Developments in selected CESEE countries:

Gradual recovery in CESEE EU Member States continues, moderate growth in Turkey, stagnation in Russia[1,2]

1 Regional overview

Heterogeneous GDP growth in CESEE

Average real economic growth in Central, Eastern and Southeastern Europe (CESEE) amounted to 0.4% in the third quarter and 0.3% in fourth quarter of 2014 (quarter on quarter). Thus, economic expansion was only marginally faster in the second half of 2014 than in the first. The economic recovery that had set in CESEE in mid-2013 continued in the review period but did not really gain speed. This is partly due to the continuing weaknesses recorded in the euro area during the second half of 2014 and the lack of substantial trade impulses from the CESEE regions' number one trading partner. Furthermore, economic and political uncertainties also weighed on CESEE's economic performance. It should be noted, moreover, that regional average growth rates are dampened by the meagre performance of the Russian economy, which is by far the largest economy in the CESEE region. When excluding Russia, average growth in CESEE in the third and fourth quarter amounts to 0.7% and 0.6%, respectively, and thus stands noticeably above euro area readings. Consequently, the region's growth differential vis-à-vis the euro area, which came to a rather moderate 0.9 percentage points in 2014, would double to 1.9 percentage points if Russia was excluded from the CESEE aggregate.

In average annual terms, the year 2014 brought an acceleration of growth for seven of the countries under observation. The pickup was especially pronounced

Table 1

Real GDP growth

	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14
	Period-on-period change in %					
Slovakia	1.4	2.4	0.6	0.6	0.6	0.6
Slovenia	–1.0	2.6	0.0	1.0	0.6	0.3
Bulgaria	1.1	1.7	0.1	0.3	0.4	0.4
Croatia	–0.9	–0.4	0.3	–0.2	0.2	0.0
Czech Republic	–0.7	2.0	0.3	0.3	0.4	0.4
Hungary	1.5	3.6	1.1	1.0	0.4	0.8
Poland	1.7	3.3	1.0	0.6	0.8	0.7
Romania	3.4	2.8	0.3	–0.6	2.1	0.7
Turkey	4.2	2.9	1.7	–0.5	0.4	0.7
Russia	1.3	0.6	–0.2	0.2	0.0	0.0
CESEE average[1]	1.9	1.8	0.5	0.1	0.4	0.3
Euro area	–0.5	0.9	0.3	0.1	0.2	0.3

Source: Eurostat, national statistical offices.

[1] Average weighted with GDP at PPP.

[1] *Compiled by Josef Schreiner with input from Stephan Barisitz, Markus Eller, Antje Hildebrandt, Florian Huber, Krisztina Jäger-Gyovai, Mathias Lahnsteiner, Isabella Moder, Thomas Reininger, Zoltan Walko and Julia Wörz.*

[2] *Cutoff date: April 14, 2015 (April 23 for fiscal data). This report focuses primarily on data releases and developments from October 2014 up to the cutoff date and covers Slovakia, Slovenia, Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania, as well as Turkey and Russia. Countries are ranked according to their level of EU integration. For statistical information on selected economic indicators for CESEE countries not covered in this section (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, Serbia and Ukraine), see the statistical annex in this issue.*

in the Czech Republic and Slovenia. Both countries managed to overcome recession and posted above-regional average growth rates of 2% and 2.6%, respectively, in 2014. Growth decelerated slightly from a solid level in Romania and somewhat more markedly in Turkey. Economic expansion halved to a very low but still positive level in Russia (mainly due to some positive carryover effects from 2013).

A comparison of economic activity in 2014 and 2008 shows that so far, real GDP has exceeded pre-crisis levels only in Poland and Turkey. In Russia and Slovakia, GDP stood moderately above its 2008 level, while in Bulgaria, the Czech Republic, Hungary and Romania, the 2008 level was only just reached in 2014. Slovenia, and even more so Croatia, continued to report gaps relative to their pre-crisis economic output.

Domestic demand became the major growth engine…

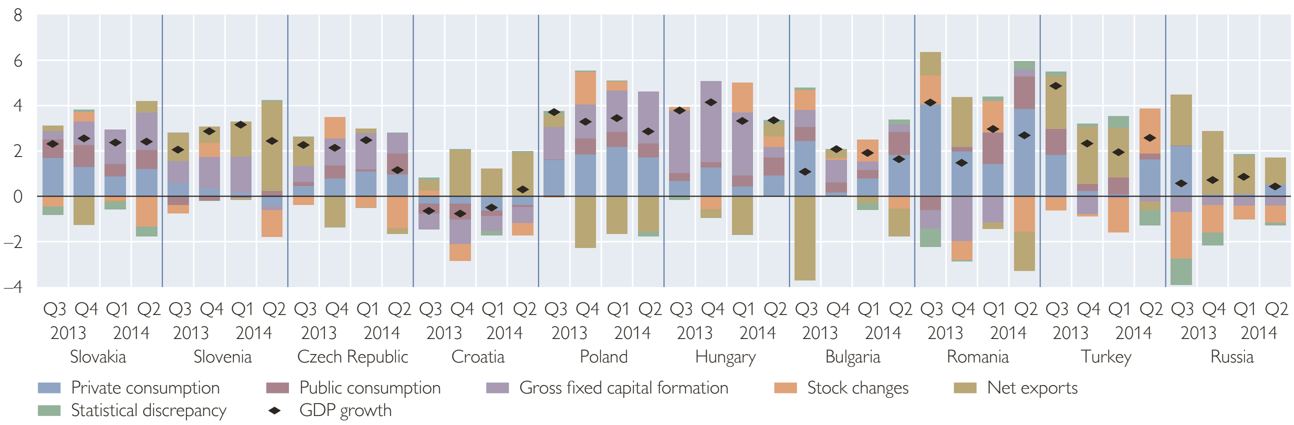
While domestic demand had still played a small role in supporting growth in 2013 in all the countries covered here but Turkey, it evolved into the most important driving force of economic activity in 2014. In several countries, domestic demand was even the only GDP component that contributed positively to growth by the fourth quarter of 2014 (e.g. Bulgaria, Czech Republic, Poland and Romania). In 2014, domestic demand contracted only in Croatia and Russia, while it moderated significantly in Turkey. The Russian economy generally suffered from deteriorating confidence, capital outflows and, during the latter part of 2014, from economic sanctions in connection with the conflict in eastern Ukraine and, very importantly, from the collapse of oil prices.

Private consumption in CESEE benefited from two factors in particular: improving labor market conditions and rising real wages in most countries. Unemployment rates have been falling consistently since early 2013 in most CESEE countries, in some cases substantially so. The monthly unemployment rate in Hungary, for instance, declined from 11.1% in January 2013 to 7.5% in February 2015, the lowest rate since early 2008. The decrease in unemployment was also substantial in Bulgaria, Poland and Slovakia. A clear upward trend was only reported for Croatia and, as of late, for Russia against the background of weak or

Chart 1

GDP growth and its main components

Percentage points, GDP growth in %



Source: Eurostat, national statistical offices.

weakening economic momentum. At the same time, employment expanded noticeably in most countries under observation (Russia and Slovenia being the exceptions in this respect). Against this backdrop, nominal wage growth was vivid, amounting to more than 3% in the region on average during the second half of 2014. Real wage growth was further boosted by low or even negative inflation rates especially in Central and Southeastern Europe. All of the above had a positive impact on consumer sentiment (see below).

Gross fixed capital formation expanded strongly especially in the Central European countries, which posted growth rates of gross fixed capital formation that were well above those of private consumption, while a contraction was reported only for Croatia, Russia and Turkey. Several factors can explain the pickup of investment activity in Central Europe: Investment dynamics have been very moderate in the past years; especially throughout late 2012 and early 2013, capital formation declined in all countries. This created a substantial investment backlog, which became even more pronounced in the context of rising capacity utilization rates. Capacity utilization reached the highest level since the outbreak of the crisis in several countries in early 2015 (e.g. in the Czech Republic, Poland, Slovakia and Slovenia). Investment was further spurred by a low-interest rate environment against the background of an accommodative monetary policy stance at home and abroad. Furthermore, the overlap of two programming periods sped up the absorption of EU funds and fostered public investment.

…while the external sector's contribution is significant only in a few countries

The contribution of net exports to growth was negative in countries with strong domestic demand, where import growth outpaced export growth. Net exports, however, remained an important pillar supporting GDP growth in Croatia, Russia and Slovenia (to a lesser extent also in Turkey). It needs to be noted that export growth was positive in all CESEE countries in the second half of 2014, thereby underlining the continuing demand for CESEE goods and services. Nevertheless, export growth decelerated somewhat in most countries against the first half of 2014. In some countries, this may be partly due to certain losses of earlier gains in price competitiveness vis-à-vis the euro area. Unit labor costs (ULC) in manufacturing (as measured in euro) increased faster than in the euro area in Bulgaria, Poland, Romania, Slovakia and Turkey during the second half of 2014. This development was driven by strong wage increases, while productivity grew more moderately. In the other countries, especially in the Czech Republic, Croatia, Hungary and Slovenia, wage increases were less pronounced and price competitiveness was further aided by some currency depreciation in annual comparison, leading to lower ULC in the observation period. The plunging Russian ruble drove ULC developments in Russia, more than offsetting a rather pronounced increase in manufacturing wages.

High-frequency indicators suggest no major change in growth dynamics in early 2015

High frequency activity indicators suggest a broadly steady pace of economic growth in early 2015 compared with what we observed in the second half of 2014. Industrial production and retail sale have been growing rather steadily at a rate of around 2.5% for the past months after they had come down by roughly 2 percentage points from their peaks in mid-2014 and late-2013. Construction continued to shrink in early 2015 but less so than before.

At the country level, industrial production was rising throughout the region with no country reporting a year-on-year decline in February. Roughly the same applies to retail sales, with the exception of Russia, which reported a marked

Chart 2

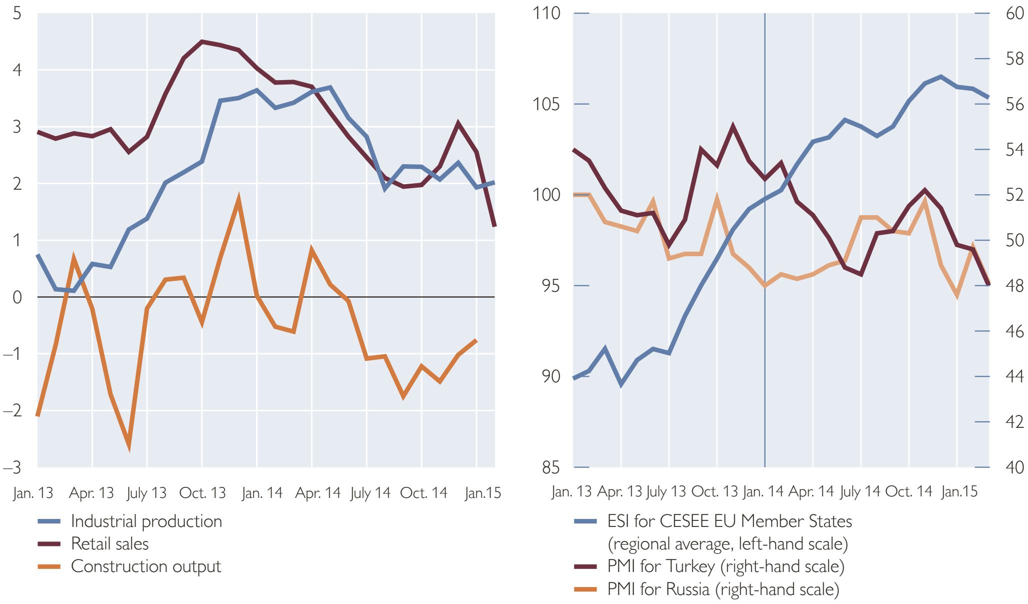
Leading indicators

Activity indicators (CESEE regional average)

Year-on-year change in %, three-month moving averages

Sentiment indicators

Points



Source: Eurostat, wiiw, European Commission, Markit.

decline in retail sale growth during the past months, with sales even declining noticeably since January. Russia's weak performance also explains the dip in the regional average.

The European Commission's Economic Sentiment Indicator (ESI, average for the CESEE EU Member States) increased notably between August and December 2014, reaching a peak at 106.5 points, the highest reading since summer 2007. It declined moderately afterward but is still above 105 and thus comfortably above its long-term average of 100. Especially consumer and retail trade confidence performed well, while confidence in the service sector decreased somewhat. On the country level, the strongest improvement was observed in Bulgaria, Croatia and Slovenia. Sentiment deteriorated somewhat in Hungary, coming down from a high level, tough. Available Purchasing Managers' Index (PMI) figures for Turkey and Russia deteriorated notably during the past months and stood at 48 points in both countries in March 2015.

Credit growth remains rather muted

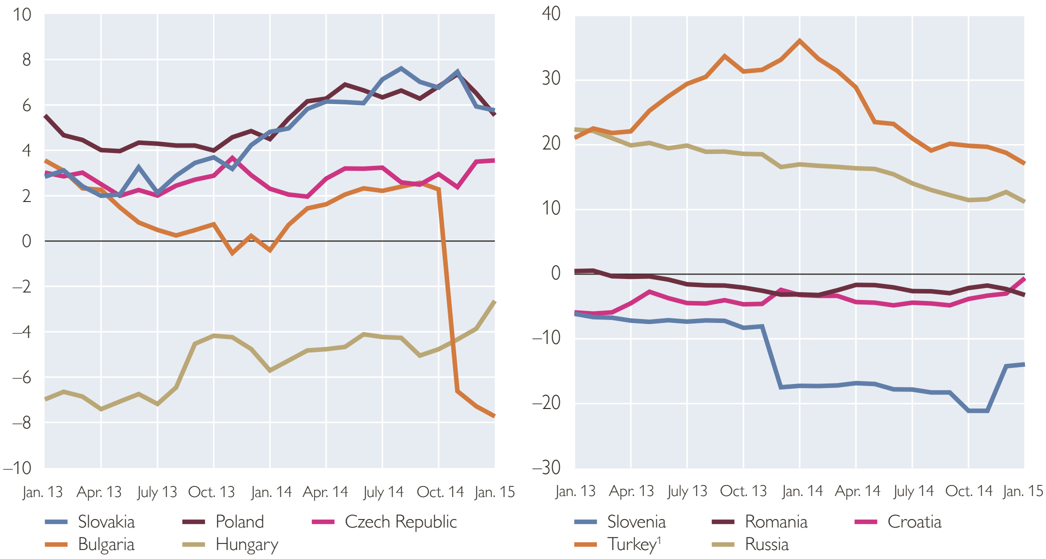
The positive momentum in growth of domestic credit to the private sector observed in the first half of 2014 moderated somewhat in the review period. In Croatia, Hungary and Slovenia the credit stock continued to decline, however less so than previously. Credit growth was positive and more or less steady in Poland and Slovakia (on a somewhat higher level) and in the Czech Republic (on a more moderate level), while it continued to be marginally negative in Romania. A decline from high credit growth rates was reported for Russia and Turkey. In Bulgaria, credit growth moved from moderately positive into considerably negative territory in late 2014.

In Bulgaria, this development can largely be explained by statistical reasons. In November 2014, the Bulgarian central bank revoked Corporate Commercial

Chart 3

Growth of credit to the private sector

Year-on-year percentage change, adjusted for exchange rate changes



Source: National central banks.

[1] *Nonadjusted.*

Bank's license to conduct banking activities. With this move, the bank's loans (some BGN 5.3 billion) were no longer included in the official monetary statistics. In Russia, the decline in credit growth rates was related to the increasingly fragile general economic environment. Furthermore, policy rates have been raised markedly. In Turkey, credit expansion came down further from very high levels amid a weakening economy and continuing external imbalances. The Turkish central bank promoted this process by setting several macroprudential measures to put a brake on the swift credit expansion.

Lending surveys point to a slight improvement in lending conditions: For example, the Emerging Markets Bank Lending Conditions Index as compiled for CESEE by the Institute of International Finance (IIF)[3] eased somewhat in the fourth quarter of 2014, with the overall index currently standing at 51.5 points (values above 50 indicate an easing of lending conditions). The development was mostly driven by banks reporting a surge in the index for loan demand, which jumped to 58 points in the fourth quarter. On the other hand, domestic funding conditions tightened substantially, with the subindex tumbling 11.2 points to 46.9. The improvement in international funding conditions was not sufficient to counterbalance this development so that overall funding conditions tightened for the first time since the beginning of 2014.

The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB)[4], published in late 2014, draws a roughly comparable picture. Banks reported an increase in credit demand and a stabilization of supply conditions, although levels of both remain low. Both supply and demand are expected to

[3] *For further details, see www.iif.com/publications/em-bank-lending-conditions-survey.*

[4] *For further details, see www.eib.org/infocentre/publications/all/cesee-bls-2014-h2.htm?lang=en.*

improve in the next six months. Banks' assessment about credit demand is now close to the level of late 2012. Contrary to the IIF, the EIB reports funding conditions to be fairly favorable, with access to funding positive across all sources. It also finds increasing evidence of an emerging new funding model, with local funding playing a more prominent role, substituting for decreased cross-border funding (i.e. mainly intra-group funding of foreign-owned banks by their parent institutions).

This is in part confirmed by Bank of International Settlements (BIS) exposure data which, at the time of writing, were only available for the third quarter of 2014 however: The exposure of BIS reporting banks vis-à-vis CESEE declined by EUR 7.2 billion (or 0.2% of GDP) in the third quarter of 2014 (locational statistics, exchange rate adjusted), with reductions being reported for all countries but Bulgaria (which registered a minor inflow). At the same time, domestic deposits kept increasing in all countries but the Czech Republic, thus at least partly making up for the reduction in external funding.

The EIB survey found that CESEE remains clearly relevant in the strategies of international banking groups operating in the region. However, international banks continue to be selective in their country-by-country strategies. Roughly one-third of the groups surveyed expect to expand their operations in CESEE, while another third were found likely to reduce their operations in the region. Roughly half of the groups signal that they have been reducing their total exposure to CESEE, while only one-third expects to continue doing so. The profitability of banks' CESEE operations is emerging as a challenge. Expected returns on assets for CESEE operations have been decreasing compared with overall group results. Banks are also reviewing their assessments of the potential of some CESEE markets.

Price pressures continue to trend downward, except in Russia

With the exception of Russia, inflation rates continued to decline throughout the region and lay in negative territory in most countries in February 2015. The price level declined strongest in Bulgaria (–1.7%), but also noticeably in Hungary and Poland. Among all HICP components, it was especially energy and, to a lesser extent, unprocessed food items that pushed prices down. Deflation in the energy component was fueled by falling oil prices, which in February 2014 were more than 45% below their level a year earlier. Some upward pressure on prices came only from services and in some countries from processed food (including alcohol and tobacco). Disinflation pressure from the euro area was another factor causing weak price growth, especially in countries that peg their currencies to the euro. Core inflation rates were rather stable and lay above headline inflation and in positive territory in all countries of the region. Only Bulgaria reported core deflation, albeit at a decelerating pace.

As mentioned above, Russia was the only country that experienced a marked increase in price pressures. The ongoing impact of the depreciation of the Russian ruble and the ban on most food imports from the EU especially continue to drive consumer prices. Headline consumer price inflation (CPI) rose by 16.9% and food prices by as much as 25.9% in March 2015. In Turkey, in turn, as opposed to the CESEE EU Member States, inflation has been declining get remaining in the high single digits.

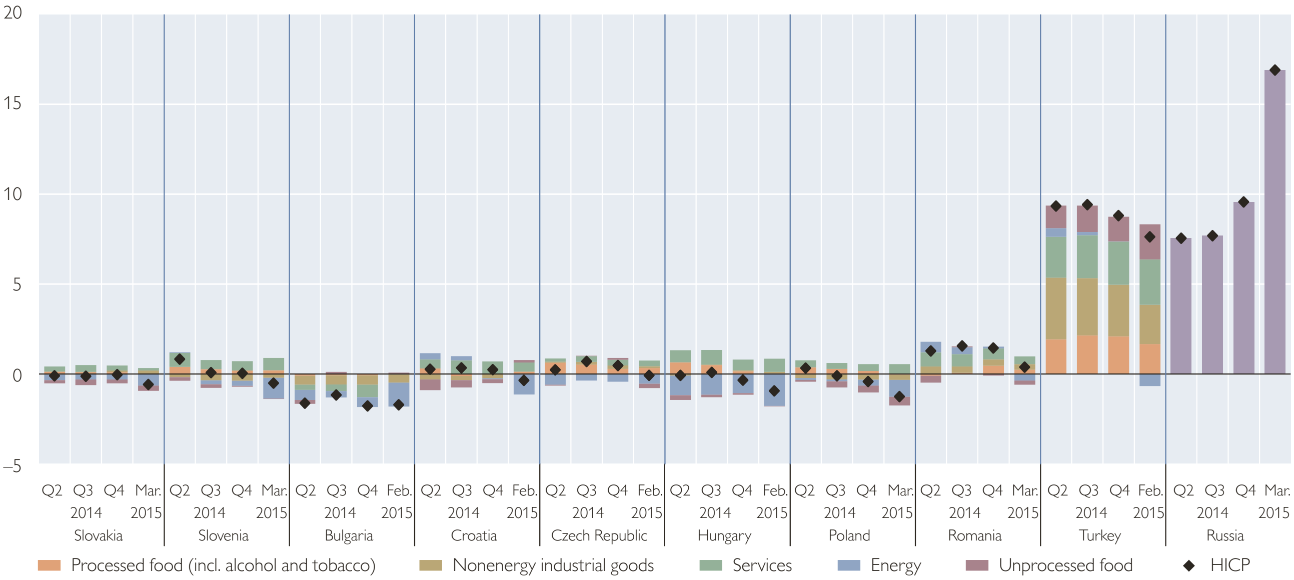
Is there a threat of a deflation spiral?

The question arises whether there are signs that the very low or negative inflation in the CESEE EU Member States is impacting on expectations and on real

Chart 4

HICP inflation and its main drivers

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



Source: Eurostat.

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

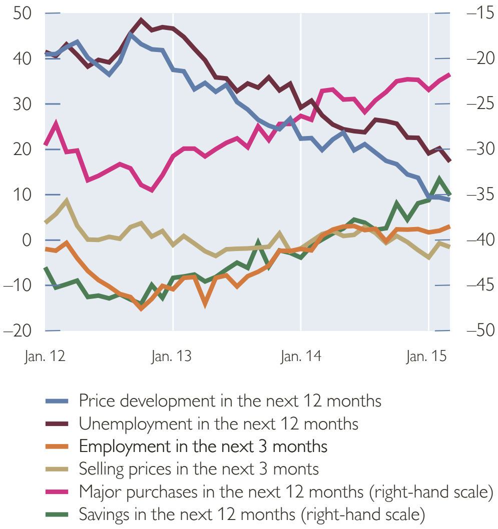
sector developments. So far, the evidence in this respect remains somewhat mixed but, overall, broadly benign.

Chart 5.1 shows selected results from the European Commission's Business and Consumer Survey, aggregated over the CESEE EU Member States. The survey reports a decrease in households' inflation expectations. In concrete terms, households on balance expect the inflation rate to moderately rise in the coming twelve months against the previous twelve months. Inflation expectations, as measured by the central banks in the CESEE EU Member States, show a broadly similar picture, i.e. that inflation expectations have moderated somewhat recently but that they have not become de-anchored. Industry expects selling prices to fall slightly in the next three months. Furthermore, expectations concerning future savings by households have gone up. To be more specific, households consider it more likely to save money over the coming twelve months than over the past year. Against the background of improved sentiment, increasing employment, falling joblessness and rising real wages, households' expected higher inclination to save does not necessarily point to an immediate risk of postponed consumption, which could trigger a harmful deflationary spiral of weakening private consumption, investment, wages and labor markets. In fact, none of the latter is yet visible in hard macroeconomic data, as sketched out above. Furthermore, and in addition to the past improvement in labor market data, the Business and Consumer Survey reports improving labor market prospects as perceived by both households and the industry. Expectations relating to major purchases have also improved and are currently on a multi-year high, which also calms concerns about deferred consumption due to expected lower prices in the near future.

Chart 5.1

Selected survey findings for CESEE

Balance of positive and negative answers

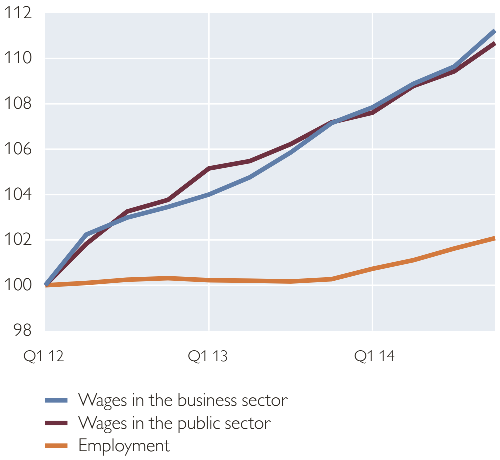


Source: European Commission: Business and Consumer Survey.

Chart 5.2

Wages and employment in CESEE

Index: Q1 12 = 100



Source: Eurostat.

The risk arising from debt deflation seems to be rather contained, too. While the private sector is still notably indebted in several countries (e.g. Bulgaria, Hungary and to a lesser extent Croatia and Slovenia), rising nominal incomes and stable, or sometimes moderately declining, interest rates have prevented debt service-to-income ratios from increasing. Looking forward, interest rates are expected to remain at low levels for some time in the CESEE EU Member States, and some of the countries concerned which have flexible exchange rate regimes in place still have some room to lower policy rates while euro area countries in CESEE and countries that keep their currencies at a steady rate to the euro should benefit from quantitative easing in the euro area.

Having said all this, it needs to be stated that it is still too early to draw a final judgement on the threat of a deflation spiral. After all, falling prices are a rather recent phenomenon in several of the CESEE countries. Furthermore, the CESEE countries are affected by deflationary risks to different degrees. Risks from deflation are of course more pronounced in countries with a weaker underlying economic momentum.

At the current juncture, however, it seems safe to say that the oil price shock and the associated decline in price pressures have predominantly boosted purchasing power and supported consumption in CESEE. It would take a major shift in wage dynamics or in inflation expectations to bring about a fall in private consumption. If the oil price stays at its current level, it will support economic activity in the euro area and thus strengthen external demand for the CESEE EU Member States. Finally, unless expectations change substantially and the oil price falls further, base effects will kick in from the fall onward and ceteris paribus lift the inflation rate back into positive territory. Nevertheless, keeping a close eye on incoming price-, activity- and expectations-related data is certainly warranted over the near future, given that the CESEE economies are moving in largely unchartered waters as regards the current environment of exceptionally low inflation.

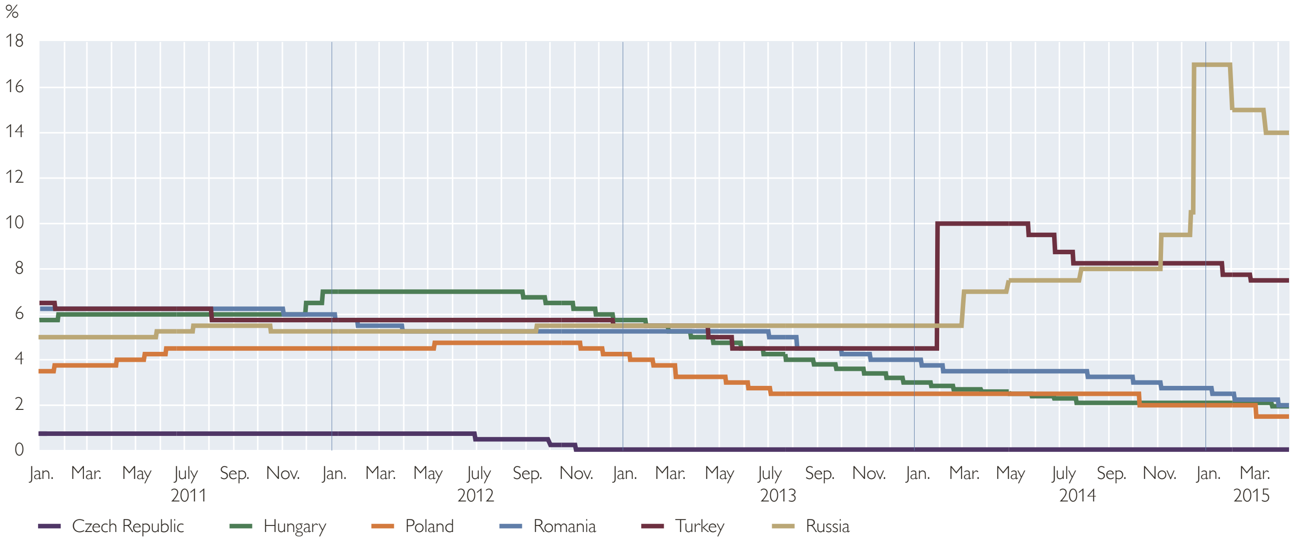
Further monetary easing in CESEE

Against the backdrop of low inflation rates or deflation, the central banks of the CESEE countries continued to pursue a policy of monetary accommodation. The Polish central bank and the Romanian central bank cut their policy rates by a total of 100 basis points from October 2014 to April 2015 to 1.5% and 2%, respectively. The Hungarian central bank lowered its policy rate by 15 basis points to 1.95% in March 2015. Despite higher (but declining) inflation rates, also the Turkish central bank reduced its policy rate by 75 basis points to 7.5% in the review period. The Czech Republic's policy rate has been standing at "technically zero" since October 2012. In November 2013, the Czech central bank decided to use the exchange rate as an additional instrument for easing monetary conditions. In February 2015, it announced that it would continue to do so at least until the second half of 2016. Apart from that, monetary conditions were further loosened by means of a reduction of minimum reserve requirements in Croatia and Romania. The Hungarian central bank extended the volume and duration of its "Funding for Growth" scheme (FGS) and launched an additional FGS+.

The Russian central bank was the only central bank in the region to tighten monetary policy as the Russian ruble came under severe pressure in the context of falling oil prices, escalating tension in the conflict with Ukraine, Western European sanctions and capital flight. The policy rate was hiked by a total of 900 basis points to 17% between October and mid-December 2014. Furthermore, the Russian central bank formally abolished its exchange rate policy mechanism and moved to a floating exchange rate regime in early November 2014. In January and March 2015, however, the central bank again lowered interest rates by a total of 300 basis points to 14%, citing a shift in the balance of risks toward a more significant cooling of the economy. In early February 2015, the Russian ruble stabilized after reaching an all-time low in mid-December 2014. The currency has

Chart 6

Policy rate developments in CESEE

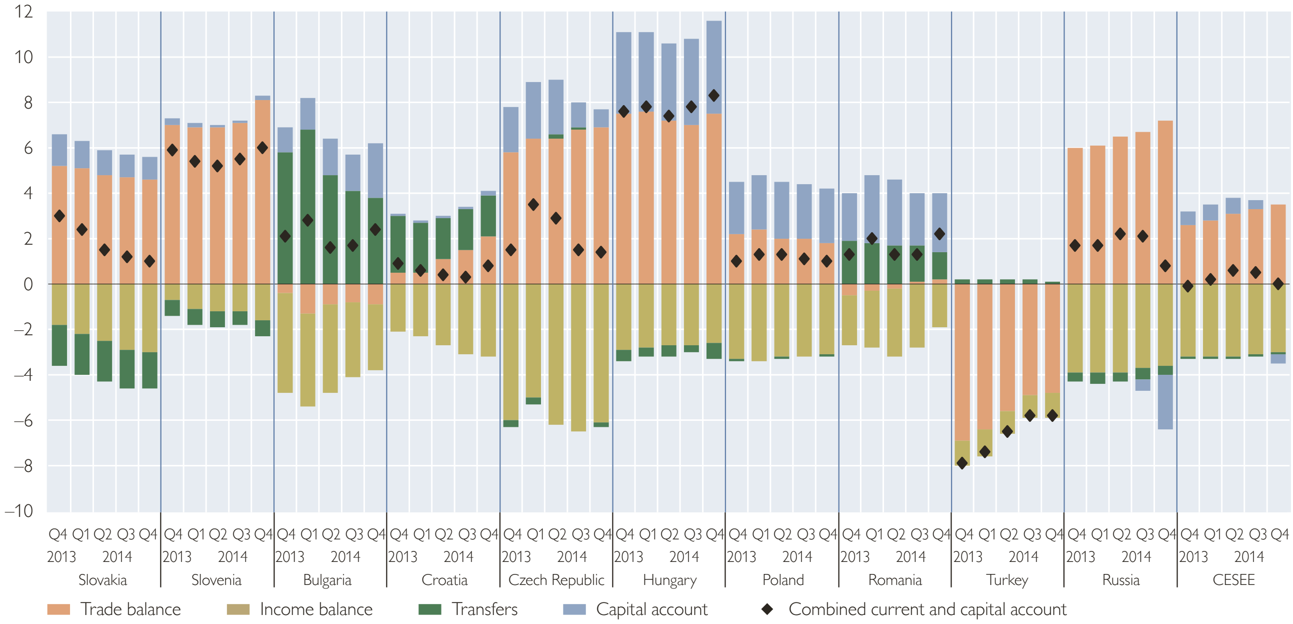


Source: National central banks.

Chart 7

Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

even started to rally in April recovering a substantial part of its losses from the second half of 2014.

External position of CESEE countries remains solid…

The combined current and capital account for CESEE as a whole deteriorated somewhat in the review period, coming down from a surplus of 0.6% of GDP in mid-2014 (four-quarter moving sum) to a balanced account at end- 2014. This development was driven predominantly by Russia. The countries' capital account switched from being in balance to posting a deficit of 2.3% of GDP in the review period, as the country has written off Cuba's outstanding debt. The current account in isolation posted an improvement of 1 percentage point of GDP mainly thanks to a higher surplus in the goods and services balance. Apart from Russia, the combined current and capital account surplus moderated substantially in the Czech Republic, as inflows via the capital account came down from rather high levels.

Most of the other CESEE countries reported higher surpluses in their combined current and capital accounts. Most of the improvement was related to better outcomes in the trade balance (partly related to terms of trade effects), while the capital account was a major factor in Bulgaria and Hungary and the income balance played a key role in Romania.

… but Russia reports substantial capital outflows

Net capital flows to the ten CESEE countries as a whole, as recorded in the financial account, decelerated markedly from –4.7% of GDP in the second quarter of 2014 to –7.9% of GDP in the fourth quarter of 2014 (four-quarter moving sums). The deterioration was driven by net portfolio and FDI flows turning negative amid continuing substantial outflows from other investments.

Regional developments as regards the financial account were again very much driven by Russia. Net outflows from Russia increased by more than EUR 28 billion in the review period. Most of this deterioration came from FDI. Outflows from the other components of the financial account increased as well, however. As chart 8 shows, the financial account deteriorated also in the Czech Republic, Croatia and Hungary (remaining in surplus in the Czech Republic, however). In all three countries, it was especially outflows from portfolio investments that weighed on the financial account. In the Czech Republic, lower other investments played a role, too.

The financial account balance remained broadly unchanged in the other CESEE countries except for Bulgaria, where portfolio and especially other investments improved notably. This was related to a rise in government liabilities abroad. It needs to be noted, however, that despite remaining broadly stable, the financial account posted a substantial deficit in Slovenia, thus largely offsetting the surplus in the combined current and capital account balances.

No major progress in fiscal consolidation in 2014

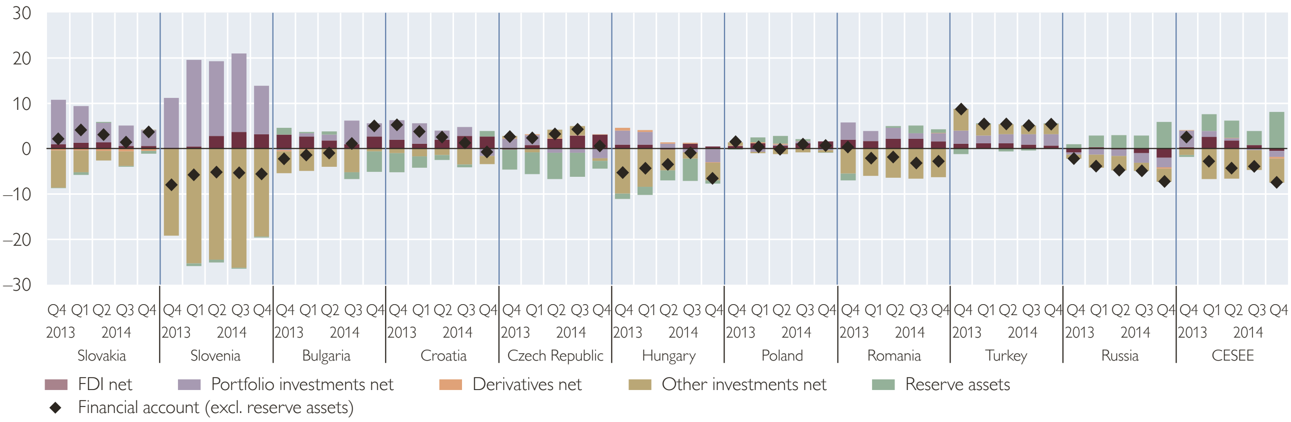
In 2014, budget deficit ratios remained by and large at similar levels as in 2013 and the fiscal stance was broadly neutral in most CESEE countries. A stronger deficit reduction was only reported for Slovenia. Here the deficit came down from a record level in 2013, which was profoundly influenced by one-off factors, including those related to bank recapitalization. Adjusted for these one-off factors, the Slovenian deficit fell only moderately between 2013 and 2014.

A notably increasing budgetary gap was reported only for Bulgaria (+1.9 percentage points of GDP). Public finances in Bulgaria were burdened by the closure of Corporate Commercial Bank and the associated payments from deposit guarantees. As the country's Deposit Insurance Fund was not sufficiently endowed to satisfy all claims, the government extended a loan amounting to EUR 1 billion to the fund. In addition to that, weaker-than-expected revenues (partly related to lower tax collection in relation to the falling price level) weighed on the Bulgarian budget.

Chart 8

Financial account balance

% of GDP, four-quarter moving sum



Source: National central banks.

Croatia, Poland and Slovenia remain the only CESEE EU countries still subject to an excessive deficit procedure. The target dates for deficit correction currently stand at 2015 for Slovenia and Poland and at 2016 for Croatia. All three countries will need to take further consolidation measures to reach the agreed targets.

Turkey and Russia, in turn, continued to record moderate budget deficits in the order of 1% to 1½% of GDP in 2014, i.e. budget figures barely changed from 2013.

Box 1

Western Balkans:[1] weak growth performance and very low or slightly negative inflation in 2014

In 2014, growth performance was uneven across the Western Balkans: In FYR Macedonia and Albania, real GDP growth was stronger in 2014 than in 2013 while in the rest of the Western Balkans, economic growth was weaker (or is expected to turn out to be weaker) than the year before.[2] Generally, growth rates remain too low to foster a more vivid catching-up process. With a real GDP growth of 3.8%, FYR Macedonia reported the highest growth rate among the Western Balkans (2013: 2.7%) last year, despite a slowdown in the final quarter of 2014.[3] In Albania, economic growth was particularly strong in the third quarter of 2014 at 3.9%. Due to a weak performance in the first half of 2014, the Albanian economy just grew by 1.9% in 2014, somewhat more than in 2013 (1.4%). In FYR Macedonia and Albania, economic growth was largely driven by higher investments (predominately by public investments in FYR Macedonia). However, gross fixed capital formation (GFCF) slowed down in the final quarter of 2014 in FYR Macedonia. Exports accelerated strongly in FYR Macedonia in 2014 but this effect was partly compensated by investment-related imports. Additionally, higher private consumption contributed positively to GDP growth in Albania. Accelerated private consumption (bolstered by pre-election public wage increases and a higher inflow of remittances) also supported economic growth in Kosovo. However, weak investment activity and a negative contribution of net exports curbed GDP annual growth rates to 1.7% in the first, –2.5% in the second and 1.4% in third quarter of 2014 (2013: 3.4%). Economic growth in Montenegro is projected to have fallen to 1.4% in 2014 (against 3.3% a year earlier), which is largely the result of declining exports (in particular of energy) and higher imports. Growth was particularly weak in the second quarter of 2014. Bosnia and Herzegovina as well as Serbia were strongly affected by spring floods, which had a negative effect on economic performance in the subsequent quarters. In Bosnia and Herzegovina, real GDP growth declined to 1.4% in 2014 from 2.5% in 2013. However, economic growth in Bosnia and Herzegovina accelerated in the final quarter of 2014 due to a pickup of private consumption. Economic growth in Serbia moved into negative territory (from 2.6% in 2013 to –1.8% in 2014) and was particular weak in the third quarter of 2014. Apart from the negative effects of the spring flood, Serbia had to cope with declining private consumption (partly related to public wage and pension cuts), weak export growth and contracting GFCF.

Despite some easing in 2014, unemployment in the Western Balkans remains one of the greatest problems of the region. It has major repercussions on the overall economic performance, reflected i.a. in widespread poverty across the population and high emigration rates accompanied by brain drain. Moreover, migrant workers may return to the Western Balkans when economic developments in the host countries deteriorate, thus putting additional pressure on domestic labor markets. At around 30%, Bosnia and Herzegovina, FYR Macedonia and Kosovo continued to register the highest unemployment rates in the region in 2014. In Albania, the unemployment rate even rose significantly in the course of 2014 (from below 16% to 17.5%) due to a weak growth performance as well as to the large number of migrants returning from crisis-hit Greece and Italy. In Serbia, the unemployment rate dropped relatively strongly from about 22% to 17.6% in spite of contracting GDP, as employment figures rose and unemployment figures fell. Given the country's continued weak GDP dynamics, it remains to be seen how sustainable this reduction in the unemployment rate is.

Most Western Balkan countries continue to post external imbalances. In 2014, chronically high current account deficits in most countries even widened across the region, largely driven by accelerated trade deficits that were mainly due to decelerating export and rising import

[1] The Western Balkans comprise the EU candidate countries Albania, FYR Macedonia, Montenegro and Serbia as well as the potential candidate countries Bosnia and Herzegovina, and Kosovo. The term "Kosovo" is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.

[2] Real GDP data for the fourth quarter of 2014 are not yet available for Montenegro and Kosovo.

[3] Since no GDP data are available for Albania, we refer to gross value added.

activity. In Montenegro, the country with the highest shortfall, the current account increased further to above 15% of GDP in 2014. In Albania and Bosnia and Herzegovina, the deficit widened by roughly 3 percentage points of GDP to almost 13% and almost 8%, respectively, in 2014. At 8%, the current account deficit also moved upward in Kosovo against 2013. Only in FYR Macedonia, which had recorded a low current account shortfall over the past few years, the deficit declined to 1.3% in 2014 (from 1.8% in 2013) as exports accelerated strongly. Serbia's deficit remained broadly unchanged (6%).

Credit growth in FYR Macedonia remained strong also in 2014 (almost +9%), driven by GDP growth and continuously improving lending conditions. According to the IMF (2015), tight prudential regulations are in place to ensure that credit developments remain on a sound footing.[4] Bosnia and Herzegovina also showed solid growth rates (+4.5%) after suppressed lending activity in 2013. In Albania and especially in Serbia, credit growth picked up in the second half of 2014 after a sluggish expansion in the first half of the year. In Serbia, credit growth even accelerated to more than 8% in the final quarter of 2014. This development was partly supported by a subsidized loan program. However, the picture changes completely when it comes to exchange rate-adjusted credit growth. In this case, due to the depreciation of the Serbian dinar in the course of 2014, credit growth remained negative throughout the year. In Kosovo and Montenegro, credit growth increased somewhat in the first half of 2014 but turned negative in the second half. The banking sectors across the region are strongly burdened by high NPL ratios, which depress new lending activity. Albania records the highest NPL ratio but managed to reduce it somewhat from above 23% at the end of 2013 to below 22.8% at the end of 2014. With less than 10%, Kosovo reports the lowest NPL ratio in the Western Balkans.

In the second half of 2014, inflation remained subdued in all Western Balkan countries. Low inflation or deflation is largely the result of declining prices for energy and for food as well as of low demand-side price pressures. Disinflation pressure from the euro area was another factor, especially in countries that peg their currencies to the euro. Bosnia and Herzegovina, FYR Macedonia and Montenegro even registered negative inflation rates throughout this period. In Bosnia and Herzegovina and FYR Macedonia, inflation stayed negative in the beginning of 2015, while in Montenegro annual inflation turned slightly positive in March 2015. Price growth in Kosovo decelerated in the course of 2014 to almost zero in the final quarter of 2014 and turned negative in the first quarter of 2015. Both inflation-targeting countries – Albania and Serbia – undershot the lower bound of their inflation targets. In Albania, the target is set at 3% ±1 percentage point, but inflation stayed below 2% in the second half of 2014. Inflation in Serbia dropped from almost 3% in the first quarter of 2014 to 2% in the final quarter, thus also dipping below the lower bound of the inflation target, which is set at 4% ±1.5 percentage points. In the beginning of 2015, inflation started to pick up in Albania (coming to more than 2% in February and March 2015) while it continued to decline in Serbia (to 0.8% in February) and only accelerated in March (to 1.9%). On the back of low inflation, both countries lowered their key interest rates. During the review period, the Albanian central bank cut its key interest rate by 25 basis points both in November 2014 and January 2015, when it came to 2.0%. The Albanian lek has remained broadly stable against the euro over the past six months. In Serbia, the key interest rate was also cut in three steps, from 8.5% in November 2014 to 7.0% in April 2015. The Serbian dinar lost almost 4% of its value from October 2014 to end-January 2015. Since February 2015, it has strengthened against the euro. The Serbian central bank has intervened frequently in the foreign exchange market to reduce exchange rate volatility.

Regarding the fiscal situation in 2014, Albania, Montenegro and Serbia managed to meet their fiscal targets. Albania recorded a deficit of 5.1% of GDP in 2014 (2013: –4.9%), against a fairly unambitious target of exactly 5.1%. In Montenegro, in turn, the shortfall declined to –1.5% in 2014 from –5.3% in 2013 because of a strong increase in revenues. In Serbia, the budget deficit widened to –6.7% in 2014 (2013: –5.5%) but turned out to be considerably

[4] IMF. 2015. IMF Executive Board Concludes the Fourth Post-Program Monitoring Discussion with Former Yugoslav Republic of Macedonia. Press Release No. 15/16. January 27.

lower than projected in autumn 2014 (forecast at the time: more than –8%). This development is largely the result of decisive austerity measures, which comprised cuts of public sector wages and of pensions. At –4.2%, the deficit of FYR Macedonia was slightly higher in 2014 than in 2013 and the country missed its fiscal target for 2014, which had been set at –3.9% of GDP. In Kosovo, the fiscal rule that sets a deficit target of 2% of GDP will be not be observed in 2014 as the deficit is expected to amount to 2.2% (3.1% in 2013). Higher expenditures in the run-up to elections and lower revenues due to weak economic performance led to a higher-than-expected deficit. Posting a deficit of 1.8% of GDP, Bosnia and Herzegovina missed its fiscal target (–1.1% of GDP) in 2014 because of higher-than-expected expenditures related to the spring floods.

In the review period, Bosnia and Herzegovina reached an important milestone in its process toward EU accession: In March 2015, the Council of the European Union agreed that the Stabilisation and Association Agreement (SAA) can enter into force as the country had undertaken measures to implement reforms required by the EU.

As to new developments in relations with the IMF, a three-year precautionary Stand-By Arrangement (SBA) with Serbia was approved in February 2015. This agreement is based on three pillars: the consolidation of public finances, financial sector resilience and structural reforms. After some delays in concluding the second review of the Extended Fund Facility (EFF) with Albania in September 2014, it was eventually finalized in February 2015 (together with the third review), allowing the country to draw an additional amount of about EUR 58.8 million (resulting in total disbursements of about EUR 117.7 million since the start of the program). The fourth EFF review took place in March 2015. According to the IMF, the program is on track. In December 2014, the IMF reconfirmed that it would not complete the eighth review of the SBA with Bosnia and Herzegovina since the country had not implemented some of the agreed policies. In January 2015, the IMF concluded its fourth and final Post-Program Monitoring with FYR Macedonia. One month later, the country repaid to the IMF all its outstanding obligations drawn from a Precautionary Liquidity Line approved in early 2011.

Box 2

Ukraine receives further international support conditional upon reforms; external debt restructuring to cover part of funding needs

With the military conflict in eastern Ukraine hitting the Ukrainian economy through various channels, GDP shrank by 6.8% in 2014. The depreciation of the Ukrainian hryvnia continued and the exchange rate passthrough, together with rising administered prices, drove inflation up to 45.8% year on year in March 2015. Supported by the depreciation and despite production outfalls in the heavily industrialized east and trade disruptions with Russia, Ukraine's current account deficit decreased to 4% of GDP in 2014 as imports declined faster than exports. The fiscal deficit, including the state-owned gas company Naftogaz, reached about 10% of GDP, while public debt rose to 72.8% of GDP. While GDP contraction did not miss the IMF assumption made during the first review under the Stand-By Arrangement (SBA) in September (–6.5%) by a large margin, foreign reserves dropped well below expected figures, mainly due to massive capital outflows. Thus, it became increasingly obvious in the final quarter of 2014 that Ukraine needed additional funding to rebuild its foreign reserves.

Talks with the IMF on how to proceed with the assistance program started toward end-2014, following parliamentary elections and the formation of a new government. It took more than two months until an agreement was reached on an USD 17.5 billion Extended Fund Facility (EFF, approved in March by the IMF executive board), which replaced the SBA. The EFF is part of an international support package (comprising support by the IMF, EU and international financial institutions as well as bilateral aid from several countries) set up to cover a large part of Ukraine's USD 40 billion funding needs over the next four years. Financial support is connected to a comprehensive reform agenda, on which the Ukrainian authorities already started to deliver. External debt restructuring is expected to yield a financing contribution of USD 15 billion and restore Ukraine's debt sustainability. Discussions with sovereign and quasi-sovereign eurobond holders were initiated in March and are planned to be finalized in June.

Up to February 2015, the Ukrainian central bank struggled to contain the depreciation of the hryvnia. Some stabilization on the foreign exchange market could only be achieved in March, following a ceasefire agreement, the introduction of further capital controls, a key policy rate hike to 30% and the EFF announcement. After the disbursement of the first USD 5 billion IMF tranche, Ukraine's foreign reserves almost doubled to about USD 10 billion in March. The ceasefire, which was agreed as a first step within a broader conflict settlement package (Minsk-II) in mid-February, resulted – after a serious breach in the first days – in a noticeable decline of fighting. Yet, occasional violations continue to be reported by the OSCE special monitoring mission. Going forward, several further important steps will have to be taken under Minsk-II during the course of this year (inter alia the withdrawal of all heavy weapons, local elections under Ukrainian law, restoration of full government control of the state border, constitutional reform encompassing decentralization) to fully implement the package.

2 Slovakia: GDP growth picked up moderately in 2014

Fixed investment as main growth engine

After a slowdown in the past few years, GDP growth in Slovakia reached 2.4% in 2014, the fastest pace since 2011. While previously, net exports were the main engine of growth, in 2014 growth was driven by the ongoing recovery of domestic demand. Fixed investment continued to grow robustly, combined with a more moderate recovery in household demand and higher public consumption. Net exports, in turn, had a slightly negative impact on GDP in 2014.

In the second half of 2014 gross fixed investment became the main driving force behind domestic demand. After five straight years of stagnation, household consumption began to show positive growth rates in 2014 supported by rising wages, low inflation, improving labor market conditions and by an increase in consumer confidence. Export and import growth slowed significantly during 2014. Due to stronger household consumption and investment as well as weak demand from the country's main trading partners, imports rose somewhat faster than exports.

First signs of labor market recovery

The labor market also showed signs of revival in 2014. The unemployment rate dropped by about 1 percentage point in 2014, while the employment rate increased by about 1 percentage point throughout the year. These represent the best outcomes since 2010 and 2009, respectively. Moreover, the rate of long-term unemployment fell considerably and there was some improvement in the youth unemployment rate, too. The overall levels of unemployment, however, remain rather high and broad regional disparities persist. Although the automotive industry – the largest sector in the Slovak economy, which had led growth in recent years – lost momentum in 2014, the planned expansion of production facilities by the country's three main car producers is expected to boost investment and industrial output in 2015 and 2016. Though the situation in Russia was expected to negatively affect Slovak car production, the car industry was largely successful in finding alternative markets such as Spain, Italy or Poland.

Inflation prospects unchanged

Slovakia was not spared by the disinflationary trend observed in the euro area, reporting an average annual inflation of –0.1% in 2014. Looking at the composition of the country's annual inflation rate, we see that energy prices pushed prices down all through 2014 and that food prices did so in the second half of the year. These dynamics could not be compensated by the moderate rise of prices in the service sector (throughout 2014) and of nonenergy goods (in the fourth quarter of 2014), resulting in a marginally negative total inflation rate.

General elections in 2016 are likely to drive up spending

Partly due to statistical reasons (switch to the new accounting methodology according to ESA 2010 and the subsequent reclassification of general government positions), general government debt in Slovakia did not exceed the 55% of GDP threshold introduced in the Fiscal Responsibility Act in 2014. This provided some welcome fiscal leeway for the Slovak government in its 2015 budget, which originally had been planned in anticipation of the debt brake rule. Against the background of parliamentary elections due next year, the government announced a set of substantial social measures including i.a. health insurance allowances, the introduction of minimum pensions, a wage rise in public administration, lower gas prices for households and the introduction of free rail transport for students and pensioners. Furthermore, the minimum wage was raised by 8% at the beginning of 2015. The Council for Budget Responsibility estimates that those measures will increase the Slovak deficit in 2015 to 2.5% of GDP compared with the original target of 2% of GDP.

Table 2

Main economic indicators: Slovakia

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	1.6	1.4	2.4	1.5	2.0	2.3	2.6	2.4	2.4
Private consumption	–0.4	–0.7	2.2	–0.9	–0.7	2.8	2.3	1.6	2.2
Public consumption	–2.0	2.4	4.4	3.8	3.4	4.7	5.6	3.3	4.0
Gross fixed capital formation	–9.3	–2.7	5.7	–5.7	5.8	2.1	5.3	7.7	6.8
Exports of goods and services	9.3	5.2	4.6	3.3	7.2	12.4	4.9	1.6	0.3
Imports of goods and services	2.6	3.8	5.0	1.4	8.4	12.9	6.7	1.7	–0.2
	Contribution to GDP growth in percentage points								
Domestic demand	–4.2	0.0	2.8	–0.3	2.8	2.5	3.7	2.7	2.3
Net exports of goods and services	5.8	1.4	–0.2	1.7	–0.8	0.2	–1.3	–0.1	0.5
Exports of goods and services	8.0	4.8	4.2	2.9	6.8	11.5	4.6	1.4	0.3
Imports of goods and services	–2.2	–3.3	–4.4	–1.2	–7.7	–11.3	–5.9	–1.4	0.2
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	1.0	0.4	2.3	–0.3	–0.5	1.3	3.7	2.1	2.2
Unit labor costs in manufacturing (nominal, per hour)	–7.3	–2.2	1.8	–3.0	–7.6	–4.6	0.3	5.3	6.2
Labor productivity in manufacturing (real, per hour)	12.8	8.1	2.8	8.1	11.4	6.2	4.2	0.4	0.6
Labor costs in manufacturing (nominal, per hour)	4.5	5.6	4.7	4.9	3.0	1.3	4.5	5.7	6.8
Producer price index (PPI) in industry	1.9	–1.0	–3.5	–1.5	–2.3	–3.4	–3.6	–3.7	–3.5
Consumer price index (here: HICP)	3.7	1.5	–0.1	1.4	0.5	–0.1	–0.1	–0.1	–0.1
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	14.0	14.3	13.2	14.1	14.3	14.1	13.2	12.9	12.6
Employment rate (%, 15–64 years)	59.7	59.9	61.0	60.0	59.8	60.2	60.7	61.3	61.7
Key interest rate per annum (%)	0.9	0.5	0.2	0.5	0.3	0.3	0.2	0.1	0.1
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	6.6	5.9	4.9	5.6	5.9	7.3	6.9	5.4	4.9
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	–6.9	–2.7	4.9	–6.5	0.3	0.2	2.5	0.0	4.3
Domestic credit of the banking system	2.3	–6.3	7.9	–2.2	0.7	2.1	9.0	10.5	6.7
of which: claims on the private sector	6.8	5.3	10.5	3.4	5.1	5.7	6.2	7.1	5.1
claims on households	7.9	8.2	9.8	4.1	4.1	4.4	4.7	5.1	5.4
claims on enterprises	–1.1	–2.9	0.7	–0.7	1.0	1.3	1.5	2.0	–0.3
claims on the public sector (net)	–4.5	–11.6	–2.6	–5.6	–4.4	–3.5	2.8	3.4	1.7
Other assets (net) of the banking system	11.9	21.9	–1.7	14.3	4.8	5.0	–4.6	–5.1	–6.1
	% of GDP								
General government revenues	36.0	38.4	38.9	. .	. .	. .	. .	. .	. .
General government expenditures	40.2	41.0	41.8	. .	. .	. .	. .	. .	. .
General government balance	–4.2	–2.6	–2.9	. .	. .	. .	. .	. .	. .
Primary balance	–2.4	–0.7	–1.0	. .	. .	. .	. .	. .	. .
Gross public debt	52.1	54.6	53.6	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	46.6	48.4	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	28.2	30.2	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	3.5	4.6	4.5	3.3	2.2	6.6	5.9	3.8	1.8
Services balance[1]	0.6	0.6	0.2	1.0	–0.1	0.0	0.3	0.3	0.0
Primary income[1]	–1.7	–1.8	–3.0	–2.1	–2.4	–2.3	–3.4	–3.4	–2.8
Secondary income[1]	–1.4	–1.8	–1.6	–1.8	–1.6	–1.9	–1.7	–1.5	–1.3
Current account balance[1]	0.9	1.5	0.1	0.5	–1.9	2.5	1.0	–0.7	–2.4
Capital account balance[1]	2.0	1.4	1.0	0.9	2.6	0.1	0.6	0.6	2.5
Foreign direct investment (net)	3.2	1.0	0.6	3.9	3.1	0.2	–1.7	0.8	3.0
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	76.0	82.1	90.1	86.0	82.1	90.9	89.1	92.7	90.1
Gross official reserves (excluding gold)[1]	0.9	0.9	1.5	0.9	0.9	1.5	0.9	1.1	1.5
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
	EUR million, period total								
GDP at current prices	72,185	73,593	75,215	19,400	18,757	17,340	18,756	19,846	19,273

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

3 Slovenia: progress in reforms, but more remains to be done

Solid growth in 2014, but slowdown toward year-end

Real GDP in Slovenia grew by 2.6% in 2014 but still remained well below pre-crisis levels. The peak was reached in mid-year and the expansion lost some speed toward year-end. Especially investments, which had been the major driver of growth in the first three quarters of 2014 on the back of infrastructure projects cofunded by the EU, lost momentum. This trend is expected to last into 2015 as the intensified absorption of EU funds from two overlapping programming periods draws to an end while housing investments and investments in machinery and equipment are yet to recover. Final consumption posted the first positive growth rate in 2014 after three years of contraction, but also slowed down in the second half of the year despite accelerating real wage growth and further improving consumer confidence amid continued fiscal consolidation and stagnating employment. Hence, net exports again became the major growth driver in the final quarter of 2014. High frequency data suggest that the economy remained robust into early 2015. Inflationary pressures, however, remain very subdued, with the HICP in negative territory since December 2014.

Banking sector in better shape, outlook improving

The new government has remained committed to reforms, including i.a. bank and corporate restructuring, fiscal consolidation and privatization. The long-awaited asset quality review and the stress tests carried out by the ECB showed no capital shortfall under the baseline scenario for Slovenia. The country's two biggest banks (NLB and NKBM) showed a minor capital shortfall of EUR 65 million by 2016 under the adverse scenario which, however, was expected to be covered by retained profits for 2014. In December 2014, the European Commission approved the restructuring plan for Banka Celje and its merger with the previously rescued Abanka, which was followed by a recapitalization and the transfer of bad assets to the Bank Asset Management Company (BAMC). Also, the privatization of NKBM has progressed and the sale is expected to be finalized in the second quarter of 2015. Bank profitability has also substantially improved following the consolidation of the banking sector since late 2013, but the sector as a whole still posted a minor loss in 2014. The share of nonperforming claims (overdue more than 90 days) fell to 12% by December 2014, also supported by the transfer of bad claims to the BAMC. Nevertheless, the high level of nonperforming loans continues to hold back credit growth. Credit to households and nonbank corporations has continued to contract rapidly in 2015. Also, the deleveraging and restructuring of overindebted nonfinancial corporations has progressed slowly. It has been encouraged, however, by new central bank guidelines of December 2014, which allow for a gradual release of impairments and provisions by banks, along with progress in the restructuring of corporate exposures. On a less positive note, the Slovenian central bank came under public pressure in mid-February on allegations that it had overdramatized the situation of the banking sector in 2013 to make the case for the bail-in of junior bondholders and more-than-necessary capital injections in the rescued state-owned banks. In response to parliamentary hearings, the Slovenian central bank presented a report on the causes of the capital shortfalls and the related rescue measures in late March 2015. The bail-in is still being challenged before the constitutional court.

The Slovenian budget deficit is set to decline further in 2015 and 2016, in part due to cyclical developments, while according to the assessment of the European Commission, macroeconomic imbalances in the economy continue to require decisive policy action and close monitoring, but are no longer considered excessive.

Table 3

Main economic indicators: Slovenia

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	–2.6	–1.0	2.6	–0.3	2.1	2.1	2.9	3.2	2.4
Private consumption	–3.0	–3.9	0.3	–4.4	–1.6	1.1	0.6	0.3	–0.8
Public consumption	–1.5	–1.1	–0.5	–1.0	–0.8	–1.8	–0.9	–0.4	1.2
Gross fixed capital formation	–8.9	1.9	4.8	1.0	7.4	5.0	7.3	8.0	–0.9
Exports of goods and services	0.3	2.6	6.3	3.9	3.9	4.9	4.9	6.8	8.4
Imports of goods and services	–3.9	1.4	4.1	2.5	4.6	3.5	4.3	5.3	3.3
	Contribution to GDP growth in percentage points								
Domestic demand	–5.5	–2.0	0.8	–1.5	2.6	0.8	2.2	1.6	–1.6
Net exports of goods and services	2.9	1.0	1.9	1.2	–0.4	1.2	0.7	1.5	4.0
Exports of goods and services	0.2	1.9	4.7	2.8	2.9	3.7	3.6	5.1	6.3
Imports of goods and services	2.7	–1.0	–2.8	–1.7	–3.3	–2.4	–2.9	–3.5	–2.3
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	0.6	1.4	–2.1	0.2	2.7	–1.2	–1.8	–1.1	–4.2
Unit labor costs in manufacturing (nominal, per hour)	4.7	2.8	0.3	2.5	4.1	1.2	0.3	1.3	–1.8
Labor productivity in manufacturing (real, per hour)	–1.8	–2.1	3.5	–2.9	0.4	1.9	2.3	4.6	5.1
Labor costs in manufacturing (nominal, per hour)	2.9	0.6	3.8	–0.5	4.4	3.2	2.6	5.9	3.2
Producer price index (PPI) in industry	0.9	0.0	–0.7	–0.2	–0.6	–0.8	–1.2	–0.6	–0.1
Consumer price index (here: HICP)	2.8	1.9	0.4	2.2	1.1	0.6	0.8	0.1	0.0
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	9.0	10.3	9.9	9.5	9.8	11.0	9.5	9.4	9.7
Employment rate (%, 15–64 years)	64.1	63.3	63.9	64.5	63.2	62.5	64.5	64.6	64.0
Key interest rate per annum (%)	0.9	0.5	0.2	0.5	0.3	0.3	0.2	0.1	0.1
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	–0.7	0.2	7.8	0.6	0.2	1.4	4.4	6.4	7.8
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	10.6	23.5	45.3	18.8	19.7	29.1	27.4	31.1	25.5
Domestic credit of the banking system	–5.9	–16.4	–33.0	–18.3	–13.8	–23.1	–19.7	–19.2	–19.2
of which: claims on the private sector	–11.3	–30.0	–38.5	–10.4	–22.9	–21.1	–22.1	–22.6	–15.6
claims on households	–0.1	–2.3	–2.2	–1.2	–1.5	–1.3	–1.2	–1.0	–0.7
claims on enterprises	–11.2	–27.7	–36.3	–9.2	–21.4	–19.8	–20.8	–21.6	–14.9
claims on the public sector (net)	5.4	13.6	5.5	–7.8	9.1	–2.0	2.3	3.4	–3.6
Other assets (net) of the banking system	–2.4	–7.6	–4.3	0.1	–5.7	–4.7	–3.3	–5.5	1.5
	% of GDP								
General government revenues	44.4	45.2	45.0	..	..	..	..	..	..
General government expenditures	48.1	59.7	49.8	..	..	..	..	..	..
General government balance	–3.7	–14.6	–4.9	..	..	..	..	..	..
Primary balance	–1.7	–12.0	–1.5	..	..	..	..	..	..
Gross public debt	53.7	70.3	80.9	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	94.1	83.4	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	29.9	28.9	..	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Trade balance[1]	–0.1	2.1	3.5	2.7	0.5	3.5	3.2	3.4	3.9
Services balance[1]	4.2	4.9	4.6	5.7	3.7	3.7	4.5	5.9	4.1
Primary income[1]	–0.8	–0.7	–1.6	–2.1	0.0	–1.3	–1.2	–2.1	–1.9
Secondary income[1]	–0.6	–0.7	–0.7	–1.2	1.0	–1.9	–0.7	–0.7	0.6
Current account balance[1]	2.7	5.6	5.8	5.1	5.2	3.9	5.8	6.4	6.7
Capital account balance[1]	0.1	0.3	0.2	0.1	0.8	0.0	–0.4	0.1	1.1
Foreign direct investment (net)[1]	1.3	0.2	3.2	1.1	2.0	0.9	6.9	4.6	0.0
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	113.4	111.2	124.1	113.1	111.2	121.8	125.0	124.0	124.1
Gross official reserves (excluding gold)[1]	1.6	1.6	2.0	1.7	1.6	2.0	2.1	2.0	2.0
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3
	EUR million, period total								
GDP at current prices	36,006	36,144	37,246	9,307	9,269	8,592	9,587	9,643	9,425

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

4 Bulgaria: bank failure leaves GDP growth unscathed but impacts on fiscal position

GDP growth remains surprisingly steady in second half of 2014, backed in particular by consumption

Despite deteriorating economic sentiment in the wake of the June bank runs, a five-month freeze of deposits with Corporate Commercial Bank (CCB), continued negative inflation rates and early parliamentary elections in October, Bulgarian GDP growth did not experience a backlash in the second half of 2014. While there was a rather pronounced deceleration in investment activity, both private and public consumption regained respectable momentum in this period. Private consumption benefited from the drop in oil prices, continued wage growth and stabilizing labor market conditions. Buoyant domestic demand seems to carry over into 2015 as economic confidence indicators have improved since the start of disbursement of insured CCB deposits in December. At the same time, import growth picked up considerably in the final quarter of 2014 and resulted in a negative growth contribution of net exports given that exports did not expand as dynamically. From a production-side perspective, GDP growth in the second half of 2014 was mainly supported by agriculture, industry, wholesale and retail trade as well as transport activities.

Consumer price deflation and subdued lending to private sector persist

Bulgaria has experienced declining consumer prices since August 2013 and recorded the strongest HICP decline in the EU in 2014. Despite the fact that electricity tariffs were raised by 10% as of October 2014, consumer price deflation has continued into 2015 on the back of shrinking transportation and communication costs (the annual HICP dropped by 1.7% in February).

Private sector credit growth dynamics have remained subdued, mirroring i.a. high real interest rates and investment uncertainty in 2014. Notably, the strong decline in lending observed since November 2014 was related to the fact that the CCB was excluded as a reporting agent from the Bulgarian central bank's monetary statistics data (right after the central bank had revoked the CCB's banking license).

Direct government bailout avoided, but covering funding gaps for Bulgarian bank deposit guarantees results in fiscal costs

The early elections in October brought a new center-right minority government that had to grant a five-and-a-half-year loan to the Bulgarian bank deposit guarantee fund, which was not sufficiently equipped to pay out all insured CCB deposits. Compared with the initial target of 1.8%, the general government deficit increased strongly from 0.9% in 2013 to 2.8% of GDP in 2014, and general government gross debt rose by almost 10 percentage points of GDP to 27.6% at end-2014. These unfavorable fiscal dynamics are not only due to bank rescue costs but also the result of underperforming tax revenues (exacerbated by deflationary trends) and stronger-than-expected expenditure. The adopted 2015 state budget act comprises consolidation measures (e.g. a 10% cut in wages of public employees and savings in healthcare costs) and targets a budget deficit of 3% of GDP, assuming a comparatively conservative GDP growth rate of 0.8% for 2015.

The 2015 budget deficit might also prove to be smaller as the newly elected parliament passed a public social insurance budget bill that introduces, from 2015, optionality in second-pillar pension participation. Thus, people born in 1960 or later will have to choose irreversibly whether their supplementary compulsory retirement insurance is to be handled by the National Social Security Institute (NSSI) in a first-pillar pay-as-you-go system or by a private universal pension fund in a second-pillar fully-funded system. Recent government proposals point to further amendments that reconsider the irreversibility of switching from the second to the first pillar.

Table 4

Main economic indicators: Bulgaria

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	0.5	1.1	1.7	1.2	3.0	1.1	2.1	1.9	1.6
Private consumption	3.9	–2.3	2.0	–2.2	–1.8	3.5	0.3	1.4	2.9
Public consumption	–1.0	2.8	3.8	3.9	–0.4	3.5	2.6	2.9	5.8
Gross fixed capital formation	2.0	–0.1	2.8	2.9	7.5	4.0	4.6	1.8	1.5
Exports of goods and services	0.8	9.2	2.2	10.9	11.2	0.5	2.9	–1.2	7.5
Imports of goods and services	4.5	4.9	3.8	9.4	5.7	5.4	2.3	–0.9	9.0
	Contribution to GDP growth in percentage points								
Domestic demand	2.8	–1.6	2.8	–0.6	0.1	4.7	1.7	2.4	2.8
Net exports of goods and services	–2.3	2.6	–1.1	1.8	2.7	–3.7	0.3	–0.3	–1.2
Exports of goods and services	0.5	5.9	1.5	7.8	6.3	0.3	2.0	–0.9	4.5
Imports of goods and services	–2.8	–3.3	–2.6	–6.0	–3.5	–4.0	–1.6	0.6	–5.7
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	4.5	7.6	0.1	5.8	2.7	–0.3	–1.3	–0.3	2.5
Unit labor costs in manufacturing (nominal, per hour)	2.7	2.5	2.9	2.9	–0.2	1.9	3.3	2.6	3.8
Labor productivity in manufacturing (real, per hour)	2.1	2.5	3.3	1.7	5.4	3.1	3.8	3.3	3.1
Labor costs in manufacturing (nominal, per hour)	4.8	5.1	6.3	4.7	5.1	5.1	7.2	6.0	7.0
Producer price index (PPI) in industry	4.4	–1.5	–1.2	–3.1	–3.6	–2.8	–1.2	–0.4	–0.4
Consumer price index (here: HICP)	2.4	0.4	–1.6	–0.7	–1.0	–1.8	–1.6	–1.2	–1.8
EUR per 1 BGN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	12.4	13.0	11.5	12.1	13.2	13.1	11.5	10.8	10.7
Employment rate (%, 15–64 years)	58.8	59.5	61.1	61.1	59.6	59.0	61.0	62.8	61.4
Key interest rate per annum (%)[1]	. .	. .	. .	. .	. .	. .	. .	. .	. .
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	8.4	8.9	1.1	8.1	8.9	8.3	7.4	7.2	1.1
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	16.2	12.8	15.7	3.3	4.9	6.0	3.4	7.5	9.9
Domestic credit of the banking system	10.0	5.9	–4.9	4.0	3.2	1.9	5.5	0.9	–7.5
of which: claims on the private sector	6.8	2.9	–6.7	0.2	0.3	1.3	2.1	2.1	–6.4
claims on households	–0.5	–0.4	–0.5	–0.2	0.0	0.1	0.1	0.0	–0.5
claims on enterprises	7.4	3.3	–6.2	0.4	0.3	1.2	2.1	2.0	–5.9
claims on the public sector (net)	3.1	3.0	1.8	3.8	3.0	0.6	3.3	–1.1	–1.1
Other assets (net) of the banking system	–4.6	–0.6	–0.6	0.7	0.8	0.5	–1.4	–1.2	–1.3
	% of GDP								
General government revenues	34.5	37.4	36.4	. .	. .	. .	. .	. .	. .
General government expenditures	35.2	38.3	39.2	. .	. .	. .	. .	. .	. .
General government balance	–0.7	–0.9	–2.8	. .	. .	. .	. .	. .	. .
Primary balance	0.1	–0.1	–2.1	. .	. .	. .	. .	. .	. .
Gross public debt	18.0	18.3	27.6	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	113.8	115.7	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	26.1	26.0	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance	–8.5	–5.9	–7.0	–3.9	–6.4	–10.1	–7.1	–4.7	–7.0
Services balance	5.5	5.5	6.1	13.5	1.6	1.7	5.7	13.8	1.8
Income balance (factor services balance)	–3.3	–4.4	–2.9	–5.8	–3.1	–3.6	–3.1	–3.4	–1.6
Current transfers	5.0	5.8	3.8	4.6	3.2	8.5	3.6	2.3	2.1
Current account balance	–1.1	1.0	0.0	8.4	–4.6	–3.5	–0.9	8.1	–4.6
Capital account balance	1.3	1.1	2.4	1.5	1.4	1.5	2.0	1.7	4.0
Foreign direct investment (net)	2.1	3.1	2.7	4.0	–0.4	3.5	0.4	1.2	5.6
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt	92.1	90.0	94.7	91.3	90.0	90.7	90.4	92.5	94.7
Gross official reserves (excluding gold)	34.0	32.4	36.4	33.5	32.4	31.1	31.7	34.2	36.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)	6.0	5.7	6.3	5.9	5.7	5.4	5.5	6.0	6.3
	EUR million, period total								
GDP at current prices	40,927	41,048	42,011	11,044	11,446	8,526	10,205	11,677	11,602

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

[1] Not available in a currency board regime.

5 Croatia: recession stretched into sixth year

Another year of GDP contraction but final quarter of 2014 sees marginally positive growth at last

In the third quarter of 2014, real GDP continued to contract in Croatia, but growth turned slightly positive in the fourth quarter. Overall, GDP fell by 0.4% in 2014, on the back of a strong contraction of domestic demand due to a further drop in investment as well as the ongoing decline in private and public consumption. The only positive contribution to growth came from net exports. On the production side, the biggest contractions were registered in the construction and agricultural sectors. However, value added in the manufacturing sector increased for the first time since 2008, growing 3.3% on a year-to-year basis. To stimulate private consumption and support households' deleveraging, the government increased the income tax allowance from HRK 2,200 to HRK 2,600 as of January 2015. Public debt increased further in 2014, amounting to 81.4% of GDP at the end of 2014, while the fiscal deficit decreased marginally to 5% of GDP.

Strong export performance offset by higher income account deficit

The current account balance stayed in moderate surplus in 2014. The main positive contribution continued to come from tourism, reflected in services exports, which increased by 3.5% in 2014 against 2013. Goods exports went up by 9.3% (especially apparel and electricity exports) while imports grew by only 3.7% due to weak domestic demand. The strong performance of goods and services exports was offset by a worsening of the primary income deficit on the back of higher profits of foreign-owned companies and – to a lesser extent – by a deterioration of the secondary income surplus as payments from the EU exceeded EU fund utilization. In 2014 net FDI increased to 2.7% of GDP while net portfolio flows turned negative with a net outflow of 1.6% of GDP. Gross external debt rose further to 108.4% of GDP. In line with the usual seasonal patterns, in January and February 2015 the Croatian central bank intervened twice in the foreign exchange market by selling about EUR 500 million in total to support the Croatian kuna. Market access remains at favorable terms: On March 4, 2015, ten-year eurobonds worth EUR 1.5 billion were sold at a yield of 3.3%.

Temporary freeze of exchange rate for repayments of Swiss franc housing loans

Inflation growth continued to be subdued in the second half of 2014 and turned negative with a year-on-year inflation rate of –0.1% by December, mainly on the back of decreasing food and energy prices but also due to weak domestic demand. By February 2015, deflation accelerated to 0.4% year on year. As in the two previous years, credit growth was negative in 2014, with a 2.8% contraction of credit to the private sector at the end of the year. The share of nonperforming loans in total loans stayed flat during the second half of 2014 and amounted to 12.2% by year-end (compared with 11.6% at end-2013). Return on assets recovered somewhat and amounted to 0.6% for 2014 as a whole. Following the Swiss central bank's decision to abandon the Swiss franc's minimum exchange rate to the euro in January 2015 and the subsequent appreciation of the Swiss franc vis-à-vis the Croatian kuna, the Consumer Credit Act was adapted to freeze the loan repayment exchange rate for housing loans indexed to or denominated in Swiss franc at HRK 6.39 per Swiss franc for one year. The costs resulting from exchange rate differences will have to be born completely by the commercial banks.

Table 5

Main economic indicators: Croatia

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	–2.2	–0.9	–0.4	–0.5	–1.1	–0.6	–0.8	–0.5	0.3
Private consumption	–3.0	–1.2	–0.7	–0.3	–1.7	–0.5	–0.5	–1.1	–0.6
Public consumption	–1.0	0.5	–1.9	–0.8	1.4	–2.2	–3.4	–1.4	–0.5
Gross fixed capital formation	–3.3	–1.0	–4.0	0.3	–3.1	–3.6	–5.2	–3.6	–3.7
Exports of goods and services	–0.1	3.0	6.3	3.7	7.4	11.4	7.9	4.1	4.5
Imports of goods and services	–3.0	3.2	3.0	5.3	6.0	7.6	2.2	3.2	–0.4
	Contribution to GDP growth in percentage points								
Domestic demand	–3.3	–0.9	–1.8	–0.8	–1.3	–1.2	–2.8	–1.5	–1.7
Net exports of goods and services	1.2	0.0	1.4	0.1	0.2	0.4	2.0	1.2	1.9
Exports of goods and services	–0.1	1.3	2.7	2.2	2.7	3.6	3.0	2.5	1.8
Imports of goods and services	1.2	–1.3	–1.3	–2.1	–2.5	–3.1	–1.0	–1.3	0.2
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	–1.2	–0.5	–2.3	–2.3	0.0	–1.4	–1.9	–2.3	–3.9
Unit wage costs in manufacturing (nominal, per hour)	2.8	–1.4	–1.6	2.0	–1.0	–2.1	–0.8	–1.0	–2.7
Labor productivity in manufacturing (real, per hour)	–1.2	3.1	2.9	0.7	1.4	3.9	1.1	1.7	4.7
Gross wages in manufacturing (nominal, per hour)	1.6	1.7	1.1	2.6	0.3	1.8	0.2	0.3	2.0
Producer price index (PPI) in industry	7.0	0.5	–2.7	–0.6	–2.7	–2.7	–2.7	–2.9	–2.6
Consumer price index (here: CPI)	3.3	2.3	0.2	2.2	0.6	0.1	0.3	0.3	0.2
EUR per 1 HRK, + = HRK appreciation	–1.1	–0.8	–0.7	–1.0	–1.3	–0.9	–0.6	–1.0	–0.5
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	16.3	17.5	17.5	17.0	17.9	18.8	16.7	15.8	18.5
Employment rate (%, 15–64 years)	53.5	52.6	54.6	53.7	52.7	52.7	54.6	56.9	54.0
Key interest rate per annum (%)	6.0	7.0	8.0	6.0	6.0	6.0	6.0	6.0	6.0
HRK per 1 EUR	7.5	7.6	7.6	7.5	7.6	7.7	7.6	7.6	7.7
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	3.6	3.5	2.8	5.5	3.5	2.7	1.6	2.4	2.8
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	2.2	11.9	10.2	5.3	5.5	4.3	5.8	7.7	4.6
Domestic credit of the banking system	9.4	–3.0	–2.2	1.2	–2.0	–2.6	–4.1	–5.1	–0.2
of which: claims on the private sector	–0.2	–6.1	–4.0	–1.7	–1.4	–2.4	–3.2	–3.9	–2.4
claims on households	–0.2	–1.6	–1.2	–0.2	–0.9	–0.7	–0.3	–0.7	–0.3
claims on enterprises	0.0	–4.5	–2.7	–1.5	–0.6	–1.7	–2.9	–3.2	–2.1
claims on the public sector (net)	9.6	3.0	1.8	2.9	–0.5	–0.3	–1.0	–1.2	2.2
Other assets (net) of the banking system	–3.2	–1.7	–1.7	–1.0	0.0	1.0	–0.1	–0.1	–1.6
	% of GDP								
General government revenues	41.3	41.8	43.3	. .	. .	. .	. .	. .	. .
General government expenditures	46.9	47.0	48.3	. .	. .	. .	. .	. .	. .
General government balance	–5.6	–5.2	–5.0	. .	. .	. .	. .	. .	. .
Primary balance	–2.4	–1.8	–1.1	. .	. .	. .	. .	. .	. .
Gross public debt	64.5	75.7	81.4	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	88.1	86.3	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	41.0	40.2	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	–14.3	–15.1	–14.7	–13.7	–12.9	–15.7	–17.2	–14.0	–12.0
Services balance[1]	14.8	15.6	16.8	37.9	4.2	2.1	16.4	39.6	5.8
Primary income[1]	–3.3	–2.1	–3.2	–2.2	–0.8	–3.6	–4.2	–3.9	–1.2
Secondary income[1]	2.6	2.5	1.8	1.9	1.9	1.8	1.6	2.0	1.9
Current account balance[1]	–0.1	0.8	0.7	23.9	–7.7	–15.4	–3.5	23.7	–5.6
Capital account balance[1]	0.1	0.1	0.2	0.1	0.2	0.0	0.2	0.1	0.4
Foreign direct investment (net)[1]	2.7	2.0	2.7	–0.3	2.5	2.7	3.3	2.5	2.4
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	103.1	105.5	108.4	103.5	105.5	107.9	107.4	108.0	108.4
Gross official reserves (excluding gold)[1]	25.6	29.6	29.4	26.7	29.6	27.9	28.6	28.1	29.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	7.5	8.4	8.0	7.7	8.4	7.7	7.8	7.6	8.0
	EUR million, period total								
GDP at current prices	43,944	43,566	43,088	11,844	10,735	9,819	10,788	11,731	10,750

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

6 Czech Republic: economic expansion is under way, led by domestic consumption

GDP growth driven by higher private and public consumption

The Czech economy continued the expansion that had started in the final quarter of 2013, although at a somewhat slower pace. After growing by 2.5% in the third quarter of 2014, GDP only augmented by around 1.2% in the final quarter of 2014. This slowdown was mainly due to lower-than-expected additions to inventories, slower investment growth and a slight moderation in export dynamics. Foreign demand has nevertheless remained an important backbone of growth in the last two quarters. Other GDP components grew faster than expected, led by private and public consumption. Recent high frequency indicators corroborate these developments, with increases in industrial production, construction output and retail sales providing further evidence for the robustness of the current economic expansion.

Fiscal policy measures and minimum wage increases support private consumption

The government's plan to promote domestic demand by strengthening social welfare schemes, wage raises in the public sector and higher minimum wages as well as improved sentiment led to sustained increases in private consumption, which went up by around 2% in the fourth quarter of 2014, after reaching 2.2% in the third quarter. Real exports experienced significant though slightly decelerating growth during the course of 2014, rising by 6.7% in the final quarter of 2014. Imports also expanded markedly, reaching around 7.4% in the fourth quarter.

Czech central bank committed to fight deflationary tendencies

Domestic inflation remained at very low levels, although inflation expectations point toward increases in the medium run. HICP inflation decreased to –0.1% in February 2015, down from 0.5% in the fourth quarter of 2014. The current low level of inflation is mainly attributable to the sharp drop in oil prices, which acts as a positive supply shock to the Czech economy. In addition, falling unprocessed food prices also exhibited deflationary pressure. With that, inflation remained at levels well below the central bank's tolerance bounds (2% ±1%). As a consequence, the Czech central bank again stated that it would use the exchange rate as a monetary policy instrument until the end of 2016. In addition, it also communicated that it would move the exchange rate cap to lower levels in case of further deflationary pressure that might harm the positive trend in domestic demand.

The Czech current account balance displayed a mild surplus in 2014, thus moderately improving from 2013. This was essentially due to an improved trade balance.

Gradually improving labor markets should further spur domestic consumption

On the back of the stronger overall performance of the Czech economy, labor markets improved significantly in 2014. The unemployment rate fell to 5.8% in the fourth quarter, from 6.8% a year earlier. The number of vacancies almost recovered to pre-crisis levels. Employment also increased, approaching 70% in the final quarter of 2014. In addition, wages increased by around 3% (year on year) in the fourth quarter.

Banking sector remained healthy, although credit growth stayed muted

The Czech banking sector remained healthy, featuring strong balance sheets and high asset quality. Total assets increased slightly, reaching around CZK 5,476 billion in February, with loans to residents being the predominant asset item. The share of nonperforming loans in the total volume of loans has been slightly declining since 2010, reaching around 6.5% in February 2015, after having peaked at 9% in December 2010. Credit growth remained muted, rising only moderately over recent years.

Table 6

Main economic indicators: Czech Republic

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	–0.8	–0.7	2.0	0.3	0.8	2.3	2.1	2.5	1.2
Private consumption	–1.8	0.4	1.7	1.5	1.1	0.9	1.6	2.2	2.0
Public consumption	–1.0	2.3	2.3	3.4	3.4	0.8	3.0	0.5	4.3
Gross fixed capital formation	–2.9	–4.4	4.5	–2.4	–0.9	3.0	5.1	6.4	3.4
Exports of goods and services	4.1	0.3	8.8	2.7	4.5	11.6	8.7	8.2	6.7
Imports of goods and services	2.4	0.3	9.5	3.9	5.0	11.1	11.7	8.4	7.4
	Contribution to GDP growth in percentage points								
Domestic demand	–2.1	–0.7	2.0	1.0	1.1	1.0	3.5	2.3	1.4
Net exports of goods and services	1.3	0.0	–0.1	–0.7	–0.2	1.3	–1.4	0.2	–0.2
Exports of goods and services	2.9	0.2	6.8	2.0	3.4	9.2	6.7	6.2	5.2
Imports of goods and services	–1.7	–0.2	–6.8	–2.7	–3.6	–7.9	–8.1	–6.0	–5.4
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	2.6	0.5	1.4	1.1	–2.1	1.7	1.3	0.1	2.5
Unit labor costs in manufacturing (nominal, per hour)	2.7	0.7	–2.1	–1.3	–5.4	–2.0	–5.6	0.2	–1.1
Labor productivity in manufacturing (real, per hour)	–0.2	2.3	5.2	2.9	7.4	6.5	7.5	2.7	4.4
Labor costs in manufacturing (nominal, per hour)	2.6	2.9	3.0	1.6	1.7	4.4	1.5	2.9	3.3
Producer price index (PPI) in industry	2.4	0.7	1.0	0.3	1.4	1.2	1.3	1.8	–0.2
Consumer price index (here: HICP)	3.5	1.4	0.4	1.2	1.1	0.3	0.2	0.7	0.5
EUR per 1 CZK, + = CZK appreciation	–2.2	–3.2	–5.6	–3.0	–5.7	–6.8	–5.9	–6.4	–3.4
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	7.1	7.0	6.2	7.0	6.8	6.9	6.1	6.0	5.8
Employment rate (%, 15–64 years)	66.6	67.7	69.0	68.0	68.3	68.1	68.7	69.3	69.8
Key interest rate per annum (%)	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
CZK per 1 EUR	25.1	26.0	27.5	25.9	26.7	27.4	27.4	27.6	27.6
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	4.8	5.8	5.9	5.8	5.8	5.8	5.0	4.8	5.9
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	4.8	11.3	5.8	4.2	5.6	7.5	5.5	4.6	0.1
Domestic credit of the banking system	9.4	5.2	12.1	3.1	3.5	1.5	4.1	4.9	8.1
of which: claims on the private sector	6.1	4.8	5.8	2.1	2.8	1.9	2.5	2.3	2.9
claims on households	3.8	3.1	2.5	1.7	1.4	1.5	1.4	1.4	1.0
claims on enterprises	2.2	1.6	3.3	0.4	1.3	0.3	1.1	0.9	1.9
claims on the public sector (net)	3.3	0.4	6.3	0.9	0.8	–0.4	1.6	2.5	5.2
Other assets (net) of the banking system	–6.5	–5.6	–5.7	–1.5	–3.3	–3.2	–4.6	–4.6	–2.3
	% of GDP								
General government revenues	39.9	40.8	40.1	. .	. .	. .	. .	. .	. .
General government expenditures	43.8	41.9	42.0	. .	. .	. .	. .	. .	. .
General government balance	–3.9	–1.2	–2.0	. .	. .	. .	. .	. .	. .
Primary balance	–2.5	0.2	–0.6	. .	. .	. .	. .	. .	. .
Gross public debt	44.6	45.0	42.6	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	45.3	44.8	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	30.7	29.9	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	3.1	4.1	5.6	3.1	2.4	7.8	6.4	4.8	3.7
Services balance[1]	1.9	1.7	1.3	1.4	1.4	2.1	1.4	1.1	0.7
Primary income[1]	–5.9	–6.0	–6.1	–6.9	–5.8	0.1	–11.7	–8.0	–4.3
Secondary income[1]	–0.7	–0.3	–0.2	–0.3	1.4	–1.5	1.2	–0.9	0.3
Current account balance[1]	–1.6	–0.5	0.6	–2.8	–0.5	8.5	–2.7	–3.1	0.4
Capital account balance[1]	1.3	2.0	0.8	5.4	1.9	2.2	0.1	0.2	0.7
Foreign direct investment (net)[1]	3.0	–0.2	3.1	–0.2	–0.2	3.9	5.5	2.7	0.6
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	60.2	63.4	66.5	61.0	63.4	62.7	64.6	65.9	66.5
Gross official reserves (excluding gold)[1]	20.8	25.8	28.8	21.3	25.8	26.5	27.6	27.9	28.8
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	3.5	4.4	4.5	3.6	4.4	4.4	4.5	4.5	4.5
	EUR million, period total								
GDP at current prices	160,932	157,170	154,913	40,169	40,662	35,974	38,920	39,556	40,464

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

[1] Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

7 Hungary: GDP surpasses pre-crisis level in final quarter of 2014

Strong GDP growth set to decelerate

Hungarian GDP grew by 3.6% in 2014, with output surpassing pre-crisis levels by the fourth quarter. In the two final quarters, economic expansion was clearly driven by domestic demand. Investments benefited from the central bank's Funding for Growth Scheme (FGS) and the accelerated absorption of EU funds. Yet investment growth slowed down considerably in the fourth quarter, in particular in manufacturing and the public sector. Total consumption growth rose in the course of 2014, supported by rapid employment and real wage growth (not last due to decreasing prices), decreasing precautionary savings and public sector wage increases. Notwithstanding strong export growth, rapidly growing imports led to a negative growth contribution of net real exports. High frequency data for early 2015 suggest that strong economic activity continued into 2015.

Thaw after blow to financial sector?

The first quarter of 2015 saw the start of the compensation of borrowers for abusive terms in consumer loan contracts; mandated on-demand conversion of foreign currency consumer mortgage loans into forint loans at the (below market) exchange rate of November 7, 2014; and the entry into force of the law on "fair banking," stipulating i.a. conditions for changes in interest rates and fees in consumer credit contracts. Compensation payments and forced conversion caused not only heavy one-off losses to the banking sector but also a reduction in future interest revenues (through the reduction in household debt and in contracted interest rates). Also, in order to safeguard financial stability once the credit cycle turns, the central bank introduced new payment-to-income and loan-to-value ratios with effect from 2015 (penalizing foreign currency loans). At the same time, upon agreeing to purchase a 15% stake in Erste Bank Hungary (with the EBRD buying another 15%), the government stroke reconciliatory tones toward the banking sector. In an agreement signed with the EBRD, it promised to promote a stable and predictable operational framework, i.a. by gradually reducing the banking tax from 2016, promoting the transparent and market-based cleansing of banks' credit portfolios, introducing new regulations on private bankruptcy and retroactive credit termination rights of clients only in consultation with the Hungarian Banking Association, refraining from implementing new measures that may have a negative impact on banks' profitability, and ensuring fair competition and equal treatment of all financial institutions. The government also committed to divest its recently acquired majority stakes in local banks within three years. However, concerns about the viability of the agreement arose in April as parliament passed legislation, against the objection by the Hungarian Banking Association, stipulating that banks cover substantial costs from the failure of several brokerage firms, and as the government and the central bank aired ideas that the envisaged bank tax reduction be made conditional on increased lending activity by banks.

Monetary policy remains accommodative

The Hungarian central bank also decided to expand and extend its FGS scheme until end-2016. Under an additional FGS+ scheme launched in mid-March 2015 with similar conditions, it also temporarily assumed part of banks' credit losses to enable the participation of less creditworthy SMEs in the scheme. Reacting to negative inflation rates and very subdued inflation pressures, the Hungarian central bank resumed rate cutting in late March 2015 by slashing the policy rate by 15 basis points and hinting at further decreases in the coming months. Meanwhile, fiscal policy remains on track as the 2014 deficit came in at 2.6% of GDP, as compared to the 2.9% target. The government targets a deficit of 2.4% for 2015.

Table 7

Main economic indicators: Hungary

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	–1.5	1.5	3.6	2.2	3.2	3.8	4.1	3.3	3.4
Private consumption	–1.9	–0.1	1.6	–0.6	0.6	1.2	2.4	0.9	1.8
Public consumption	–1.3	3.2	2.4	2.2	2.1	1.7	1.2	2.7	4.2
Gross fixed capital formation	–4.2	5.2	11.7	8.1	11.4	19.8	18.8	13.2	1.9
Exports of goods and services	–1.5	5.9	8.7	7.6	10.3	8.2	9.4	7.9	9.4
Imports of goods and services	–3.3	5.9	10.0	6.6	9.6	9.0	10.7	11.0	9.4
	Contribution to GDP growth in percentage points								
Domestic demand	–2.8	1.1	4.0	0.8	2.2	3.8	4.5	5.1	2.8
Net exports of goods and services	1.4	0.4	–0.4	1.4	1.0	0.0	–0.4	–1.7	0.6
Exports of goods and services	–1.3	5.1	7.8	6.5	8.5	7.6	8.4	7.0	8.1
Imports of goods and services	2.6	–4.7	–8.1	–5.2	–7.5	–7.6	–8.8	–8.6	–7.5
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	3.4	1.0	2.7	0.3	–0.5	2.8	1.0	3.0	4.0
Unit labor costs in manufacturing (nominal, per hour)	6.3	2.6	–2.3	1.9	–0.2	–3.9	–4.1	–1.6	0.4
Labor productivity in manufacturing (real, per hour)	0.9	1.1	5.8	1.4	4.0	7.5	8.2	4.7	3.1
Labor costs in manufacturing (nominal, per hour)	7.4	3.6	3.4	3.3	3.8	3.3	3.8	3.0	3.5
Producer price index (PPI) in industry	4.2	0.6	–0.4	1.6	0.3	–0.6	–1.1	–0.3	0.4
Consumer price index (here: HICP)	5.7	1.7	0.0	1.6	0.7	0.4	–0.1	0.1	–0.4
EUR per 1 HUF, + = HUF appreciation	–3.5	–2.6	–3.8	–5.0	–4.8	–3.7	–3.4	–4.6	–3.6
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	11.1	10.3	7.8	9.9	9.2	8.3	8.1	7.4	7.2
Employment rate (%, 15–64 years)	56.7	58.1	61.8	58.9	59.4	60.6	61.3	62.6	62.6
Key interest rate per annum (%)	6.8	4.4	2.4	4.0	3.3	2.8	2.5	2.1	2.1
HUF per 1 EUR	289.3	296.9	308.7	298.0	297.6	308.1	305.9	312.3	308.5
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	–3.3	5.5	5.8	3.3	5.5	1.0	3.7	6.1	5.8
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	23.2	11.7	14.6	1.0	6.6	4.8	8.3	16.0	7.6
Domestic credit of the banking system	–15.7	–11.6	0.7	5.8	0.2	–4.1	–2.5	–7.5	0.4
of which: claims on the private sector	–15.1	–18.1	–4.8	–2.9	–4.6	–4.8	–2.1	–3.1	–0.3
claims on households	–8.2	–9.6	–3.0	–1.6	–2.3	–2.9	–1.5	–1.5	–0.6
claims on enterprises	–6.8	–8.5	–1.9	–1.3	–2.3	–1.9	–0.7	–1.8	0.3
claims on the public sector (net)	–0.6	6.4	5.5	8.7	4.8	0.7	–0.4	–4.3	0.7
Other assets (net) of the banking system	–5.2	2.0	–3.6	–3.6	–1.3	0.3	–2.1	–2.4	–2.2
	% of GDP								
General government revenues	46.4	47.3	47.6	..	..	..	..	..	..
General government expenditures	48.7	49.8	50.1	..	..	..	..	..	..
General government balance	–2.3	–2.5	–2.6	..	..	..	..	..	..
Primary balance	2.3	2.1	1.6	..	..	..	..	..	..
Gross public debt	78.5	77.3	76.9	..	..	..	..	..	..
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	119.0	112.2	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	31.0	28.0	..	..	..	..	..	..	..
	% of GDP (based on EUR), period total								
Trade balance[1]	3.0	3.5	2.6	4.4	2.7	4.4	0.7	2.8	2.8
Services balance[1]	3.9	4.0	4.8	5.3	2.4	4.2	5.1	6.1	3.9
Primary income[1]	–4.2	–2.9	–2.6	–2.9	–2.6	–2.1	–3.1	–2.8	–2.4
Secondary income[1]	–0.8	–0.5	–0.7	–0.6	0.3	–1.1	–0.8	0.1	–1.1
Current account balance[1]	1.8	4.0	4.1	6.2	2.7	5.4	1.8	6.3	3.2
Capital account balance[1]	2.6	3.6	4.1	2.4	5.7	2.2	3.0	3.8	7.1
Foreign direct investment (net)[1]	2.1	0.9	0.5	–2.9	7.5	2.0	–7.6	2.1	5.1
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	129.0	118.9	114.6	119.3	118.9	119.0	119.8	117.3	114.6
Gross official reserves (excluding gold)[1]	34.1	33.5	33.4	30.5	33.5	35.7	35.3	34.7	33.4
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	5.1	4.9	4.8	4.6	4.9	5.2	5.1	5.0	4.8
	EUR million, period total								
GDP at current prices	98,865	100,531	103,308	25,792	27,337	22,931	25,780	26,533	28,064

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

8 Poland: rate cuts to prevent inflation expectations from becoming unanchored

Balanced economic growth coupled with surplus in the combined current and capital account

Polish GDP growth reached 3.3% in 2014, with exports and domestic demand contributing 2.6 and 4.6 percentage points and an ensuing negative growth contribution of net exports of 1.3 percentage points. The surplus in the goods and services balance declined to 1.8% of GDP, while the current account deficit stood nearly unchanged at 1.4% as the deficit in the primary income balance receded and the capital account surplus was stable at 2.4%.

Quarter-on-quarter growth remained rather stable at 0.8% and 0.7% in the two final quarters. GDP growth continued to be well balanced, with domestic demand benefiting from strong private consumption, larger inventory build-up and a sizeable contribution of gross fixed investment. In the second half of 2014 deflation emerged, compensating for lower nominal growth of average pensions and hourly wages, while employment growth, sufficiently strong to lower the unemployment rate despite a further increase in the labor force, lifted the real wage sum. This supported private consumption growth, while consumer loan growth decelerated. At the same time, housing investment markedly increased, with housing loans posting stable growth (in exchange rate-adjusted terms). Business investment benefited from rising export growth and robust consumption demand. The profitability and liquidity indicators of the corporate sector improved further, and corporate loan growth accelerated. Public investment benefited from the enhanced availability of EU funds. While annual growth of industrial production and construction output was markedly weaker in the second half of 2014 than in the first, it strongly accelerated in early 2015.

Negative annual headline inflation, but core inflation still positive

In the second half of 2014, weak manufacturing production growth coupled with higher labor input implied modest annual productivity gains that did not match strong, albeit declining hourly labor cost increases. With the Polish złoty being only slightly weaker against the euro (year on year) in that period, the ULC rise reversed advances in price competitiveness vis-à-vis the euro area achieved in 2013. Moreover, during the first quarter of 2015, the Polish złoty appreciated by about 4.5% against the euro. In February, annual headline inflation was negative (–1.3% HICP, –1.6% national CPI), while core inflation stood at 0.2% (HICP) and 0.4% (CPI), given substantial energy and food price decreases. Having been on hold since July 2013, in early October 2014 the Polish Monetary Policy Council, pursuing an inflation target of 2.5% (CPI), cut the reference rate from 2.5% to 2.0% while leaving the deposit rate unchanged at 1%. This was followed by 50-basis point cuts of both rates in early March 2015.

Gradual fiscal consolidation

In early February, European Commission staff experts expected Poland's deficit (ESA 2010) to decline from 3.2% in 2014 to 2.9% in 2015, and the structural balance to improve to –2.7% in 2015. This compares with Council targets recommended in 2013 for a sustainable correction of the excessive deficit by end-2015 of 3.9% for the 2014 deficit and of 2.8% for the 2015 deficit (along with an aggregate structural improvement by +2.2 percentage points for both years). Discretionary measures for fiscal consolidation in 2014 and 2015 focus mainly on spending: the early retirement scheme was abolished, the statutory retirement age was raised, the role of the capital-funded pillar within the pension system was reduced (implying lower debt servicing costs, but also higher social contributions to the pay-as-you-go pillar) and public wages were partially frozen. The European Commission expects Poland's gross debt to reach 49.9% of GDP at the end of 2015 (2014: 50.1%).

Table 8

Main economic indicators: Poland

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	1.8	1.7	3.3	2.6	2.4	3.7	3.3	3.4	2.9
Private consumption	0.9	1.0	3.0	1.2	2.2	2.4	2.9	3.5	3.2
Public consumption	0.2	2.1	2.8	3.3	2.2	0.0	3.9	3.7	3.4
Gross fixed capital formation	–1.5	0.9	9.5	2.0	2.5	11.7	8.8	10.1	8.6
Exports of goods and services	4.3	5.0	5.6	8.2	6.8	7.3	4.1	4.0	7.2
Imports of goods and services	–0.6	1.8	8.7	5.0	4.6	6.2	9.5	7.8	11.2
	Contribution to GDP growth in percentage points								
Domestic demand	–0.4	0.2	4.6	1.1	1.5	3.1	5.5	5.1	4.4
Net exports of goods and services	2.1	1.4	–1.3	1.5	0.9	0.6	–2.3	–1.7	–1.6
Exports of goods and services	1.9	2.2	2.6	3.8	2.8	3.4	1.9	1.9	3.1
Imports of goods and services	0.3	–0.8	–3.9	–2.3	–1.9	–2.8	–4.2	–3.6	–4.6
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	1.7	1.0	–1.7	1.1	–3.1	–2.8	–1.9	–2.5	0.5
Unit labor costs in manufacturing (nominal, per hour)	1.9	0.2	2.8	–0.5	–1.5	–0.5	3.7	4.2	3.9
Labor productivity in manufacturing (real, per hour)	2.5	3.2	2.7	3.1	6.9	5.9	3.0	1.0	1.2
Labor costs in manufacturing (nominal, per hour)	4.5	3.3	5.7	2.6	5.3	5.4	6.8	5.2	5.2
Producer price index (PPI) in industry	3.3	–1.2	–1.3	–1.1	–1.3	–1.1	–1.0	–1.5	–1.6
Consumer price index (here: HICP)	3.7	0.8	0.1	0.9	0.6	0.6	0.3	–0.1	–0.4
EUR per 1 PLN, + = PLN appreciation	–1.6	–0.3	0.3	–2.6	–1.8	–0.7	0.8	1.7	–0.6
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	10.2	10.5	9.1	9.9	9.9	10.7	9.2	8.3	8.2
Employment rate (%, 15–64 years)	59.7	60.0	61.7	60.7	60.8	60.3	61.3	62.5	62.6
Key interest rate per annum (%)	4.6	2.9	2.4	2.5	2.5	2.5	2.5	2.5	2.0
PLN per 1 EUR	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	4.5	6.2	8.2	6.1	6.2	5.2	5.2	7.9	8.2
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	10.1	0.3	0.4	–1.5	–2.8	–4.3	–1.7	1.2	3.0
Domestic credit of the banking system	15.1	9.5	18.2	7.7	8.1	7.9	7.2	10.1	9.5
of which: claims on the private sector	15.6	6.7	11.5	3.9	4.2	5.2	4.9	6.1	6.9
claims on households	7.6	3.0	6.1	2.7	2.7	2.9	2.8	3.2	3.2
claims on enterprises	8.0	3.7	5.5	1.3	1.5	2.3	2.1	3.0	3.7
claims on the public sector (net)	–0.5	2.8	6.7	3.8	3.9	2.6	2.3	3.9	2.6
Other assets (net) of the banking system	–7.6	1.2	–3.7	–0.1	1.0	1.6	–0.2	–3.4	–4.4
	% of GDP								
General government revenues	39.2	38.2	38.6	. .	. .	. .	. .	. .	. .
General government expenditures	42.9	42.2	41.8	. .	. .	. .	. .	. .	. .
General government balance	–3.7	–4.0	–3.2	. .	. .	. .	. .	. .	. .
Primary balance	–1.0	–1.5	–1.2	. .	. .	. .	. .	. .	. .
Gross public debt	54.4	55.7	50.1	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	43.0	42.4	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	35.2	35.3	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	–1.8	0.2	–0.4	0.5	0.1	–0.4	–0.4	0.0	–0.7
Services balance[1]	1.6	2.0	2.2	1.8	1.7	2.4	2.5	1.9	2.0
Primary income[1]	–3.3	–3.3	–3.1	–3.8	–3.6	–2.5	–2.7	–4.0	–3.2
Secondary income[1]	0.0	–0.1	–0.1	0.0	0.5	–0.8	–0.1	0.4	0.1
Current account balance[1]	–3.5	–1.3	–1.4	–1.6	–1.2	–1.3	–0.8	–1.7	–1.7
Capital account balance[1]	2.2	2.3	2.4	2.3	2.4	1.5	3.6	1.9	2.6
Foreign direct investment (net)[1]	1.2	0.6	1.6	0.7	–0.9	3.7	–0.2	2.8	0.4
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	71.9	70.2	70.3	71.5	70.2	69.5	70.7	71.6	70.3
Gross official reserves (excluding gold)[1]	20.3	18.8	19.3	19.3	18.8	17.9	17.7	18.8	19.3
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	5.4	5.1	5.1	5.2	5.1	4.9	4.7	5.1	5.1
	EUR million, period total								
GDP at current prices	386,455	396,026	412,124	97,199	110,830	96,341	100,413	102,244	113,126

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

9 Romania: private consumption booms, but wage growth exceeds productivity gains

Private consumption remains buoyant, gross fixed capital formation stays weak, net exports turn negative

Following feeble growth in the first half of 2014, economic activity in Romania picked up in the second half of the year. In total, GDP growth declined from 3.4% in 2013 to 2.9% in 2014. Private consumption was the main growth driver throughout the year, with further support coming from public consumption. Private consumption grew on the back of rising real wage growth (also pushed up by gradual minimum wage hikes), a declining unemployment rate and improving consumer confidence. Gross fixed capital formation continued to be a weak spot in the growth structure, though the final quarter brought about a small positive year-on-year growth. Export growth, after having been the main growth driver in 2013, decelerated considerably in the course of 2014. At the same time, strengthening domestic demand kept import growth at a high level and imports started to make a bigger growth contribution than exports in the second half of 2014. Thus, the contribution of net exports turned negative.

ULC on the rise, trade and services balance benefits from price effects

Meanwhile, strong wage growth began to translate into rising ULC in the manufacturing sector in the second half of 2014, as productivity increases did no longer keep pace with wage growth. Despite unfavorable export and import developments in real terms, the trade and services balance improved due to price effects (in particular with the oil price drop having a stronger impact on imports than on exports). In contrast to a small deficit in the second half of 2013, the trade and services balance posted a balanced position in the second half of 2014. As the income balances taken together improved as well, the current account even showed a small surplus. Net FDI inflows remained positive, but at a low level, while the economy's external debt ratio declined further.

Disinflation allows for further interest rate cuts

Annual CPI came in at 0.8% in December 2014 and fell to 0.4% in February 2015 due to lower fuel and food prices as well as a negative output gap. Hence, inflation remained considerably below the Romanian central bank's inflation target band of 2.5% +/–1%. Against this background, the central bank continued to reduce its key policy rate in four further 25-basis point steps (between November and March) to 2%. Looking forward, the Romanian central bank expects inflation to return inside the target band only in the fourth quarter of 2015.

Budget deficit shrinks further, conclusion of review under precautionary support program still pending

The general budget deficit declined to 1.5% of GDP in 2014 from 2.2% in 2013. In particular, capital expenditure declined markedly from 2013, contributing to the fall in gross fixed capital formation. In December 2014, a joint IMF-European Commission team reached broad understanding with the Romanian authorities on the 2015 budget (envisaging a deficit of 1.2% of GDP) in line with the targets of the precautionary IMF-EU support program. Nevertheless, the review under this program, which was originally scheduled for completion in June 2014, has not been finalized so far. According to the Romanian authorities, no agreement was reached on the liberalization of gas prices for households and on the restructuring of state-owned enterprises. On top of this, recently announced plans to cut taxes met with IMF skepticism at the end of the Article IV consultations at end-March. Though the reform momentum has apparently come to a halt for structural reforms in the above-mentioned areas, it should be noted that the European Commission's report under the Cooperation and Verification Mechanism highlighted progress concerning the fight against corruption and the improvement of the judicial system.

Table 9

Main economic indicators: Romania

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	0.6	3.4	2.8	4.2	5.2	4.1	1.5	3.0	2.7
Private consumption	1.1	1.2	4.5	1.8	2.7	6.4	3.7	4.0	4.2
Public consumption	0.6	–6.3	4.7	–11.2	–12.3	–2.1	6.7	6.4	6.8
Gross fixed capital formation	0.6	–9.2	–3.3	–8.2	–11.7	–7.7	–8.6	–1.0	1.4
Exports of goods and services	1.7	14.4	8.2	19.8	22.1	14.6	6.9	8.0	3.6
Imports of goods and services	–1.8	4.0	7.7	7.8	9.2	12.8	6.0	6.8	6.3
	Contribution to GDP growth in percentage points								
Domestic demand	–0.5	–0.9	2.7	0.8	0.5	4.3	–0.5	2.8	3.9
Net exports of goods and services	1.1	4.3	0.1	4.4	4.6	1.0	2.2	–0.3	–1.7
Exports of goods and services	0.4	6.1	3.2	7.7	7.3	8.4	4.3	2.1	0.1
Imports of goods and services	0.8	–1.8	–3.1	–3.3	–2.8	–7.4	–2.1	–2.4	–1.9
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	3.2	–0.8	0.4	–2.4	–5.3	–0.6	3.1	1.0	–2.3
Unit labor costs in manufacturing (nominal, per hour)	6.4	–0.2	1.1	–2.8	–1.5	–3.2	–2.4	3.5	6.5
Labor productivity in manufacturing (real, per hour)	0.9	6.2	5.8	7.9	7.2	10.2	8.7	2.8	2.2
Labor costs in manufacturing (nominal, per hour)	7.3	5.9	7.1	4.9	5.5	6.7	6.1	6.5	8.8
Producer price index (PPI) in industry	5.4	2.1	–0.1	0.8	–0.4	–1.0	0.6	0.3	–0.5
Consumer price index (here: HICP)	3.4	3.2	1.4	2.4	1.3	1.3	1.3	1.5	1.4
EUR per 1 RON, + = RON appreciation	–4.9	0.9	–0.6	1.9	1.7	–2.6	–0.6	0.6	0.4
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	7.1	7.4	7.1	7.0	7.4	7.5	7.0	6.8	7.0
Employment rate (%, 15–64 years)	60.2	60.1	61.0	61.3	59.9	59.5	61.2	62.6	60.8
Key interest rate per annum (%)	5.3	4.8	3.3	4.7	4.1	3.6	3.5	3.3	2.8
RON per 1 EUR	4.5	4.4	4.4	4.4	4.5	4.5	4.4	4.4	4.4
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	2.7	8.8	8.2	4.8	8.8	6.4	5.3	5.1	8.2
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	5.6	20.7	26.6	13.6	13.6	12.0	14.1	10.9	11.9
Domestic credit of the banking system	11.5	–5.4	–11.1	–11.7	–5.3	–6.5	–7.9	–6.3	–5.3
of which: claims on the private sector	8.3	–1.9	–6.3	–3.4	–3.3	–2.6	–3.7	–3.9	–2.8
claims on households	1.2	–0.5	–1.1	–1.1	–0.5	–0.5	–1.2	–1.1	–0.5
claims on enterprises	7.1	–1.4	–5.3	–2.3	–2.7	–2.1	–2.5	–2.8	–2.4
claims on the public sector (net)	3.2	–3.5	–4.7	–8.3	–2.1	–3.8	–4.2	–2.3	–2.4
Other assets (net) of the banking system	–7.6	–3.6	2.2	2.9	0.5	0.9	–0.9	0.5	1.6
	% of GDP								
General government revenues	33.5	33.0	33.4	. .	. .	. .	. .	. .	. .
General government expenditures	36.4	35.2	34.9	. .	. .	. .	. .	. .	. .
General government balance	–2.9	–2.2	–1.5	. .	. .	. .	. .	. .	. .
Primary balance	–1.2	–0.5	0.1	. .	. .	. .	. .	. .	. .
Gross public debt	37.3	38.0	39.8	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	52.3	47.7	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	20.7	18.9	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	–6.7	–3.8	–3.7	–4.4	–3.5	–3.5	–4.3	–3.4	–3.6
Services balance[1]	1.9	3.3	3.9	3.2	2.9	4.7	4.3	3.4	3.6
Primary Income[1]	–1.7	–2.2	–1.9	–2.0	–3.6	–3.1	–3.1	–1.3	–0.8
Secondary Income[1]	2.0	1.9	1.2	1.6	2.5	0.9	1.3	1.5	1.0
Current account balance[1]	–4.5	–0.8	–0.5	–1.5	–1.8	–1.0	–1.7	0.2	0.3
Capital account balance[1]	1.4	2.1	2.6	2.9	2.5	5.5	1.1	1.0	3.6
Foreign direct investment (net)[1]	1.8	2.0	1.6	1.8	3.2	2.2	1.5	1.9	1.2
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	75.5	68.0	62.8	71.0	68.0	67.0	66.1	64.0	62.8
Gross official reserves (excluding gold)[1]	23.4	22.6	21.5	23.6	22.6	21.5	21.3	20.9	21.5
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	6.7	6.7	6.3	7.0	6.7	6.3	6.2	6.1	6.3
	EUR million, period total								
GDP at current prices	133,518	144,130	150,147	39,753	42,967	28,785	35,292	41,627	44,443

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

10 Turkey: investment dips amid increased uncertainty

Consumption growth holds up against falling investment

Economic growth in Turkey moderated to 2.9% in 2014 (from 4.2% in 2013). After a continuous deceleration in the first three quarters, real GDP growth rebounded moderately in the fourth quarter given a slight recovery of domestic demand backed by private consumption and inventory accumulation. Despite a further decline in gross fixed capital formation, strong public and private consumption also implied a positive contribution of domestic demand to GDP growth. Investor confidence has been affected by some domestic political events and by military conflicts in neighboring regions. In 2014, the unemployment rate rose to 10%, from 8.9% in 2013, while employment remained stable at around 50%, falling marginally again in the last quarter. Recent leading indicators point toward weak growth in 2015; the PMI contracted in four consecutive months to 48 points in March; and industrial output, export orders and business sentiment all showed a declining trend in the first three months of 2015.

Narrowing of current account deficit reversed in last quarter of 2014

The growth contribution of net exports turned slightly negative in the fourth quarter of 2014, given rising imports. Export growth was further impaired by ongoing conflicts in important export destinations (demand from countries such as Russia and Iraq fell notably) but also as a result of worsened price competitiveness compared to the euro area – Turkey's main trading partner – due to rising unit labor costs and falling labor productivity. Still, overall strong export growth and falling imports in the first three quarters of 2014 reduced the current account deficit to 5.8% of GDP in 2014 (from 7.9% in 2013). Yet the dependence on short-term financing of the current account deficit remains high – net FDI inflows accounted only for 12% of the deficit in 2014 – even though portfolio inflows recovered in the last three quarters, covering 43% of the current account deficit.

Turkish central bank torn between pursuing price stability and nurturing economic activity

Since early 2015, the Turkish lira has weakened against the U.S. dollar by more than 12%, to TRY 2.6 per U.S. dollar on April 1, 2015 (following a historic peak of TRY 2.64 per U.S. dollar on March 10). Against the euro, the Turkish lira depreciated by less than 1% (TRY 2.8 per euro). In early March, the Turkish central bank attempted to counter the depreciation pressure (against the U.S. dollar) by setting the amount for foreign exchange auctions on a daily basis, notifying increases over the pre-announced minimum when deemed necessary, and cutting the rate on foreign currency borrowing facilities for banks – with no effect so far. Even though the level of policy interest rates did not help stabilize the exchange rate, the Turkish central bank cut the benchmark interest rate by 75 basis points to 7.5% in two steps in January and February 2015.These cuts followed pressure from the government, with the central bank governor and the President of the Republic of Turkey ultimately jointly confirming the benefits of the monetary policy focus on price stability and the risk of loose monetary policy for the currency on March 12, 2015.

Inflation accelerated slightly in 2014, to 8.9% on average. Having peaked at 9.8% in August 2014, inflation decelerated to 7.2% in January 2015, reflecting above all lower energy prices. While this factor should help bring inflation down further, recent increases in food and housing prices led to another upward tick in consumer prices, to 7.6% in March 2015. Thus, inflation remains well above the target of 5%, which is still rather high even if catching up is taken into account.

Although 2014 was an election year, Turkey's deficit undershot the target and is expected to have reached –1.5% of GDP (–1.6% 2013). For 2015, some fiscal tightening is envisaged, the deficit should narrow to 1.1%, against the backdrop of a general government debt target of 31.8%.

Table 10

Main economic indicators: Turkey

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	2.5	4.2	2.9	4.3	4.6	4.9	2.3	1.9	2.6
Private consumption	–0.7	5.1	1.3	5.6	6.1	2.6	0.4	0.1	2.4
Public consumption	6.4	6.5	4.6	1.9	7.9	9.2	2.5	6.6	1.7
Gross fixed capital formation	–1.9	4.4	–1.3	5.8	7.5	–0.3	–3.5	–0.4	–1.0
Exports of goods and services	17.8	–0.2	6.8	–2.2	–1.2	11.1	5.5	7.9	3.4
Imports of goods and services	0.6	9.0	–0.2	5.2	10.5	0.7	–4.3	–1.6	4.6
	Contribution to GDP growth in percentage points								
Domestic demand	–1.6	7.4	1.2	6.6	8.2	2.3	–0.3	–0.8	3.6
Net exports of goods and services	3.6	–2.3	1.6	–1.8	–2.9	2.3	2.5	2.2	–0.4
Exports of goods and services	3.8	–0.1	1.6	–0.5	–0.3	2.5	1.3	1.8	0.8
Imports of goods and services	–0.2	–2.3	0.0	–1.2	–2.6	–0.2	1.2	0.4	–1.2
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	. .	. .	. .	. .	. .	. .	. .	. .	. .
Unit wage costs in manufacturing (nominal, per hour)	13.7	10.3	12.8	10.7	10.6	11.0	13.6	12.9	13.9
Labor productivity in manufacturing (real, per hour)	–1.9	1.7	1.3	2.0	3.1	3.8	1.0	1.1	–0.6
Gross wages in manufacturing (nominal, per hour)	11.4	12.2	14.3	12.9	14.0	15.2	14.8	14.2	13.2
Producer price index (PPI) in industry	6.1	4.5	10.2	6.4	6.5	11.8	11.3	9.7	8.3
Consumer price index (here: HICP)	9.0	7.5	8.9	8.2	7.5	8.1	9.3	9.4	8.8
EUR per 1 TRY, + = TRY appreciation	0.9	–8.6	–12.9	–13.5	–15.5	–22.4	–17.0	–8.9	–2.5
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	8.4	8.9	10.1	8.9	9.1	10.3	8.9	10.2	10.9
Employment rate (%, 15–64 years)	48.9	49.5	49.5	50.3	49.1	48.0	50.8	50.2	49.1
Key interest rate per annum (%)	5.7	4.8	8.7	4.5	4.5	8.4	9.7	8.3	8.3
TRY per 1 EUR	2.3	2.5	2.9	2.6	2.8	3.0	2.9	2.9	2.8
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	10.5	21.1	11.8	19.0	21.1	19.8	16.0	14.9	11.8
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	2.2	–5.2	–10.7	–2.7	–5.9	–4.8	–2.4	–3.6	–4.0
Domestic credit of the banking system	38.5	51.9	57.9	29.5	31.7	31.2	26.5	24.0	21.6
of which: claims on the private sector	46.5	55.6	58.6	33.1	33.5	32.4	25.2	22.3	20.8
claims on households	15.3	15.2	14.3	8.8	8.4	6.2	4.0	2.9	4.9
claims on enterprises	31.2	40.4	44.3	24.3	25.1	26.1	21.1	19.4	15.9
claims on the public sector (net)	–8.1	–3.7	–0.7	–3.6	–1.7	–1.2	1.4	1.8	0.8
Other assets (net) of the banking system	–13.3	–12.9	–11.8	–7.8	–4.7	–6.6	–8.1	–5.5	–5.9
	% of GDP								
General government revenues	37.8	39.0	39.0	. .	. .	. .	. .	. .	. .
General government expenditures	38.1	40.6	40.5	. .	. .	. .	. .	. .	. .
General government balance	–0.3	–1.6	–1.5	. .	. .	. .	. .	. .	. .
Primary balance	. .	. .	. .	. .	. .	. .	. .	. .	. .
Gross public debt	36.2	36.2	34.3	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	. .	. .	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	. .	. .	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	–8.3	–9.7	–8.0	–9.5	–9.6	–6.5	–8.6	–7.5	–9.2
Services balance[1]	2.9	2.8	3.2	4.6	2.5	1.4	3.2	5.2	2.6
Primary income[1]	–0.9	–1.1	–1.1	–0.9	–0.9	–1.3	–1.1	–1.0	–1.1
Secondary income[1]	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.2	0.2
Current account balance[1]	–6.1	–7.9	–5.8	–5.7	–7.8	–6.3	–6.2	–3.1	–7.5
Capital account balance[1]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)[1]	1.2	1.1	0.7	1.2	1.3	1.7	0.8	0.1	0.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	47.4	50.0	59.6	48.7	50.0	50.5	54.0	57.2	59.6
Gross official reserves (excluding gold)[1]	12.4	13.1	14.6	12.9	13.1	12.8	13.8	14.9	14.6
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	4.7	4.9	5.4	4.9	4.9	4.7	5.1	5.5	5.4
	EUR million, period total								
GDP at current prices	612,976	619,300	602,951	159,991	147,484	135,415	147,782	161,778	157,976

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*

11 Russia: further economic weakening given oil price decline and economic sanctions

Russia en route to recession

Russian economic growth further eased to 0.6% in 2014 under the impact slumping oil prices and tightened Western economic sanctions in connection with the Ukrainian crisis. The average annual oil price for Urals grade crude was almost 10% lower in 2014 than in 2013. In March 2015, it was almost 48% lower year on year. Uncertainty contributed to a contraction of gross fixed capital investment by 2% in 2014, while the growth rate of private consumption – still the main driving force of economic activity – further eased to 1.2%. The sharp contraction of imports (stronger than that of exports) supported the growth contribution of net exports.

Oil price plunge and record capital outflows trigger substantial ruble depreciation…

Falling imports were largely due to the substantial depreciation of the Russian ruble. Declining oil prices and strong capital outflows (see below) triggered year-on-year losses of the ruble's external value, of 42% against the U.S. dollar and 37% against the euro during 2014. The Central Bank of Russia (CBR) brought forward its official move to inflation targeting, declaring that from November 10, 2014, it would no longer intervene to support the currency unless financial stability was in danger. This decision was flanked by two increases of the key interest rate in the fall of 2014 by a total of 250 basis points to 10.5%. Still, in the wake of the accelerating oil price decline in early December, the CBR stepped up its foreign exchange interventions to support the Russian ruble and, when the plunge of the ruble intensified in mid-December, sharply increased the key interest rate to 17%.

… prompting sharply key interest rate increases, but exchange rate passthrough pushes up inflation

The stabilization of the oil price (on a low level) in January 2015 and its slight recovery in February as well as the substantial interest rate hike have supported the Russian ruble and reined in foreign exchange market tensions, even if the exchange rate passthrough pushed inflation to 16.9% at end-March 2015. The CBR lowered its key interest rate to 15% in early February and to 14% in early March to account for the "shift in the balance of risks" toward the "cooling economy." The Russian ruble has appreciated substantially since then, partly also due to carry trades by Russian banks. Increased uncertainty due to the oil price decline and the economic sanctions is largely responsible for record-high capital outflows: Private net capital outflows reached USD 152 billion in 2014 (almost half thereof in the fourth quarter). Due to repeated sizeable interventions by the CBR, in the six months since late September 2014 Russia's international reserves (including gold) shrank by about one-fifth to USD 356 billion (EUR 331 billion).

Sanctions force Russian banks and enterprises to pay down external debt

The tight restrictions on Russian state-owned banks' and enterprises' access to EU and U.S. capital markets rendered cross-border refinancing very difficult. This played a primary role in the reduction of Russia's total external debt in the second half of 2014 to EUR 489 billion, or 34.8% of GDP.

Banking activity is swiftly losing momentum, credit quality is decreasing, capitalization needs to improv

Financial intermediation in Russia is clearly on the downturn: Lending to the private sector contracted in February 2015 by almost 6% (year on year, in real terms and exchange rate-adjusted). Household deposits contracted even faster, by 14%, whereas enterprise deposits increased by 8%, probably largely on account of state-owned firms' placements. Given deteriorating credit quality, the capital adequacy ratio declined to 12.0% at end-January 2015. The authorities decided on recapitalization measures for a number of large banks. The continuing relatively tight fiscal stance and the decline of the Russian ruble (which partly offset lower oil prices) resulted in only a modest budget deficit in 2014, while shrinking import demand produced a growing current account surplus.

Table 11

Main economic indicators: Russia

	2012	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
	Year-on-year change of the period total in %								
GDP at constant prices	3.4	1.3	0.6	1.3	2.1	0.6	0.7	0.9	0.4
Private consumption	7.7	4.9	1.2	5.7	3.4	3.9	0.2	0.2	0.9
Public consumption	2.6	1.1	–0.1	1.1	1.1	0.0	0.0	–0.1	–0.2
Gross fixed capital formation	6.7	0.9	–2.0	–0.6	0.7	–4.5	–1.9	–1.7	–1.2
Exports of goods and services	1.1	4.6	–0.1	7.4	6.0	2.0	1.7	–1.3	–2.3
Imports of goods and services	8.7	3.8	–7.9	5.1	–0.7	–6.6	–9.6	–7.6	–7.8
	Contribution to GDP growth in percentage points								
Domestic demand	5.2	1.2	–0.9	0.6	0.4	–0.5	–1.5	–0.9	–0.6
Net exports of goods and services	–1.7	0.5	1.9	0.8	2.0	2.2	2.8	1.7	1.2
Exports of goods and services	0.3	1.4	0.0	2.1	1.9	0.7	0.5	–0.4	–0.7
Imports of goods and services	–2.0	–0.9	2.0	–1.3	0.2	1.6	2.2	2.1	1.9
	Year-on-year change of the period average in %								
Unit labor costs in the whole economy (nominal, per hour)	. .	. .	. .	. .	. .	. .	. .	. .	. .
Unit labor costs in industry (nominal, per person)	7.6	7.9	5.6	8.6	5.7	6.9	5.0	5.3	5.2
Labor productivity in industry (real, per person)	4.8	2.3	3.4	2.4	3.3	2.5	3.7	3.4	4.0
Average gross earnings in industry (nominal, per person)	12.6	10.3	9.2	11.2	9.2	9.6	8.9	9.0	9.5
Producer price index (PPI) in industry	6.8	3.3	5.9	4.4	2.2	4.2	8.2	5.8	5.5
Consumer price index (here: CPI)	5.1	6.8	7.8	6.3	6.4	6.4	7.5	7.7	9.6
EUR per 1 RUB, + = RUB appreciation	2.4	–5.7	–17.0	–8.0	–9.1	–16.5	–13.7	–9.6	–26.0
	Period average levels								
Unemployment rate (ILO definition, %, 15–64 years)	5.5	5.5	5.2	5.3	5.5	5.5	5.0	4.9	5.2
Employment rate (%, 15–64 years)	. .	. .	. .	. .	. .	. .	. .	. .	. .
Key interest rate per annum (%)	5.3	5.5	7.9	5.5	5.5	6.0	7.4	7.9	10.3
RUB per 1 EUR	39.9	42.3	51.0	43.4	44.3	48.1	48.0	48.1	59.9
	Nominal year-on-year change in the period-end stock in %								
Broad money (including foreign currency deposits)	12.1	15.7	15.5	16.8	15.7	13.4	9.1	10.7	15.5
	Contributions to the year-on-year change of broad money in percentage points								
Net foreign assets of the banking system	9.6	2.7	24.6	2.3	2.7	5.1	0.3	4.7	19.0
Domestic credit of the banking system	38.3	35.1	33.6	18.2	17.5	15.9	14.2	14.3	13.9
of which: claims on the private sector	46.2	36.9	43.3	19.1	16.9	17.5	15.4	16.0	22.8
claims on households	16.3	16.5	11.9	8.1	7.4	7.0	5.9	5.3	3.9
claims on enterprises	29.9	20.4	31.4	11.0	9.6	10.5	9.6	10.7	18.9
claims on the public sector (net)	–7.9	–1.9	–9.7	–0.9	0.6	–1.6	–1.3	–1.7	–8.9
Other assets (net) of the banking system	–12.4	–8.2	–24.7	–3.7	–4.6	–7.6	–5.3	–8.2	–17.4
	% of GDP								
General government revenues	37.1	36.9	36.9	. .	. .	. .	. .	. .	. .
General government expenditures	36.7	38.2	38.1	. .	. .	. .	. .	. .	. .
General government balance	0.4	–1.3	–1.2	. .	. .	. .	. .	. .	. .
Primary balance	. .	. .	. .	. .	. .	. .	. .	. .	. .
Gross public debt	10.0	10.5	11.8	. .	. .	. .	. .	. .	. .
	% of GDP								
Debt of nonfinancial corporations (nonconsolidated)	. .	. .	. .	. .	. .	. .	. .	. .	. .
Debt of households and NPISHs (nonconsolidated)	. .	. .	. .	. .	. .	. .	. .	. .	. .
	% of GDP (based on EUR), period total								
Trade balance[1]	9.5	8.8	10.1	8.3	8.3	11.5	10.5	8.7	10.2
Services balance[1]	–2.3	–2.8	–3.0	–3.7	–2.5	–2.5	–2.9	–3.6	–2.7
Primary income[1]	–3.4	–3.9	–3.6	–4.0	–3.7	–2.7	–4.9	–3.3	–3.4
Secondary income[1]	–0.3	–0.4	–0.4	–0.6	–0.6	–0.4	–0.1	–0.7	–0.4
Current account balance[1]	3.5	1.7	3.2	0.0	1.4	5.9	2.5	1.2	3.7
Capital account balance[1]	–0.3	0.0	–2.4	0.0	0.0	0.0	0.0	–1.9	–7.6
Foreign direct investment (net)[1]	0.1	–0.8	–2.0	0.7	–0.8	–0.4	–0.5	–2.4	–4.6
	% of GDP (rolling four-quarter GDP, based on EUR), end of period								
Gross external debt[1]	31.4	34.1	34.8	33.7	34.3	34.5	35.9	36.3	34.8
Gross official reserves (excluding gold)[1]	23.7	21.8	19.9	22.5	21.8	21.1	21.1	21.9	19.9
	Months of imports of goods and services								
Gross official reserves (excluding gold)[1]	12.8	11.5	10.4	11.9	11.5	11.1	11.1	11.7	10.4
	EUR million, period total								
GDP at current prices	1,556,545	1,560,883	1,404,130	401,630	413,667	321,445	360,693	389,426	332,565

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

[1] *Data based on the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*