not materialize in full, partly due to the cushioning effect of policy support measures. Employment rates (labor force survey) declined in some of the Western Balkans, above all in Montenegro, which suffered a setback by around 10 percentage points to below 45% in the first quarter of 2021 amid large exits from the labor market (no data available for the second quarter of 2021). Wage growth was strong in most Western Balkan countries (except for Montenegro) due to rising public wages (particularly for health care employees) and wage subsidies.

Current account deficits (four-quarter moving average) widened in Bosnia and Herzegovina, Kosovo and Montenegro in the second quarter of 2021⁷ compared to the same period of 2020 partly due to a higher deficit of the trade balance of goods and more so due to shortfalls in the service balance. As a major tourist destination, Montenegro was particularly hard hit in 2020 and also witnessed large losses in the first two quarters of 2021. Secondary income developed favorably over the period in all Western Balkan countries (or stayed more or less unchanged). The inflow of remittances was supported by accelerating formal transfers and the fading of informal transfers due to travel restrictions. Overall, the inflow of FDI remained robust, covering

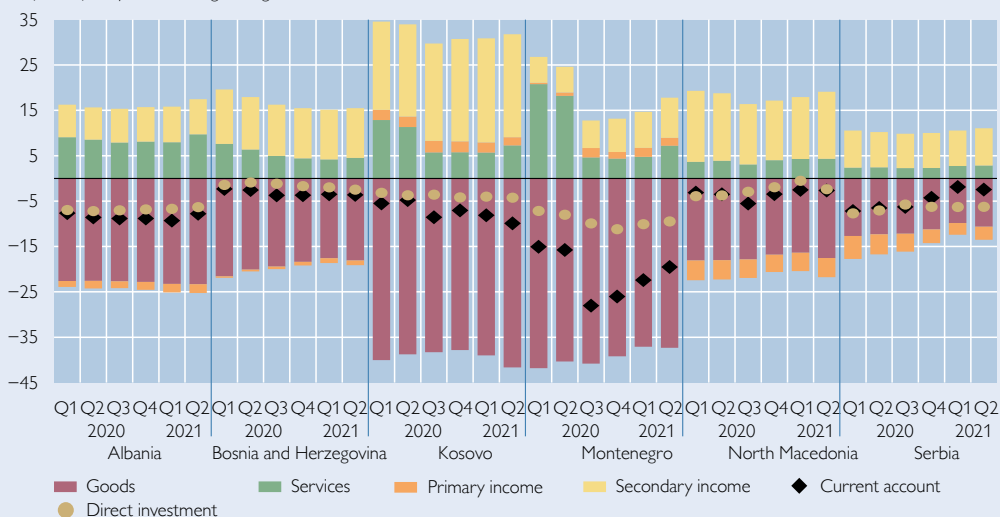
⁶ Unemployment rates are traditionally higher compared to the CESEE EU member states.

⁷ Data for Bosnia and Herzegovina only available until first quarter of 2021.

Chart B2

Current account balances and FDI

% of GDP, four-quarter moving average



Source: National central banks, national statistical offices.

Note: A positive value in the category of direct investments indicates that net acquisition of assets is higher than net incurrence of liabilities; a negative value indicates the opposite.

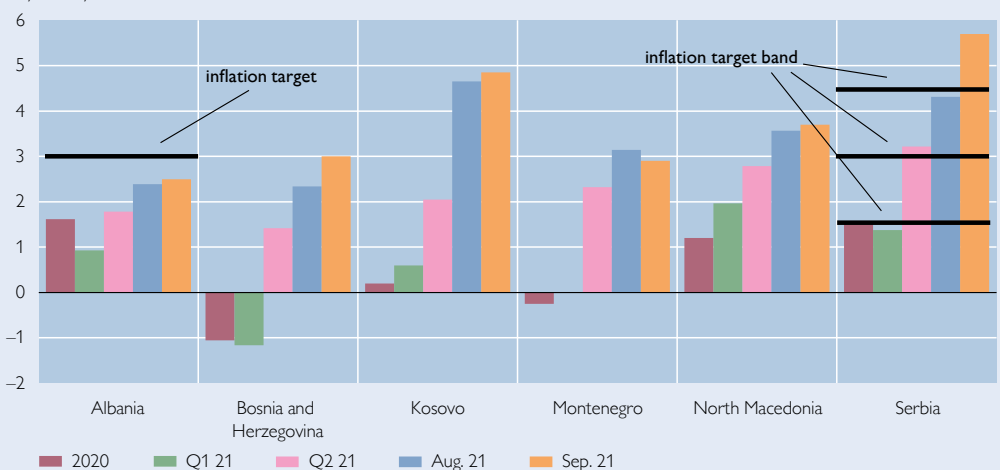
large parts of the external deficit, except for Montenegro, whose FDI coverage ratio is comparatively low.

Inflation remained still somewhat muted (and even negative in Bosnia and Herzegovina) in the first quarter but increased notably in all Western Balkan countries in the second quarter of 2021, showing a further acceleration from July to September 2021 (see chart B3). In the two inflation-targeting countries, inflation approached the inflation target (Albania) or surpassed the upper bound of the inflation band (Serbia). Prices went up largely due to strong cost-push factors related to the surge in prices for energy and commodities as well as food prices. Due

Chart B3

Inflation on the rise in all Western Balkan countries

%, year on year



Source: National statistical offices.

to accelerating energy prices and anticipating the risk of energy shortages during the upcoming winter, Albania declared a state energy emergency in October. Rising prices for electricity and food even led to street protests in recent weeks. In Kosovo, increasing energy prices led to a temporary shutdown of a ferronickel plant with around 800 employees. Demand-driven price increases also played a role throughout the region, in line with the overall revival of domestic demand. Furthermore, the disruption of global value chains impacted prices in the more strongly integrated countries, namely North Macedonia and Serbia.

Albania and Serbia are the only Western Balkan countries with flexible exchange rate regimes. Pressure on the dinar to appreciate against the euro has increased since the second quarter of 2021 according to the National Bank of Serbia due to strong capital inflows. The Albanian lek continued to appreciate against the euro since spring 2021, also driven by capital inflows, but the lek's appreciation is in line with seasonal patterns according to the Bank of Albania.

Lending to the private sector was rather mixed across countries and sectors. Albania, Kosovo, North Macedonia and Serbia showed still robust lending rates in the first half of 2021. This development was largely driven by low cost of financing, improved confidence of households and corporates and remaining COVID-19 support measures (such as loan moratoria, guarantee schemes). In Kosovo, consumer loan borrowers receive a subsidy of 10% (or EUR 300 at most) from the beginning of October 2021. In Bosnia and Herzegovina as well as in Montenegro, loan growth was rather subdued, in particular compared to pre-crisis developments. Notably, in all Western Balkan countries, lending to household sector exceeded lending to the corporate sector. Demand for housing loans was strong in some countries, especially in Albania, in view of favorable financing conditions and rising house prices.

Apart from Montenegro, all Western Balkan countries reported lower NPL ratios in the second quarter of 2021 than in the same period of last year. In Albania, the NPL ratio was still highest in a regional comparison, at 7.1% in the second quarter of 2021 (same period of 2020: 8.1%). Montenegro's NPL ratio accelerated to 5.7% (second quarter of 2020: 5.3%), despite the extension of loan moratoria until end-August 2021 for households and corporates affected particularly hard by the pandemic.

Since the European Council's endorsement of the decision to open accession negotiations with Albania and North Macedonia in March 2020, no visible progress has been made. The opening of accession negotiations with North Macedonia has been blocked by Bulgaria. At the Western Balkan summit in Slovenia on October 6, 2021, the EU member states only provided the candidate countries and potential candidates with a general perspective of EU accession while not setting a timeline. One important feature of the EU's engagement in the area is the Economic and Investment Plan for the Western Balkans, providing up to EUR 9 billion of EU investment funding and up to EUR 20 billion of dedicated investment guarantees. As outlined in our last report, Montenegro was seeking EU support to repay the first tranche of a huge Chinese loan taken out for the construction of a highway. In this respect, the government completed a 14-year currency risk-hedging agreement with several Western banks in July 2021. Finally, a new 30-month Policy Coordination Instrument⁸ for Serbia has been approved by the IMF. One important aim of this facility is to anchor Serbia's fiscal policy.

⁸ The previous Policy Coordination Instrument was in place from 2018 to January 2021.

2 Slovakia: strong economic rebound accompanied by rising inflation

The contraction of the Slovak economy in 2020 was less dramatic than initially projected and GDP growth was revised significantly upward compared to the first estimate. The fact that – despite a deep dive – the economy got off with a slap on the wrist is mainly attributable to the fact that, in the second half of 2020, the Slovak industry was largely spared from containment measures and benefited strongly from the rebound in foreign demand. As coronavirus infections started to subside quickly in the spring of 2021 on the back of vaccination progress and seasonal factors, the state of emergency was terminated in May 2021 after 14 months. Most restrictive measures were removed (at least those significant for economic activity). Particularly thanks to the retail and services sectors, and boosted by policy support measures, the economy rebounded strongly in the second quarter of 2021. Overall, in the first six months of 2021, GDP expanded by about 4.9% year on year, driven in roughly equal parts by net exports and domestic demand. The latter, however, was driven predominantly by the buildup of inventories and public consumption, while the resurgence in private consumption in the second quarter could not make up for the contraction in the first three months of the year. Fixed investment was still contracting in early 2021 and its growth contribution remained rather moderate in the second quarter as significant increases in prices of industrial goods and construction input materials as well as disruptions in global supply chains already started to weigh on dynamics. Particularly, the worldwide shortage of microchips has hindered the crucial automotive sector and other industries from producing and exporting at full speed.

Owing mainly to government job retention schemes and other measures to preserve employment, the detrimental impact of the pandemic on the labor market has been contained so far. The shock has been weathered on the basis of fewer working hours rather than job losses, even though hard-hit sectors (mainly services) and particularly vulnerable workers experienced dismissals. Hence, while the unemployment rate remained broadly stable in the first half of 2021, a full-fledged impact on the labor market will only unfold once the government schemes expire. Moreover, long-term unemployment remains a persistent issue. Headline inflation has been rising sharply since the beginning of 2021 and came in at 4% in September 2021, the highest figure since 2012. The acceleration has been largely driven by soaring prices of services (particularly those related to housing), industrial goods, processed food and increasingly swelling energy prices. Following direct fiscal support, loan guarantees and tax deferrals amounting to some 3.7% of GDP in 2020, fiscal response measures related to the coronavirus crisis worth 3.8% of GDP have been budgeted for 2021. Support measures in the form of grants for firms and self-employed entrepreneurs, subsidies to labor costs as well as sickness and care benefits have been extended until the end of 2021. The recipients of the support have shifted away from manufacturing toward construction, trade, hospitality and gastronomy as well as cultural and tourism services. In 2021, the general government deficit is expected to widen to more than 7% of GDP. Consequently, public debt is projected to go up from 48.1% of GDP in 2019 to above 61% of GDP in 2021. The Slovak economy has benefited from the accommodative monetary stance in the euro area. The countercyclical capital buffer rate for banks in the country was reduced from 2% to 1% between April and July 2020 (i.e. during the first COVID-19 wave) and was kept at that level also in the review period.

Table 2

Main economic indicators: Slovakia

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	3.7	2.5	-4.8	-3.5	-10.9	-2.5	-2.1	0.2	9.6
Private consumption	4.1	2.7	-1.0	1.1	-4.0	1.1	-2.2	-5.5	5.0
Public consumption	0.1	4.6	0.3	2.0	-4.9	0.3	3.1	-1.8	8.7
Gross fixed capital formation	2.7	6.6	-12.0	-7.8	-15.2	-8.5	-15.4	-10.0	5.6
Exports of goods and services	5.2	0.8	-7.5	-5.7	-26.5	0.1	1.8	10.0	40.0
Imports of goods and services	5.0	2.1	-8.3	-2.3	-26.4	-5.8	0.6	5.4	39.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.3	3.7	-5.5	0.1	-10.6	-7.7	-3.3	-4.1	9.1
Net exports of goods and services	0.3	-1.2	0.7	-3.5	-0.3	5.1	1.1	4.2	0.4
Exports of goods and services	4.9	0.8	-6.9	-5.7	-24.2	0.0	1.7	9.4	28.7
Imports of goods and services	-4.6	-2.0	7.7	2.2	23.9	5.0	-0.6	-5.2	-28.3
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	4.3	5.2	6.5	9.5	8.3	2.7	5.4	0.7	-1.4
Unit labor costs in manufacturing (nominal, per hour)	4.4	5.6	4.2	7.9	21.0	-5.0	-5.3	-10.7	-19.7
Labor productivity in manufacturing (real, per hour)	4.7	1.2	1.2	-0.7	-11.7	7.6	9.5	11.4	24.5
Labor costs in manufacturing (nominal, per hour)	9.3	6.8	4.9	7.2	6.9	2.3	3.7	-0.5	0.0
Producer price index (PPI) in industry	2.4	1.8	-0.5	1.7	-1.4	-1.3	-1.0	-0.9	4.3
Consumer price index (here: HICP)	2.5	2.8	2.0	2.9	2.0	1.5	1.6	1.0	2.1
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	6.6	5.8	6.8	6.0	6.7	7.3	7.0	7.2	7.0
Employment rate (%, 15–64 years)	67.6	68.4	67.5	68.0	66.8	67.5	67.8	67.9	68.8
Key interest rate per annum (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	8.4	6.8	6.8	6.2	5.6	5.0	4.5	4.8	4.2
of which: loans to households	11.3	8.0	8.0	7.9	7.0	6.5	6.1	6.0	7.2
loans to nonbank corporations	3.4	4.4	4.4	3.0	3.0	2.1	1.4	2.5	-1.8
<i>%</i>									
Share of foreign currency loans in total loans to the nonbank private sector	0.1	0.1	0.1	0.3	0.3	0.1	0.1	0.1	0.1
Return on assets (banking sector)	0.8	0.8	0.5	0.3	0.3	0.5	0.5	0.5	0.8
Tier 1 capital ratio (banking sector)	16.6	16.6	18.1	17.3	18.0	18.0	18.1	18.8	19.2
NPL ratio (banking sector)	3.0	2.8	2.4	2.8	2.7	2.5	2.4	2.6	2.1
<i>% of GDP</i>									
General government revenues	40.7	41.4	41.8	..	..	..	..	..	..
General government expenditures	41.7	42.7	48.0	..	..	..	..	..	..
General government balance	-1.0	-1.3	-6.2	..	..	..	..	..	..
Primary balance	0.4	-0.1	-5.0	..	..	..	..	..	..
Gross public debt	49.6	48.2	60.6	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	55.0	53.3	55.7	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	42.6	43.7	47.5	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-0.3	-1.0	0.6	-3.5	0.1	2.9	2.5	4.3	0.3
Services balance	1.0	1.3	1.2	1.3	1.3	2.0	0.1	0.7	0.7
Primary income	-1.8	-2.1	-1.6	-0.7	-2.0	-1.7	-1.9	-2.2	-1.7
Secondary income	-1.2	-0.9	-0.6	-1.4	-0.8	-0.8	0.5	-1.9	-0.8
Current account balance	-2.2	-2.7	-0.4	-4.2	-1.4	2.4	1.2	0.9	-1.5
Capital account balance	1.0	0.7	1.2	1.7	0.3	0.6	2.0	0.9	3.1
Foreign direct investment (net) ³	-1.3	-2.2	2.1	-1.6	3.9	6.3	-0.5	3.5	-1.6
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	114.9	112.4	121.2	112.7	123.3	121.7	121.2	118.9	117.5
Gross official reserves (excluding gold)	3.8	5.3	6.6	5.6	6.7	7.0	6.6	8.5	8.1
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.5	0.7	0.9	0.7	0.9	1.0	0.9	1.2	1.1
<i>EUR million, period total</i>									
GDP at current prices	89,357	93,901	91,555	21,492	21,442	24,410	24,211	21,673	23,975

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

3 Slovenia: underlying inflation pressure remains low despite strong GDP expansion

GDP gradually recovered during the first half of 2021 and posted an impressive growth rate of 16.3% during the second quarter. Among the domestic demand components, investments grew most rapidly following their deep slump a year earlier. Investments in machinery and equipment were the main drivers, reflecting not just base effects but also a capacity utilization level that rose to its highest level since 2000. Private consumption grew also sharply in the second quarter, in part due to a low base, but also due to improving labor market conditions, strong real wage growth and re-accelerating credit growth. Both exports and imports bounced back during the first half of 2021 (especially in the second quarter), and the contribution of net real exports to the overall GDP growth rate was neutral.

According to the latest forecast by the European Commission, Slovenia's budget deficit is expected to rise to 8.5% of GDP in 2021 despite a substantial economic rebound. The widening of the deficit will be caused by extended COVID-19 measures, such as wage compensation for short working hours, wage supplements for public sector employees, the partial coverage of companies' fixed costs and a significant increase in public investments, which will partly be financed under the Recovery and Resilience Facility (RRF). In late July 2021, the Council of the European Union approved RRF funds for Slovenia in the magnitude of EUR 1.8 billion in grants and EUR 0.7 billion in loans, the first installment of which (EUR 231 million) arrived in mid-September. According to its RRF plan, Slovenia will use around 42% of its allocation to measures that support climate objectives. The plan devotes 21% of total financing to the digital transition, while the rest will be spent on reinforcing Slovenia's economic and social resilience (e.g. investments in health-care, long-term care, public housing, enhancing productivity and innovation).

Annual HICP inflation has picked up substantially since the beginning of 2021, rising from around -1% to +2.7% by September 2021. The acceleration has been primarily attributable to energy prices, where deep deflation at the turn of the year has transformed into double-digit inflation, affected both by base effects and intensified energy price rises. Core inflation, excluding energy and unprocessed food, was only modestly higher than at the beginning of the year and stood at 1.3% in September 2021. However, inflation for nonenergy industrial goods accelerated, mainly on the back of supply chain disruptions, rising commodity and producer prices. By contrast, services price inflation has slowed to around zero over the reference period, in part caused by changes in the weighting in the HICP basket.

Credit dynamics have improved since the second quarter of 2021, mainly on the back of higher demand for loans but also thanks to banks having discontinued the tightening of lending standards. The contraction of credit to the corporate sector has moderated (in line with strengthening investment activity), while credit to households has started to grow again. Loans for house purchase grew rapidly, while the contraction of consumption loans has moderated.

The banking sector's profitability improved during the first half of 2021, almost exclusively due to the net release of impairments and provisions, reflecting the improved economic situation and outlook. Net interest income was lower than a year earlier due to low interest rates and reduced lending activity as was noninterest income. Banks' portfolio quality has developed favorably, with the notable exception of the accommodation and food service sector and household consumption loans. It remains to be seen whether portfolio quality deteriorates once the legislative debt service moratoria gradually expire (by end-2021 at the latest).

Table 3

Main economic indicators: Slovenia

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	4.4	3.3	-4.2	-1.3	-11.0	-1.4	-3.1	1.7	16.3
Private consumption	3.6	4.8	-6.6	-3.1	-13.0	1.4	-11.1	-0.3	18.8
Public consumption	3.0	2.0	4.2	5.3	3.2	5.0	3.5	0.5	1.4
Gross fixed capital formation	9.7	5.5	-8.2	-6.6	-17.6	-5.7	-2.7	7.8	19.2
Exports of goods and services	6.2	4.5	-8.7	-0.8	-23.5	-8.9	-0.7	1.4	30.2
Imports of goods and services	7.1	4.7	-9.6	-1.2	-23.6	-12.2	-0.8	0.9	34.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	4.6	3.0	-4.2	-1.5	-8.8	-3.2	-3.1	1.2	16.6
Net exports of goods and services	-0.1	0.3	-0.1	0.2	-2.2	1.8	0.0	0.5	-0.3
Exports of goods and services	5.1	3.8	-7.3	-0.7	-20.3	-7.4	-0.6	1.2	21.8
Imports of goods and services	-5.3	-3.6	7.2	0.9	18.0	9.2	0.6	-0.7	-22.1
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	2.7	4.2	7.7	5.1	13.2	3.0	9.0	3.7	-5.5
Unit labor costs in manufacturing (nominal, per hour)	-2.7	0.1	8.0	3.2	21.8	5.2	3.0	2.6	-14.8
Labor productivity in manufacturing (real, per hour)	6.5	4.0	-4.4	1.6	-14.6	-2.9	-1.2	3.9	22.5
Labor costs in manufacturing (nominal, per hour)	3.6	4.0	3.1	4.8	3.9	2.2	1.8	6.5	4.4
Producer price index (PPI) in industry	2.1	0.6	-0.3	-0.1	-0.6	-0.3	-0.2	1.1	3.6
Consumer price index (here: HICP)	1.9	1.7	-0.3	1.6	-1.2	-0.6	-0.9	-0.6	2.1
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	5.2	4.5	5.0	4.6	5.2	5.2	5.1	5.7	4.4
Employment rate (%, 15–64 years)	71.1	71.9	70.9	71.5	70.0	70.8	71.1	68.1	71.9
Key interest rate per annum (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	1.9	4.3	4.3	5.1	1.3	0.1	-1.0	-1.9	0.9
of which: loans to households	6.4	5.8	5.8	4.1	1.6	1.2	0.1	0.8	2.9
loans to nonbank corporations	-2.2	2.8	2.8	6.1	1.1	-1.0	-2.2	-4.5	-1.1
%									
Share of foreign currency loans in total loans to the nonbank private sector	2.0	1.7	1.4	1.6	1.6	1.5	1.4	1.3	1.2
Return on assets (banking sector)	1.3	1.3	1.0	0.6	0.6	1.2	1.0	0.8	1.0
Tier 1 capital ratio (banking sector)	17.6	17.8	16.7	16.3	17.7	18.2	16.7	16.5	17.0
NPL ratio (banking sector)	4.0	2.2	1.9	2.2	2.0	1.8	1.9	1.8	1.0
%									
<i>% of GDP</i>									
General government revenues	44.3	43.7	43.6	..	..	..	..	..	..
General government expenditures	43.5	43.3	52.0	..	..	..	..	..	..
General government balance	0.7	0.4	-8.4	..	..	..	..	..	..
Primary balance	2.8	2.1	-6.8	..	..	..	..	..	..
Gross public debt	70.3	65.6	80.8	..	..	..	..	..	..
%									
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	51.5	48.5	48.5	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	26.9	26.9	27.8	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	2.8	2.7	5.3	5.1	5.3	5.9	4.9	4.7	1.7
Services balance	5.7	5.8	4.2	4.5	3.6	4.4	4.4	4.1	3.8
Primary income	-1.8	-1.8	-1.5	-1.0	-1.7	-2.2	-0.9	-1.0	-1.3
Secondary income	-0.9	-1.1	-1.1	-1.5	-1.3	-0.8	-0.9	-1.0	0.0
Current account balance	5.8	5.6	7.0	7.2	5.9	7.3	7.4	6.8	4.1
Capital account balance	-0.5	-0.4	-0.5	-0.5	-0.2	-0.2	-1.0	1.2	-0.1
Foreign direct investment (net) ³	-2.0	-1.5	0.0	-1.5	-1.0	-0.9	3.4	-1.5	-3.9
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	91.9	90.5	102.7	94.4	101.6	101.6	102.7	106.2	101.3
Gross official reserves (excluding gold)	1.5	1.6	1.9	1.7	1.8	1.8	1.9	2.0	2.0
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3
<i>EUR million, period total</i>									
GDP at current prices	45,864	48,397	46,918	11,349	10,987	12,308	12,275	11,699	13,070

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

4 Bulgaria: fourth pandemic wave amid low vaccination rates and political instability

Since the start of the vaccination rollout in the EU, Bulgaria has been lagging behind its peers immensely. At the time of writing, less than 20% of the population was vaccinated. Given these low numbers and increased tourism activity over the summer, a further upsurge in infection rates in October did not come as a surprise. In August 2021, the caretaker government extended the epidemic declaration, which had followed the state of emergency between March and May 2020, until November 2021.

Still, since the beginning of 2021, real GDP has been slowly recovering. After a moderate contraction in the first quarter (−0.5%), it grew by 6.4% year on year in the second quarter of 2021. The accelerating momentum reflected stronger private consumption and booming exports. Although still lagging behind pre-pandemic levels, domestic and foreign tourism numbers rose in comparison to the previous year and bolstered the export of services. As in other European countries, HICP inflation began to rise in the second quarter, from 0.8% in March to 4% in September 2021, mostly due to rising energy prices. There was a mandatory energy price increase in July 2021 for households, and gas prices are expected to increase further in October 2021. This contrasts with decreasing prices for recreational and touristic activities (culture, hotels, and restaurants) especially in the summer months.

Several further measures were introduced to back the tourism sector, some financed by the European Commission. The unemployment rate stood at 5.6% by the end of August, which is slightly higher than a year before. In addition, labor market participation is still lower in comparison to pre-pandemic years. The most prominent worker support measure, the 60:40 wage support scheme, was again extended until the end of the year.

New support measures for SMEs, mostly related to receiving grants and loans, were announced in summer, and real wages continued to grow. Despite loan moratoria having mostly run out by the end of the first quarter, there was no sharp increase in private sector NPLs. NPLs marginally but steadily declined over the course of the pandemic, standing at 4% at the end of the second quarter of 2021.

The parliament just had to revise the 2021 budget in order to raise additional funds to combat the pandemic. At the same time, government revenues again increased in the second and third quarter of 2021 in comparison to the previous year. The larger budget will be used to extend work and business support measures, to finance additional spending on healthcare and additional support for pensioners. Against this background, the current budget target for 2021 amounts to −5.7% of GDP and the gross debt target to 26.7% of GDP. This is notably higher than in 2020 and in part reflects several elections held or to be held in 2021.

After two failed attempts to form a government, Bulgaria will hold its third parliamentary elections for this year on November 14, together with its regular presidential elections. Amid political instability, a caretaker government that was installed in May 2021 substantially revised the national recovery and resilience plan. The revised plan puts more emphasis on education, social policy, and green transition and was submitted to the European Commission in late October 2021. Moreover, at the end of June 2021, the authorities drafted a first detailed plan that is supposed to guide the planned euro adoption.

Table 4

Main economic indicators: Bulgaria

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	3.1	3.7	-4.2	1.8	-8.5	-4.2	-4.7	-0.5	6.4
Private consumption	4.4	5.5	0.2	2.9	-4.0	7.1	-4.3	2.8	9.3
Public consumption	5.3	2.0	7.5	6.3	3.9	5.8	12.5	6.7	3.1
Gross fixed capital formation	5.4	4.5	-5.1	-10.2	-11.8	-1.4	0.9	2.1	3.5
Exports of goods and services	1.7	3.9	-11.3	3.2	-19.0	-17.7	-9.3	-3.0	22.2
Imports of goods and services	5.7	5.2	-6.6	0.4	-19.5	-6.1	-1.2	4.0	26.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	5.6	4.4	-0.9	-0.3	-8.8	4.8	-0.1	3.8	8.3
Net exports of goods and services	-2.5	-0.7	-3.2	1.9	0.3	-8.8	-4.6	-4.5	-1.7
Exports of goods and services	1.1	2.5	-7.3	2.2	-11.8	-12.3	-5.3	-2.0	11.6
Imports of goods and services	-3.6	-3.3	4.0	-0.3	12.1	3.5	0.7	-2.5	-13.2
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	6.3	3.5	7.6	3.1	8.9	8.5	10.5	7.8	4.3
Unit labor costs in manufacturing (nominal, per hour)	5.0	6.6	-0.2	4.6	5.3	-5.7	-4.9	-5.3	-4.8
Labor productivity in manufacturing (real, per hour)	3.6	4.8	5.3	3.9	4.5	3.6	8.8	3.8	6.9
Labor costs in manufacturing (nominal, per hour)	8.7	11.9	4.9	8.7	10.1	-2.2	3.5	-1.7	1.8
Producer price index (PPI) in industry	4.0	3.0	-2.0	1.4	-4.4	-2.8	-2.1	3.6	12.1
Consumer price index (here: HICP)	2.6	2.5	1.2	3.0	1.1	0.6	0.3	0.2	2.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	5.3	4.3	5.2	4.6	6.0	4.9	5.3	6.4	5.7
Employment rate (%, 15–64 years)	67.7	70.1	68.5	68.1	67.4	69.6	68.8	66.9	67.8
Key interest rate per annum (%) ¹	..	..	..	..	..	..	..	..	..
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ²	8.3	9.4	9.4	9.1	6.6	5.8	4.3	4.6	6.3
of which: loans to households	11.2	9.5	9.5	9.9	8.0	7.5	6.6	7.1	10.4
loans to nonbank corporations	6.6	9.3	9.3	8.7	5.7	4.7	2.9	3.0	3.7
%									
Share of foreign currency loans in total loans to the non-bank private sector	34.9	33.2	31.9	32.7	32.6	31.6	31.9	31.6	30.9
Return on assets (banking sector)	1.7	1.5	0.7	1.0	0.9	0.8	0.7	1.1	1.0
Tier 1 capital ratio (banking sector)	19.4	19.5	22.1	19.8	22.5	22.3	22.1	21.9	22.3
NPL ratio (banking sector)	5.1	4.2	4.3	4.2	5.2	4.9	4.3	4.1	4.0
%									
<i>% of GDP</i>									
General government revenues	38.6	38.5	39.5	..	..	..	..	..	..
General government expenditures	36.6	36.3	42.9	..	..	..	..	..	..
General government balance	2.0	2.1	-3.4	..	..	..	..	..	..
Primary balance	2.7	2.8	-2.8	..	..	..	..	..	..
Gross public debt	22.3	20.2	25.0	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	83.5	80.0	82.5	..	..	..	..	..	..
Debt of households and NPISHs ³ (nonconsolidated)	23.0	23.1	24.7	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-4.8	-4.8	-3.1	-3.1	-1.3	-2.4	-5.3	-3.8	-4.5
Services balance	7.3	8.0	4.9	5.5	4.5	6.2	3.4	5.3	6.6
Primary income	-4.8	-4.3	-3.5	-3.9	-3.5	-4.0	-2.6	-5.2	-4.8
Secondary income	3.2	2.9	1.0	3.5	1.2	0.3	-0.5	2.1	1.8
Current account balance	0.9	1.8	-0.7	2.1	0.9	0.1	-5.0	-1.6	-1.0
Capital account balance	1.1	1.5	1.6	1.4	2.0	1.5	1.3	1.6	1.3
Foreign direct investment (net) ⁴	-1.3	-1.9	-3.2	-2.1	-2.0	-9.5	1.0	-0.5	-2.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	66.3	62.6	66.1	61.0	62.0	66.6	66.1	63.5	62.9
Gross official reserves (excluding gold)	42.1	37.7	47.5	39.8	42.8	47.7	47.5	43.8	44.1
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	8.0	7.4	10.4	7.9	8.9	10.3	10.4	9.5	9.0
<i>EUR million, period total</i>									
GDP at current prices	56,112	61,240	60,643	13,290	14,201	16,196	16,956	13,833	15,935

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Not available in a currency board regime.² Foreign currency component at constant exchange rates.³ Nonprofit institutions serving households.⁴ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

5 Croatia: successful tourism season bolsters economic recovery

The economic recovery seems to progress better than expected, with Croatia's GDP rising by 7.7% in the first half of 2021. Growth was broadly based. Private consumption posted annual growth of 18.1%, while gross fixed capital formation grew by 18.3% in the second quarter of 2021. Exports increased by 40.9% in the same period, owing to the significant positive contribution of tourism-related services, rendering the contribution of net exports marginally positive in the review period. On the output side, the largest contribution to growth came from wholesale and retail trade, transport, accommodation and food service activities.

While the tourist season was better than expected, tourist arrivals in the first half of 2021 still lagged behind the first-half 2019 figures. However, Croatia's current account recorded a notable deficit in the second quarter of 2021, primarily due to the widening of the foreign trade deficit driven by buoyant import growth and, to a lesser extent, the deterioration in the primary income balance.

Inflation has picked up throughout 2021 and increased to 3.5% in September 2021 mostly on the back of rising energy prices. Core inflation climbed to 2.2% in September 2021, after oscillating around 1% annually over the past two years.

The increase of the minimum wage by 4.6% in January 2021 and the government measures in response to the pandemic have supported wage growth, which amounted to 5% in the second quarter of 2021. To mitigate the labor market impact of the pandemic and the earthquakes, a job retention scheme for affected businesses was implemented from July 2021. The unemployment rate decreased from 8.5% in December 2020 to 7.6% in August 2021. Strengthened economic activity due to the successful tourism season and government support measures positively contributed to this development. Also, the number of employed people increased in August by 2.1% in annual terms. The highest growth in the number of workers was recorded in the hospitality industry and is hence seasonal. At the same time, one of the challenges Croatia is facing is the shortage of skilled workers.

The Croatian banking system's return on assets grew to 1.1% at the end of the first half of 2021. The tier 1 capital ratio stood at 25% at the end of June 2021 and the NPL ratio was 5.1% compared to 5.4% at the end of 2020 due to an increase in total loans and advances by 3.2% and a decline in NPLs by 3.5%. The decline mostly stemmed from NPLs of nonfinancial corporations. As such, it seems that credit guarantees and other support measures have been supportive in helping viable companies come through the pandemic.

Long-run interest rates have remained at low levels in 2021. The ten-year government bond yield stood at 0.43% in August 2021, roughly the same level as in the months preceding the pandemic.

The European Commission has adopted a proposal to grant Croatia EUR 6.3 billion (12.8% of 2020's GDP) from its recovery and resilience plan. EUR 818 million in prefinancing were disbursed on September 28, 2021.

The participation in the exchange rate mechanism (ERM II) since July 2020 has been relatively smooth so far. The Croatian central bank has intervened twice on foreign exchange markets during 2021. In April, it sold EUR 190 million to local banks to counter the depreciation pressures on the local currency, while, on June 16, it bought EUR 120 million from local banks to counter appreciation pressures. According to recent statements by the Croatian prime minister, Croatia's target date for euro adoption is still January 1, 2023.

Table 5

Main economic indicators: Croatia

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	2.8	2.9	-8.0	0.9	-14.4	-10.1	-7.2	-0.7	16.1
Private consumption	3.3	3.5	-6.2	0.8	-13.8	-7.3	-4.4	-0.4	18.1
Public consumption	2.3	3.4	3.4	6.1	1.7	3.0	3.1	0.2	4.0
Gross fixed capital formation	6.5	7.1	-2.9	3.1	-14.7	-3.0	4.2	4.6	18.3
Exports of goods and services	3.7	6.8	-25.0	-2.0	-40.7	-32.3	-9.8	-0.9	40.9
Imports of goods and services	7.5	6.3	-13.8	-5.0	-27.5	-14.1	-7.6	-2.1	30.3
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	4.6	2.7	-2.3	-1.6	-9.4	8.0	-7.2	-2.1	15.7
Net exports of goods and services	-1.8	0.2	-5.8	2.1	-5.2	-17.5	-0.1	0.8	-0.1
Exports of goods and services	1.9	3.4	-13.0	-0.7	-20.0	-24.2	-4.1	-0.3	13.7
Imports of goods and services	-3.7	-3.2	7.2	2.8	14.8	6.7	4.0	1.1	-13.8
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	6.4	11.4	2.5	4.8	6.7	1.0	-2.5	-3.1	-7.5
Labor productivity in manufacturing (real, per hour)	2.2	-7.2	-2.4	-4.8	-6.1	-1.6	2.9	4.9	9.6
Labor costs in manufacturing (nominal, per hour)	8.9	3.6	-0.1	-0.3	0.2	-0.6	0.3	1.7	1.4
Producer price index (PPI) in industry	2.2	0.8	-3.2	-0.1	-5.4	-4.2	-2.9	0.9	8.0
Consumer price index (here: HICP)	1.6	0.8	0.0	1.2	-0.4	-0.5	-0.2	0.7	2.2
EUR per 1 HRK, + = HRK appreciation	0.6	0.0	-1.6	-0.9	-2.1	-1.8	-1.6	-1.1	0.7
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	8.6	6.7	7.6	7.1	6.5	7.5	9.2	10.0	7.9
Employment rate (%, 15–64 years)	60.7	62.1	62.0	61.4	62.2	63.0	61.5	61.4	63.6
Key interest rate per annum (%)	..	..	..	..	..	..	..	..	..
HRK per 1 EUR	7.4	7.4	7.5	7.5	7.6	7.5	7.6	7.6	7.5
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	2.4	3.4	3.4	4.7	2.3	3.0	2.8	1.3	2.4
of which: loans to households	4.7	6.7	6.7	5.3	3.0	3.2	1.6	1.9	3.7
loans to nonbank corporations	-0.8	-1.3	-1.3	3.9	1.2	2.8	4.8	0.4	0.5
<i>%</i>									
Share of foreign currency loans in total loans to the nonbank private sector	54.7	51.5	52.0	51.5	51.4	51.1	52.0	52.1	51.8
Return on assets (banking sector)	1.2	1.4	0.6	1.0	0.8	0.7	0.6	0.9	1.1
Tier 1 capital ratio (banking sector)	22.1	24.0	25.0	22.7	24.0	24.3	25.0	24.6	25.0
NPL ratio (banking sector)	7.5	5.5	5.4	5.3	5.4	5.5	5.4	5.3	5.1
<i>% of GDP</i>									
General government revenues	46.3	47.5	48.0	..	..	..	..	..	..
General government expenditures	46.1	47.2	55.4	..	..	..	..	..	..
General government balance	0.2	0.3	-7.4	..	..	..	..	..	..
Primary balance	2.5	2.5	-5.4	..	..	..	..	..	..
Gross public debt	74.3	72.8	88.7	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	91.7	85.9	94.2	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	33.9	34.5	38.2	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-18.6	-19.3	-17.6	-20.6	-17.0	-15.9	-17.2	-20.8	-19.0
Services balance	17.8	19.0	10.7	3.3	6.1	26.6	5.1	3.0	9.5
Primary income	-0.6	-0.1	2.3	2.5	1.3	0.3	5.4	1.1	-0.1
Secondary income	3.3	3.5	4.4	3.6	5.5	3.9	4.9	6.0	3.8
Current account balance	1.9	3.1	-0.1	-11.2	-4.1	14.9	-1.8	-10.7	-5.8
Capital account balance	1.3	1.6	2.2	1.8	2.5	1.8	2.7	2.2	2.5
Foreign direct investment (net) ³	-1.6	-6.3	-1.4	-2.9	-1.4	-1.7	0.5	-4.0	-2.6
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	82.3	75.1	82.5	75.0	79.6	81.1	82.5	88.4	85.6
Gross official reserves (excluding gold)	33.6	34.1	38.5	30.6	33.4	36.3	38.5	42.9	41.7
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	7.9	7.8	9.3	7.1	8.0	8.8	9.3	10.3	9.7
<i>EUR million, period total</i>									
GDP at current prices	51,956	54,243	49,287	12,151	11,371	13,463	12,302	12,115	13,751

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

6 Czechia: sluggish rebound from an epic trough amid high inflation outlook

In 2020, the COVID-19 pandemic sent Czechia into the deepest economic downturn in nearly three decades. As the epidemiological situation improved in spring 2021, many were expecting a rather fast and robust economic rebound driven by the global economic recovery, vaccination progress and the release of pent-up demand. However, these optimists were somewhat disappointed by the rather restrained growth performance of the Czech economy in the first half of 2021 (+3%). Particularly in the second quarter of 2021, quarterly GDP growth came in only about half as strong as projected. In the six months to June, the lion's share of growth was contributed by the buildup of inventories followed by public consumption. The overall impact of household consumption, investment and net exports was only moderate since significant negative contributions in the first quarter were only slightly more than offset in the second quarter of 2021. Rising prices have put a damper on private consumption and particularly on investment. Especially construction projects have often been put on hold as prices of raw materials have soared so that originally contracted conditions could no longer be fulfilled. In addition, fixed capital formation has suffered not only from still prevailing uncertainty but also from disruptions to supply chains. The most prominent example is the lack of microchips, which has resulted in a significant production slowdown in the crucial automotive industry and in thousands of unfinished cars waiting on provisional parking lots to be finished. This phenomenon largely explains the unprecedented buildup of inventories as well as – in combination with the rebound in domestic demand-driven imports – the moderate contribution of net exports.

The current account balance still recorded a significant surplus also in the first half of 2021. This reflects not only the performance of the goods and services balance but also the rather low deficit of the primary income balance on the back of still restricted outflows of dividends. For 2021, the parliament mandated a budget deficit of CZK 500 billion (about 8% of GDP). From January to August 2021, expenditures exceeded revenues by about CZK 300 billion, which compares to CZK 230 billion over the same period in 2020. The Ministry of Finance expects the deficit to rise to about CZK 400 billion by the end of the year (about 6.5% of GDP), well below the authorized level but still the highest shortfall ever.

Thanks to government support schemes, the harm of the economic downturn to the labor market has remained contained and has been reflected in fewer working hours rather than a rise in unemployment. Moreover, on the back of the gradual recovery, demand for labor has started to strengthen. Inflation has increased significantly to 4.9% (CPI) in September 2021 (central bank target: 2% \pm 1 percentage point) despite an appreciating koruna. Strengthening domestic and global demand, disruptions in supply chains and production processes and higher wage growth kept core inflation high, while food and energy prices trended notably higher. After mixed signals throughout most of the first half of 2021, the Czech National Bank reacted to rising inflation by raising its key interest rate in two 25-basis point steps in June and August 2021. In light of the sizable deterioration in the inflation outlook for the near term, the central bank sent a strong signal on September 30 by raising the policy rate – for the first time in almost 25 years of its inflation-targeting history – by 75 basis points to 1.5%. Markets expect a continuation of the hiking cycle this year.

Table 6

Main economic indicators: Czechia

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	3.2	3.0	-5.8	-1.0	-10.8	-5.7	-5.4	-2.7	8.8
Private consumption	3.5	2.7	-6.8	-2.1	-9.9	-5.1	-9.8	-6.4	7.7
Public consumption	3.8	2.5	3.4	3.9	1.8	0.5	7.2	0.9	3.1
Gross fixed capital formation	10.0	5.9	-7.2	-3.2	-4.4	-8.8	-11.1	-3.4	4.9
Exports of goods and services	3.7	1.5	-6.9	-2.5	-23.9	-4.6	3.5	2.5	31.9
Imports of goods and services	5.8	1.5	-6.9	-1.9	-18.8	-6.5	-0.7	3.8	32.7
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	4.4	3.0	-5.3	-0.3	-5.4	-6.7	-8.5	-2.1	8.0
Net exports of goods and services	-1.2	0.0	-0.5	-0.6	-5.3	1.0	3.0	-0.6	0.8
Exports of goods and services	2.9	1.1	-5.1	-2.0	-17.8	-3.2	2.6	1.9	19.8
Imports of goods and services	-4.1	-1.1	4.7	1.3	12.5	4.2	0.5	-2.5	-19.0
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	6.1	4.3	7.7	5.0	9.3	6.4	10.0	3.4	1.3
Unit labor costs in manufacturing (nominal, per hour)	4.7	9.1	2.4	2.6	14.8	-1.7	-5.4	-4.8	-14.2
Labor productivity in manufacturing (real, per hour)	3.9	-0.8	2.7	3.1	-7.8	3.8	11.5	7.6	17.8
Labor costs in manufacturing (nominal, per hour)	8.8	8.2	4.7	5.8	5.8	2.0	5.5	2.4	1.1
Producer price index (PPI) in industry	0.7	1.7	0.6	0.1	1.0	0.1	1.1	2.3	3.3
Consumer price index (here: HICP)	2.0	2.6	3.3	3.7	3.3	3.5	2.7	2.2	2.8
EUR per 1 CZK, + = CZK appreciation	2.7	-0.1	-3.0	0.3	-5.1	-2.8	-4.1	-1.7	5.6
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	2.3	2.1	2.6	2.0	2.4	2.9	3.1	3.4	3.1
Employment rate (%, 15–64 years)	74.8	75.1	74.4	74.8	74.1	74.4	74.3	73.6	73.7
Key interest rate per annum (%)	1.1	1.9	0.8	2.0	0.6	0.3	0.3	0.3	0.3
CZK per 1 EUR	25.6	25.7	26.5	25.6	27.1	26.5	26.7	26.1	25.6
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	6.8	5.0	5.0	5.6	3.6	3.5	3.0	2.6	4.4
of which: loans to households	7.5	6.1	6.1	6.3	6.1	6.3	6.5	6.9	8.1
loans to nonbank corporations	5.8	3.8	3.8	4.8	0.7	0.1	-1.3	-2.7	-0.3
%									
Share of foreign currency loans in total loans to the non-bank private sector	14.1	14.5	14.6	16.9	16.0	16.1	14.6	14.8	13.5
Return on assets (banking sector)	1.1	1.2	0.6	0.7	0.7	0.6	0.6	0.5	0.7
Tier 1 capital ratio (banking sector)	19.1	20.8	23.6	20.9	22.5	22.6	23.6	23.4	23.9
NPL ratio (banking sector)	3.1	2.4	2.6	2.3	2.4	2.2	2.6	2.6	2.6
%									
General government revenues	41.5	41.7	41.3	..	..	..	..	..	..
General government expenditures	40.6	41.4	47.5	..	..	..	..	..	..
General government balance	0.9	0.3	-6.2	..	..	..	..	..	..
Primary balance	1.6	1.0	-5.4	..	..	..	..	..	..
Gross public debt	32.1	30.3	38.1	..	..	..	..	..	..
%									
Debt of nonfinancial corporations (nonconsolidated)	59.8	55.1	56.4	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	31.6	31.7	34.1	..	..	..	..	..	..
%									
<i>% of GDP (based on EUR), period total</i>									
Goods balance	3.7	4.1	5.0	4.9	2.2	5.4	7.3	6.8	3.0
Services balance	2.2	1.8	1.8	2.7	2.0	2.1	0.6	1.7	2.1
Primary income	-4.8	-5.0	-2.7	-0.3	-2.8	-1.0	-6.7	-1.8	-3.3
Secondary income	-0.7	-0.6	-0.5	-1.1	-0.2	-0.7	-0.1	-1.6	0.1
Current account balance	0.5	0.3	3.6	6.1	1.2	5.8	1.2	5.1	1.8
Capital account balance	0.2	0.4	1.3	1.4	1.5	1.3	0.8	-0.1	1.6
Foreign direct investment (net) ³	-0.9	-2.4	-1.3	0.5	-2.5	1.5	-4.4	2.4	-2.2
%									
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	81.3	76.5	76.1	72.1	74.2	73.6	76.1	76.1	73.0
Gross official reserves (excluding gold)	58.9	59.0	62.7	58.1	61.1	61.4	62.7	64.7	62.3
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	9.9	10.4	11.7	10.4	11.2	11.5	11.7	12.0	11.1
<i>EUR million, period total</i>									
GDP at current prices	210,881	225,579	215,282	53,488	49,847	55,150	56,797	53,136	59,668

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

7 Hungary: GDP bounces back accompanied by rising inflation

Hungary's GDP continued to recover during the reference period, and growth hit 17.9% during the second quarter of 2021. This was partially caused by the low base in the second quarter of 2020, when large parts of the economy were closed down due to the pandemic. Still, the economy showed very strong growth dynamics as well. On the domestic side, growth was driven by both investments and consumption. Strong investment growth was mainly caused by base effects. Growth was strongest for machinery and transport equipment, reflecting rising capacity utilization rates. Investments in dwellings expanded as well, supported by the strengthening of household credit growth and various government measures to underpin home construction and renovation. Private consumption benefited from some improvement on the labor market and the acceleration of real wage growth. Exports recovered more than imports during the reference period so that net real exports contributed strongly to growth.

According to the European Commission's latest forecast, Hungary's budget deficit should decline to 6.8% of GDP in 2021. This is lower than the government's deficit target, which was raised from 2.9% to 7.5% of GDP in May 2021. Various government measures will work toward a deterioration of the fiscal balance from 2021 onward, such as the refund of personal income tax paid by families in 2021 (if 2021 GDP growth exceeds 5.5%), personal income tax exemption for employees under the age of 25, stepped-up public investments, (at least) one further weekly installment of the 13th month pension as well as a pension premium and further reductions in employers' social tax. Notwithstanding heightened uncertainty about the timing and the magnitude of the EU funds available for Hungary, the government has pledged to prefinance projects, using the proceeds from three eurobond issues in mid-September.

HICP inflation has accelerated rapidly since the beginning of 2021 to 5.5% in September 2021 (i.e. well above the central bank's 3% \pm 1 percentage point target). The acceleration of inflation has partially been linked to increases in the tobacco tax and the sharp rise in energy prices. Nevertheless, inflation has also accelerated for nonenergy industrial goods and services, which has reflected unbalanced demand-supply conditions due to the lifting of COVID-19 restrictions, international supply chain disruptions, rapid wage growth and strong consumer demand. Against this background, Magyar Nemzeti Bank resumed a tightening cycle in June 2021. From June through October 2021, it raised the base rate in four steps from 0.6% to 1.8% and signaled further monthly rate hikes for the fourth quarter of 2021. It has also ended or reduced its various quantitative easing programs (e.g. Funding For Growth Go! (F4G), long-term covered loans for banks, forint-providing foreign currency swaps, government bond purchases). At the beginning of August, it launched a new green mortgage bond purchase program and resumed rolling over maturing nongreen mortgage bonds, while it raised the volume of its corporate bond purchase program. In order to additionally support demand for green assets, it has granted green securities preferential treatment as eligible collateral since September 2021. In early October 2021 it also started a new green home program subject to the same preferential conditions as used in the F4G programs. The government extended the existing loan repayment moratorium until mid-2022 for selected debtor groups (e.g. pensioners, people raising children and people with decreased income and companies with revenue loss of at least 25%) and ordered banks to retroactively recalculate interest on credit card debt and overdraft credit under the moratorium at more favorable interest rates for the debtors.

Table 7

Main economic indicators: Hungary

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	5.4	4.6	-5.0	2.1	-13.3	-4.6	-3.5	-2.1	17.9
Private consumption	5.1	5.1	-2.3	4.7	-7.3	-2.6	-3.6	-4.7	10.4
Public consumption	1.7	4.0	-1.0	0.6	-2.5	-0.7	-1.3	6.2	2.8
Gross fixed capital formation	16.4	12.8	-7.3	-4.1	-10.9	-13.7	1.3	-0.1	8.3
Exports of goods and services	5.0	5.8	-6.8	0.4	-23.6	-4.8	1.1	3.3	33.0
Imports of goods and services	7.0	8.2	-4.4	2.7	-15.2	-4.7	-0.4	1.1	23.4
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	6.6	6.3	-2.9	4.0	-5.6	-4.4	-4.7	-4.1	11.5
Net exports of goods and services	-1.2	-1.7	-2.1	-1.9	-7.7	-0.2	1.2	2.0	6.5
Exports of goods and services	4.3	4.9	-5.6	0.3	-19.7	-3.9	0.8	2.9	24.0
Imports of goods and services	-5.5	-6.5	3.5	-2.2	12.0	3.7	0.3	-0.9	-17.5
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	3.4	3.0	8.1	4.6	14.7	6.5	6.5	8.5	-3.1
Unit labor costs in manufacturing (nominal, per hour)	7.4	6.4	8.4	6.3	25.5	1.9	0.4	-0.7	-15.9
Labor productivity in manufacturing (real, per hour)	1.5	4.3	-0.1	2.3	-11.9	2.5	6.3	4.6	20.7
Labor costs in manufacturing (nominal, per hour)	9.0	10.9	7.6	8.7	10.5	4.5	6.7	3.8	1.5
Producer price index (PPI) in industry	5.6	2.2	4.3	4.1	2.8	4.0	6.1	8.0	10.9
Consumer price index (here: HICP)	2.9	3.4	3.4	4.4	2.5	3.8	2.9	3.3	5.3
EUR per 1 HUF, + = HUF appreciation	-3.0	-2.0	-7.4	-6.3	-8.2	-7.2	-7.9	-6.1	-0.8
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	3.8	3.5	4.3	3.8	4.7	4.5	4.2	4.5	4.1
Employment rate (%, 15–64 years)	69.3	70.1	69.7	69.7	68.7	70.2	70.2	71.8	72.8
Key interest rate per annum (%)	0.9	0.9	0.8	0.9	0.9	0.6	0.6	0.6	0.6
HUF per 1 EUR	318.8	325.2	351.2	339.1	351.7	353.6	360.5	361.0	354.7
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	9.9	12.5	12.5	15.3	11.1	10.3	11.0	8.7	10.5
of which: loans to households	5.8	15.5	15.5	18.0	18.5	14.9	14.1	13.4	15.5
loans to nonbank corporations	13.1	10.4	10.4	13.5	6.2	7.1	8.8	5.4	6.8
<i>%</i>									
Share of foreign currency loans in total loans to the non-bank private sector	24.0	23.8	22.3	25.6	24.4	23.4	22.3	21.9	20.0
Return on assets (banking sector)	1.4	1.2	0.4	0.2	0.3	0.5	0.4	1.1	1.3
Tier 1 capital ratio (banking sector)	17.8	16.4	17.4	15.6	15.7	15.8	17.4	17.3	17.2
NPL ratio (banking sector)	2.2	2.6	2.4	2.5	2.9	2.8	2.4	2.3	2.2
<i>% of GDP</i>									
General government revenues	43.8	43.6	43.5	..	..	..	..	..	..
General government expenditures	45.9	45.7	51.6	..	..	..	..	..	..
General government balance	-2.1	-2.1	-8.1	..	..	..	..	..	..
Primary balance	0.2	0.1	-5.7	..	..	..	..	..	..
Gross public debt	69.1	65.5	80.4	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	63.9	62.5	66.1	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	17.6	18.1	20.2	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-1.7	-2.5	-1.0	-1.2	-2.7	-0.4	-0.1	3.7	-1.4
Services balance	5.9	4.9	2.8	4.1	1.2	4.1	1.7	2.0	3.6
Primary income	-3.7	-2.5	-2.6	-2.6	-2.7	-2.8	-2.5	-3.9	-3.2
Secondary income	-0.4	-0.5	-0.7	-1.3	-0.9	-0.3	-0.4	-1.2	-1.1
Current account balance	0.2	-0.7	-1.6	-1.0	-5.1	0.7	-1.4	0.6	-2.1
Capital account balance	2.3	1.9	2.0	1.7	2.1	2.1	2.1	1.6	1.2
Foreign direct investment (net) ³	-1.9	-0.5	-1.6	-3.1	-2.7	-1.6	0.6	0.2	0.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	79.3	72.5	80.5	70.9	77.3	80.2	80.5	86.0	84.0
Gross official reserves (excluding gold)	19.3	18.5	23.6	16.6	20.4	22.2	23.6	20.4	18.5
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	2.9	2.8	3.6	2.5	3.1	3.4	3.6	3.1	2.8
<i>EUR million, period total</i>									
GDP at current prices	135,815	145,963	135,796	32,567	30,831	34,681	37,718	32,048	37,780

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

8 Poland: modest rate hike to keep inflation from becoming entrenched above target

GDP in Poland grew at an annual rate of 4.8% in the first half of 2021, as in the second quarter the base effect lifted year-on-year growth to almost 11% from negative territory, while quarter-on-quarter growth accelerated to 2.1% from 1.3% in the first quarter. Both domestic and foreign demand contributed to quarter-on-quarter growth in the final quarter of 2020 and the first two quarters of 2021, although export growth paused in the first quarter. As quarterly import growth was more sustained, the contribution of net exports to both annual and quarterly GDP growth was negative. However, in balance of payment terms, the goods and services balance was largely unchanged compared to the previous year. With both the primary and secondary income balance deficit rising, the current account surplus declined by 2.5 percentage points to 1.2% of GDP in the first half of 2021. The capital account surplus and stable positive net FDI inflows amounted to 1.4% and 3.2% of GDP, respectively. Regarding domestic demand, private consumption showed quarter-on-quarter growth accelerating to 2.8% in the second quarter from 1.7% in the first. The relatively high saving rate of previous periods, rising employment and substantially improved consumer confidence supported growth. Annual growth was lifted by a base effect. Gross fixed capital formation showed a highly volatile quarter-on-quarter growth pattern, rising at a double-digit rate in the first quarter and shrinking at a similar rate in the second quarter of 2021. Hence, its annual growth was quite modest in the first half of 2021 despite the favorable base effect. Both capacity utilization and the gross profit share of non-financial corporations rose to almost pre-pandemic levels, which will boost investment going forward.

In manufacturing, nominal ULC declined more in Poland than in the euro area in both quarters, while the zloty's value in euro has remained stable. According to the HICP (and national CPI) definition, annual headline inflation rose from 3.6% (2.4%) in February to 5.6% (5.9%) in September 2021. In parallel, core inflation stood at 4.2% (3.7%) in February and came in at 4.3% (4.2%) in September 2021. Services continue to be the main inflation-driving category within core inflation. The Monetary Policy Council (MPC), pursuing a CPI inflation target of 2.5% \pm 1 percentage point, maintained an asymmetric band with its main policy rate (seven-day open-market rate) at 0.1%, the deposit rate at 0.0% and the lombard rate at 0.5%. On October 6, it raised the main policy rate to 0.5% and the lombard rate to 1.0%, re-establishing a symmetric band. It argued that, even though the impact of some supply-side factors that are currently increasing inflation would fade next year, inflation may remain elevated longer than expected, amid further economic recovery and favorable labor market conditions, and this would generate a risk of inflation staying above the inflation target in the medium term. In parallel, the MPC continued its open-ended outright purchases of government(-guaranteed) debt securities in the secondary market with flexible scale. The accepted bids implied a rise in the average three-year government bond yields by 0.5 percentage points to 0.9% and in the ten-year segment by 1.1 percentage points to 2.6% from March to September 2021.

Regarding fiscal policy, the European Commission, in May, forecast a decline in the general government deficit to 4.3% of GDP in 2021 and a decrease in general government debt to 57% of GDP. Apart from growth effects and the easing of the pandemic, revenues are set to rise by 0.4% of GDP due to a new sugar tax, retail tax and power fee, while expenditures are scheduled to rise due to a one-off 14th pension benefit.

Table 8

Main economic indicators: Poland

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	5.4	4.7	-2.5	2.1	-7.8	-1.7	-2.6	-1.2	10.8
Private consumption	4.5	3.9	-2.9	1.0	-10.4	0.3	-3.0	-0.2	13.2
Public consumption	3.5	6.5	4.9	3.2	3.9	3.6	8.2	1.1	2.7
Gross fixed capital formation	9.4	6.1	-9.0	2.3	-8.9	-7.0	-15.3	1.3	5.2
Exports of goods and services	6.9	5.2	0.1	3.2	-13.4	2.2	8.2	6.8	29.0
Imports of goods and services	7.4	3.0	-1.2	1.6	-15.8	0.7	8.5	10.8	34.4
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	5.3	3.5	-3.2	1.1	-8.4	-2.6	-2.8	0.3	11.3
Net exports of goods and services	0.0	1.3	0.7	1.0	0.5	0.8	0.3	-1.6	-0.3
Exports of goods and services	3.8	2.9	0.1	1.9	-7.6	1.2	4.2	4.0	15.3
Imports of goods and services	-3.8	-1.6	0.6	-0.9	8.1	-0.4	-3.9	-5.5	-15.6
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	3.1	2.4	6.3	3.9	10.1	4.3	7.1	7.4	-0.9
Unit labor costs in manufacturing (nominal, per hour)	4.7	4.2	4.9	6.1	15.5	-1.0	-0.8	-3.8	-13.1
Labor productivity in manufacturing (real, per hour)	3.1	2.4	1.6	2.1	-7.8	4.8	7.2	9.9	23.3
Labor costs in manufacturing (nominal, per hour)	8.0	6.7	6.2	8.4	6.5	3.7	6.4	5.7	7.1
Producer price index (PPI) in industry	2.1	1.3	-0.5	0.3	-1.2	-1.0	-0.1	2.5	6.6
Consumer price index (here: HICP)	1.2	2.1	3.7	3.9	3.4	3.7	3.6	3.9	4.6
EUR per 1 PLN, + = PLN appreciation	-0.1	-0.9	-3.3	-0.5	-4.9	-2.7	-4.9	-4.9	-0.6
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	3.9	3.4	3.2	3.2	3.2	3.3	3.2	4.1	3.6
Employment rate (%, 15–64 years)	67.4	68.2	68.7	68.4	67.9	69.0	69.4	69.2	70.0
Key interest rate per annum (%)	1.5	1.5	0.5	1.4	0.4	0.1	0.1	0.1	0.1
PLN per 1 EUR	4.3	4.3	4.4	4.3	4.5	4.4	4.5	4.5	4.5
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	6.4	5.0	5.0	4.7	1.5	-0.8	-1.2	-2.2	0.3
of which: loans to households	5.6	5.6	5.6	5.1	2.9	2.1	1.6	1.3	3.0
loans to nonbank corporations	7.6	4.1	4.1	4.1	-0.9	-5.6	-6.0	-8.0	-4.4
<i>%</i>									
Share of foreign currency loans in total loans to the non-bank private sector	20.8	19.2	19.6	20.2	19.8	19.6	19.6	19.3	18.1
Return on assets (banking sector)	0.7	0.7	0.0	0.3	0.3	0.4	0.0	0.4	0.5
Tier 1 capital ratio (banking sector)	17.1	17.0	18.9	16.3	18.0	18.4	18.9	18.9	18.3
NPL ratio (banking sector)	6.8	6.6	7.0	6.7	6.9	7.0	7.0	6.7	6.5
<i>% of GDP</i>									
General government revenues	41.3	41.1	41.7	..	..	..	..	..	..
General government expenditures	41.5	41.8	48.7	..	..	..	..	..	..
General government balance	-0.2	-0.7	-7.0	..	..	..	..	..	..
Primary balance	1.2	0.7	-5.7	..	..	..	..	..	..
Gross public debt	48.8	45.6	57.5	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	46.0	45.2	45.6	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	34.7	34.7	33.9	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-1.2	0.3	2.4	0.8	3.0	2.4	3.3	2.1	1.6
Services balance	4.3	4.5	4.4	4.9	4.3	4.3	4.0	4.5	4.6
Primary income	-4.0	-4.0	-3.5	-2.0	-3.3	-4.6	-4.1	-3.5	-5.4
Secondary income	-0.3	-0.3	-0.3	-0.6	0.4	-0.2	-0.7	-1.0	-0.5
Current account balance	-1.3	0.5	2.9	3.1	4.4	1.9	2.5	2.1	0.3
Capital account balance	2.1	2.0	2.3	1.5	2.9	1.4	3.3	0.6	2.2
Foreign direct investment (net) ³	-2.6	-1.9	-2.1	-4.7	-1.6	-1.7	-0.6	-5.1	-1.5
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	63.6	59.0	57.9	56.3	56.9	57.1	57.9	58.8	56.9
Gross official reserves (excluding gold)	19.6	19.6	21.8	18.4	19.6	20.3	21.8	23.7	22.7
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.5	4.6	5.3	4.4	4.8	5.0	5.3	5.7	5.2
<i>EUR million, period total</i>									
GDP at current prices	497,645	533,674	523,576	129,430	117,617	131,573	144,956	129,210	136,237

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

9 Romania: vivid economic recovery so far, but persistent twin deficits and rising inflation

The Romanian economy has continued to recover quickly in the first half of 2021. As a result, seasonally adjusted quarterly real GDP already surpassed the pre-lock-down level in the second quarter of 2021. The re-introduction of some restrictions to contain the spread of the coronavirus in the first few months of the year was followed by reopening steps. The vaccination progress has remained comparatively modest and stagnated over the summer months. In early October 2021, the government tightened restrictions in response to strongly rising infection numbers.

Rebounding private consumption was an important pillar of the rapid recovery, as pent-up demand was released, economic sentiment brightened, and real wages were on the rise. Yet, while the year-on-year growth rate rose steeply in the second quarter of 2021 due to base effects, private consumption in fact contracted in quarter-on-quarter terms. Gross fixed capital formation expanded further in the first half of 2021. In parallel, domestic credit growth accelerated, partly benefiting from government guarantee schemes available for households (new home program) and companies. So far, the NPL ratio has ticked up only marginally from the post-2008 low reached at end-2020. Alongside recovering external demand, real exports grew further in the first half of 2021 resulting in a formidable year-on-year growth rate in the second quarter. It is worth noting that the export-oriented automotive sector was still constrained by semiconductor shortages. As imports rose as well, the GDP contribution of net exports remained negative.

The general government budget plan for 2021 was initially built on a real GDP growth projection of 4.3%. Though this projection was raised to 7% in the context of the budget revision (endorsed in early September 2021), the cash deficit projection was lowered only marginally (from 7.16% of GDP to 7.13% of GDP; around 8% in ESA terms). The increase of expenditures in parallel to higher than expected revenues was criticized by Romania's Fiscal Council. Meanwhile, a dispute over a local investment plan triggered the collapse of the government coalition. Within the framework of the excessive deficit procedure, Romania should put an end to the excessive deficit situation by 2024 at the latest and gradually reduce its deficit until then. The European Council established the deadline of October 15, 2021, for Romania to report its consolidation strategy. It is noteworthy that the European Commission endorsed Romania's EUR 29.2 billion recovery and resilience plan in late September 2021, but it is still subject to Council approval.

The considerably increasing deficit in the goods and services balance and the rising deficit in the primary income balance (due to reinvested earnings) were the main drivers behind the marked increase in the current account deficit in the first half of 2021. As the surplus in the capital account fell due to lower inflows of EU funds, the deterioration was even more pronounced in the combined current and capital account. Rising net FDI inflows covered 55% of this shortfall.

Consumer price inflation climbed to 6.3% in September 2021, largely driven by a rise in energy prices. Hence, it markedly exceeded the upper bound of the inflation target variation band of $2.5\% \pm 1$ percentage point. Core inflation rose from about 3% in early 2021 to 3.2% in August 2021. In early October, the National Bank of Romania hiked its key policy rate by 25 basis points to 1.5%. Government bond purchases on the secondary market (introduced during the first wave of the pandemic) had already been stopped earlier this year.

Table 9

Main economic indicators: Romania

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	4.5	4.1	-3.9	2.4	-10.0	-5.6	-1.4	-0.2	13.0
Private consumption	7.6	4.0	-4.9	3.8	-12.6	-4.3	-6.2	0.9	10.1
Public consumption	4.6	7.3	1.8	4.5	4.3	-2.1	1.9	-4.4	2.5
Gross fixed capital formation	-1.0	12.8	7.2	17.4	2.6	6.0	6.5	11.7	12.0
Exports of goods and services	5.3	4.0	-9.6	-1.7	-28.8	-5.2	-1.8	1.0	41.0
Imports of goods and services	8.7	7.1	-5.8	2.5	-22.6	-3.9	2.3	3.9	40.3
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	6.1	5.3	-2.2	5.0	-7.9	-5.1	0.2	3.6	12.4
Net exports of goods and services	-1.6	-1.2	-1.6	-2.8	-1.8	-0.8	-1.6	-2.7	-1.9
Exports of goods and services	2.2	1.9	-3.9	-0.4	-11.8	-2.7	-1.2	0.3	12.9
Imports of goods and services	-3.8	-3.1	2.3	-2.4	10.0	1.9	-0.4	-2.9	-14.7
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	8.5	6.3	9.4	6.6	11.7	12.4	7.4	-6.1	-12.4
Unit labor costs in manufacturing (nominal, per hour)	7.0	13.2	5.9	11.5	8.1	2.9	1.7	0.1	0.7
Labor productivity in manufacturing (real, per hour)	5.5	-0.8	0.4	-1.7	-5.0	1.7	6.8	5.3	11.4
Labor costs in manufacturing (nominal, per hour)	12.8	12.4	6.4	9.6	2.7	4.7	8.6	5.4	12.1
Producer price index (PPI) in industry	5.0	4.0	0.0	2.7	-1.4	-0.8	-0.5	2.3	10.1
Consumer price index (here: HICP)	4.1	3.9	2.3	3.1	2.1	2.4	1.8	2.3	3.1
EUR per 1 RON, + = RON appreciation	-1.8	-1.9	-1.9	-1.3	-1.9	-2.3	-2.1	-1.7	-1.7
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	4.3	4.0	5.2	4.4	5.5	5.4	5.4	6.1	5.1
Employment rate (%, 15–64 years)	64.8	65.8	65.6	65.4	65.2	66.0	65.8	60.8	62.4
Key interest rate per annum (%)	2.4	2.5	1.9	2.4	1.9	1.6	1.5	1.3	1.3
RON per 1 EUR	4.7	4.7	4.8	4.8	4.8	4.8	4.9	4.9	4.9
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	7.9	5.5	5.5	6.2	3.1	3.2	4.8	6.2	10.6
of which: loans to households	9.1	6.7	6.7	7.1	5.3	4.8	4.2	4.6	7.5
loans to nonbank corporations	6.6	4.2	4.2	5.3	0.6	1.4	5.5	7.9	14.3
<i>%</i>									
Share of foreign currency loans in total loans to the non-bank private sector	34.0	32.4	30.5	32.8	32.2	31.4	30.5	29.9	28.9
Return on assets (banking sector)	1.6	1.4	1.0	1.3	1.1	1.2	1.0	1.3	1.4
Tier 1 capital ratio (banking sector)	18.6	20.1	23.2	18.5	20.7	20.8	23.2	22.7	22.1
NPL ratio (banking sector)	5.0	4.1	3.8	3.9	4.4	4.1	3.8	3.9	3.8
<i>% of GDP</i>									
General government revenues	31.9	31.8	33.1	..	..	..	..	..	..
General government expenditures	34.9	36.2	42.4	..	..	..	..	..	..
General government balance	-2.9	-4.4	-9.2	..	..	..	..	..	..
Primary balance	-1.9	-3.2	-7.9	..	..	..	..	..	..
Gross public debt	34.7	35.3	47.3	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	32.9	32.3	32.7	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	15.8	15.4	16.0	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-7.5	-8.0	-8.8	-9.9	-9.5	-8.0	-8.2	-11.3	-9.7
Services balance	4.1	3.9	4.3	4.8	4.8	4.2	3.7	4.6	4.0
Primary income	-1.8	-1.4	-1.7	2.1	-2.8	-3.5	-1.9	0.2	-3.4
Secondary income	0.6	0.7	0.9	0.7	0.8	0.8	1.2	0.1	0.6
Current account balance	-4.6	-4.9	-5.2	-2.2	-6.6	-6.5	-5.2	-6.3	-8.4
Capital account balance	1.2	1.3	1.9	2.6	1.7	1.0	2.4	1.1	1.4
Foreign direct investment (net) ³	-2.4	-2.2	-0.8	0.9	-3.0	-0.9	-0.5	-4.5	-2.8
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	48.8	49.2	57.8	48.6	51.8	54.3	57.8	56.6	57.0
Gross official reserves (excluding gold)	16.2	14.7	17.2	15.1	15.9	15.0	17.2	16.3	16.3
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.3	4.0	4.9	4.1	4.5	4.3	4.9	4.6	4.4
<i>EUR million, period total</i>									
GDP at current prices	204,493	222,921	218,009	45,470	46,626	58,719	67,194	46,128	54,589

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

10 Turkey: strong growth amid weaker currency, rising inflation and lower external deficit

GDP in Turkey grew annually at 14.1% in the first half of 2021, as in the second quarter a base effect lifted growth to more than 20%. In terms of total final demand, it was mainly domestic demand (excluding inventory change) that contributed positively to growth, while foreign demand played a complementary role. Within domestic demand, both private consumption and fixed investment grew strongly, with the particularly large weight of private consumption implying a larger contribution. Fixed investment was supported by state bank credit. Foreign demand growth stabilized in quarter-on-quarter terms after having grown at double-digit quarterly rates in the first half of 2020. Annual growth of all these three major demand components were lifted by a base effect in the first half of 2021. While this is true also for imports, the sharp decline in gold imports resulted in a comparatively lower import growth rate. This import growth dampening did not imply higher GDP growth, because the decline of gold imports implied smaller inventory buildup and hence a negative contribution of inventory change to growth. But the net export contribution to growth in the first half of 2021 was substantially smaller without the effect of the change in gold imports, albeit still clearly positive (4.1 percentage points). The goods and services balance was negative at –1.9% of GDP in the first half of 2021 and the current account deficit reached 3.5% of GDP. While net FDI inflows stood almost unchanged at 0.7% of GDP and net portfolio investment flows were minor, the large buildup of other investment liabilities financed not only the increase of foreign assets but also a large part of the current account deficit, effectively substituting for the foreign portfolio capital outflow in 2020.

Following the hike of the key policy rate by 200 basis points to 19% at mid-March 2021 and the ensuing dismissal of the central bank's governor by the Turkish president, the lira depreciated by 17% in euro terms until June 2021, more than reversing the previous appreciation since October 2020. This depreciation was not accompanied by rising gold imports, possibly due to fungibility considerations following rumors of potential gold deposit nationalization. In parallel, official foreign currency reserves declined until May. From June, the lira stabilized and reserves recovered in view of rising European vaccination rates and an improved tourism outlook as well as further swap agreements (e.g. with the People's Bank of China). At end-August 2021, reserves stood at the highest level since February 2020, covering three months of imports. Inflation was roughly stable in spring 2021, after previous monetary tightening and lira appreciation, then rose again in June and July 2021, reflecting the renewed depreciation, and reached 17.1% (core) and 19.2% (headline) in August 2021. After the supervisory authority had extended forbearance rules until end-September, it tightened rules on consumer loans in July. The Turkish central bank tightened reserve requirement ratios in July and mid-September, but on September 23 it lowered the key rate to 18%, pointing to the stabilization of core inflation, supply constraints, hikes in administered prices and signs of loan contraction.

According to a forecast published in early May, the European Commission expects the budget deficit to contract to 4% of GDP in 2021. The ban on layoffs and the partial short-time labor payments phased out by end-March were re-introduced until end-June in the wake of a further three-week lockdown from end-April. Together with one-off payments to agriculture and several sectors hit by that lockdown, these expenditures may prevent the deficit from shrinking in 2021.

Table 10

Main economic indicators: Turkey

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	3.0	0.9	1.8	4.4	-10.4	6.3	6.2	7.2	21.7
Private consumption	0.6	1.5	3.2	5.0	-9.2	8.5	7.9	7.0	22.9
Public consumption	6.5	4.1	2.2	2.9	-0.3	2.0	3.7	0.7	4.2
Gross fixed capital formation	-0.2	-12.4	7.2	-0.6	-5.9	22.6	11.7	12.4	20.3
Exports of goods and services	8.8	4.6	-14.8	-1.1	-36.4	-21.4	0.5	3.0	59.9
Imports of goods and services	-6.2	-5.4	7.6	21.6	-8.0	16.4	3.0	-1.8	19.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	1.2	-2.1	4.0	3.3	-6.9	10.4	8.1	7.4	19.7
Net exports of goods and services	3.8	2.5	-5.7	-4.8	-7.9	-9.6	-0.7	1.2	7.0
Exports of goods and services	2.1	1.2	-4.0	-0.3	-9.7	-5.9	0.1	0.8	11.3
Imports of goods and services	1.7	1.3	-1.8	-4.5	1.8	-3.7	-0.8	0.4	-4.3
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	18.0	21.9	10.0	16.0	13.6	3.6	6.9	8.8	12.9
Labor productivity in manufacturing (real, per hour)	1.7	1.7	8.2	3.9	13.6	6.9	8.3	5.1	-6.5
Labor costs in manufacturing (nominal, per hour)	20.4	23.8	18.9	20.5	29.0	10.7	15.8	14.3	5.6
Producer price index (PPI) in industry	27.0	17.6	12.2	8.9	6.1	11.4	22.2	28.2	38.8
Consumer price index (here: HICP)	16.3	15.2	12.3	12.1	11.7	11.8	13.5	15.6	17.1
EUR per 1 TRY, + = TRY appreciation	-27.7	-10.4	-21.0	-9.4	-12.7	-25.5	-31.8	-24.3	-25.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	11.1	14.0	13.4	13.9	13.1	13.4	13.0	13.8	12.0
Employment rate (%, 15–64 years)	52.0	50.3	47.5	47.6	45.9	48.8	47.7	48.0	49.7
Key interest rate per annum (%)	15.5	20.6	10.2	11.0	8.8	8.4	12.5	17.3	19.0
TRY per 1 EUR	5.7	6.4	8.0	6.7	7.6	8.5	9.4	8.9	10.1
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	12.0	11.0	36.3	15.2	29.1	41.3	36.3	31.9	20.7
of which: loans to households	3.2	15.9	40.1	23.4	36.4	48.4	40.1	35.4	24.9
loans to nonbank corporations	15.0	9.5	35.0	12.9	27.0	39.1	35.0	30.8	19.4
%									
Share of foreign currency loans in total loans to the nonbank private sector	38.5	35.2	30.9	34.8	31.7	32.0	30.9	32.4	32.8
Return on assets (banking sector)	1.5	1.1	1.0	1.3	1.2	1.2	1.0	1.0	1.0
Tier 1 capital ratio (banking sector)	13.4	13.9	14.1	13.3	14.8	14.5	14.1	13.4	13.2
NPL ratio (banking sector)	4.1	5.7	4.4	5.3	4.7	4.4	4.4	4.1	3.9
%									
General government revenues	31.9	29.5	30.4	..	..	..	..	..	..
General government expenditures	34.7	34.0	34.9	..	..	..	..	..	..
General government balance	-2.8	-4.5	-4.5	..	..	..	..	..	..
Primary balance	0.1	-1.9	-1.6	..	..	..	..	..	..
Gross public debt	30.4	32.6	39.5	..	..	..	..	..	..
%									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs ¹ (nonconsolidated)	..	..	..	..	..	..	..	..	..
%									
<i>% of GDP (based on EUR), period total</i>									
Goods balance	-5.1	-2.2	-5.3	-5.5	-5.7	-5.7	-4.4	-3.7	-3.4
Services balance	3.9	4.7	1.3	2.0	-0.6	1.8	1.8	1.3	2.0
Primary income	-1.5	-1.7	-1.2	-1.4	-1.8	-0.8	-1.0	-1.5	-1.9
Secondary income	0.1	0.1	0.0	-0.2	0.0	0.2	0.1	0.1	0.2
Current account balance	-2.7	0.9	-5.2	-5.0	-8.2	-4.5	-3.6	-3.9	-3.1
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net) ²	-1.2	-0.8	-0.6	-1.2	-0.1	-0.6	-0.7	-0.7	-0.6
%									
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	57.8	54.7	53.9	53.8	52.9	52.8	53.9	54.1	53.0
Gross official reserves (excluding gold)	9.6	10.3	6.5	8.1	6.3	5.0	6.5	6.5	7.5
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	3.6	4.1	2.4	3.2	2.5	1.9	2.4	2.4	2.7
<i>EUR million, period total</i>									
GDP at current prices	662,417	678,772	625,264	158,869	137,101	167,165	162,128	155,820	156,088

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Nonprofit institutions serving households.² + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).

11 Russia: recovery driven by strong domestic demand and favorable oil price development

After contracting by 0.7% in the first quarter of 2021 (year on year), Russian GDP recovered strongly by 10.5% in the second quarter, given the base effect of the severe lockdown in April and May 2020. While private consumption had still declined by 2.8% in the first quarter, it skyrocketed by 27.8% in the second quarter. Fixed investment stagnated (–0.4%) in January to March, before expanding by 12.8% in April to June 2021. Government consumption growth, which had given an anticyclical boost to the economy during the recession of 2020, slowed down in the first half of 2021. Overall, strong domestic demand recovery fueled an import expansion, resulting in a negative contribution of net exports to growth.

Russia's economy also benefited from the oil price upswing, helped by the global economic recovery and the OPEC+ agreement. Thus, the average Urals price rose by 60% to USD 65 per barrel in the first eight months of 2021 against the corresponding period of 2020. According to the Bank of Russia, GDP had already reattained its pre-pandemic level in the second quarter of 2021. The unemployment rate (ILO definition) declined from a peak of 6.5% in September 2020 to a pre-pandemic level of 4.4% in August 2021. While vaccination has only been proceeding sluggishly in Russia (by October 2021, about 33% of the population had been vaccinated at least once), and new infections remain at an elevated level, only few new restrictions have been introduced recently.

CPI inflation continued to climb, from 5.8% in March to 7.4% in September 2021. This inflation level is substantially higher than the monetary authority's target of 4.0%. Price rises have been pushed by the strong rebound in domestic demand, some structural supply and labor market bottlenecks, increasing global commodity prices, somewhat poor crop harvests and by persistently high inflationary expectations. The Bank of Russia reacted by substantially tightening its monetary stance: the key rate was raised in five consecutive steps (in March, April, June, July and September) from a record low of 4.25% to 6.75%. The monetary authority has not excluded further tightening.

Buoyed by the recovery of the oil price and rising proceeds, the federal budget balance switched back to a surplus (estimated at about 1.5% of pro-rata GDP in the first eight months of 2021). Moreover, the authorities have so far maintained somewhat higher spending than originally set out in their fiscal guidelines (aimed at phasing out the stimulus launched in 2020). As of end-August 2021, the assets of the National Welfare Fund, most of which are included in Russia's international reserves, came to EUR 161 billion, 60% of which are liquid assets.

The substantial oil price rise also drove back up Russia's current account surplus in January to June 2021 to 5.4% of pro-rata GDP. Net private capital outflows reached about last year's level (3.5% of GDP). While Russia's gross foreign debt in the first six months rose by 3% to EUR 402 billion, its international reserves (excluding gold) rose by 4% to a level of EUR 388 billion (29.8% of GDP).

Although the temporary regulatory forbearance linked to the coronavirus crisis expired at end-June 2021, the elevated NPL ratio hardly budged (end-July 2021, broader definition: 16.2%). Lending continued to be driven by loans to households (+20.3% in the second quarter of 2021), particularly by subsidized mortgage lending and by unsecured consumer loans. The Bank of Russia is implementing measures to rein in lending in these two risky subsectors. Given very low real interest rates, deposits have grown more sluggishly, with retail deposits even slightly contracting.

Table 11

Main economic indicators: Russia

	2018	2019	2020	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
<i>Year-on-year change of period total in %</i>									
GDP at constant prices	2.8	2.0	-3.0	1.4	-7.8	-3.5	-1.8	-0.7	10.5
Private consumption	4.2	3.1	-8.5	2.2	-21.5	-9.0	-5.7	-2.8	27.8
Public consumption	1.3	2.4	4.0	3.6	4.1	4.2	4.1	0.3	1.0
Gross fixed capital formation	0.6	1.5	-4.3	-0.5	-6.7	-7.9	-2.1	-0.4	12.8
Exports of goods and services	5.6	0.7	-4.3	-2.4	0.1	-8.1	-6.5	-2.4	-2.7
Imports of goods and services	2.7	3.4	-12.0	1.8	-22.6	-19.9	-5.5	-2.1	31.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	2.1	2.9	-4.5	2.6	-13.4	-6.1	-0.9	-0.5	16.3
Net exports of goods and services	0.8	-0.6	1.7	-1.1	5.5	2.9	-0.3	-0.2	-7.3
Exports of goods and services	1.5	0.2	-1.2	-0.7	0.0	-2.1	-1.7	-0.7	-0.8
Imports of goods and services	-0.6	-0.8	2.9	-0.4	5.5	5.0	1.3	0.5	-6.5
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	1.8	3.9	8.3	5.9	11.1	9.3	6.5	6.8	0.8
Labor productivity in manufacturing (real, per hour)	4.8	3.7	-2.0	1.9	-6.2	-3.4	-0.6	0.6	10.9
Labor costs in manufacturing (nominal, per hour)	6.6	7.8	5.9	8.0	4.1	5.6	5.9	7.3	11.9
Producer price index (PPI) in industry	12.1	2.3	-3.7	-2.4	-12.1	-1.9	1.6	10.5	31.1
Consumer price index (here: HICP)	3.0	4.6	3.4	2.5	3.2	3.6	4.5	5.5	6.0
EUR per 1 RUB, + = RUB appreciation	-11.0	2.2	-12.3	1.6	-8.9	-16.8	-22.4	-17.9	-11.0
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	4.8	4.6	5.8	4.7	6.0	6.3	6.1	5.6	5.0
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	7.4	7.3	5.0	6.1	5.5	4.3	4.3	4.3	5.0
RUB per 1 EUR	74.1	72.5	82.6	73.7	79.7	86.3	90.9	89.7	89.5
<i>Nominal year-on-year change in period-end stock in %</i>									
Loans to the domestic nonbank private sector ¹	10.7	10.6	10.6	10.1	8.9	9.9	9.6	9.4	12.7
of which: loans to households	21.8	19.0	19.0	16.8	12.0	12.9	12.9	13.5	20.3
loans to nonbank corporations	6.6	7.1	7.1	7.1	7.5	8.5	8.0	7.5	9.3
%									
Share of foreign currency loans in total loans to the non-bank private sector	14.6	11.8	12.6	13.5	12.4	13.3	12.6	12.3	10.8
Return on assets (banking sector)	1.5	2.2	1.9	2.4	1.6	1.8	1.9	2.4	2.5
Tier 1 capital ratio (banking sector)	8.8	9.2	9.7	10.0	10.5	10.4	9.7	10.8	10.3
NPL ratio (banking sector)	17.8	17.0	17.1	16.9	17.4	17.4	17.1	17.0	16.2
%									
General government revenues	35.9	36.2	35.7	..	..	..	..	..	..
General government expenditures	33.0	34.2	39.7	..	..	..	..	..	..
General government balance	2.9	1.9	-4.0	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	12.1	12.4	17.7	..	..	..	..	..	..
%									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs ² (nonconsolidated)	..	..	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Goods balance	11.8	9.8	6.2	8.9	5.0	4.9	5.9	8.0	9.4
Services balance	-1.8	-2.2	-1.2	-1.8	-0.6	-1.0	-1.3	-0.7	-1.0
Primary income	-2.4	-3.2	-2.3	-0.6	-3.6	-2.6	-2.8	-0.3	-4.0
Secondary income	-0.5	-0.6	-0.4	-0.3	-0.4	-0.4	-0.3	-0.5	-0.1
Current account balance	7.0	3.8	2.3	6.2	0.4	0.9	1.5	6.5	4.4
Capital account balance	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	0.1	-0.1
Foreign direct investment (net) ³	1.4	-0.6	-0.2	1.2	-0.5	-1.4	-0.2	1.0	0.7
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	28.4	29.5	30.1	27.9	30.4	29.3	30.1	31.7	30.8
Gross official reserves (excluding gold)	23.8	26.2	28.8	26.7	27.0	27.6	28.8	30.4	29.8
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	13.7	15.0	16.8	15.2	15.6	16.2	16.8	17.5	16.7
<i>EUR million, period total</i>									
GDP at current prices	1,399,811	1,510,646	1,293,140	335,903	297,025	319,507	340,705	298,386	344,760

Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiw, OeNB.

¹ Foreign currency component at constant exchange rates.² Nonprofit institutions serving households.³ + = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).

- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).