

# Developments in selected CESEE countries:

Robust economic expansion in almost all CESEE EU Member States, fragile growth in Turkey and recession in Russia<sup>1,2</sup>

International financial market volatility reveals strengths and weaknesses of the CESEE region

## 1 Regional overview

The international environment has become more challenging for Central, Eastern and Southeastern Europe (CESEE) over the review period. Market volatility increased against the background of stock market turbulences followed by doubts about the sustainability of high growth in China and heightened uncertainty about the timing and pace of anticipated rate hikes by the Federal Reserve System. These circumstances prompted a broad-based reassessment of risk especially in emerging markets and engendered capital outflows, currency depreciation and asset price deflation in a considerable number of countries. The IMF scaled down its growth forecasts for the world economy and world trade, especially for emerging markets and developing economies in Asia and Latin America. This global perspective revealed strengths and weaknesses in individual CESEE countries.

Most CESEE EU Member States in the country sample covered in this report stand out positively. The above-mentioned developments had hardly any negative impact. Currency developments were broadly stable; equity prices did not post substantial losses, and bond spreads as well as CDS premiums remained by and large compressed in a historical perspective. Several reasons made the countries especially resilient to recent bouts of volatility: While emerging markets around the globe had received substantial capital inflows (a considerable part of which were short-term) in the context of monetary accommodation and quantitative easing in advanced economies, leading to loose financing conditions, CESEE EU Member States were much less affected by this development. To the contrary, large-scale deleveraging was going on in quite a sizeable number of countries of the region in the years after the outbreak of the global financial crisis. Furthermore, the countries have become more resilient during recent years, as they followed a much more balanced growth model than before the crisis, a growth model in which domestic demand has come to play an increasingly important role amid continued (and in some cases substantial) current account surpluses. The fledgling recovery in the euro area and low oil prices have also done their part to support growth in CESEE EU Member States lately.

The GDP growth data for the first half of 2015 reflected all of these developments. Average economic growth in the EU Member States covered in this report came in at a robust 1.2% in the first and 0.7% in the second quarter of 2015 (compared to the previous quarter). With that, output grew somewhat faster than in the second half of 2014.

At 1.3% each in the first two quarters of 2015, growth was also animated in Turkey, but at the same time more fragile, despite some fiscal relaxation ahead of

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<sup>2</sup> Cutoff date: October 3, 2015. This report focuses primarily on data releases and developments from April 2015 up to the cutoff date and covers Slovakia, Slovenia, the Czech Republic, Croatia, Bulgaria, Hungary, Poland and Romania, as well as Turkey and Russia. The 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.

Table 1

**Real GDP growth**

	2013	2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
	<i>Period-on-period change in %</i>					
Slovakia	1.4	2.4	0.7	0.7	0.8	0.8
Slovenia	-1.1	3.0	0.8	0.4	0.7	0.7
Bulgaria	1.3	1.5	0.4	0.6	0.6	0.5
Croatia	-1.1	-0.4	0.4	0.0	0.2	0.7
Czech Republic	-0.5	2.0	0.5	0.5	2.5	1.1
Hungary	1.5	3.6	0.6	0.7	0.7	0.5
Poland	1.7	3.4	0.9	0.8	1.0	0.9
Romania	3.4	2.8	1.4	0.9	1.4	0.1
Turkey	4.2	2.9	0.4	0.7	1.3	1.3
Russia	1.3	0.6	-0.3	-0.7	-1.6	-2.0
CESEE average <sup>1</sup>	2.0	1.8	0.2	0.0	-0.1	-0.5
Euro area	-0.3	0.9	0.3	0.4	0.5	0.4

Source: Eurostat, national statistical offices.

<sup>1</sup> Average weighted with GDP at PPP.

parliamentary elections. Credit growth and inflation stood above the respective targets of the central bank. The country also continued to report a substantial current account deficit that was to a large extent financed by portfolio and short-term capital inflows. On top of that, political uncertainty and geopolitical risks intensified in the review period. Not surprisingly, Turkey was thus considerably affected by recent global market volatility: Between mid-July and mid-October 2015, the Turkish lira depreciated by more than 10% against the euro, CDS premiums and Eurobond spreads increased by around 70 basis points, and equity prices declined by around 9%.

Russia was the only country in the region to report a marked deterioration in already exceptionally weak GDP dynamics, coming in at -1.8% in the first half of 2015. The reasons are well known: mainly the deep slump in oil prices and international sanctions in the context of the conflict in eastern Ukraine. The sanctions also implied that Russia was de facto cut off from international financial markets, which shielded the country from most of the disruptions in financial markets observed during the review period, but also tightened funding conditions for banks and nonfinancial corporations (NFCs). Nevertheless, the ruble depreciated in line with declining oil prices and in August 2015 returned to levels much like those in late 2014.

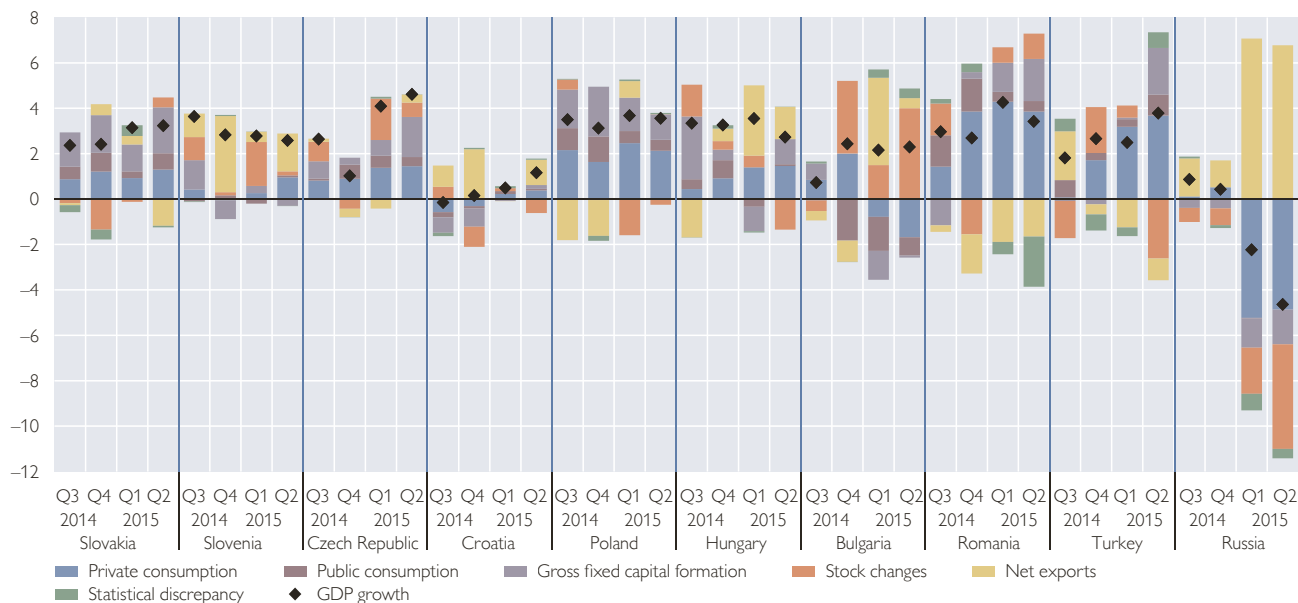
Looking at the individual components of GDP in a year-on-year comparison, it becomes evident that GDP growth benefited from a powerful development of domestic demand in the review period in nearly all countries of the region (see chart 1). In Croatia, domestic demand also started to contribute positively to growth after an extended period of decline. Russia was the only country to report negative growth contributions of domestic demand, as lower oil prices, currency depreciation, inflation, deteriorating sentiment and reduced access to finance cut into consumption and investment. Bulgaria benefited from strong restocking, whereas consumption and investment contributed negatively to GDP growth.

Private consumption benefited from two factors in particular: Improving labor market conditions and rising real wages in most countries. Unemployment rates

Domestic demand rises against the background of improving labor markets

### GDP growth and its main components

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



Source: Eurostat, national statistical offices.

have been falling consistently since early 2013 in most CESEE countries, substantially so in some. For example Hungary’s unemployment rate in seasonally adjusted terms declined from 11.1% in January 2013 to 6.8% in July 2015, the lowest rate since early 2008. The decrease was also considerable in Bulgaria, Poland, Slovakia, and in Croatia, where the unemployment rate has declined especially strongly since late 2014 because the country has finally managed to overcome its long-lasting recession. The Czech Republic chalked up an unemployment rate of 5% in August 2015, second only to Germany in the EU. At the same time, employment expanded noticeably in most countries, especially so in Hungary and Slovakia. Against this backdrop, nominal wage growth was buoyant, amounting to around 4% in the region on average during the first half of 2015. Bulgaria and Romania achieved growth rates of above 7%. Real wage growth was further boosted by low or even negative inflation rates especially in Central and Southeastern Europe (see also below). All of the above developments had a positive impact on consumer sentiment, which in turn helped domestic demand.

**Investment accelerates in several countries**

Gross fixed capital formation expanded strongly especially in the Czech Republic, Poland, Romania and Slovakia, where it grew at rates well above those of private consumption in the first half of 2015. In Croatia and Slovenia, by contrast, investment was stagnant. Investment growth decelerated in Hungary, but from an especially high level in 2014.

Several factors can explain the development of investment activity: 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. To quote a figure, while gross fixed capital formation in the CESEE EU Member States of the country sample increased somewhat

in 2014, it still stood some 15% below its peak level in 2008. The need for further investment has risen also because of high and in some cases still rising capacity utilization rates. Capacity utilization reached the highest level since the outbreak of the global financial crisis in several countries in early 2015 (e.g. in Poland, the Czech Republic, Slovakia and Slovenia) and remained elevated also in the second and third quarter. Investment was further spurred by a low-interest environment against the background of an accommodative monetary policy stance at home and abroad as well as by the fledgling recovery and the (very) gradually improving outlook in the euro area, the most important export destination for CESEE EU Member States. Furthermore, the absorption of EU funds fostered public investment. In Slovenia, despite these supportive conditions, the NFC sector is highly indebted, and a considerable number of companies are still deleveraging, which has held back investment demand.

Investment contracted only in Bulgaria and Russia. While in Russia this development was related to the general recession, high corporate debt together with strongly decreasing corporate credit and high nonperforming loan (NPL) ratios held back capital formation in Bulgaria.

Export growth was quite strong in the first half of 2015 throughout most of CESEE and accelerated especially in Bulgaria, Croatia, Russia and Slovakia. While this development was aided by a plummeting exchange rate in Russia, the region generally benefited from the pickup in growth in the euro area. Furthermore, price competitiveness remained on track. Unit labor costs (ULC) in manufacturing (measured in euro) increased less than in the euro area or even declined somewhat in seven of the countries under review. In most cases, productivity growth was strong enough to counter increasing labor costs. Bulgaria, Romania and Turkey, however, lost their competitive edge on the euro area. Labor costs in those three countries increased most powerfully within the CESEE region, far outpacing productivity developments. The loss of competitiveness had a negative impact on exports, especially in Turkey. Export growth in the country has been decelerating since early 2014 and dipped into negative territory in the first quarter of 2015. Both eroding competitiveness and political turmoil in some of Turkey's important trading partners in the Middle East impeded export performance.

At the same time, import growth also picked up in several CESEE countries. However, it remained below export growth in Bulgaria, Croatia, Hungary, Poland, Russia and Slovenia, implying a positive growth contribution of net exports in those countries. Imports grew more strongly than exports in Romania and Turkey, which led to a dampening impact of the external sector on growth, while the impact was neutral in the Czech Republic and Slovakia.

High-frequency activity indicators suggest a broadly steady pace of economic dynamics in the third quarter of 2015 (see chart 2). After bottoming out in fall 2014, industrial production, retail sales and construction activity have displayed a steady upward trend for the region on average. Only very recently has slightly greater volatility been observed. However, it is too early to draw general conclusions from development trends. At the country level, industrial production and retail sales have been rising throughout CESEE, with no country reporting a year-on-year decline in August. Looking forward, headwinds could emerge from possible repercussions of the Volkswagen emissions scandal, however, as several CESEE economies (notably Slovakia and the Czech Republic) are strongly intertwined

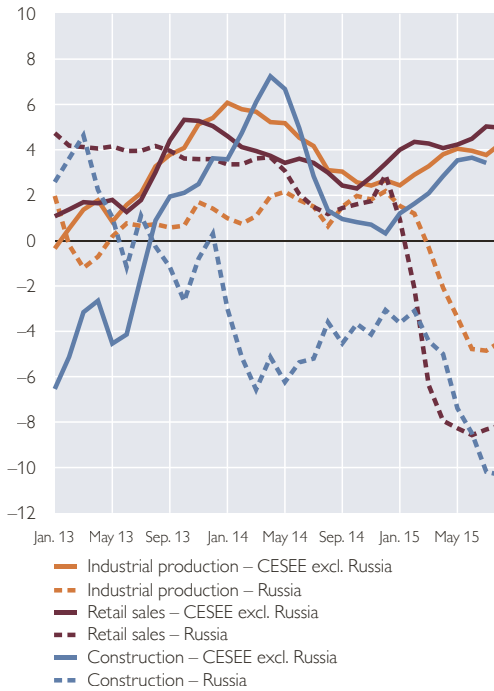
Improving competitiveness bolsters export performance

High-frequency and sentiment indicators signal sound dynamics in recent months and in the near future

### Leading indicators

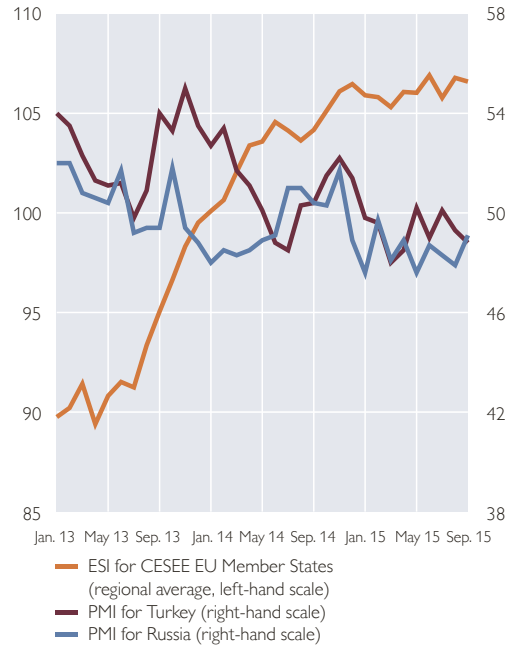
#### Activity indicators (CESEE regional average)

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



#### Sentiment indicators

Points



Source: Eurostat, wiiw, European Commission, Markit.

with the German automotive sector. The situation was more mixed when looking at construction activity: While Bulgaria and Slovenia reported declines, construction grew by more than 10% in the Czech Republic, Romania and Slovakia.

A clear outlier is Russia. Activity indicators have plummeted since late 2014 or early 2015 and reached record lows in July 2015: Industrial production declined by 5%, retail sales by 8% and construction activity by more than 10%.

Economic sentiment developed rather well in the CESEE EU Member States during the review period. The European Commission's Economic Sentiment Indicator (ESI) stood steadily at around 106 points (average for the CESEE EU Member States) throughout 2015, the highest level since summer 2007. Especially services and retail trade confidence performed well. The picture is less bright for Russia and Turkey. PMI figures for the two countries declined in late 2014 and have hovered at around or somewhat below 50 (the threshold indicating an expansion) throughout 2015.

Domestic credit developments (nominal lending to the nonbank private sector adjusted for exchange rate changes) were rather heterogeneous in the review period (see chart 3). The highest rate of credit growth of close to 20% year on year throughout 2015 was reported for Turkey. While lending growth declined moderately in recent months, it remained noticeably above the central bank's target.

Fairly high credit growth rates also prevailed in Poland and Slovakia. In the Czech Republic, especially corporate credit expanded swiftly, mirroring the strong increase of gross fixed capital formation. Solid credit developments in all three

No clear regional trends in credit growth...

countries were fueled by favorable demand conditions (rising domestic demand) as well as favorable supply conditions (generally healthy banking sectors with low NPL ratios, high profitability and – in the Czech Republic and Slovakia – deposit overhangs over credit as well as low stocks of loans denominated in foreign currency). Apart from the Czech Republic, Romania reported some improved momentum in credit developments, as household loan growth accelerated. Overall, however, credit to the private sector in Romania still declined by  $-0.8\%$  in August 2015.

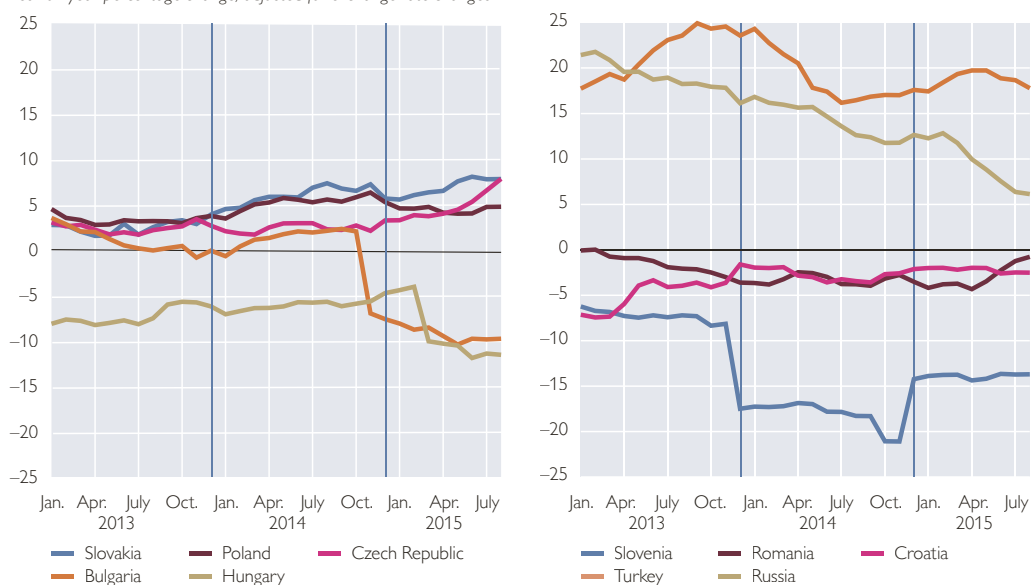
Croatia and Slovenia, in turn, reported broadly stable though negative credit growth rates. In Russia, the credit expansion halved from  $12\%$  to  $6\%$  throughout the course of the year against the background of the deepening recession. In Bulgaria and Hungary, credit growth rates plunged further into negative territory. In both cases, this was in part related to statistical changes. In Bulgaria, the central bank revoked Corporate Commercial Bank's license for conducting banking activities in November 2014. With this move, loans of the bank (amounting to some BGN 5.2 billion) were no longer included in the official banking statistics (see FEEI 2/2015). This exerted a strongly negative base effect on credit developments in the review period. Even without this effect, however, credit growth would have been sluggish and would have declined to around zero. In Hungary, foreign currency mortgage loans to households were converted into forint loans at an exchange rate below the prevailing market exchange rate in the first quarter of 2015. Hungary has announced that it will continue this conversion policy with the aim of eliminating foreign currency loans in the household sector altogether.

Against the background of the strong appreciation of the Swiss franc following the abandonment of its exchange rate floor to the euro in January, several other countries took steps to convert Swiss franc loans. Croatia has already adopted a legal act stipulating the conversion of household loans denominated in Swiss francs

Chart 3

### Growth of credit to the private sector

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



Source: National central banks.

into euro loans. The costs of this measure are estimated at EUR 1 billion and must be borne by the banking sector. The law has been contested in court by several banks. Discussions are also underway in Poland, where a conversion of Swiss franc mortgage loans into złoty loans is envisaged. The details, however, have not yet been fixed.

...despite a rather broad-based easing of lending conditions

Despite the rather heterogeneous development of credit aggregates, available lending surveys for the countries of the region draw a quite uniform and largely positive picture of lending conditions.

The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB) notes that lending conditions improved over the first half of 2015 and are expected to improve further over the next six months. Aggregate credit supply conditions eased almost across the board and are expected to gradually ease further. NPLs and regulation, at both the national and international level, remain the most-cited factors constraining credit supply. Demand for loans improved marginally overall, marking the fourth consecutive semester of improvement. Demand grew not only for debt restructuring and working capital, but investment demand also began to improve mildly. Funding conditions are fairly favorable, with all sources of funding performing well. Local bank funding continues to play a predominant role, substituting for decreased intragroup funding. Aggregate NPL figures did not deteriorate further in the review period, signaling that a turning point may now have been reached, while NPL levels remain high and are thus a key concern for the region's banks.

Available country-level bank lending surveys for Bulgaria, the Czech Republic, Hungary, Poland and Romania support this general picture. However, some regional differences in the pace and dimension of easing persist. Once again, Turkey stands apart. Funding conditions were observed to have tightened considerably in the second and third quarter and are expected to continue to do so over the next three months. Credit standards for corporate and mortgage loans also became tighter. While demand for corporate loans decreased noticeably, demand for housing and consumer loans edged up in the third quarter.

Analyzing the operation of international banking groups in the region, the EIB survey found that the CESEE region remains relevant in the strategies of international banking groups. However, banks continue to be selective in their country-by-country strategies. Roughly 55% of the groups surveyed expect to expand operations, while another one-third may reduce operations in the region. Roughly half of the groups signal that they have already been reducing their total exposure to the region, while only just under 30% expect to continue along these lines. The profitability of CESEE operations is gradually recovering. Banks are continuing to reassess the potential of some of the region's markets in light of differing profitability and market-positioning stances.

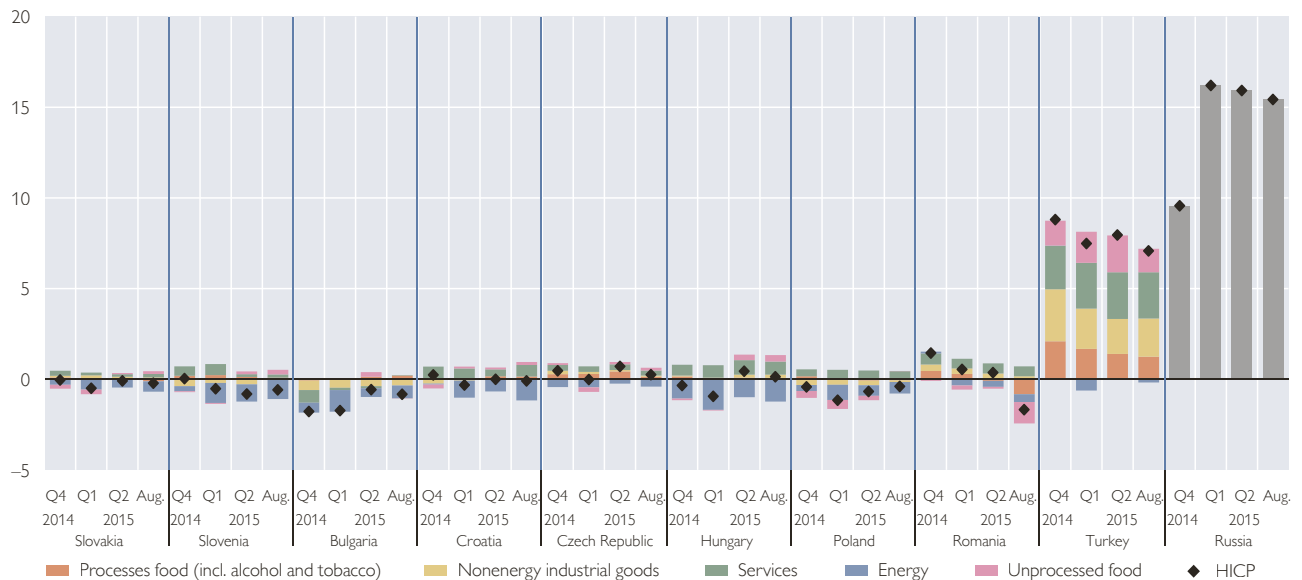
Declining energy prices hold back price dynamics in the CESEE EU Member States; price rises ease slightly also in Russia and Turkey

Against the background of strong currency depreciation and an import ban on food items from countries that have imposed sanctions on Russia in the context of the Ukraine conflict, inflation in Russia reached 16.9% in March 2015 before declining somewhat to 15.7% in September. The inflation rate was also relatively high in Turkey, partly due to the exchange rate pass-through. Despite abating slightly, price level rises remained above 7% (the central bank's upper bound for its inflation target to be met by December) throughout the year.

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.

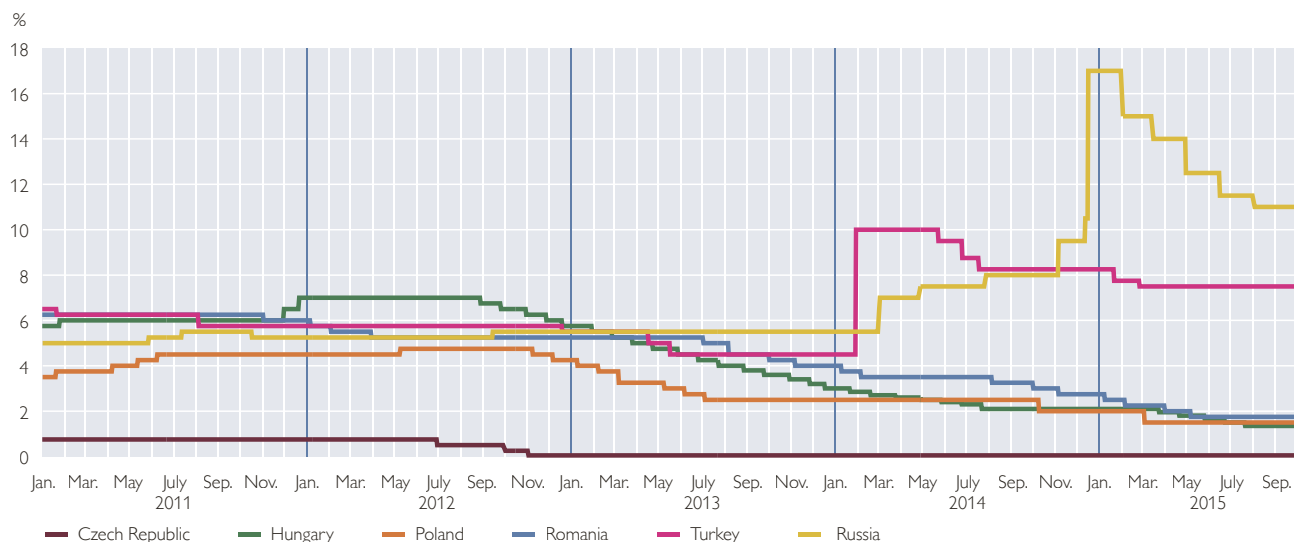
The situation was entirely different in the CESEE EU Member States (see chart 4). Average inflation in the country group reached negative territory in December 2014 and a trough in January and February 2015 at  $-0.7\%$ . After that and in line with developments in the euro area, inflation slowly moved toward zero and reached  $0.1\%$  in May 2015. Recent months, however, again brought a reversal of this trend. By August, all CESEE EU Member States with the exception of the Czech Republic and Hungary were again reporting negative inflation rates, bringing average inflation to  $-0.5\%$ . Part of this development was related to a plunge in inflation in Romania after the coverage of the reduced VAT rate had been broadened. But price pressures also abated further in most other countries.

Among the components of the HICP, it was especially energy that pushed prices down in most recent months. Deflation in the energy component was fueled by low oil prices, which in September 2015 were more than 50% below their level a year earlier. 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 either stable or increasing somewhat and were above headline inflation and in positive territory in all countries but Bulgaria and Romania. In both countries, this should not be seen as a reason for major concern. In Bulgaria, core inflation improved from  $-1.9\%$  in November 2014 to  $-0.2\%$  in August 2015. In Romania, the development is strongly related to the above-mentioned VAT cut.

Against the backdrop of inflation and deflation developments, the central banks of CESEE countries continued to pursue a policy of monetary accommodation (see chart 5). The Hungarian central bank cut its policy rate by a total of 60 basis points to  $1.35\%$  between April 2015 and July 2015. The Romanian central

Further monetary easing in CESEE



**Policy rate developments in CESEE**


Source: National central banks.

bank reduced its policy rate from 2% to 1.75% in May 2015. Given the marginal easing of inflation and the deepening of the economic contraction, the Central Bank of Russia also decided to decrease the key interest rate from 14% in April 2015 to 11% in August 2015. The Czech Republic's policy rate has been standing at "technically zero" since October 2012. In November 2013, the Czech central bank (CNB) decided to use the exchange rate as an additional instrument to ease monetary conditions and to prevent the exchange rate of the koruna from appreciating to levels of below CZK 27 per EUR 1. In February 2015, the CNB announced that it would continue to intervene in the foreign exchange market at least until the second half of 2016. In July 2015, the CNB intervened by buying EUR 1 billion for the first time since the introduction of the exchange rate ceiling in November 2013. Interventions were also carried out in August, with purchases coming to EUR 3.7 billion. Turkey has kept policy interest rates on hold.

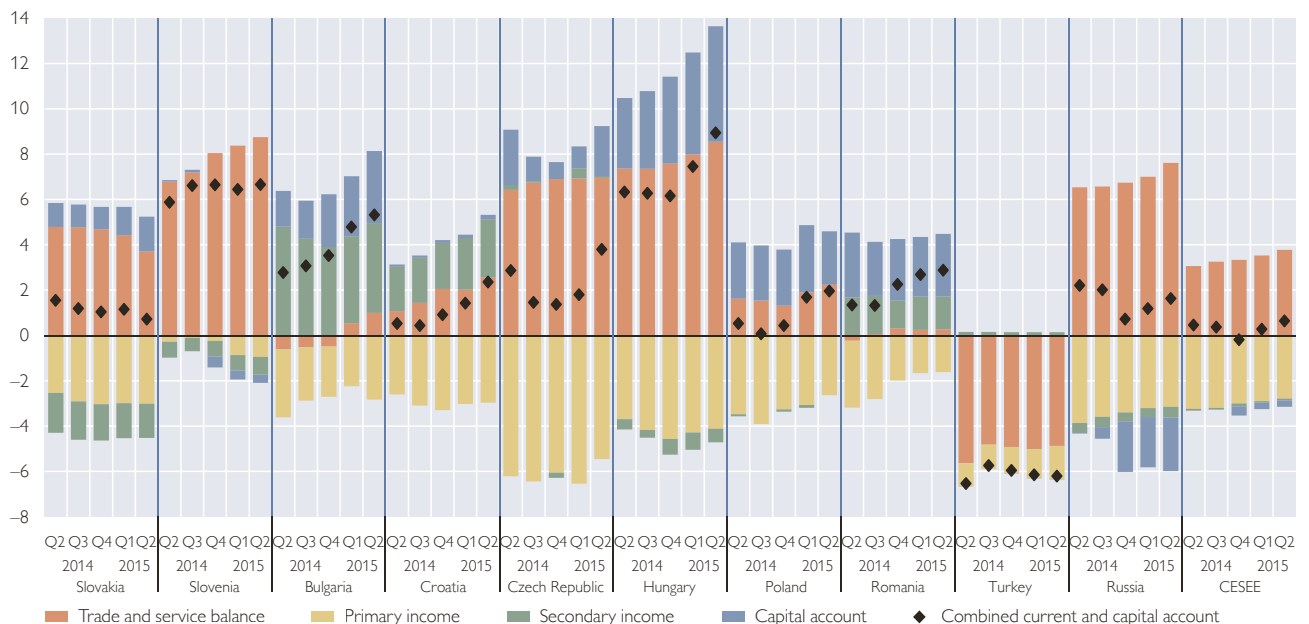
The external position of the CESEE region turns into a small surplus, mainly due to developments in Russia...

The combined current and capital account for the region as a whole improved somewhat in the review period, increasing from a deficit of  $-0.2\%$  of GDP at the end of 2014 (four-quarter moving sum) to a surplus of  $0.6\%$  of GDP in mid-2015 (see chart 6). This development was driven to a large extent by Russia, where currency appreciation had a positive impact on the trade balance. However, the external accounts also improved in most other CESEE countries. These developments were often related to better outcomes in the trade balance (partly bolstered by terms-of-trade effects). But higher inflows via the capital account also played a role, especially in Bulgaria, the Czech Republic and Hungary. In the latter country, the combined current and capital account posted a record surplus of close to  $9\%$  of GDP. Some deterioration was reported only for Turkey, where higher outflows of primary (especially investment) income weighed on the external accounts. Turkey was also the only country in the region that continued to post a current account deficit (some  $6\%$  of GDP).

Chart 6

### Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

Net capital flows to the ten CESEE countries as a whole, as recorded in the financial account, deteriorated marginally from  $-7\%$  of GDP in the fourth quarter of 2014 to  $-7.5\%$  of GDP in the second quarter of 2015 (four-quarter moving sums; see chart 7). Again, regional developments were mainly driven by Russia. The decline was particularly pronounced in portfolio investment (i.e. outflows in this category rose), but FDI also trended lower. Other investment, however, recovered, preventing even larger capital outflows.

Most of the individual countries of the region posted a deterioration of the financial account, mirroring improvements in the current account. This development was especially pronounced in Hungary, where a strong decline in net portfolio flows caused mostly by bond repayments by the government increased the deficit in the financial account by nearly  $5\%$  of GDP between end-2014 and mid-2015. However, the financial account deteriorated by more than  $1\%$  of GDP also in the Czech Republic, Slovakia and Turkey. Again, this worsening was often related to lower net portfolio flows. Only Poland, Croatia and Bulgaria displayed higher net capital inflows.

In June 2015, the European Council found that Poland had corrected its excessive deficit by 2014, a year earlier than originally specified. The country's general government deficit amounted to  $3.2\%$  of GDP in 2014, above the  $3\%$  of GDP reference value. However, Poland was allowed to deduct an estimated  $0.4\%$  of GDP as the cost of its systemic pension reform from the headline deficit, bringing the gap below the threshold. With that, Slovenia and Croatia remain the only CESEE EU countries still subject to an excessive deficit procedure (EDP). The target dates for a correction currently stand at 2015 for Slovenia and at 2016 for Croatia. The Slovenian government is targeting a deficit of  $2.9\%$  of GDP for 2015, while Croa-

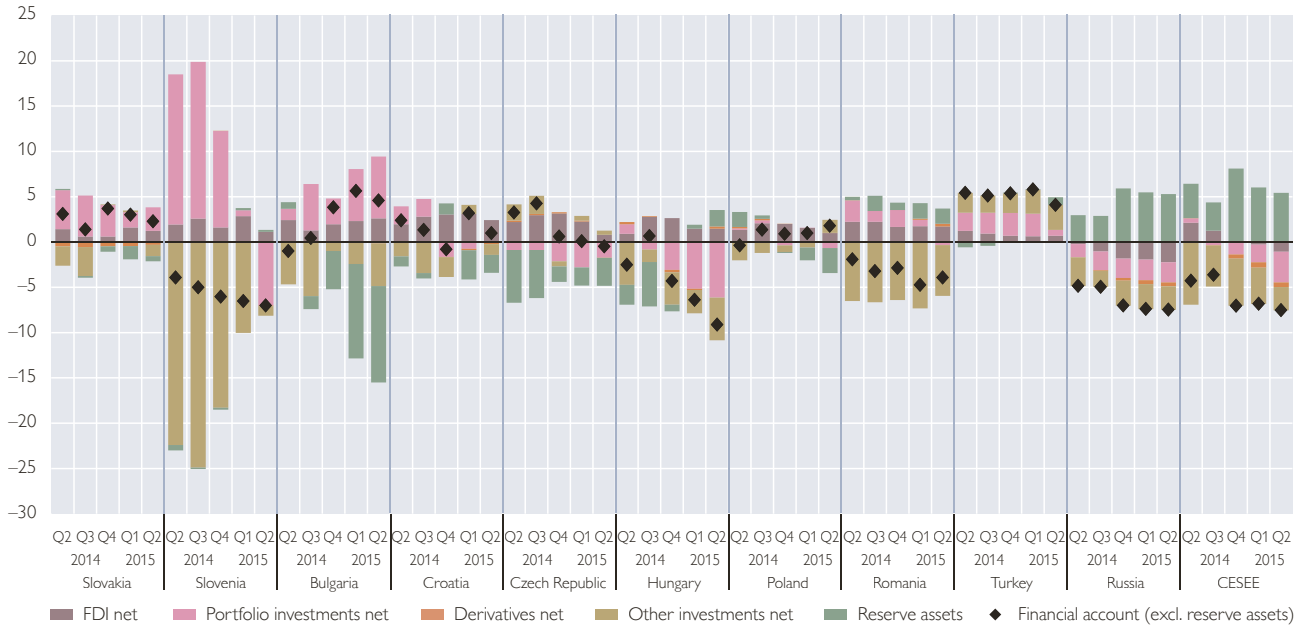
...which is mirrored by higher capital outflows

Budgetary consolidation within the excessive deficit procedure framework remains on track

Chart 7

### Financial account balance

% of GDP, four-quarter moving sum



Source: National central banks.

tia will have to make a major consolidation effort next year to come within reach of the 3% threshold. However, Croatia's future fiscal course will presumably become clearer only after parliamentary elections taking place in late fall 2015.

Box 1

### Ukraine: nearing the trough?

Economic activity plunged by 15.8% in the first half of 2015, but the downtrend decelerated markedly in the second quarter. The current account posted a marginal surplus in the first half of 2015, mainly on the back of a shrinking trade deficit, as imports continued to fall more strongly than exports. The import contraction was chiefly the result of dropping prices and declining volumes of natural gas imports, subdued domestic demand and the depreciation. While exports were buoyed by the depreciation, they suffered on account of the conflict in eastern Ukraine, deteriorating trade relations with Russia and falling prices for key export goods (grain and steel). Since March 2015, the Ukrainian hryvnia has remained broadly stable against the euro and the U.S. dollar. In late September 2015, the European Commission, Russia and Ukraine agreed on the terms of gas deliveries from Russia to Ukraine for the upcoming winter period. International financial institutions will help finance gas imports.

The National Bank of Ukraine (NBU) reduced its key policy rate in two steps from 30% to 22%, citing disinflationary developments. Inflation peaked at 60.9% in April before gradually declining to 51.9% in September 2015. Thanks to the current account adjustment and official financing from the IMF, the EU, the World Bank and other creditors, the NBU's foreign exchange reserves rose from USD 5.6 billion at end-March 2015 to USD 12.7 billion at end-September. The first review under the IMF's Extended Fund Facility (EFF) was concluded end-July. Talks on the second review were held in late September and early October, but discussions will continue on some outstanding issues regarding in particular reform and policy measures to be taken in 2016.

In late August, the Ukrainian government reached agreement with the creditors' committee on restructuring privately held external sovereign debt in line with the IMF program. The deal contains a 20% nominal haircut and a four-year maturity extension, as well as GDP-linked warrants to compensate bondholders for losses if the economy performs well in 2021 to 2040. At a bondholders meeting in mid-October, creditors (more than 75% for each bond) approved the respective debt exchange offer for 13 out of 14 series of bonds. No approval was obtained for the USD 3 billion Eurobond maturing in December 2015, as its holder, the Russian National Welfare Fund, did not take part in the voting. The Russian government regards the bond as official financing and has not accepted the restructuring terms. It is still unclear how the IMF would handle a Ukrainian default on this bond.

In eastern Ukraine, the cease-fire agreed as part of the Minsk II Agreement in mid-February was frequently violated until August. Yet, the improved observation of the cease-fire since early September and an agreement on the withdrawal of weapons indicate a tentative freezing of the conflict, while efforts to get closer to fully implementing Minsk II go on.

### Western Balkans<sup>1</sup>: economic performance picks up somewhat in the first half of 2015

In the first half of 2015, economic activity in most Western Balkan countries was more favorable than in 2014, even though political stability in some of these countries deteriorated. In the majority of the countries, domestic demand started to recover, supported mainly by stronger investment activity, while the contribution of private consumption remained fairly modest. In particular, mirroring also reconstruction activities following the spring floods in 2014, real GDP growth in Bosnia and Herzegovina increased to above 2% and 4% year on year in the first and second quarter of 2015, respectively, after having edged up by 1% in 2014. Following a persistent contraction for six quarters, GDP growth in Serbia finally entered positive territory in the second quarter of 2015 (+1.0% year on year) mainly driven by stronger gross fixed capital formation and at the same time by a higher growth contribution of net exports. In Montenegro, real GDP growth accelerated to above 3% in the first half of 2015 (compared to +1.8% in 2014). Remarkably, growth drivers changed substantially, moving from private and public consumption to gross fixed capital formation, which augmented by over 30% year on year in the second quarter of 2015. Booming investments were largely the result of the start of the huge Bar-Boljare highway project. Albania showed somewhat higher growth in the first half of 2015 compared to 2014, driven by investments and net exports while private consumption contracted. By contrast, economic growth weakened marginally in FYR Macedonia, as investment activity lost momentum. Despite stronger private consumption fueled by remittances<sup>2</sup> and wage increases in Kosovo, economic growth slipped to only 0.2% in the first quarter of 2015 (2014: 0.9% year on year) because of lower government spending and subdued investments. For Kosovo, growth figures for the second quarter of 2015 have not been released yet. The debt crisis in neighboring Greece continued to have little impact on the Western Balkan economies and financial sectors during the review period.

Industrial production accelerated in the first half of 2015, especially in Bosnia and Herzegovina, in Serbia, and in Montenegro. The flood-hit countries had suffered from declining industrial output in the first half of 2014. Base effects boosted industrial production also in Montenegro, where electricity, mining and gas output had slumped in the same period of 2014. Conversely, in the remaining countries, in particular in Kosovo, industrial output growth weakened in the first half of 2015. More recent data (wherever available) indicate good industrial performance in the third quarter of 2015 in Bosnia and Herzegovina, Serbia and to some extent also in FYR Macedonia and Montenegro.

Unemployment figures (labor force survey) improved somewhat in the second quarter of 2015 compared to the same period of 2014. In this reference period, Serbia was most successful in bringing down unemployment by almost 3 percentage points to below 18%. However, with unemployment rates between 17% in Albania and around 27% in Bosnia and Herzegovina and in FYR Macedonia, the labor market is still under a severe strain. The same is true for Kosovo, where unemployment stood at around 35% on average in 2014 (no quarterly data are available). Promisingly, employment has increased in all countries, with the strongest gain in Serbia (no quarterly data are available for Kosovo).

All Western Balkan countries are characterized by substantial gaps in the trade balance. These ranged from about 11% of GDP in Serbia to around 40% in Kosovo and Montenegro in the second quarter of 2015. In general, trade imbalances only changed slightly in the first half of 2015 compared to the same period a year before. Mirroring shortfalls in the trade balance, current account deficits are generally substantial, varying between around 5% (Serbia) to above 16% (Montenegro) of GDP, but they narrowed in Albania and Serbia. The only exception is the FYR Macedonia, where the current account moved into slightly positive territory. Many countries, in particular Albania and Kosovo, continue to benefit from a strong inflow of remittances. On the positive side, net FDI inflows to the region stayed robust, making up for part of the external shortfall.

<sup>1</sup> 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 designation "Kosovo" is used without prejudice to positions on status and in line with UNSC 1244 and the opinion on the Kosovo Declaration of Independence.

<sup>2</sup> According to the Central Bank of Kosovo, remittances surged by 20% in the first quarter of 2015.

Turning to domestic credits to resident households and nonfinancial corporations (adjusted for exchange rate changes), FYR Macedonia remained the frontrunner, posting growth rates of around 9% year on year in the first half of 2015. Credit growth was fairly dynamic in Kosovo, Montenegro and also in Serbia, where growth fell somewhat in the second quarter of 2015, however. In the remaining countries, the credit expansion was subdued, although liquidity in the banking system remained broadly at a comfortable level. However, high levels of NPLs continued to hold back the credit expansion. On a positive note, some progress has been made in reducing NPLs in most of the Western Balkan countries, notably so in Albania, where the NPL share dropped from almost 23% at the end of 2014 to 20% at the end of the second quarter of 2015. At the same time, however, NPLs accelerated further to a record-high level of close to 23% as of June 2015 in Serbia.

Overall, the countries are still marked by weak or even downward price pressures profiting above all from continued low imported inflation especially on account of low oil prices and in some countries weak consumption. Prices picked up noticeably in the course of the first eight months of 2015 only in Montenegro, rising to around 2% year on year in August 2015 because surging tourism during the summer boosted food and restaurant prices. FYR Macedonia emerged from a prolonged period of deflation in the second quarter of 2015, but price growth fell back into negative territory in the third quarter of 2015. In the first eight months of 2015, deflation persisted in Bosnia and Herzegovina and in Kosovo. Bosnia and Herzegovina even registered deflation of more than 1% in July and August 2015. Both inflation-targeting countries, namely Albania and Serbia, missed their targets (3%  $\pm$ 1 percentage point in Albania, 4.0%  $\pm$ 1.5 percentage points in Serbia) at the lower bound in the first half of 2015. More recently, however, inflation in Albania was within the target range in September (+2.1%). Albania has kept its key policy rate constant at 2% since the beginning of 2015. The Albanian lek remained broadly stable against the euro. The National Bank of Serbia (NBS) cut its key policy rate in five steps from 7% to 4.5% as of mid-October, citing subdued inflationary pressures. The NBS intervened several times in the foreign exchange market, buying euro to ease appreciation pressures.

According to the European Commission (forecast of May 2015<sup>3</sup>), Albania, FYR Macedonia and Serbia are expected to show a lower – but still elevated – fiscal deficit in 2015 than in 2014. Deficits are expected to range between almost 4% and 5% of GDP. After introducing a sizeable austerity package in 2014, Serbia successfully continued to consolidate its public finances and, according to the IMF, will outperform the fiscal target of –5.9% of GDP set for 2015. In Montenegro, however, the highway project is at the heart of the unfavorable development of public finances: The fiscal deficit is forecast to increase by 1.5 percentage points to 4.5% of GDP, and public debt is anticipated to surge from below 55% of GDP in 2014 to almost 62% of GDP in 2015. The IMF expects the budget deficit to amount to 4.9% of GDP in 2015 (2014: 2%) in Bosnia and Herzegovina and to 2.0% of GDP (2014: 2.2%) in Kosovo.

Looking at new developments in relations between the EU and candidate and potential candidate countries, the Stabilisation and Association Agreement with Bosnia and Herzegovina entered into force in June 2015. Negotiations with Serbia started formally in early 2014, but no chapter has been opened yet. Negotiations with Montenegro are ongoing, and two more chapters were opened for negotiations during the last six months. Concerning relations between the IMF and the Western Balkan countries, the IMF approved Kosovo's request for a Stand-By Arrangement (SBA) in July 2015. The main focuses of the 22-month SBA are fiscal consolidation, enhanced financial stability and structural reforms to improve the competitiveness of the Kosovan economy. The SBA arrangement with Bosnia and Herzegovina expired in June 2015. No new arrangement is on the table yet. The fourth review of Albania's 36-month Extended Fund Facility (EEF) arrangement and the disbursement of about EUR 35.9 million were concluded in May 2015. Discussion on the fifth review took place in June 2015. The SBA with Serbia remains on track, and staff-level agreement on the second review was reached in September 2015. Discussion at the IMF Board meeting is scheduled for October. So far, Serbia has treated the arrangement with the IMF as precautionary and has not yet drawn any resources from it.

<sup>3</sup> Most recent forecast available.

## 2 Slovakia: solid economic growth accelerates

Domestic demand becomes the single driver of economic activity

GDP growth speeded up in the first half of 2015 to reach 3.2% year on year, outpacing not only the expansion of the previous year (2014: 2.4%) but also marking a four-year high. In contrast to 2014, however, this acceleration can be pinpointed exclusively to domestic demand, whose categories all contributed positively to economic growth. In particular, investment dynamics became more robust, with growth quickening to 8.3% year on year in the first half of 2015, up from 5.7% in 2014. Both private and public consumption growth were on the rise in the review period, the former driven by improved labor market conditions and higher real wages and the latter largely reflecting Slovakia's exit from the excessive deficit procedure (EDP). By contrast, the contribution of net exports slipped into negative territory in the first half of 2015, as the steep increase in imports outpaced the expansion of exports; compared to the same period of the previous year, however, the contribution of net exports remained broadly unchanged. Accordingly, the trade surplus declined slightly to an average of 4.2% of GDP. In parallel, the current account surplus shrank to 0.1% of GDP, while the capital account improved to 1.5% of GDP. At the same time, although increasing to 0.8% of GDP year on year in the first half of 2015, net FDI inflows remained weak and became negative in the second quarter of 2015 due to elevated outflows of reinvested earnings.

Downward pressures on prices persist

Declining oil and energy prices kept consumer price growth in marginally negative territory also in the first half of 2015. Accordingly, in spite of the upward pressures in some categories, consumer prices declined by 0.2% in August 2015, while the average inflation rate stayed at -0.3% in the first eight months of 2015. Downward pressures persisted and were recently reinforced by the 3.91% drop in gas prices for households as of September 2015. In the medium term, though, economic growth is likely to have some upward impact on the price level.

Labor market indicators improve but challenges remain

The acceleration of economic activity benefited the Slovak labor market. On the back of favorable developments, also in reducing high youth unemployment, the unemployment rate, which had already been on the decline since the second quarter of 2014, fell to 11.3% in the second quarter and further to 10.8% in August 2015, thus moving down close to pre-crisis levels. At the same time, the employment rate markedly increased by 1.8 percentage points to 62.5% in June 2015. In spite of the increase in minimum wages as of January 2015, real gross wage dynamics slackened somewhat in the first half of 2015. Nevertheless, structural weaknesses, such as the low regional mobility as well as the high share of long-term unemployed, continue to pose major challenges.

Public finances in better shape, gradual consolidation continues

On the back of substantial consolidation efforts in recent years, the fiscal position of the country has improved considerably, with the deficit of the general government declining from nearly 8% of GDP in 2009 to 2.6% of GDP in 2013, enabling Slovakia to exit the EDP. In 2014, the deficit ratio amounted to 2.9%. For 2015, a slightly lower general government deficit of 2.5% of GDP is targeted, reflecting, among other things, some new measures designed to broaden the tax base and fairly good overall revenue developments on the back of reasonably strong GDP growth. On the expenditure front, some relaxation was penciled in (increases in social subsidies, higher wages for public sector employees as well as higher cofinancing of drawings of EU funds). The general government debt is projected to remain broadly unchanged at close to 54% of GDP in 2015 and thus to be slightly below the constitutional debt brake threshold of 55% of GDP.

Table 2

## Main economic indicators: Slovakia

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.6	1.4	2.4	2.3	2.6	2.4	2.4	3.1	3.2
Private consumption	-0.4	-0.7	2.2	2.8	2.3	1.6	2.2	1.5	2.3
Public consumption	-2.0	2.4	4.4	4.7	5.6	3.3	4.0	1.6	4.1
Gross fixed capital formation	-9.3	-2.7	5.7	2.1	5.3	7.7	6.8	6.6	10.0
Exports of goods and services	9.3	5.2	4.6	12.4	4.9	1.6	0.3	4.4	4.4
Imports of goods and services	2.6	3.8	5.0	12.9	6.7	1.7	-0.2	4.3	6.0
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-4.2	0.0	2.8	2.5	3.7	2.7	2.3	2.3	4.5
Net exports of goods and services	5.8	1.4	-0.2	0.2	-1.3	-0.1	0.5	0.4	-1.2
Exports of goods and services	8.0	4.8	4.2	11.5	4.6	1.4	0.3	4.4	4.1
Imports of goods and services	-2.2	-3.3	-4.4	-11.3	-5.9	-1.4	0.2	-4.0	-5.3
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	1.0	0.4	2.3	1.3	3.7	2.1	2.2	0.4	0.6
Unit labor costs in manufacturing (nominal, per hour)	-7.1	-2.6	1.6	-4.2	1.1	3.5	5.8	0.0	1.1
Labor productivity in manufacturing (real, per hour)	12.8	8.1	2.7	6.3	4.2	0.4	0.5	5.0	2.3
Labor costs in manufacturing (nominal, per hour)	4.8	5.3	4.4	1.8	5.3	3.9	6.4	5.1	3.4
Producer price index (PPI) in industry	1.9	-1.0	-3.5	-3.4	-3.6	-3.7	-3.5	-3.7	-2.6
Consumer price index (here: HICP)	3.7	1.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	-0.1
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	14.0	14.3	13.2	14.1	13.2	12.9	12.6	12.5	11.3
Employment rate (%, 15–64 years)	59.7	59.9	61.0	60.2	60.7	61.3	61.7	61.9	62.5
Key interest rate per annum (%)	0.9	0.5	0.2	0.3	0.2	0.1	0.1	0.1	0.1
SKK per 1 EUR	..	..	..	..	..	..	..	..	..
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	6.6	5.9	4.9	7.3	6.9	5.4	4.9	5.6	7.5
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	-6.9	-2.7	4.9	0.2	2.5	0.0	4.3	10.4	8.1
Domestic credit of the banking system	2.3	-6.3	7.9	2.1	9.0	10.5	6.7	14.1	11.3
of which: claims on the private sector	6.8	5.3	10.5	5.7	6.2	7.1	5.1	5.7	6.4
claims on households	7.9	8.2	9.8	4.4	4.7	5.1	5.4	5.7	5.7
claims on enterprises	-1.1	-2.9	0.7	1.3	1.5	2.0	-0.3	0.0	0.7
claims on the public sector (net)	-4.5	-11.6	-2.6	-3.5	2.8	3.4	1.7	8.4	4.9
Other assets (net) of the banking system	11.9	21.9	-1.7	5.0	-4.6	-5.1	-6.2	-18.9	-12.0
<i>% of GDP</i>									
General government revenues	36.0	38.4	38.9	..	..	..	..	..	..
General government expenditures	40.1	41.0	41.6	..	..	..	..	..	..
General government balance	-4.2	-2.6	-2.8	..	..	..	..	..	..
Primary balance	-2.3	-0.7	-0.8	..	..	..	..	..	..
Gross public debt	51.9	54.6	53.5	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	47.5	48.0	48.8	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	28.3	30.2	32.9	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.5	4.6	4.5	6.6	5.9	3.8	1.8	5.1	3.2
Services balance	0.6	0.6	0.2	0.0	0.3	0.3	0.0	0.4	0.2
Primary income	-1.7	-1.8	-3.0	-2.3	-3.4	-3.4	-2.8	-2.1	-3.5
Secondary income	-1.4	-1.8	-1.6	-1.9	-1.7	-1.5	-1.3	-1.6	-1.6
Current account balance	0.9	1.5	0.1	2.5	1.0	-0.7	-2.4	1.8	-1.7
Capital account balance	2.0	1.4	1.0	0.1	0.6	0.6	2.5	1.3	1.7
Foreign direct investment (net)	3.2	1.0	0.6	0.2	-1.7	0.8	3.0	4.5	-3.0
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	74.9	82.1	90.1	90.9	89.1	92.7	90.1	91.1	88.2
Gross official reserves (excluding gold)	0.9	0.9	1.5	1.5	0.9	1.1	1.5	3.2	1.8
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.2
<i>EUR million, period total</i>									
GDP at current prices	72,185	73,593	75,215	17,340	18,756	19,846	19,273	17,807	19,316

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



GDP growth slows from 2014 but remains healthy in the first half of 2015

### 3 Slovenia: economic growth supports banking and fiscal consolidation

Real GDP expanded by 2.7% in the first half of 2015. Net exports remained the major contributor to growth but domestic demand continued to strengthen. Household consumption in particular recovered further, reflecting improving consumer confidence, stronger employment and real wage growth, a good tourist season and some improvement in credit activity. By contrast, fiscal consolidation caused public consumption to contract yet again. Investments stagnated in year-on-year terms during the first half of 2015, dragged down mainly by declining construction activity, while on the other hand, the growth of investment in machinery and equipment was supported by high capacity utilization rates. Growth of credit to the corporate sector has so far showed hardly any improvement, which is partly due to the fact that a sizeable share of Slovenian corporations (in particular SMEs) is still highly leveraged. High-frequency indicators available so far for the third quarter indicated some slowdown in activity despite improved sentiment.

Fiscal consolidation continues, as does banking sector stabilization

In May 2015, the Council of the European Union endorsed Slovenia's National Reform Programme and Stability Programme, calling for the correction of the excessive deficit in 2015 and a further fiscal adjustment of 0.6% of GDP in 2016. The Council also recommended adoption of the Fiscal Rules Act as well as long-term reforms of the pension, healthcare and long-term care system. Additional labor market reforms were also called for, as were the improvement of banks' portfolio quality, corporate restructuring, improved access to finance for SMEs, progress in privatization and improvements in the legal system.

The authorities continue to target a budget deficit of 2.9% of GDP in 2015. In late September, the government approved a deficit target of 2.2% for 2016 and 1.8% for 2017, pending parliamentary approval. Budget financing has remained on a sound footing. In June 2015, Standard & Poor's revised the rating outlook from stable to positive, citing the improved economic outlook for 2015 to 2018 and Slovenia's strong external performance. Following the upgrade, Slovenia successfully issued a ten-year and an inaugural 30-year government bond, with the sales meeting substantial demand. As a result, Slovenia has already partially prefinanced its public sector funding needs for 2016. In mid-July 2015, parliament finally adopted the Fiscal Rules Act, requiring a balanced structural budget by 2020 and providing for the establishment of a new Fiscal Council, as required by the applicable EU regulation.

Progress in privatization has been mixed recently. On the one hand, the Slovenian Sovereign Holding sold the country's second-largest bank, NKBM, to fund manager Apollo and the EBRD, thus concluding a multiyear process. On the other hand, the biggest and politically most controversial privatization deal of the past few years, that of Telekom Slovenije, was derailed in early August 2015. Bank consolidation progressed further. The country's antitrust authority cleared the merger of Abanka with Banka Celje (both state owned) to create the second-largest bank in Slovenia (i.e. overtaking NKBM), in June 2015. The new bank became operational at the beginning of October 2015. Following the transfer of nonperforming claims from these two banks to the Bank Assets Management Company in December 2014, the share of nonperforming claims declined from 13.1% in November to 11.9% in December. As the stock of nonperforming claims shrank more than that of total claims between December 2014 and July 2015, the NPL share fell further to 11.1%. Nevertheless, credit risk remains a key risk factor for banks and continues to hold back credit growth.

Table 3

**Main economic indicators: Slovenia**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-2.7	-1.1	3.0	2.3	3.3	3.6	2.8	2.8	2.6
Private consumption	-2.5	-4.1	0.7	1.2	0.9	0.8	-0.1	0.5	1.8
Public consumption	-2.3	-1.5	-0.1	-0.6	0.0	-0.5	0.8	-1.0	0.4
Gross fixed capital formation	-8.8	1.7	3.2	4.6	6.0	6.6	-4.1	1.6	-1.5
Exports of goods and services	0.6	3.1	5.8	4.5	4.4	6.4	7.8	6.1	5.5
Imports of goods and services	-3.7	1.7	4.0	3.1	3.8	5.6	3.6	6.2	3.7
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-5.7	-2.1	1.5	1.1	2.7	2.6	-0.6	2.3	0.9
Net exports of goods and services	3.0	1.1	1.6	1.3	0.6	1.0	3.4	0.5	1.7
Exports of goods and services	0.4	2.2	4.4	3.4	3.2	4.8	5.9	4.7	4.1
Imports of goods and services	2.5	-1.2	-2.8	-2.2	-2.6	-3.8	-2.6	-4.3	-2.4
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.8	0.2	-1.3	-1.5	-2.0	-1.2	-0.3	-0.8	-0.1
Unit labor costs in manufacturing (nominal, per hour)	4.9	3.0	0.0	0.4	0.3	1.2	-2.1	-3.6	-3.3
Labor productivity in manufacturing (real, per hour)	-2.0	-2.3	3.7	2.7	2.4	4.6	5.4	5.6	5.5
Labor costs in manufacturing (nominal, per hour)	2.9	0.6	3.8	3.1	2.7	5.9	3.2	1.9	2.0
Producer price index (PPI) in industry	0.9	0.0	-0.7	-0.8	-1.2	-0.6	-0.1	0.0	0.6
Consumer price index (here: HICP)	2.8	1.9	0.4	0.6	0.8	0.1	0.0	-0.5	-0.8
EUR per 1 SIT, + = SIT appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	9.0	10.3	9.9	11.0	9.5	9.4	9.7	9.9	9.3
Employment rate (%, 15–64 years)	64.1	63.3	63.9	62.5	64.5	64.6	64.0	63.5	65.5
Key interest rate per annum (%)	0.9	0.5	0.2	0.3	0.2	0.1	0.1	0.1	0.1
SIT per 1 EUR	..	..	..	..	..	..	..	..	..
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	-0.7	0.2	7.8	1.4	4.4	6.4	7.8	5.5	5.0
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	10.6	23.5	45.2	29.1	27.4	31.1	25.5	17.0	4.1
Domestic credit of the banking system	-5.9	-16.4	-32.9	-23.1	-19.7	-19.2	-19.1	-11.0	1.0
<i>of which: claims on the private sector</i>	-11.3	-30.0	-38.4	-21.1	-22.1	-22.6	-15.5	-13.4	-12.6
<i>claims on households</i>	-0.1	-2.3	-2.2	-1.3	-1.2	-1.0	-0.7	-0.1	0.1
<i>claims on enterprises</i>	-11.2	-27.7	-36.2	-19.8	-20.8	-21.6	-14.8	-13.4	-12.7
<i>claims on the public sector (net)</i>	5.4	13.6	5.5	-2.0	2.3	3.4	-3.6	2.4	13.6
Other assets (net) of the banking system	-2.4	-7.6	-4.3	-4.7	-3.3	-5.5	1.5	-0.4	-0.1
<i>% of GDP</i>									
General government revenues	44.4	45.3	44.8	..	..	..	..	..	..
General government expenditures	48.6	60.3	49.8	..	..	..	..	..	..
General government balance	-4.1	-15.0	-5.0	..	..	..	..	..	..
Primary balance	-2.2	-12.4	-1.8	..	..	..	..	..	..
Gross public debt	53.7	70.8	80.8	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	93.7	83.5	73.3	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.9	30.0	28.5	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-0.2	2.0	3.2	3.2	3.1	3.2	3.4	3.9	4.4
Services balance	4.2	4.9	4.7	3.7	4.6	6.0	4.2	4.5	4.8
Primary income	-0.8	-0.5	-0.2	0.8	-0.1	-1.2	-0.4	-1.8	-0.4
Secondary income	-0.6	-0.8	-0.7	-1.9	-0.7	-0.7	0.5	-1.8	-1.1
Current account balance	2.6	5.6	7.0	5.8	6.9	7.3	7.8	4.7	7.7
Capital account balance	0.1	0.2	-0.5	0.0	-0.4	0.1	-1.6	0.3	-0.3
Foreign direct investment (net)	1.3	0.1	1.6	-1.3	5.7	3.6	-2.0	4.0	-1.0
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	115.3	112.0	124.2	122.1	125.1	123.9	124.2	125.4	118.8
Gross official reserves (excluding gold)	1.6	1.6	2.0	2.1	2.1	2.0	2.0	2.1	2.1
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.4	0.4
<i>EUR million, period total</i>									
GDP at current prices	35,988	35,908	37,303	8,663	9,590	9,640	9,410	8,952	9,849

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

#### 4 Bulgaria: export-driven recovery and some confidence-building banking sector reforms

Export performance surprisingly high in the first half of 2015 despite turbulences in neighboring Greece...

With an average annual GDP growth rate of 2.2% in the first half of 2015, the Bulgarian economy gained some momentum compared to 2014. Much of this achievement can be traced back to surprisingly strong exports, which grew by more than 10% on a yearly basis, with a particularly strong showing in the first quarter of 2015. Depreciation of Bulgaria's anchor currency – the euro – and the cyclical upswing in the euro area helped boost exports. It is also a positive signal that the export shares of engineering products and IT services have expanded. The strong export performance is even more astonishing in light of the fact that nearly 7% of Bulgarian exports go to Greece, whose sovereign debt crisis seriously worsened in the first half of 2015. There is even evidence of positive economic spillovers, namely an intensified transfer of bank deposits and corporate headquarters from Greece to Bulgaria before and to some extent also after the imposition of capital controls in Greece in June 2015 (the latter apparently also promoted by substantial differentials in corporate tax rates).

...while domestic demand disappoints and consumer price deflation persists

Domestic demand, on the other hand, was lackluster in the first half of 2015. Despite recently improving consumer confidence indicators, private consumption growth has lost significant pace, given the nonexistent or only hesitant improvement of labor market and lending conditions. Investment activity contracted in the first half of 2015, reflecting comparatively high corporate debt and NPL ratios that weighed on private investment. Consumer price deflation has persisted since August 2013, though it may be gradually easing. The annual HICP dropped by 0.8% in August, after an average deflation rate of 1.2% in the first half of 2015. The continuous deflation can be mainly explained by shrinking prices of energy and nonenergy industrial goods.

Restoring trust in the banking system after the 2014 bank failure

Last year's failure of Bulgaria's fourth-largest bank – Corporate Commercial Bank (CCB) – revealed weaknesses in banking supervision and resolution. The Bulgarian authorities responded with a series of measures in the summer of 2015. In July, parliament adopted the law to implement the EU's Bank Recovery and Resolution Directive. Under the new legislation, guaranteed deposits will be repaid from a new bank restructuring fund (financed by annual fees from all banks) within seven days following a troubled bank's failure to meet its liabilities. Moreover, the newly appointed Governing Council of the Bulgarian National Bank (BNB) launched the formal process of a comprehensive asset quality review of banks, which will most likely last until end-2016. Reform momentum in the banking sector is also supported by rising banking sector profitability and a further increase in the Tier 1 capital adequacy ratio, which has reached a quite strong level of 20%.

Budgetary target for 2015 appears to be within reach

Parliament approved a pension reform in July, including a gradual increase of the retirement age and of social security contributions, the introduction of a minimum retirement age in the security sector and the abrogation of mandatory payments to second-pillar private pension funds. The ministry of finance revised its GDP growth forecast for 2015 sharply upward (from 0.8% in the 2015 State Budget Act) to 2%. At the same time, higher-than-expected revenues produced a small budget surplus in cash terms in the first nine months of 2015; it came to 0.7% of projected GDP, which is a substantial improvement compared to the same period of last year. Thus, there should be sufficient leeway to meet the 2015 general government budget target, which provides for a deficit of 3% of GDP.

Table 4

**Main economic indicators: Bulgaria**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	0.2	1.3	1.5	0.2	2.6	0.7	2.4	2.2	2.3
Private consumption	3.3	-1.4	2.7	4.3	2.1	1.5	3.2	-1.1	-2.6
Public consumption	-0.5	2.3	0.1	7.2	6.5	-0.5	-10.2	-7.6	-4.7
Gross fixed capital formation	1.8	0.3	3.4	5.1	6.2	3.5	0.1	-6.8	-0.4
Exports of goods and services	0.8	9.2	-0.1	-2.3	1.5	-3.3	4.2	18.4	6.9
Imports of goods and services	4.5	4.9	1.5	4.8	-0.3	-3.0	5.4	10.9	6.1
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	2.5	-1.3	2.7	5.2	1.3	1.4	3.3	-1.8	1.8
Net exports of goods and services	-2.3	2.6	-1.1	-5.1	1.2	-0.4	-0.9	3.8	0.4
Exports of goods and services	0.5	5.8	-0.1	-1.5	1.0	-2.4	2.4	12.0	4.5
Imports of goods and services	-2.8	-3.2	-1.0	-3.5	0.2	2.0	-3.4	-8.2	-4.1
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	4.8	7.3	0.3	0.5	-1.8	0.9	1.7	3.6	3.3
Unit labor costs in manufacturing (nominal, per hour)	2.7	4.6	0.5	-0.7	1.3	0.2	1.2	5.4	3.8
Labor productivity in manufacturing (real, per hour)	2.1	-0.2	6.2	6.0	6.3	6.5	5.9	1.2	2.7
Labor costs in manufacturing (nominal, per hour)	4.7	4.6	6.7	5.2	7.7	6.7	7.2	6.6	6.6
Producer price index (PPI) in industry	4.4	-1.5	-1.2	-2.8	-1.2	-0.4	-0.4	-1.3	0.0
Consumer price index (here: HICP)	2.4	0.4	-1.6	-1.8	-1.6	-1.2	-1.8	-1.7	-0.6
EUR per 1 BGN, + = BGN appreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	12.4	13.0	11.5	13.1	11.5	10.8	10.7	10.7	10.0
Employment rate (%, 15–64 years)	58.8	59.5	61.1	59.0	61.0	62.8	61.4	61.0	62.4
Key interest rate per annum (%) <sup>1</sup>	..	..	..	..	..	..	..	..	..
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	8.4	8.9	1.1	8.3	7.4	7.2	1.1	1.9	2.5
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	16.2	12.8	15.7	6.0	3.4	7.5	9.9	14.0	15.7
Domestic credit of the banking system	10.0	5.9	-4.9	1.9	5.5	0.9	-7.5	-10.1	-12.5
<i>of which: claims on the private sector</i>	6.8	2.9	-6.7	1.3	2.1	2.1	-6.4	-6.8	-8.0
<i>claims on households</i>	-0.5	-0.4	-0.5	0.1	0.1	0.0	-0.5	-0.5	-0.5
<i>claims on enterprises</i>	7.4	3.3	-6.2	1.2	2.1	2.0	-5.9	-6.3	-7.5
<i>claims on the public sector (net)</i>	3.1	3.0	1.8	0.6	3.3	-1.1	-1.1	-3.3	-4.6
Other assets (net) of the banking system	-4.6	-0.6	-0.6	0.5	-1.4	-1.2	-1.3	-2.0	-0.7
<i>% of GDP</i>									
General government revenues	34.0	36.9	36.3	..	..	..	..	..	..
General government expenditures	34.7	37.6	42.1	..	..	..	..	..	..
General government balance	-0.6	-0.8	-5.8	..	..	..	..	..	..
Primary balance	0.1	0.0	-4.9	..	..	..	..	..	..
Gross public debt	17.6	18.0	27.0	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	111.8	113.3	111.6	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	25.7	25.5	24.8	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-9.5	-6.9	-6.4	-10.1	-6.0	-4.5	-6.0	-5.8	-3.6
Services balance	6.6	6.5	5.9	2.2	5.2	13.7	1.5	3.1	4.7
Primary income	-2.4	-3.5	-2.1	-1.9	-2.5	-2.2	-2.0	-2.2	-4.7
Secondary income	5.0	5.7	3.8	8.5	3.5	2.3	2.0	8.2	4.0
Current account balance	-0.3	1.8	1.2	-1.3	0.3	9.4	-4.5	3.3	0.3
Capital account balance	1.3	1.1	2.2	1.5	1.9	1.7	3.6	3.2	4.0
Foreign direct investment (net)	2.6	3.0	2.0	3.1	1.8	-0.9	4.1	4.8	3.0
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	91.1	90.6	97.0	92.9	93.3	94.3	97.0	97.4	86.5
Gross official reserves (excluding gold)	33.5	31.9	35.7	30.6	31.3	33.8	35.7	40.8	40.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	6.0	5.7	6.6	5.4	5.6	6.2	6.6	7.4	7.5
<i>EUR million, period total</i>									
GDP at current prices	41,693	41,912	42,751	8,576	10,354	11,853	11,968	8,876	11,030

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

<sup>1</sup> Not available in a currency board regime.

## 5 Croatia: emerging from long-lasting recession amid elevated risks

Domestic demand strengthens moderately in the first half of 2015

Economic activity in Croatia entered positive territory in the fourth quarter of 2014 and continued to expand throughout the first half of 2015, thus marking the end of a long recession. GDP increased by 0.9% in the first half of 2015 on the back of a modest revival of domestic demand, despite the slightly negative contribution of gross capital formation. The latter was dragged down by a depletion of inventories. Conversely, investment growth turned positive against the background of investment in equipment and plants in the private sector. Construction activity stagnated. Furthermore, with disposable incomes rising partly as a result of tax reform, private consumption growth finally entered positive territory. At the same time, public consumption expanded despite the need for consolidation measures under the requirements of the EDP. Net exports still made a positive contribution, but it was weakened by the acceleration of imports.

Current account remains in surplus amid rising exports and imports

The current account remained in positive territory and reached 1.3% of GDP (four-quarter moving average) in the second quarter of 2015. The improvement was largely generated by the trade balance, as the export expansion outpaced the rise in imports, along with an increase in the surplus of secondary income. On the financing side, net FDI flows declined to reach 0.6% of GDP in the second quarter of 2015. In spite of the modest economic recovery and lower refinancing needs, external debt increased to 113.1% of GDP at the end of June 2015, also as a result of unfavorable exchange rate developments against the U.S. dollar.

Price dynamics remain subdued and credit contracts further

Inflation has hovered around zero since March, with the HICP inflation rate coming to -0.1% on an annual basis in August 2015. The subdued price dynamics were mainly due to falling energy and transport prices, which were partly offset by increasing food prices. At the same time, core inflation picked up slightly as the economy recovered. In the financial sector, the deterioration of asset quality continued, as the share of NPLs increased to 17.3% of total loans in June 2015. This deterioration already weighed on profitability, as the average return on assets dropped slightly to 0.6% in the first half of 2015. In the first six months of 2015, credit growth in the corporate sector (adjusted for exchange rate changes) remained in negative territory, although the pace of the decrease slowed to an average of 3.4% year on year, while household credit activity broadly stagnated. The adoption of a new legal act – effective from 30 September – regulating the forced conversion of Swiss franc loans into euro loans might put the sustained recovery of lending activity at risk in the medium term, as the related costs, which are estimated at EUR 1 billion, must be borne exclusively by the banking sector. As a result, the predominantly foreign-owned banking sector is taking legal action and has already lodged a claim with the Croatian Constitutional Court.

Budget deficits remain stubborn, public sector debt inches up some more

Despite high consolidation pressures in view of the requirements under the EDP to bring the deficit below 3% of GDP by 2016, fiscal imbalances increased in 2014. The general government deficit rose to 5.7% of GDP, thus significantly overshooting the initially set fiscal target of 4.5% of GDP. For 2015, a slightly lower deficit of 5% of GDP is planned, reflecting largely expenditure-led consolidation. However, the European Commission assesses the effectiveness of the measures as broadly short-term, and implementation risks are high. Affected by deficit developments, general government debt is projected to reach 90.5% of GDP by end-2015. In July, Standard & Poor's changed its outlook for Croatia from stable to negative, citing poor policy response to increasing debt and a lack of momentum for reform.

Table 5

**Main economic indicators: Croatia**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-2.2	-1.1	-0.4	-0.8	-0.7	-0.2	0.2	0.5	1.2
Private consumption	-3.0	-1.8	-0.7	-0.7	-0.6	-1.1	-0.5	0.4	0.6
Public consumption	-1.0	0.3	-1.9	-2.2	-3.4	-1.3	-0.5	0.6	0.4
Gross fixed capital formation	-3.3	1.4	-3.6	-2.1	-4.6	-3.5	-4.1	-0.4	0.8
Exports of goods and services	-0.1	3.1	7.3	11.4	9.6	5.0	5.9	7.2	10.2
Imports of goods and services	-3.0	3.1	4.3	8.5	3.8	5.2	0.3	5.7	6.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-3.3	-1.1	-1.7	-1.0	-2.7	-0.9	-2.1	0.4	0.0
Net exports of goods and services	1.2	0.0	1.3	0.1	2.0	0.9	2.2	0.0	1.1
Exports of goods and services	-0.1	1.3	3.1	3.6	3.7	3.1	2.3	2.5	4.3
Imports of goods and services	1.2	-1.3	-1.8	-3.5	-1.7	-2.1	-0.1	-2.5	-3.2
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	-1.2	-2.2	-2.4	-1.2	-2.0	-2.6	-3.8	-0.3	0.7
Unit wage costs in manufacturing (nominal, per person)	2.8	-1.4	-1.6	-2.1	-0.8	-1.0	-2.7	0.5	-0.5
Labor productivity in manufacturing (real, per person)	-1.2	3.1	2.9	3.9	1.1	1.7	4.7	0.3	3.3
Gross wages in manufacturing (nominal, per person)	1.6	1.7	1.1	1.8	0.2	0.3	2.0	0.3	2.8
Producer price index (PPI) in industry	7.0	0.5	-2.7	-2.7	-2.7	-2.9	-2.6	-4.1	-2.8
Consumer price index (here: CPI)	3.3	2.3	0.2	0.1	0.3	0.3	0.2	-0.3	0.0
EUR per 1 HRK, + = HRK appreciation	-1.1	-0.8	-0.7	-0.9	-0.6		-0.5	-0.4	0.3
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	16.3	17.5	17.5	18.8	16.7	15.8	18.5	18.3	15.8
Employment rate (%, 15–64 years)	53.5	52.6	54.6	52.7	54.6	56.9	54.0	53.8	56.2
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	7.7	7.6	7.6	7.7	7.7	7.6
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	3.6	4.0	3.2	2.8	1.7	3.2	3.2	2.8	4.8
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	2.4	12.7	10.9	4.6	6.2	8.1	4.8	7.3	5.3
Domestic credit of the banking system	10.4	-3.1	-1.8	-2.8	-4.3	-4.8	0.0	-1.2	2.1
of which: claims on the private sector	-1.5	-7.0	-2.5	-1.1	-2.0	-2.8	-1.6	-0.8	-0.7
claims on households	-0.2	-1.7	-1.3	-0.8	-0.3	-0.7	-0.4	0.4	0.4
claims on enterprises	-1.4	-5.3	-1.2	-0.4	-1.7	-2.0	-1.2	-1.2	-1.2
claims on the public sector (net)	12.0	3.9	0.7	-1.7	-2.4	-2.0	1.6	-0.4	2.8
Other assets (net) of the banking system	-3.4	-1.8	-1.8	1.1	-0.2	-0.2	-1.7	-3.4	-2.6
<i>% of GDP</i>									
General government revenues	41.7	42.4	42.3	..	..	..	..	..	..
General government expenditures	47.0	47.7	48.0	..	..	..	..	..	..
General government balance	-5.3	-5.4	-5.7	..	..	..	..	..	..
Primary balance	-1.9	-1.9	-2.2	..	..	..	..	..	..
Gross public debt	69.2	80.6	85.0	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	101.5	102.8	104.2	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	41.0	40.2	40.2	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-14.3	-15.1	-14.8	-15.8	-17.4	-13.9	-12.1	-17.1	-16.0
Services balance	14.8	15.6	16.8	2.1	16.4	39.6	5.8	3.3	17.1
Primary income	-3.3	-2.1	-3.3	-3.5	-4.2	-4.1	-1.4	-2.3	-3.8
Secondary income	2.8	2.6	2.0	2.0	1.7	2.2	2.2	3.1	2.8
Current account balance	-0.1	1.0	0.8	-15.2	-3.5	23.9	-5.6	-13.1	0.0
Capital account balance	0.1	0.1	0.1	0.0	0.1	0.1	0.3	0.1	0.3
Foreign direct investment (net)	2.7	1.9	3.0	2.7	3.4	2.6	3.5	3.0	0.6
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	103.1	105.7	108.5	108.1	107.6	108.1	108.5	114.2	113.1
Gross official reserves (excluding gold)	25.6	29.7	29.5	28.0	28.6	28.2	29.5	32.9	31.7
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	7.5	8.4	8.0	7.7	7.8	7.6	8.0	8.7	8.3
<i>EUR million, period total</i>									
GDP at current prices	43,944	43,492	43,024	9,800	10,764	11,738	10,721	9,834	10,965

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

## 6 Czech Republic: strong economic performance driven by domestic demand

Strong GDP benefits from domestic demand and additions to inventories

The Czech economy expanded rapidly in the first half of 2015. GDP growth accelerated to 4.6% in the second quarter of 2015 after reaching 4.1% in the first quarter. High-frequency indicators suggest that the expansion continued unabatedly into the third quarter. Domestic demand again acted as the predominant source of GDP growth. Among all expenditure components, gross fixed capital formation displayed the highest growth rate, being powered by local government activity and a higher-than-expected implementation rate of EU-funded projects. Additions to inventories also contributed positively to growth. Private consumption benefited from improving labor markets and tobacco excise legislation that increased cigarette restocking in the first quarter of 2015. Foreign demand has nevertheless been a strong backbone of the recent economic expansion within the last two quarters, underlining the firm competitive position of the Czech economy. Robust foreign demand in conjunction with the continuation of the exchange rate floor and the improving external environment boosted exports, which accelerated by around 6% in the first half of 2015. The contribution of net exports to GDP growth, however, remained neutral against the background of strong import dynamics due to improving private consumption and investment.

CNB stands ready to fight further deflationary tendencies

On the back of the sharp decline in oil prices and decreasing food prices, inflation was very moderate in the review period, falling nearly to 0% in the first quarter of 2015. In the second quarter, inflation increased to 0.7% before declining again to 0.2% in August 2015. With that, inflation was well below the CNB's tolerance bounds (2%  $\pm$  1%). Medium-term inflation expectations, however, remained broadly unchanged at around 2%, pointing toward inflation developments that will meet the target inflation rate within the next three years. Nevertheless, in the case of further downward price pressures, the CNB stated that it would stand ready to extend the exchange rate interventions beyond the second half of 2016 and to lower the exchange rate cap to weaker levels on a discretionary basis. In addition, the policy rate is expected to remain at the zero lower bound for the next two years. External factors like the large drop in oil prices and quantitative easing by the ECB led to the first intervention in the foreign exchange market since November 2013. The CNB intervened in July, selling the koruna equivalent of EUR 1 billion and in August, selling EUR 3.7 billion to stop the upward pressure on the koruna.

Improved labor markets spur domestic consumption further

The strong performance of the Czech economy is also visible in pronounced improvements of several key labor market indicators. The employment rate rose to 70.2% in the second quarter of 2015 and the unemployment rate decreased to 5%, the lowest reading in the CESEE EU Member States. Labor demand as measured by the number of vacancies has risen steadily over the past year, exceeding 100,000 in the second quarter of 2015. Real wages grew by 2.7% in the first half of 2015, mainly thanks to improved labor market conditions, wage adjustments in the public sector and an additional 8.2% increase in the minimum wage in early 2015 as well as very low inflation.

Banking sector remains healthy despite muted credit growth

The banking sector remained sound, with strong capital and liquidity buffers. While the share of NPLs increased slightly due to a rise in the NPL ratios of the state-owned export bank, the NPL ratio remained comparatively low. In addition, average nominal credit growth across all sectors gathered some steam and increased to around 4% in the first half of 2015.

Table 6

## Main economic indicators: Czech Republic

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-0.9	-0.5	2.0	2.2	2.1	2.6	1.0	4.1	4.6
Private consumption	-1.5	0.7	1.5	1.0	1.3	1.6	1.8	2.8	3.0
Public consumption	-1.8	2.3	1.8	1.3	2.3	0.4	3.0	2.8	2.2
Gross fixed capital formation	-3.2	-2.7	2.0	1.1	2.9	3.0	1.1	2.9	7.4
Exports of goods and services	4.3	0.0	8.9	11.8	8.7	8.5	6.7	7.2	6.8
Imports of goods and services	2.7	0.1	9.8	11.6	11.9	8.8	7.5	8.7	7.0
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-2.2	-0.5	2.2	1.1	3.7	2.5	1.4	4.4	4.2
Net exports of goods and services	1.3	0.0	-0.2	1.0	-1.5	0.1	-0.4	-0.4	0.4
Exports of goods and services	3.1	0.0	6.8	9.3	6.8	6.4	5.1	6.3	5.7
Imports of goods and services	-1.8	0.0	-7.0	-8.3	-8.3	-6.3	-5.5	-6.8	-5.4
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	3.1	0.6	0.1	0.4	0.1	-1.3	1.3	-0.9	-0.6
Unit labor costs in manufacturing (nominal, per hour)	2.9	-0.4	-1.7	-2.0	-4.4	-0.6	0.2	-2.0	-1.4
Labor productivity in manufacturing (real, per hour)	-0.2	3.2	5.0	6.4	7.3	2.3	4.1	4.4	4.3
Labor costs in manufacturing (nominal, per hour)	2.9	2.6	3.2	4.3	2.6	1.7	4.4	2.4	2.8
Producer price index (PPI) in industry	2.4	0.7	1.0	1.2	1.3	1.8	-0.2	-2.0	-1.5
Consumer price index (here: HICP)	3.5	1.4	0.4	0.3	0.2	0.7	0.5	0.0	0.7
EUR per 1 CZK, + = CZK appreciation	-2.2	-3.2	-5.6	-6.8	-5.9	-6.4	-3.4	-0.7	0.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.1	7.0	6.2	6.9	6.1	6.0	5.8	6.0	5.0
Employment rate (%, 15–64 years)	66.6	67.7	69.0	68.1	68.7	69.3	69.8	69.4	70.2
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	27.4	27.4	27.6	27.6	27.6	27.4
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	4.8	5.8	5.9	5.8	5.0	4.8	5.9	5.6	7.0
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	4.8	11.3	5.8	7.5	5.5	4.6	0.1	0.5	2.2
Domestic credit of the banking system	9.4	5.2	12.1	1.5	4.1	4.9	8.1	8.9	6.8
<i>of which: claims on the private sector</i>	6.1	4.8	5.8	1.9	2.5	2.3	2.9	3.2	4.5
<i>claims on households</i>	3.8	3.1	2.5	1.5	1.4	1.4	1.0	1.1	2.1
<i>claims on enterprises</i>	2.2	1.6	3.3	0.3	1.1	0.9	1.8	2.1	2.4
<i>claims on the public sector (net)</i>	3.3	0.4	6.3	-0.4	1.6	2.5	5.2	5.7	2.3
Other assets (net) of the banking system	-6.5	-5.6	-5.7	-3.2	-4.6	-4.6	-2.3	-3.9	-2.1
<i>% of GDP</i>									
General government revenues	40.5	41.3	40.6	..	..	..	..	..	..
General government expenditures	44.5	42.6	42.6	..	..	..	..	..	..
General government balance	-4.0	-1.3	-1.9	..	..	..	..	..	..
Primary balance	-2.6	0.0	-0.7	..	..	..	..	..	..
Gross public debt	44.7	45.2	42.7	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	55.5	56.3	58.4	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.8	30.0	30.5	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.1	4.1	5.6	7.9	6.4	4.8	3.7	7.7	5.6
Services balance	1.9	1.7	1.3	2.1	1.4	1.1	0.7	1.8	1.9
Primary income	-5.9	-6.1	-6.1	0.1	-11.7	-8.0	-4.3	-1.8	-6.9
Secondary income	-0.7	-0.3	-0.2	-1.6	1.2	-0.9	0.3	1.3	-0.3
Current account balance	-1.6	-0.5	0.6	8.5	-2.7	-3.1	0.4	9.0	0.3
Capital account balance	1.3	2.0	0.8	2.2	0.1	0.2	0.7	3.0	4.7
Foreign direct investment (net)	3.0	-0.2	3.1	3.9	5.5	2.7	0.6	0.2	-0.4
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	60.3	63.5	66.6	62.9	64.8	66.0	66.6	67.2	67.1
Gross official reserves (excluding gold)	20.9	25.8	28.8	26.6	27.6	27.9	28.8	30.9	31.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	3.5	4.4	4.5	4.4	4.5	4.5	4.5	4.8	4.9
<i>EUR million, period total</i>									
GDP at current prices	160,691	156,816	154,722	35,833	38,851	39,536	40,502	37,543	41,046

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



## 7 Hungary: refining of economic and financial policy tools

GDP growth eases somewhat in the first half of 2015

In line with previous expectations, GDP growth slowed moderately from 3.6% in 2014 to a still robust 3.1% during the first half of 2015. The slowdown reflects investment growth grinding to a halt following the strong expansion seen in 2014. By contrast, private consumption growth accelerated on the back of strong real income growth, robust consumer confidence and not least the favorable effect on the debt service burden and on precautionary savings of the settlement<sup>3</sup> and conversion of household mortgage loan contracts at the turn of 2014/2015. Export growth expanded at a rate comparable to that in 2014, while import growth slowed down markedly in response to decelerating investment activity. Hence, net real exports contributed strongly to GDP growth. For 2015 as a whole, GDP is expected to post a growth rate of around 3%. High-frequency indicators from the third quarter indicated some slowdown in output growth but still robust sentiment.

Remaining household foreign currency loans to be converted into forint loans in early 2016

Following the settlement and conversion of household mortgage loans, remaining foreign currency consumer and car loans (of the magnitude of nearly EUR 1 billion) will be converted into forint loans at the beginning of 2016. Beginning in mid-December 2015, banks will have to offer their clients conversion at fixed exchange rates of August 19, 2015. The newly agreed EUR/HUF exchange rate basically corresponds to the rate used in the conversion of foreign currency mortgage loans, while the CHF/HUF exchange rate is somewhat higher. This difference will be refunded to clients (representing a rebate of around 10%) and will be financed equally by banks and the government. The clients may explicitly decline the offer within 30 days, otherwise the loans will be converted into forint loans. Like during the conversion at the turn of 2014/2015, the Hungarian central bank (MNB) has sold to banks the foreign exchange needed for the conversion from its reserves at prevailing market exchange rates.

The MNB also introduced regulatory changes in the area of bank supervision over the review period. To reduce banks' short-term external foreign currency funding risks, the foreign exchange funding adequacy ratio (prescribing that long-term foreign currency assets be covered by long-term foreign currency liabilities) will be tightened and a new foreign exchange coverage ratio (limiting on-balance sheet currency mismatch to 15% of total balance sheet assets) will be introduced as of January 2016. To reduce the local currency maturity mismatch on banks' balance sheets, a new mortgage funding adequacy ratio will be introduced from October 2016, requiring banks to refinance at least 15% of their mortgage loans by long-term liabilities backed by household mortgage loans.

Central bank cuts rates and revamps its toolkit to support local demand for government bonds

In response to very weak inflationary pressure and spare capacity in the economy, the MNB reduced its policy rate from 1.95% to 1.35% between March and July 2015. When it concluded the rate-cutting cycle in July, the MNB suggested that loose monetary conditions would be maintained over a prolonged period. In addition, in early June 2015, the MNB decided to revamp its monetary policy toolkit to help its self-financing program with the aim of reducing external vulnerability. The measure aims at channeling banks' liquid assets from MNB deposits into government securities, enabling a further shift in government financing from foreign (currency) to local (currency) funding at reasonable costs.

<sup>3</sup> *Retroactive compensation of households for abusive terms in loan contracts. For details, see FEEI Q4/14 and Q2/15.*

Table 7

**Main economic indicators: Hungary**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-1.5	1.5	3.6	3.7	4.1	3.3	3.3	3.5	2.7
Private consumption	-1.9	-0.1	1.6	1.2	2.4	0.9	1.8	2.6	2.9
Public consumption	-1.3	3.2	2.4	2.1	1.1	2.4	4.1	-1.6	0.4
Gross fixed capital formation	-4.2	5.2	11.7	19.8	18.8	13.2	1.9	-6.7	5.2
Exports of goods and services	-1.5	5.9	8.7	8.2	9.4	7.9	9.4	10.1	7.5
Imports of goods and services	-3.3	5.9	10.0	9.0	10.7	11.0	9.4	7.4	6.5
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-2.8	1.1	4.0	3.7	4.4	5.1	2.7	0.4	1.3
Net exports of goods and services	1.4	0.4	-0.4	0.0	-0.4	-1.7	0.6	3.1	1.4
Exports of goods and services	-1.3	5.1	7.8	7.6	8.4	7.0	8.1	9.5	6.9
Imports of goods and services	2.6	-4.7	-8.1	-7.6	-8.8	-8.6	-7.5	-6.4	-5.5
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	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
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	11.1	10.3	7.8	8.3	8.1	7.4	7.2	7.8	6.9
Employment rate (%, 15–64 years)	56.7	58.1	61.8	60.6	61.3	62.6	62.6	62.4	63.8
Key interest rate per annum (%)	6.8	4.4	2.4	2.8	2.5	2.1	2.1	2.1	1.8
HUF per 1 EUR	289.3	296.9	308.7	308.1	305.9	312.3	308.5	308.9	305.9
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	-3.3	5.5	5.6	0.9	3.6	6.0	5.6	4.8	3.9
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	23.2	11.7	14.5	4.8	8.3	16.0	7.5	5.1	2.5
Domestic credit of the banking system	-15.7	-11.6	0.6	-4.1	-2.5	-7.5	0.4	-3.4	1.3
<i>of which: claims on the private sector</i>	-15.1	-18.1	-4.9	-4.8	-2.1	-3.1	-0.3	-5.2	-5.6
<i>claims on households</i>	-8.2	-9.6	-3.0	-2.9	-1.5	-1.5	-0.6	-3.7	-3.8
<i>claims on enterprises</i>	-6.8	-8.5	-1.9	-1.9	-0.7	-1.8	0.3	-1.6	-1.8
<i>claims on the public sector (net)</i>	-0.6	6.4	5.5	0.7	-0.4	-4.3	0.7	1.8	6.9
Other assets (net) of the banking system	-5.2	2.0	-3.7	0.2	-2.2	-2.6	-2.3	3.1	0.1
<i>% of GDP</i>									
General government revenues	46.3	47.0	47.4	..	..	..	..	..	..
General government expenditures	48.6	49.5	49.9	..	..	..	..	..	..
General government balance	-2.3	-2.5	-2.5	..	..	..	..	..	..
Primary balance	2.3	2.0	1.5	..	..	..	..	..	..
Gross public debt	78.3	76.8	76.2	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	92.9	90.3	85.1	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	31.5	28.3	25.6	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.0	3.4	2.5	4.5	1.0	3.0	1.9	5.5	2.9
Services balance	3.8	4.0	4.9	4.4	5.3	6.1	4.0	5.0	5.5
Primary income	-4.3	-2.9	-4.5	-4.3	-5.1	-4.5	-4.1	-3.1	-4.3
Secondary income	-0.8	-0.5	-0.7	-1.1	-0.7	-0.1	-0.8	-1.3	-0.1
Current account balance	1.8	4.0	2.3	3.5	0.4	4.5	1.0	6.1	3.9
Capital account balance	2.6	3.6	3.8	1.5	2.5	3.5	7.1	4.4	4.8
Foreign direct investment (net)	2.1	1.0	2.6	4.3	-5.4	4.4	7.1	-0.9	-5.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	129.1	119.1	115.7	119.3	120.1	117.9	115.7	121.3	116.5
Gross official reserves (excluding gold)	34.1	33.5	33.4	35.7	35.4	34.7	33.4	35.3	32.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.1	5.0	4.8	5.2	5.2	5.0	4.8	5.1	4.7
<i>EUR million, period total</i>									
GDP at current prices	98,865	100,531	103,221	22,940	25,707	26,530	28,044	23,951	26,768

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

## 8 Poland: monetary policy remains on hold

Export growth outpaces domestic demand growth, while the current account turns into surplus

Annual GDP growth accelerated to 3.6% in the first half of 2015 from 3.4% in full-year 2014. Total final demand grew by 4.4%, with real exports advancing by 6.6%, contributing 3.2 percentage points to GDP growth, and domestic demand expanding by 3.3%. Both demand components fueled real imports, which grew by 6.1%, implying a positive net export contribution of 0.4% of GDP. Improvements in the terms of trade helped markedly widen the export-import growth differential in euro terms. Thus, the surplus in the goods and services balance increased by 2 percentage points to 3.3% of GDP year on year in the first half of 2015. Coupled with a lower primary income deficit, the current account balance improved by 3.3 percentage points compared to the first half of 2014, turning into a surplus of 1.0% of GDP.

Domestic demand benefited from higher private consumption growth, further albeit lower public consumption growth and strong fixed investment growth in the first half of the year. Fixed investment growth declined from the first to the second quarter, as business investment was hit, while corporate sector profitability and liquidity continued to improve and corporate loan growth remained substantial, albeit slower in the second quarter. In July and August, the annual growth of industrial sales had quickened from the second quarter, as domestic sales gathered pace. Public investment continued to benefit from the easier availability of EU funds; housing investment remained supported by the stable growth of housing loans. Consumer confidence has improved in line with high fixed-investment growth, which has generated persistent employment growth coupled with stable nominal wage growth since early 2014. Moderate deflation of about –1% in the first half of 2015 lifted the real wage sum further and helped hold the real growth of retirement pension payouts stable. As a result, private consumption growth accelerated, while deflation did not trigger visible spending restraint.

Negative output gap expected to close gradually

In the first half of 2015, strong manufacturing production growth went along with largely stable labor input growth, raising annual productivity gains close to labor cost increases. Thus, the ULC rise remained below that in the euro area. However, as a result of the zloty's appreciation against the euro, price competitiveness vis-à-vis the euro area was slightly weaker in the second quarter of 2015 than a year earlier. In August, annual headline inflation was negative (–0.4% HICP, –0.6% national CPI), while core inflation stood at 0.3% (HICP) and 0.4% (CPI), given falling energy prices. As the Polish Monetary Policy Council (MPC) pursues an inflation target of 2.5% (CPI), it kept the reference rate on hold after cutting it to 1.5% by a total of 100 basis points from September 2014 to March 2015. On October 6, 2015, the MPC again decided to keep the key interest rates unchanged, because it expected the output gap to close gradually and because of external risks.

Decision on the existence of an excessive deficit is abrogated

In 2014, the gross general government deficit amounted to 3.2% of GDP, 0.4% of which were net costs of the systemic pension reform. With the deficit close to the reference value of 3% of GDP and the debt-to-GDP ratio standing below 60%, and given the relevant provisions requiring that these net costs be taken into account when assessing the correction of the excessive deficit, the Council concluded on June 19, 2015 that the excessive deficit had been corrected. Looking forward, the Commission staff's spring forecast projected deficits of 2.8% of GDP in 2015 and 2.6% of GDP in 2016, with the structural balance improving by 0.2% of GDP in each year, after an improvement of 0.9% of GDP in 2014. Commission staff expects the general government debt to fall to 50.8% of GDP by the end of 2016.

Table 8

## Main economic indicators: Poland

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.8	1.7	3.4	3.9	3.3	3.5	3.1	3.7	3.6
Private consumption	0.9	1.2	3.0	2.5	3.0	3.5	3.1	3.7	3.4
Public consumption	0.2	2.1	4.7	0.4	6.7	5.5	6.1	3.0	2.6
Gross fixed capital formation	-1.5	1.1	9.2	12.0	8.8	9.4	8.3	11.4	6.4
Exports of goods and services	4.3	4.8	5.7	7.9	5.2	3.7	6.0	7.9	5.2
Imports of goods and services	-0.6	1.8	9.1	6.9	11.7	7.8	10.0	6.8	5.4
<i>Contributions to GDP growth in percentage points</i>									
Domestic demand	-0.4	0.4	4.9	3.4	6.0	5.3	4.7	2.9	3.5
Net exports of goods and services	2.1	1.3	-1.4	0.5	-2.7	-1.8	-1.6	0.7	0.0
Exports of goods and services	1.9	2.2	2.6	3.7	2.5	1.8	2.6	3.8	2.5
Imports of goods and services	0.3	-0.8	-4.0	-3.2	-5.2	-3.6	-4.2	-3.1	-2.5
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	1.7	1.3	-0.7	-1.7	-0.9	-1.5	1.4	-0.5	0.0
Unit labor costs in manufacturing (nominal, per hour)	1.9	0.2	1.8	-1.8	2.8	3.1	3.1	0.6	0.9
Labor productivity in manufacturing (real, per hour)	2.5	3.2	2.7	6.0	2.9	1.0	1.1	5.3	2.0
Labor costs in manufacturing (nominal, per hour)	4.6	3.4	4.6	4.2	5.8	4.2	4.3	5.9	2.9
Producer price index (PPI) in industry	3.3	-1.2	-1.3	-1.1	-1.0	-1.5	-1.6	-2.4	-1.9
Consumer price index (here: HICP)	3.7	0.8	0.1	0.6	0.3	-0.1	-0.4	-1.2	-0.7
EUR per 1 PLN, + = PLN appreciation	-1.6	-0.3	0.3	-0.7	0.8	1.7	-0.6	-0.2	2.0
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	10.2	10.5	9.1	10.7	9.2	8.3	8.2	8.7	7.5
Employment rate (%, 15–64 years)	59.7	60.0	61.7	60.3	61.3	62.5	62.6	61.9	62.6
Key interest rate per annum (%)	4.6	2.9	2.4	2.5	2.5	2.5	2.0	1.8	1.5
PLN per 1 EUR	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.1
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	4.5	6.2	8.2	5.2	5.2	7.9	8.2	8.9	8.3
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	10.1	0.3	0.4	-4.3	-1.7	1.2	3.1	5.2	2.5
Domestic credit of the banking system	15.1	9.5	18.2	7.9	7.2	10.1	9.5	8.2	9.5
of which: claims on the private sector	15.6	6.7	11.5	5.2	4.9	6.1	6.9	7.6	7.7
claims on households	7.6	3.0	6.1	2.9	2.8	3.2	3.2	4.2	4.7
claims on enterprises	8.0	3.7	5.4	2.3	2.1	3.0	3.7	3.3	3.0
claims on the public sector (net)	-0.5	2.8	6.7	2.6	2.3	3.9	2.6	0.7	1.9
Other assets (net) of the banking system	-7.6	1.2	-3.6	1.6	-0.2	-3.4	-4.4	-4.5	-3.8
<i>% of GDP</i>									
General government revenues	38.9	38.4	38.8	..	..	..	..	..	..
General government expenditures	42.6	42.4	42.1	..	..	..	..	..	..
General government balance	-3.7	-4.0	-3.3	..	..	..	..	..	..
Primary balance	..	-1.5	-1.4	..	..	..	..	..	..
Gross public debt	54.0	55.9	50.4	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	43.9	43.9	44.6	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	35.3	35.3	34.7	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-2.1	-0.1	-0.8	-0.8	-0.8	-0.4	-1.1	1.7	0.3
Services balance	1.6	1.9	2.1	2.2	2.4	1.8	1.9	2.2	2.6
Primary income	-3.2	-3.0	-3.2	-2.8	-4.0	-4.2	-2.0	-2.0	-2.2
Secondary income	0.0	-0.1	-0.1	-0.8	-0.1	0.4	0.1	-0.9	0.3
Current account balance	-3.7	-1.3	-2.0	-2.2	-2.5	-2.4	-1.1	0.9	1.0
Capital account balance	2.2	2.3	2.4	1.5	3.6	1.9	2.6	3.6	1.1
Foreign direct investment (net)	1.2	0.8	2.0	4.3	0.5	3.3	0.1	2.4	-1.7
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	72.4	70.4	70.7	69.5	70.8	71.6	70.7	74.0	72.7
Gross official reserves (excluding gold)	20.3	18.7	19.2	17.9	17.6	18.8	19.2	20.9	21.3
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.4	5.1	5.0	4.8	4.7	5.0	5.0	5.5	5.6
<i>EUR million, period total</i>									
GDP at current prices	386,455	396,176	413,067	96,484	100,695	102,301	113,586	99,661	106,101

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

## 9 Romania: growth is strong, but fiscal policy is procyclical and manufacturing unit labor costs are rising

Higher but less balanced growth

GDP growth accelerated to 3.7% in the first half of 2015, mainly driven by a further speeding up of private consumption growth and a strong recovery of gross fixed capital formation. Private consumption benefited from rising real wages and pensions as well as the expansion of new consumer loans. GDP growth will be further supported by broadening the scope of the 9% VAT rate to all food items and public food services implemented in June, the hike of the minimum wage in July and the 25% health sector wage increase taking effect from October 2015. Construction activity, in particular in the residential sector, but also growth of equipment purchases drove up gross fixed capital formation from a low base. The negative contribution of net exports widened in the first half of 2015, as surging domestic demand spurred import growth that considerably surpassed export growth.

Procyclical fiscal policy ahead of parliamentary elections

After having corrected budget imbalances by following a consolidation path in the years up to 2014, Romania has recently shifted to expansionary fiscal policies ahead of parliamentary elections in December 2016 despite strengthening economic growth. On top of already enacted tax cuts, parliament approved a new fiscal code in September 2015, which includes the reduction of the standard VAT rate from 24% to 20% from January 2016 and to 19% in January 2017. The fiscal policy shift has met with criticism from the IMF, the Banca Națională a României (BNR) and Romania's fiscal council. The Romanian government expects a budget deficit of 2% of GDP next year (up from an estimated 1.8% of GDP this year), while other observers project a more noticeable increase in the deficit ratio. Overall, fiscal uncertainty remains elevated. Meanwhile, the precautionary EU/IMF support program ended in September 2015 after having been off track since June 2014. Some government members signaled interest in a new agreement, but no official request has been made so far.

Balance of payment position remains sound despite unfavorable ULC developments

External price competitiveness in the manufacturing sector weakened further, as the effective exchange rate remained broadly stable and labor cost increases stayed high, while productivity stagnated in a year-on-year comparison. Labor productivity has suffered from a lack of skilled workers and the low level of investment in recent years.

Nevertheless, the trade balance has not deteriorated substantially so far. On the back of the improvements in both the primary and the secondary income balances, the current account even posted a balanced position in the first half of 2015 compared to a small deficit in the first half of 2014.

Tax cuts fuel deflation

The annual consumer price inflation (CPI) rate turned negative (−1.9% in August 2015), mainly driven by the broadening of the reduced VAT rate that had an impact on the prices of nearly 30% of goods and services in the consumer basket. Against the background of actual and prospective downward pressures on the price level, the Romanian central bank continued to ease monetary policy until May 2015, but has kept the key policy rate unchanged at 1.75% since then. While the central bank noted the continued disinflationary effects from the supply side, it also emphasized the buildup of medium-term inflationary pressures stemming from the fiscal policy stance, the divergence of wage and labor productivity developments as well as from a possible deterioration of foreign investor sentiment.

Table 9

**Main economic indicators: Romania**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	0.6	3.4	2.8	4.1	1.5	3.0	2.7	4.3	3.4
Private consumption	1.1	1.2	4.5	6.4	3.7	4.0	4.2	4.8	5.4
Public consumption	0.6	-6.3	4.7	-2.1	6.7	6.4	6.8	2.6	0.8
Gross fixed capital formation	0.6	-9.2	-3.3	-7.7	-8.6	-1.0	1.4	8.3	9.7
Exports of goods and services	1.7	14.4	8.2	14.6	6.9	8.0	3.6	8.1	8.0
Imports of goods and services	-1.8	4.0	7.7	12.8	6.0	6.8	6.3	11.4	9.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-0.5	-0.9	2.7	4.3	-0.5	2.8	3.9	6.6	7.2
Net exports of goods and services	1.1	4.3	0.1	1.0	2.2	-0.3	-1.7	-1.9	-1.6
Exports of goods and services	0.4	6.1	3.2	8.4	4.3	2.1	0.1	4.3	3.5
Imports of goods and services	0.8	-1.8	-3.1	-7.4	-2.1	-2.4	-1.9	-6.2	-5.1
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	3.2	-0.7	0.3	-0.8	3.2	0.8	-2.2	-0.3	-6.4
Unit labor costs in manufacturing (nominal, per hour)	6.4	-0.2	1.1	-3.2	-2.4	3.6	6.5	7.6	9.4
Labor productivity in manufacturing (real, per hour)	0.9	6.2	5.8	10.2	8.7	2.8	2.2	0.6	-0.8
Labor costs in manufacturing (nominal, per hour)	7.3	5.9	7.1	6.7	6.1	6.5	8.8	8.2	8.5
Producer price index (PPI) in industry	5.4	2.1	-0.1	-1.0	0.6	0.3	-0.5	-1.7	-2.3
Consumer price index (here: HICP)	3.4	3.2	1.4	1.3	1.3	1.5	1.4	0.5	0.4
EUR per 1 RON, + = RON appreciation	-4.9	0.9	-0.6	-2.6	-0.6	0.6	0.4	1.1	-0.4
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.1	7.4	7.1	7.5	7.0	6.8	7.0	7.6	7.0
Employment rate (%, 15–64 years)	60.2	60.1	61.0	59.5	61.2	62.6	60.8	59.1	62.0
Key interest rate per annum (%)	5.3	4.8	3.3	3.6	3.5	3.3	2.8	2.4	1.8
RON per 1 EUR	4.5	4.4	4.4	4.5	4.4	4.4	4.4	4.5	4.4
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	2.7	8.8	8.4	6.4	5.3	5.1	8.4	6.5	8.8
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	5.6	20.7	26.6	12.0	14.1	10.9	11.9	8.8	6.0
Domestic credit of the banking system	11.5	-5.4	-10.9	-6.5	-7.9	-6.3	-5.1	-1.4	3.1
of which: claims on the private sector	8.3	-1.9	-6.3	-2.6	-3.7	-3.9	-2.7	-2.8	0.1
claims on households	1.2	-0.5	-1.1	-0.5	-1.2	-1.1	-0.5	0.0	1.5
claims on enterprises	7.1	-1.4	-5.2	-2.1	-2.5	-2.8	-2.3	-2.8	-1.4
claims on the public sector (net)	3.2	-3.5	-4.7	-3.8	-4.2	-2.3	-2.4	1.4	3.0
Other assets (net) of the banking system	-7.6	-3.6	2.3	0.9	-0.9	0.5	1.7	-0.9	-0.2
<i>% of GDP</i>									
General government revenues	33.3	33.0	33.5	..	..	..	..	..	..
General government expenditures	36.5	35.2	34.9	..	..	..	..	..	..
General government balance	-3.2	-2.2	-1.4	..	..	..	..	..	..
Primary balance	-1.4	-0.5	0.3	..	..	..	..	..	..
Gross public debt	37.4	38.0	39.9	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	52.3	48.0	44.4	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	20.7	19.0	17.6	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-6.7	-4.0	-4.2	-3.7	-4.4	-3.5	-5.1	-4.0	-4.6
Services balance	1.9	3.3	3.9	4.8	4.3	3.4	3.5	4.8	4.7
Primary Income	-1.7	-2.2	-1.3	-1.6	-3.5	-2.0	1.2	-1.4	-2.8
Secondary Income	2.0	1.9	1.2	0.8	1.2	1.5	1.0	2.0	1.3
Current account balance	-4.5	-1.1	-0.5	0.3	-2.4	-0.6	0.7	1.4	-1.4
Capital account balance	1.4	2.1	2.6	5.5	1.2	1.0	3.6	4.9	1.7
Foreign direct investment (net)	1.8	2.0	1.8	2.5	1.8	2.0	1.2	2.6	1.4
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	75.7	68.2	62.8	65.4	63.9	63.4	62.8	61.1	58.9
Gross official reserves (excluding gold)	23.4	22.7	21.5	21.7	21.2	20.9	21.5	20.0	19.5
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	6.7	6.7	6.2	6.3	6.2	6.1	6.2	5.8	5.6
<i>EUR million, period total</i>									
GDP at current prices	133,518	144,130	150,147	287,85	35,292	41,627	44,443	31,489	36,580

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

## 10 Turkey: lira falls as macrofinancial risks rise and a hike in Fed interest rates comes nearer

Mounting internal and external political risks

GDP expanded by 3.1% in the first half of 2015, a slightly stronger rate than in the full year of 2014. Recent leading indicators signal lower growth in the second half of 2015 amid increased uncertainties. Parliamentary elections in June 2015 did not yield a majority for any party. The failure to form a coalition government thereafter led to snap elections to be held in November 2015, and the ensuing heightened political uncertainty added to an all-time low in the consumer confidence index in September 2015. As security risks are increasing, uncertainty about global liquidity conditions prevails and external refinancing needs remain elevated, Turkish five-year CDS spreads have risen to their highest level in three years.

Domestic demand surprisingly on the upside

On the production side, most of the increase in economic activity in the first half of 2015 stemmed from manufacturing and agriculture, and it was predominantly absorbed by private consumption, which expanded by 5.1%. In fact, though, all components of domestic demand were strong. Private investment growth rebounded to 5.2% following four quarters of consecutive contraction. This resulted among other things from pent-up spending by private enterprises on new or improved machinery and equipment. Public consumption growth rose to 4.9% ahead of the parliamentary elections in June.

Despite the elections, fiscal performance has not slipped. Strong revenue growth in the first half of 2015 was driven by rising tax revenues and large privatization receipts in June. EU-defined gross public debt is expected to sink to 31.8% of GDP in 2015. The unemployment rate remained high at around 10% in the first half of 2015.

Narrowing of the current account deficit slows

The growth contribution of net exports turned negative in the first half of 2015 as a result of falling exports. In addition to the effects of geopolitical tensions and economic downturns in major trading partner countries (Russia and Iraq), exports to the EU weakened against the background of the strong ULC increase in recent years. On the other hand, import growth, which had been negative in 2014, recovered. The four-quarter moving average of the current account deficit narrowed to 5.8% of GDP in the second quarter (–7.5% of GDP a year earlier), mainly due to the lower oil price. The financing of the current account deficit remains highly fragile: Net FDI inflows accounted for less than 12% of the deficit and net portfolio flows – which had still covered 43% of the deficit in 2014 – turned negative in the first half of 2015 and thus covered only 11% of the deficit by the end of the second quarter of 2015. The external refinancing needs of the Turkish economy will be particularly high over the next few months.

Lira weakness raises inflation

Since February 2015, the Turkish central bank (CBRT) has kept policy rates (one-week repo, borrowing and lending rate) unchanged. Policy interest rates have been too low to keep the external value of the Turkish currency stable. In fact, the lira has been under noticeable depreciation pressure. Since the beginning of 2015, the lira has weakened by 29% against the U.S. dollar and by 19% against the euro. In late July, the Turkish central bank attempted to counter the depreciation pressure by cutting one-week forex lending rates (by 50 basis points to 3% for U.S. dollar deposits and 25 basis points to 1.25% for euro deposits). A strong exchange rate pass-through in connection with higher prices for food, services (in particular restaurant and hotel costs) and durable goods kept inflation high (7.9% in September) even though global commodity prices were low. In July, the central bank raised its end-year inflation forecast to 6.9%. The end-year inflation target remains unchanged at 5%.

Table 10

**Main economic indicators: Turkey**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	2.5	4.2	2.9	5.1	2.4	1.8	2.7	2.5	3.8
Private consumption	-0.7	5.1	1.4	2.6	0.5	0.1	2.5	4.6	5.6
Public consumption	6.4	6.5	4.7	9.2	2.5	6.6	2.0	2.5	7.2
Gross fixed capital formation	-1.9	4.4	-1.3	-0.3	-3.5	-0.4	-1.0	0.4	9.7
Exports of goods and services	17.8	-0.2	6.8	11.2	5.6	7.8	3.3	-1.1	-2.1
Imports of goods and services	0.6	9.0	-0.2	0.7	-4.3	-1.6	4.7	3.9	1.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-1.6	7.4	1.2	2.6	-0.3	-0.9	3.8	4.1	4.0
Net exports of goods and services	3.6	-2.3	1.6	2.4	2.5	2.1	-0.4	-1.3	-1.0
Exports of goods and services	3.8	-0.1	1.6	2.5	1.3	1.8	0.8	-0.3	-0.5
Imports of goods and services	-0.2	-2.3	0.0	-0.2	1.2	0.4	-1.2	-1.0	-0.4
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per hour)	..	..	..	..	..	..	..	..	..
Unit wage costs in manufacturing (nominal, per hour)	13.7	10.3	12.8	11.0	13.6	12.9	13.9	12.9	9.3
Labor productivity in manufacturing (real, per hour)	-1.9	1.7	1.3	3.8	0.9	1.3	-0.6	1.0	5.1
Gross wages in manufacturing (nominal, per hour)	11.5	12.2	14.3	15.2	14.7	14.4	13.2	14.0	14.9
Producer price index (PPI) in industry	6.1	4.5	10.2	11.8	11.3	9.7	8.3	3.3	6.0
Consumer price index (here: HICP)	9.0	7.5	8.9	8.1	9.3	9.4	8.8	7.5	8.0
EUR per 1 TRY, + = TRY appreciation	0.9	-8.6	-12.9	-22.4	-17.0	-8.9	-2.5	9.5	-1.8
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	8.4	8.9	10.1	10.3	8.9	10.2	10.9	11.4	9.5
Employment rate (%, 15–64 years)	48.9	49.5	49.5	48.0	50.8	50.2	49.1	48.4	51.1
Key interest rate per annum (%)	5.7	4.8	8.7	8.4	9.7	8.3	8.3	7.8	7.5
TRY per 1 EUR	2.3	2.5	2.9	3.0	2.9	2.9	2.8	2.8	3.0
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	10.5	21.1	11.8	19.8	16.0	14.9	11.8	15.8	18.3
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	2.2	-5.2	-10.8	-4.8	-2.4	-3.6	-4.0	-4.2	-4.7
Domestic credit of the banking system	38.5	51.9	57.7	31.2	26.5	24.0	21.5	25.2	27.8
<i>of which: claims on the private sector</i>	46.5	55.6	58.6	32.4	25.2	22.3	20.8	25.1	28.6
<i>claims on households</i>	15.3	15.2	11.4	6.2	4.0	2.9	2.5	3.6	4.0
<i>claims on enterprises</i>	31.2	40.4	47.2	26.1	21.1	19.4	18.3	21.5	24.6
<i>claims on the public sector (net)</i>	-8.1	-3.7	-0.9	-1.2	1.4	1.8	0.7	0.0	-0.8
Other assets (net) of the banking system	-13.3	-12.9	-11.7	-6.6	-8.1	-5.5	-5.7	-5.2	-4.8
<i>% of GDP</i>									
General government revenues	37.8	39.0	39.1	..	..	..	..	..	..
General government expenditures	38.1	40.6	40.6	..	..	..	..	..	..
General government balance	-0.3	-1.6	-1.5	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	36.2	36.2	33.5	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	..	..	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-8.3	-9.8	-8.0	-6.5	-8.6	-7.5	-9.2	-6.2	-7.6
Services balance	2.9	2.8	3.1	1.4	3.2	5.1	2.6	1.5	3.0
Primary income	-0.9	-1.1	-1.2	-1.3	-1.1	-1.0	-1.1	-1.5	-1.8
Secondary income	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Current account balance	-6.1	-7.9	-5.8	-6.4	-6.3	-3.2	-7.6	-6.1	-6.3
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net)	1.2	1.1	0.7	1.7	0.8	0.1	0.3	1.3	1.0
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	47.5	50.1	59.8	50.6	54.3	57.3	59.8	62.3	59.1
Gross official reserves (excluding gold)	12.4	13.1	14.6	12.8	13.8	14.9	14.6	15.0	14.0
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.7	4.8	5.4	4.7	5.1	5.5	5.4	5.7	5.3
<i>EUR million, period total</i>									
GDP at current prices	612,976	619,300	602,110	135,359	147,618	161,291	157,842	160,225	163,239

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



## 11 Russia: coping with recession and sanctions

Oil price slump and Western sanctions trigger recession in Russia

The contraction of the Russian economy accelerated from 2.2% in the first quarter to 4.6% in the second quarter (year on year), which resulted in a decline of 3.4% in the first half of 2015. In the first eight months of the year, GDP decreased by 3.8% (estimated, year on year). The recession has been largely caused by the deep slump in oil prices and the impact of Western sanctions in connection with the Ukrainian crisis. The economic downturn was driven by shrinking domestic demand (private consumption as well as fixed investment). In addition, the draw-down of inventories was particularly strong. While public consumption remained stable, the only positive contribution to growth came from exports, which, combined with the substantial contraction of imports, resulted in a sizeable improvement of net exports.

Inflation eases due to shrinking domestic demand

Imports plummeted, largely owing to the drop in domestic demand and to the strong depreciation of the Russian ruble, which had lost almost 40% of its external value on the average of the first eight months of 2015 compared to the same period of the previous year. Private consumption featured the most important aggregate decline. This weakening was caused by falling real wages against the backdrop of double-digit inflation, itself triggered by the plunge of the ruble as well as by Russia's countersanctions (which provided for a ban on food imports from countries sanctioning Russia). CPI inflation (year on year) peaked at 16.9% in March 2015 and has since declined slightly to 15.7% in September. This marginal easing of inflation is attributable to the deepening recession and the apparent digestion of the inflationary impact of the countersanctions.

Central bank decreases its key rate gradually to combat recession and keep inflation from spiraling

Given the easing of inflation and the deepening of the economic contraction, the Central Bank of Russia (CBR) decided to decrease the key interest rate (the repo auction rate) from its emergency-triggered high level of 17% (December 2014). The key rate was successively adjusted in four steps from February to August 2015, bringing the rate down 600 basis points to 11.0%. Against the backdrop of the tenuous stabilization of the economic situation, private net capital outflows declined somewhat to USD 52.5 billion in the first half of 2015 (compared to a record-level USD 69.4 billion in the first half of 2014). Russia's international reserves continued to erode until March to April 2015, when they reached about USD 350 billion before stabilizing and slightly rising to USD 369 billion in late September 2015.

Financial intermediation is in the midst of a downturn while banks have been recapitalized

Russian state-owned banks' and enterprises' forced external deleveraging in the context of the Western sanctions played a primary role in the further drop of the country's total external debt to USD 556 billion (around 39% of GDP) in the first half of 2015. Financial intermediation in Russia is in the midst of a downturn: Lending contracted by 10% in August 2015 (year on year, in real terms and exchange rate-adjusted). Total deposits shrank somewhat less, by 5%. The capital adequacy ratio edged up from 12.5% at end-2014 to 13.0% at end-July 2015 on account of the authorities' bank capital support program. At the same time, the CBR has allowed banks some flexibility in classifying overdue loans and in provisioning (regulatory forbearance). With a federal budget deficit of 2.1% of GDP in January to August 2015, the government is delivering a slight fiscal stimulus to counter the recession. The deficit was partly financed by the Reserve Fund (oil stabilization fund). Rising exports and sharply shrinking imports contributed to an expanding current account surplus (about 8% of GDP in January to June 2015).

Table 11

**Main economic indicators: Russia**

	2012	2013	2014	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	3.4	1.3	0.6	0.6	0.7	0.9	0.4	-2.2	-4.6
Private consumption	7.7	4.9	1.2	3.9	0.2	0.2	0.9	-8.9	-8.6
Public consumption	2.6	1.1	-0.1	0.0	0.0	-0.1	-0.2	-0.1	0.0
Gross fixed capital formation	6.7	0.9	-2.0	-4.5	-1.9	-1.7	-1.2	-8.8	-7.4
Exports of goods and services	1.1	4.6	-0.1	2.0	1.7	-1.3	-2.3	4.5	1.4
Imports of goods and services	8.7	3.8	-7.9	-6.6	-9.6	-7.6	-7.8	-25.0	-29.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	5.2	1.2	-0.9	-0.5	-1.5	-0.9	-0.6	-8.6	-11.0
Net exports of goods and services	-1.7	0.5	1.9	2.2	2.8	1.7	1.2	7.1	6.8
Exports of goods and services	0.3	1.4	0.0	0.7	0.5	-0.4	-0.7	1.6	0.5
Imports of goods and services	-2.0	-0.9	2.0	1.6	2.2	2.1	1.9	5.5	6.3
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per hour)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	7.6	7.9	5.6	6.9	5.0	5.3	5.2	6.9	13.7
Labor productivity in industry (real, per person)	4.8	2.3	3.4	2.5	3.7	3.4	4.0	0.9	-3.3
Average gross earnings in industry (nominal, per person)	12.6	10.3	9.2	9.6	8.9	9.0	9.5	7.8	9.9
Producer price index (PPI) in industry	6.8	3.3	5.9	4.2	8.2	5.8	5.5	9.6	13.8
Consumer price index (here: CPI)	5.1	6.8	7.8	6.4	7.5	7.7	9.6	16.2	15.9
EUR per 1 RUB, + = RUB appreciation	2.4	-5.7	-17.0	-16.5	-13.7	-9.6	-26.0	-32.4	-17.5
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	5.5	5.5	5.2	5.5	5.0	4.9	5.2	5.7	5.6
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	5.3	5.5	7.9	6.0	7.4	7.9	10.3	15.5	12.8
RUB per 1 EUR	39.9	42.3	51.0	48.1	48.0	48.1	59.9	71.1	58.1
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	12.1	15.7	15.5	13.4	9.1	10.7	15.5	17.2	17.6
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	9.6	2.7	24.6	5.1	0.3	4.7	19.0	15.0	17.5
Domestic credit of the banking system	38.3	35.1	33.6	15.9	14.2	14.3	13.9	16.1	15.0
<i>of which: claims on the private sector</i>	46.2	36.9	43.3	17.5	15.4	16.0	22.8	19.3	15.7
<i>claims on households</i>	16.3	16.5	11.9	7.0	5.9	5.3	3.9	1.9	0.1
<i>claims on enterprises</i>	29.9	20.4	31.4	10.5	9.6	10.7	18.9	17.3	15.6
<i>claims on the public sector (net)</i>	-7.9	-1.9	-9.7	-1.6	-1.3	-1.7	-8.9	-3.1	-0.7
Other assets (net) of the banking system	-12.4	-8.2	-24.7	-7.6	-5.3	-8.2	-17.4	-13.9	-14.9
<i>% of GDP</i>									
General government revenues	37.1	36.9	37.5	..	..	..	..	..	..
General government expenditures	36.7	38.2	38.7	..	..	..	..	..	..
General government balance	0.4	-1.3	-1.2	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	10.0	10.5	11.8	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	..	..	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	..	..	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	9.5	8.8	10.1	11.5	10.5	8.7	10.2	16.9	12.9
Services balance	-2.3	-2.8	-3.0	-2.5	-2.9	-3.6	-2.7	-3.2	-2.9
Primary income	-3.4	-3.9	-3.6	-2.7	-5.0	-3.3	-3.5	-2.3	-4.8
Secondary income	-0.3	-0.4	-0.4	-0.4	-0.1	-0.7	-0.5	-0.4	-0.4
Current account balance	3.5	1.7	3.1	5.9	2.5	1.2	3.4	11.0	4.8
Capital account balance	-0.3	0.0	-2.4	0.0	0.0	-1.9	-7.6	0.0	-0.1
Foreign direct investment (net)	0.1	-0.8	-1.8	-0.4	-0.5	-2.4	-4.1	-0.4	-1.5
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	31.4	34.1	34.9	34.5	35.9	36.3	34.9	39.2	39.5
Gross official reserves (excluding gold)	23.7	21.8	19.9	21.1	21.1	21.9	19.9	21.8	22.3
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	12.8	11.5	10.4	11.1	11.1	11.7	10.4	11.2	11.6
<i>EUR million, period total</i>									
GDP at current prices	1,556,545	1,560,883	1,404,130	321,445	360,693	389,426	332,565	233,022	300,964

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