

Outlook for Selected CESEE Countries:

Recovery to Gain Traction Gradually – Downside Risks Still Prevail

1 CESEE-7¹: A Feeble but Possibly Sustained Recovery

GDP growth will remain below 1% in 2013 for the second consecutive year in the CESEE-7 region, influenced by a weak carryover from 2012. Domestic and external demand has been gradually strengthening in the course of 2013 and will cause growth to accelerate over the projection horizon. The region's GDP growth rate will rise from 0.8% in 2013 to 2.3% in 2014 and 2.8% in 2015. Import demand will pick up more strongly from 1.6% in 2013 to 4.8% in 2014 and 5.8% in 2015.

A turnaround in the business cycle in the region apparently occurred in the second quarter of 2013, with growth firming but not reaching its potential during our forecasting period. Sentiment indicators have improved over the course of 2013, especially consumer sentiment. Likewise, private consumption gained traction in the first half of 2013, while industrial production showed mixed results throughout the region; the expansion was stronger than for the region as a whole in Hungary, Poland and Romania while Croatia, the Czech Republic and Bulgaria showed below-average (or even negative) growth.

For the remainder of 2013, we expect a further improvement triggered by a gradual rise in both domestic and external demand, even though GDP growth is expected to remain very modest. The growth momentum will be most pronounced in the Czech Republic, Poland and Romania. However, for the Czech Republic, it will not be strong enough to outweigh the extremely weak first quarter outcome. Thus, the Czech Republic's annual GDP growth will remain negative in 2013. For Hungary, we expect a moderate expansion of GDP, comparable to developments in the first half of the year. Bulgaria and Croatia will perform much like in the first half of 2013 and will not show a notable expansion. Thus, developments remain mixed throughout the region, with two countries (Croatia and the Czech Republic) still posting a decline in annual GDP in 2013. 2014 and 2015 will be characterized by a further strengthening in domestic demand, reflecting increases

Growth rests on
reviving domestic
and external
demand

in gross fixed capital formation and private consumption. In all countries but Poland, the revival of investment activity will show by far the strongest growth contribution in those years. In Poland, reascent private consumption will add most to GDP growth.

The growth differential to the euro area will be 1.1 percentage points in 2013 and slightly higher in the next two years (1.4 percentage points in 2014 and 1.3 percentage points in 2015). As such, the growth differential will remain at less than half of its precrisis value, implying a fairly slow catching-up process.

Table 1

GDP and Import Projections for 2013 to 2015

	GDP				Imports			
	2012	2013	2014	2015	2012	2013	2014	2015
	Annual growth in %							
CESEE-7	0.7	0.8	2.3	2.8	0.2	1.6	4.8	5.8
Bulgaria	0.8	0.8	2.1	3.1	3.5	3.6	3.7	5.6
Croatia	-1.9	-0.4	1.0	1.5	-2.5	-0.5	1.7	2.4
Czech Republic	-0.9	-1.0	1.6	2.0	2.5	0.4	5.3	6.1
Hungary	-1.8	0.5	1.4	1.9	0.1	5.2	5.2	5.4
Poland	2.1	1.1	2.8	3.5	-1.9	0.4	4.5	6.0
Romania	0.5	2.1	2.1	2.4	-0.9	1.1	5.0	6.3
Russia	3.4	1.8	3.3	3.2	9.0	4.0	5.0	6.0

Source: OeNB, BOFIT, Eurostat, Rosstat.

Note: Seasonally adjusted data for 2012.

¹ CESEE-7: Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania.

Going forward, the factors which support economic growth should strengthen gradually over the projection horizon. The labor market shows some signs of stabilization: Unemployment rates reached peak levels already at the end of 2012, and employment has risen in Bulgaria, the Czech Republic and Poland and has stabilized in Hungary and Romania. Nevertheless, labor market conditions will continue to restrain a more vivid recovery in the near term. First, unemployment rates remain high and persistent in all countries; only Poland shows a decline in unemployment. Second, rising employment is related to very specific factors in each country. In Hungary, the rise in employment is strongly influenced by public work and may therefore not be fully sustained. In the Czech Republic, part-time work has increased sharply and the participation rate has gone up at the same time, eroding a positive effect on the unemployment rate.

Based on the announcements of September 2013 by the Federal Reserve System, we do not expect external financing conditions for CESEE-7 to tighten in the very near future. In addition, domestic funding conditions show some signs of improvement. While deposits exceed loans by a margin in the Czech Republic, the funding gap² has narrowed in the most recent quarters in Bulgaria, Hungary, and Romania. In Croatia, the funding gap has stayed constant; it has deteriorated slightly only in Poland. The central banks of those countries in the region that have flexible exchange rates are likely to maintain their accommodative stance, given current price developments.

Nevertheless, deleveraging of the private nonbank sector is an issue in some countries, and we do not expect credit growth in the region to increase strongly. While it is unclear whether this lack of credit growth will restrain economic growth, it is well in line with our expectation of a very gradual recovery. The picture is, however, heterogeneous across the region. Any supply bottlenecks are most likely to be seen in Hungary and Croatia. Even though in Hungary, the central bank's Lending for Growth program is likely to show some increase in demand for loans (the first deadline for loan applications has just passed), recent lending surveys suggest that credit supply is on a downward trend in this country. In Bulgaria, overall loan aggregates are moving sideways, with rising corporate loans being offset by falling household loans. The good liquidity situation of Polish corporates prevails, reducing the need for new loans in this country. We may also begin to see a new trend of substituting loans by corporate bonds in the region, a development whose outcome and implications are highly unclear from the current viewpoint but which is in line with developments in the euro area.

In all countries, growth in gross capital formation is going to be one of the main drivers of the recovery over the projection horizon (see chart 2). After years of disinvestment, especially Croatia and Hungary will post rising and positive growth rates in all three years (2013 to 2015). But the remaining countries have also accumulated an investment backlog related first to the obsolescence of some of the capital stock despite underutilization and second to the end of destocking in all countries in the course of this or the coming year. In Bulgaria, public investment will dominate gross fixed capital formation in all years, partly because of an enhanced absorption of EU funds. High capacity utilization in the Croatian tourism sector will necessitate some new investments, further supported by an increasing

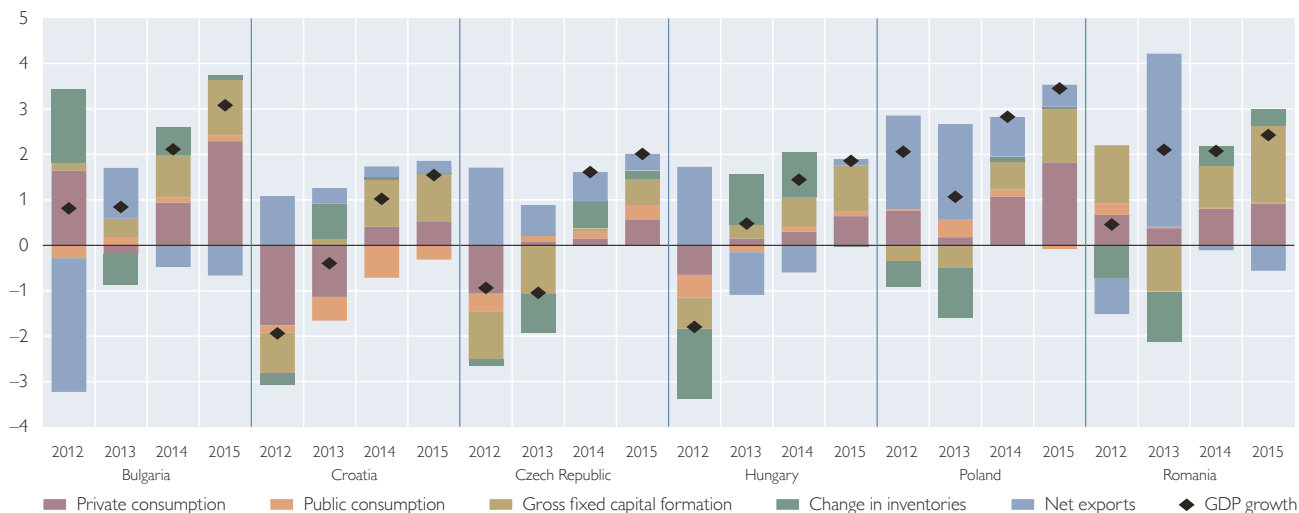
Destocking comes to an end, investments will back growth

² The funding gap is measured here as claims of the private sector minus deposits in percent of GDP.

Chart 1

GDP and GDP Components: Projections for 2013 to 2015

Contribution of GDP components in percentage points; annual GDP growth in %



Source: OeNB.

absorption of EU funds in 2014 and 2015. In contrast, the weak performance of the Czech construction sector, low capacity utilization and uncertainty about public projects will further curb gross fixed capital formation in 2013 and will dampen a rebound in investment activity in 2014. In Poland, base effects from public investments related to the European soccer championship in 2012 are kicking in, lowering investment growth rates in 2013. However, we expect a notable revival for 2014 and 2015. Overall, the need to meet rising external demand in 2014 and 2015 will support gross fixed capital formation in those years in all countries.

Despite an overall tight fiscal stance, we do not expect the region to further step up consolidation. Hence, while public consumption will not yield a worthwhile growth impulse yet, fiscal consolidation will not restrict growth further. Public consumption growth remains strongly related to election cycles in individual countries. In Bulgaria, the softer fiscal stance up to the elections in early 2013 is expected to be followed by some tightening. Hungary will maintain its softer fiscal stance up until the elections in April 2014. Croatia will show some tightening in 2014 and 2015, also as it will become subject to the excessive deficit procedure (EDP).

The low inflation environment has fueled positive real income growth in most countries and thus supports private consumption. Even if growth rates remain modest by historical standards, private consumption growth will accelerate over the forecast horizon and by 2015, the growth dynamics will be the highest again in all countries since the 2008–2009 crisis but will not yet draw level with the precrisis growth rates.

Overall, gradually and slowly firming domestic demand is also triggering an increase in import demand. While we expect to see an increase in both external and domestic demand over the forecast horizon, the stronger growth momentum of domestic demand implies that the growth contribution of net exports will fall to close to zero in all countries in 2015 (and even turn negative in Bulgaria and

Recovering domestic demand implies diminishing contribution of net exports

Romania already in 2014). Again, Hungary is an exception to this development, with net exports set to make a marginally negative contribution in 2013 and 2014 but to move into marginally positive territory in 2015. Romania is the only country where export growth will recede somewhat, yet after having seen high growth in 2013; hence, export growth will remain strong in 2015 and well comparable with the rates in all other countries.

Import growth will accelerate strongly in all countries. In 2015, annual growth rates will range between 5.4% in Hungary and 6.3% in Romania, except in Croatia, where we expect weaker growth rates (2.4%, up from marginally negative import growth in 2013).

Much like in our previous projection round, we assume that downside risks will dominate; however, they have become more diversified. Again, downside risks emanate primarily from the external environment. In the short run, they are related to developments in the U.S.A. If the U.S. fiscal situation cannot be settled before February 2014 – when the temporary increase in the public debt ceiling expires –, the ensuing global repercussions will cause turbulence in global financial markets. This, in turn, will lower euro area growth below the assumption underlying our baseline scenario. Hence, the CESEE-7 region would suffer directly through deteriorating external financing conditions – in particular those countries with large external refinancing needs – and indirectly through lower external demand from the euro area. Another downside risk arises from a possible tapering by the Fed, which would also impact negatively through higher refinancing costs and again affect primarily countries with large external refinancing needs. Clearly, this risk would only occur in the event of a viable long-term solution of the fiscal situation in the U.S.A. For 2014 and 2015, we see additional downside risks in case of a relapse in the euro area debt crisis, which would also add volatility to financial markets. Furthermore, this would reduce demand for CESEE-7 exports and hence cause a negative spillover via the trade channel. The forthcoming asset quality review of euro area banks also implies the risk of a transient intensification of deleveraging by euro area parent banks in the region. Another external risk is related to developments in the Middle East. If political turmoil and civil unrest intensify, thus destabilizing the whole region, oil prices could rise, which would raise the costs of imports and would worsen external balances in the CESEE-7 region.

Upside risks relate to better-than-expected growth developments in advanced economies, in particular in the euro area. Furthermore, a continued period of low inflation in the CESEE-7 countries could stimulate private consumption more than projected in our baseline, at least in the near term. However, for the Czech Republic, there may be a risk of deflationary tendencies in such an event.

2 Developments in Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania

Weaker-than-expected domestic demand is the main reason for a downward revision of the 2013 real GDP growth rate to 0.8%. In 2013, domestic demand will contribute negatively to growth; the moderate expansion will be driven by net exports. For 2014 and 2015, we forecast a moderate acceleration of economic growth to 2.1% and 3.1%, respectively.

Downside risks
continue to prevail

Bulgaria: Subdued
growth in 2013,
cautious gain in
momentum in 2014
to 2015

Despite a loosened fiscal stance and pronounced disinflation, private consumption is expected to shrink modestly this year on the back of adverse labor market conditions and ongoing deleveraging in the household sector. Destocking and the poor performance of gross fixed capital formation are putting an additional strain on GDP growth. On the positive side, exports are set to perform better than expected, which can be traced back to abundant harvest and favorable base effects from weather-related disruptions in early 2012.

Going forward, we forecast Bulgarian GDP to pick up gradually in 2014 and 2015, with the growth impetus coming mainly from private consumption and investment. In particular, we expect the impact of the 2013 changes in social legislation (increase of minimum wages and pensions) to materialize only in the subsequent years on the back of reduced household uncertainty. Moreover, the expiration of labor market restrictions in other EU countries as of the beginning of 2014 ought to be beneficial for the recovery of the Bulgarian labor market. The improving external conditions are set to stimulate exports and new fixed capital formation. However, as the expansion of domestic demand will keep imports at comparatively high levels, net exports will put a certain strain on GDP growth in 2014 and 2015. In addition, the public sector will implement some fiscal tightening in 2014 to keep the fiscal deficit below 2% of GDP.

Croatia: Mild
recovery with
substantial
downside risks

Recession dynamics faded considerably in the second quarter of 2013, and domestic demand turned positive for the first time since 2008. Therefore, we slightly revise our forecast for 2013 upward by 0.1 percentage points to –0.4%. These favorable developments are expected to continue for the rest of the year, given a further improvement in consumer sentiment in the light of the EU accession and a very positive tourism season in the summer of 2013. Additionally, lower inflation due to decreasing energy and food prices should support consumption. As the second quarter also brought a turnaround in investments, investments will make a slightly positive contribution to growth in our projection for 2013. On the other hand, we expect the worsening fiscal situation to put a strain on public consumption. In spite of the positive tourism season, exports will remain about the same because of export losses to the CEFTA³ countries. However, we expect imports to decrease slightly and thus expect the external sector to make a positive contribution to growth.

For 2014, we expect GDP to grow by 1%, whereby growth will rest on strengthening investments, provided that EU funds are increasingly exploited, positive consumer sentiment prevails and the labor market situation improves. Public consumption will affect growth negatively, as we expect further cost-cutting measures in spending areas like health care, welfare and pensions. Due to the expected recovery of the euro area and the positive developments in the tourism industry, exports will have a positive effect on growth. However, as imports will also rise because of increasing domestic demand, the overall contribution of net exports is expected to remain low.

Economic growth is forecast to rise to 1.5% in 2015. We have revised our previous forecast downward, mainly because of ongoing heavy consolidation

³ CEFTA stands for Central European Free Trade Agreement; the member countries are: Albania, Bosnia and Herzegovina, FYR Macedonia, Moldova, Montenegro, Serbia, and the United Nations Interim Administration Mission in Kosovo.

measures. Growth continues to be supported primarily by private consumption and investment, with a slightly positive contribution of net exports resting on a stronger rise of exports compared to imports.

A downward risk to this forecast lies in a weaker pick-up of investments related to the actual utilization of EU funds and a worse-than-expected business climate following EU accession. Furthermore, the development of private consumption depends heavily on necessary reforms in the labor market and the extent to which consolidation measures will entail tax increases.

We forecast the Czech economy to contract again in 2013, with GDP shrinking by 1%. GDP growth will resume in 2014 to 1.6% and will accelerate further to 2% in 2015.

Signs of the frail recovery already emerged in the first half of 2013 and are mainly due to the slow recovery in the euro area, most notably in Germany and Slovakia, the main trading partner countries. External demand will continue to pull the economy out of the recession gradually throughout the remainder of 2013 and 2014. Nevertheless, given the dip in early 2013, the overall growth rates of both exports and imports for the whole year will be marginal. Only from 2014 onward will exports and imports start growing at the more usual annual pace of around 5% and more.

Fiscal restriction also eased somewhat in 2013 and is expected not to strengthen again in 2014 and 2015, even though early elections are planned for October 2013. Thus, unlike in the previous two years, public consumption will contribute positively, albeit marginally, to GDP growth over the whole forecast period.

Private consumption has also begun to show some cautious signs of recovery. Given the conservative behavior of Czech households, this expectation is grounded in the turnaround in the prospects of the euro area, combined with the domestic prospect of an end to further fiscal restriction after the elections. However, Czech households' behavior will remain cautious and the recovery of their demand will remain weak and fragile into 2014. Demand will only start to contribute to Czech GDP growth significantly in 2015.

Gross fixed capital investment will continue to contract substantially in 2013. In 2014, only the resumption of public investment will prevent it from shrinking further. However, the heavily paralyzed construction sector as well as still meager domestic demand and only slowly recovering external demand – both could be met by raising the currently relatively weak capacity utilization – point to the fact that a full recovery of gross fixed capital investment growth will only take place in 2015.

All in all, even though GDP growth should turn positive in 2014, the full recovery, supported by revived domestic demand, is only expected to take place in 2015. Apart from the downside risk from developments in the external environment, the impact of the actions of the next government on these projections is also difficult to gauge.

We expect Hungarian GDP to expand by a meager 0.5% year on year in 2013, to be followed by a further acceleration to around 1.4% in 2014 and to 1.9% in 2015.

After contracting for several years (apart from 2011), household consumption will likely post a modest expansion in 2013, predominantly drawing on an increase in real net wages (mostly due to the stronger than expected fall in inflation) and some beneficial impact of the various schemes to reduce households' foreign

Czech Republic:
Fragile recovery
underway

Hungary: Less
stringent fiscal
policy and monetary
impetus to support
growth in 2014 to
2015

currency debt servicing burden. Further wage hikes (e.g. the wage hike for teachers from September 2013), utility price cuts, additional measures to reduce debt servicing costs, the widening of family tax benefits and some improvement in employment (albeit mostly thanks to public works) will likely support private consumption further in 2014. Government consumption will decrease again in 2013, but is expected to expand modestly in the election year 2014 (election-related costs, full effect of the wage hike for teachers) and in 2015.

The investment cycle will finally turn in 2013, with growth of gross fixed capital formation coming to nearly 2% in 2013 and strengthening further in the next two years. On the one hand, relatively low levels of capacity utilization, weak profitability, uncertain business and income prospects and tight lending conditions still hinder investments of corporates and households, though to a decreasing extent. On the other hand, public investments pushed investment growth well into positive territory already in the second quarter of 2013, and the trend is likely to continue thanks to increasing utilization of EU funds. Moreover, substantial cuts in the policy rate of the Hungarian central bank MNB (these cuts have been mirrored by the decline in interest rates for corporate loans) and the MNB's Lending for Growth program are expected to support corporate investments in the coming period, while housing investments may benefit from the broadening of various housing subsidy schemes. Foreign direct investments are unlikely to play a strong role, given a weakening of FDI inflows in the last three quarters which coincided with domestic policy measures affecting banks and nonfinancial corporations negatively (such as additional burdens on the banking sector and utility price cuts). Stock changes are likely to make a positive contribution to the GDP growth rate in 2013 and 2014, first of all simply because destocking will come to an end, but also because agricultural output will improve in 2013 and industrial output will recover in both 2013 and 2014.

Having contributed strongly to growth in recent years, net real exports will likely be a minor drag on the overall GDP growth rate in 2013, as the acceleration of export growth will lag behind the strengthening of imports. Net real exports may perform better in 2014 and 2015, given a recovery in Hungary's main trading partner countries.

In addition to the region-wide risks, we also see a downward risk for Hungary emanating from the implementation of foreign exchange conversion schemes intended to reduce households' debt burdens. If such schemes are introduced in an extreme way, the financial markets might lose confidence and external refinancing costs could surge sharply.

In Poland, annual average growth figures in 2013 are marked by the economic slowdown, even though this slowdown already bottomed out in the first quarter of 2013. For the whole year 2013, we expect GDP growth to abate to 1.1% as a result of a negative contribution of domestic demand of about 1 percentage point counteracted by a positive contribution of net exports of about 2 percentage points. As euro area imports are poised to rise further in the second half of the year, Polish exports will continue to be the engine of growth, also in the second half of the year. Moreover, knock-on effects of the export performance on domestic demand will materialize, as heralded already by industrial and consumer confidence indicators. First of all, the process of destocking will come to a halt, reducing the negative contribution of inventory changes to growth. Second, already achieved

Poland: Domestic
demand gains
traction

advances of total wages and increases of retirement pensions in real terms will translate into stronger effective private consumption demand, while monthly increases of employment will not lift annual employment growth into positive territory before the end of the year. Third, public consumption will continue to provide a positive contribution to growth, continuing the first-half trend. By contrast, fixed investment will continue to contract, albeit to a lesser extent. Overall, in the second half of the year, domestic demand will stabilize, which will render the positive contribution of net exports about equal to GDP growth.

In 2014 and 2015, we expect GDP growth to accelerate to about 2.8% and 3.5%, respectively. Thus, Poland will again show the highest GDP growth rates in the region. The acceleration of euro area imports will further lift Polish export growth moderately, and the translation of the external stimulus into domestic growth dynamics will be completed. Thus, the contribution of domestic demand will be positive and will outpace the contribution of net exports, which will remain positive but will decline as a result of stronger import growth reflecting both the export-import link and reviving domestic demand. Domestic demand will benefit in particular from the onset of investment growth, given brighter external and domestic selling opportunities, decreased levels of inventories and sufficiently available liquidity of enterprises (as signaled by the growth of enterprises' deposits). Stronger export growth and beginning investment growth will strengthen the labor market. This, together with improved sentiment and low interest rates, will be beneficial for reviving mortgage lending to households, which will support fixed-investment growth additionally. Rising employment and wages will underpin private consumption growth, which, however, will still be clearly below GDP growth. By contrast, public consumption growth will be lower than in 2013, but we do not expect a severe retrenchment of fiscal policy yet, in order not to endanger the incipient domestic recovery.

An outstanding harvest together with better-than-expected exports are the main reason we have revised our forecast for 2013 upward to 2.1%. Yet it should be noted that the year's growth is partly the result of temporary factors (new production capacities, favorable weather conditions for agriculture). On top of this, growth is not broadly based, as private consumption is stagnating and gross fixed capital formation is contracting.

While export growth will remain robust due to the euro area recovery, we expect domestic demand to strengthen only slowly and gradually. The projected mild recovery of private consumption is based on various factors: increased domestic consumption of agricultural products; the positive impact of disinflation on real wage growth in the short term; the likely short- to medium-term positive labor market impact of the remarkable export performance; rising remittances; and, finally, a brightening external environment. Given sizeable and still growing nonperforming loans and cross-border deleveraging of foreign banks, a pick-up of credit growth is not yet in sight, preventing private consumption from firming faster. Adverse private sector credit dynamics also act as a drag on gross fixed capital formation. Raising the absorption of EU funds is still an issue under the IMF/EU support program, which will hopefully bear fruit in the next two years. Euro area recovery will help to lift FDI inflows, which have been very low in recent years. Thus, assuming that efforts to increase the absorption of EU funds ultimately prove successful and that the external environment improves, we expect

Romania: Only slow and gradual strengthening of domestic demand on the horizon

positive and increasing growth contributions to come from gross fixed capital formation in 2014 and 2015.

Though we expect domestic demand to strengthen and export growth to remain strong, we do not forecast growth to accelerate next year, as imports will bounce back and as 2013 agricultural output might be difficult to top. Resurging import demand will push the contribution of net exports into slightly negative territory. GDP growth will accelerate moderately in 2015, as external conditions are expected to improve further and as the credit cycle might turn around.

3 Russia: Modest Recovery Expected

Due to the unexpectedly sharp slowdown of economic activity in Russia in the first half of 2013, we have adjusted our GDP growth forecast for the whole year to below 2%. Russian growth is seen to recover to above 3% in 2014 and 2015 as the global economic recovery proceeds. Accordingly, Russian import expansion will rise slightly to 6% in 2015.

We expect Russian GDP growth (which had declined to below 1.5% in the January to June 2013 period) to pick up in the second half of 2013 as global business activity revives, resulting in an annual growth rate of 1.8%. This acceleration is supported by an anticipated bountiful 2013 grain harvest. The continuing global recovery should help lift Russian annual GDP growth to above 3% in 2014 and 2015. As world trade regains momentum, Russia's export volume should gradually increase and the weak patch in fixed capital investment should come to an end. However, Russian growth should be restrained somewhat by a slight decline in the oil price over the forecast period. The Russian import expansion should pick up a bit from 4% in 2013 to 6% in 2015 on the back of the revival of the economy. Another factor supporting a modest pick-up of import growth is the expected limited appreciation of the REER (real effective exchange rate) of the ruble, given that Russia's inflation rate should remain higher than the inflation rates of its main trading partners, although the difference may narrow.

Although export growth will revive, it will remain modest due to oil extraction constraints and a slight deterioration in the outlook for energy exports, given the challenges posed by the shale gas boom in some countries and the expansion of liquefied natural gas deliveries. Growth in private consumption should remain fairly brisk, even if the rise of household incomes will likely lose some momentum, as the room for granting wage hikes has narrowed, taking into account the downward slope in corporate profitability and the government's plans to curb public-sector wage and pension increases in the coming years. On the other hand, the expected gradual decline of inflation should slightly boost household purchasing power. Retail credit expansion, while remaining robust in 2014, may decelerate.

Growth of gross fixed capital formation should recover because production capacity utilization remains close to its precrisis levels and because the state plans to launch a number of large-scale transportation infrastructure projects that may start to have an impact in 2014. The increase in overall state spending will slow down, though, as growth in state revenues has decreased and the goal, in accordance with the new oil price-oriented fiscal rule, is to keep the budget deficit small.

Over time, Russia's economic expansion will gradually head toward its long-term trend if the oil price does not rise. Our calculated long-term trend has moved to a distinctly lower level since the 2009 recession. The trend growth rate is now

assessed at around 2% unless Russia steps up its efforts to improve its business climate and draw in more investment.

Risks to the Russia forecast are also tilted predominantly to the downside on account of both domestic and international factors. A delay – or rather an interruption – of the global recovery would have a severely negative impact on the Russian economy. Likewise, a fall in the oil price due to intensified shale gas exploitation and higher liquefied natural gas deliveries would constrain growth in Russia. Domestic risks arise from a slowdown in the growth of household incomes and state expenditure exceeding our predictions.

