

Developments in selected CESEE countries:

Dynamic, domestic demand-driven growth in an adverse international environment^{1,2}

1 Regional overview

Despite a difficult international environment...

A persistent oil glut and the economic slowdown in many emerging economies led to a renewed drop in oil prices in late 2015, pushing down inflation rates around the globe. In the euro area, the ECB reacted with further monetary easing that included rate cuts and increased asset purchases. In general, economic dynamics at the end of 2015 had turned out to be weaker than expected. This is true not only for the euro area, but also for many advanced and emerging market economies around the world, confirming the continued fragility of global growth momentum. Trade growth slowed down, reflecting rebalancing in China as well as the sharp downscaling of investment in commodity-exporting countries. Bouts of financial market volatility were observed in late 2015 amid rising global risk aversion, sagging global equity prices, widening credit spreads, and historically low yields for safe-haven government bonds. These phenomena underline the high degree of uncertainty in the world economy. In Europe, this uncertainty was amplified by a series of political events, including the upcoming Brexit referendum, the ongoing conflict in eastern Ukraine, the war in Syria and the related refugee crisis, as well as the deteriorating relations between Turkey and Russia.

...growth develops favorably throughout most of the CESEE region

While this sketch of global economic conditions does not imply a very supportive international environment for CESEE countries, developments in the second half of 2015 were still rather favorable. Russia, of course, represents an outlier, as it was directly affected by several of the above-mentioned factors, especially the further fall in the oil price, causing the country to slide into a deep recession in 2015 (–3.7%). In the other countries of the region, however, dynamics remained solid, boosting whole-year growth in 2015 to an average of 3.7% in the CESEE EU Member States and Turkey. In several countries, GDP dynamics reached heights last seen in 2008. Growth was especially dynamic in the Czech Republic and Turkey (above 4%), but was also strong in Poland, Romania and Slovakia. With a growth rate of 1.6%, Croatia represented the country with lowest growth in 2015; nevertheless, Croatia managed a turnaround from a recession that had lasted for six years.

Domestic demand confirms its position as the most important driver of growth

The economic buoyancy of the region was supported by the strong development of domestic demand, which became the most important component of GDP growth in all countries under observation besides Russia. While both private consumption and gross fixed capital formation (GFCF) contributed notably to growth, the latter displayed an especially remarkable momentum. Investment growth accelerated in most countries. The expansion even reached double digits in Slovakia and Romania in the final quarter of 2015.

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² Cutoff date: April 6, 2016. This report focuses primarily on data releases and developments from October 2015 up to the cutoff date and covers Slovakia, Slovenia, Bulgaria, Croatia, the Czech Republic, 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.

The strength of investments was underpinned in particular by an increased use of EU funds, which, coupled with a fledgling recovery in real estate markets, also had some positive impact on the construction sector. 2015 marked the last year of overlapping programming periods, as CESEE countries were still able to draw on EU funds from the 2007–2013 multiannual financial framework alongside the current 2014–2020 framework. Positive developments, however, were no longer confined to public investments only. On the production side, industrial production expanded powerfully, pushing up capacity utilization. In several countries, utilization rates increased to above 80%, fueling private investment expenditure. The financing of new investments was made easier by rising corporate profitability (possibly related to falling input prices) as well as by the low interest rate environment against the background of an accommodative monetary policy stance at home and abroad. Furthermore, capital formation benefited from stronger economic dynamics in the euro area in 2015 than in 2014 and from positive economic sentiment that was above its long-term average in most countries under observation.

Investment growth accelerates

Private consumption benefited from two factors in particular: improving labor market conditions and rising real wages. Unemployment rates 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 5.9% in February 2016, the lowest rate since early 2004. The decrease was also considerable in Bulgaria, Poland and Slovakia. The Czech Republic chalked up an unemployment rate of 4.5% in February 2016, a performance topped only by Germany in the EU. At the same time, unemployment also declined among the most vulnerable age cohorts, namely young persons (below 25 years) and older persons (above 50 years). Long-term unemployment generally remained elevated, but some favorable trends could also be observed (e.g. in Slovakia, Bulgaria and Poland). Employment expanded noticeably in all countries, making the second half of 2015 a generally very successful period in terms of labor market developments. Against this backdrop, nominal wage growth was buoyant, amounting to somewhat above 4% in the region on average during the second half of 2015. Romania even reported double-digit wage growth in the final quarter of 2015 (also caused by a hike in the minimum wage). Wage growth was also notably above average in the Czech Republic, Bulgaria and Slovakia. Real wage growth was further boosted by low or even negative inflation rates, especially in Central and Southeastern Europe (see also the description of inflation rates below). All of the above developments had a positive impact on consumer sentiment, which reached the highest level since late 2008 at the end of 2015.

Positive labor market developments bolster private consumption

The developments in the second half of 2015 underline the ongoing recalibration of the CESEE region's growth model toward domestic demand. The strong growth of private consumption and investment in turn fueled imports in the review period; Slovakia and Croatia recorded double-digit import growth rates. Import developments were still very much driven by imports of consumption goods, but the recovery of GFCF should also boost imports of capital goods in the future.

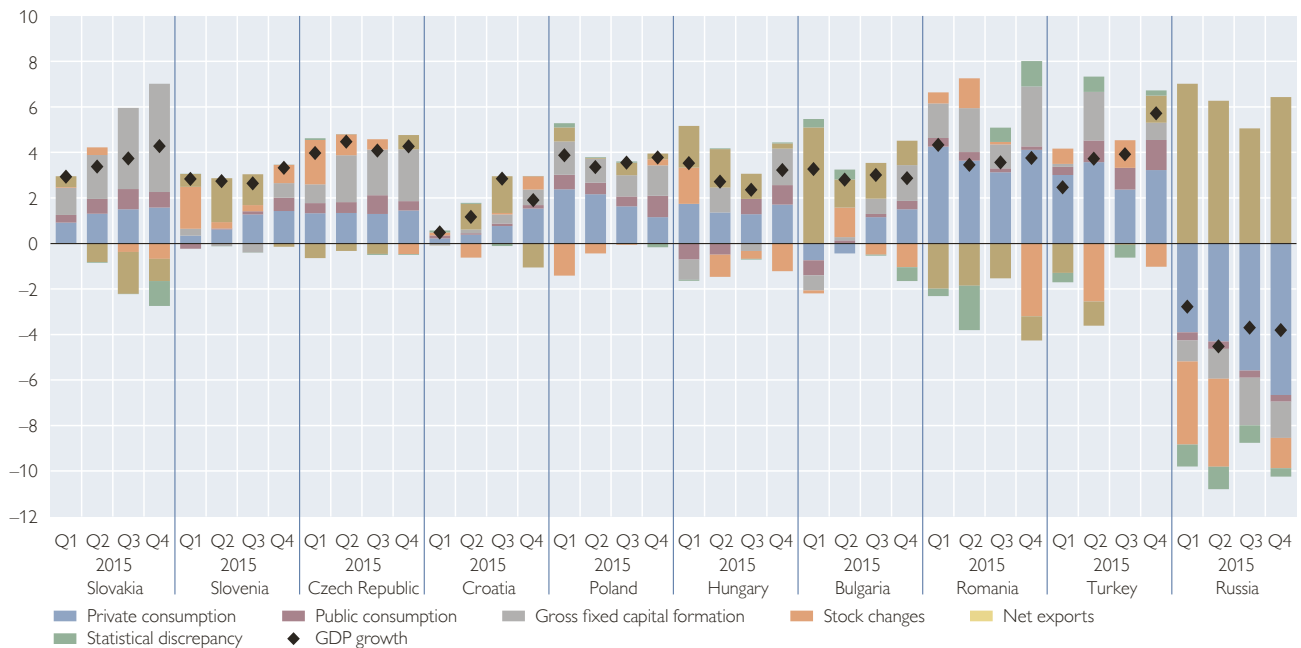
The external sector's net contribution to growth remains modest...

Against this background, the contribution of net exports lost further importance for GDP developments, declining during the review period in most countries and lingering around zero in the fourth quarter of 2015. A more notable positive contribution in the last quarter of 2015 was reported for Bulgaria and Turkey. However, net exports pushed up GDP by only around 1 percentage point in these

Chart 1

GDP growth and its main components

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



Source: Eurostat, national statistical offices.

countries, too, much less than in the first years after the crisis. In Russia, the positive contribution of net exports to economic growth was sizeable, given currency depreciation and weak domestic demand.

...despite a solid export performance

At the same time, real exports continued to develop favorably and remained an important backbone for economic developments. The region's exports benefited from the pickup in economic dynamics in the euro area in 2015. The development of unit labor costs (ULCs) in manufacturing (measured in euro) was less uniform. Six of the countries under review were able to report further (small) gains in price competitiveness or a stable competitive position vis-à-vis the euro area: Slovenia, Hungary, Poland and Croatia managed to keep labor cost growth in check amid ongoing notable productivity advances; Russia and Turkey benefited from marked currency depreciation. The other four countries lost some competitive edge. This was a rather recent phenomenon in Slovakia and the Czech Republic (mainly confined to the final quarter of 2015 and possibly of a temporary nature). In Bulgaria and Romania, however, the process has already been lasting for several quarters and is already visible in a substantial deceleration of export growth. Both countries reported high wage growth coupled with weak productivity developments during the review period.

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

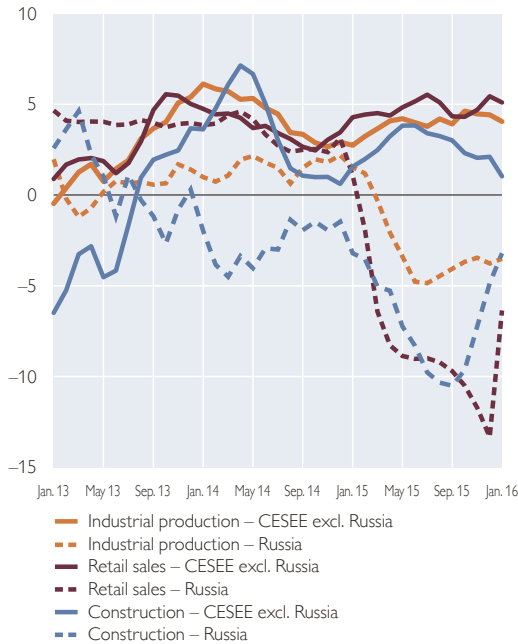
High-frequency activity indicators suggest a broadly steady pace of economic dynamics in the first quarter of 2016. Both industrial production and retail sales posted a stable development in the review period, expanding by 4.1% and 5.1%, respectively, in January 2016. Construction output lost some steam. However, it still grew by 1% in the region on average. At the country level, industrial production is running smoothly throughout CESEE. All countries reported positive

Chart 2

Leading indicators

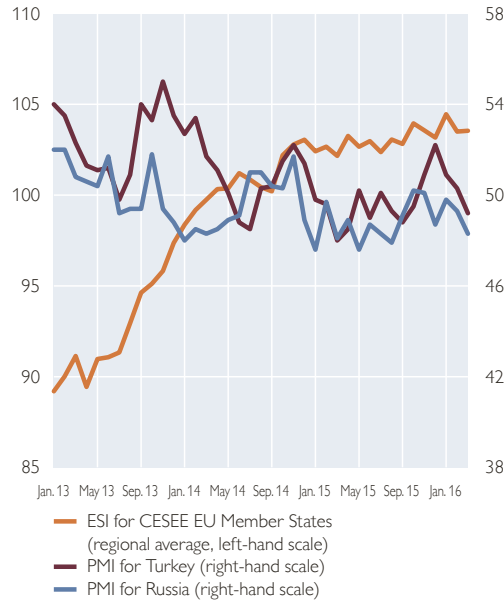
Activity indicators (CESEE regional average)

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



Sentiment indicators

Points



Source: Eurostat, wiw, European Commission, Markit.

growth rates that did not deviate substantially from the regional average. Only the Czech Republic and Romania reported some deceleration of growth to around 1.5% in recent months. By contrast, retail sale developments were more heterogeneous. While all countries again reported positive growth rates, the rates were more dispersed, ranging from 0.5% in Bulgaria to 14.4% in Romania in January 2016. This dispersion is even more pronounced for construction output, which developed in a range from -13% in Slovenia to 19.5% in Slovakia.

Still mired in recession, Russia was a clear outlier from the regional picture. All activity indicators contracted in January 2016. However, retail sales and construction output have rebounded in recent months, paving the way for a less gloomy GDP development in the first quarter of 2016.

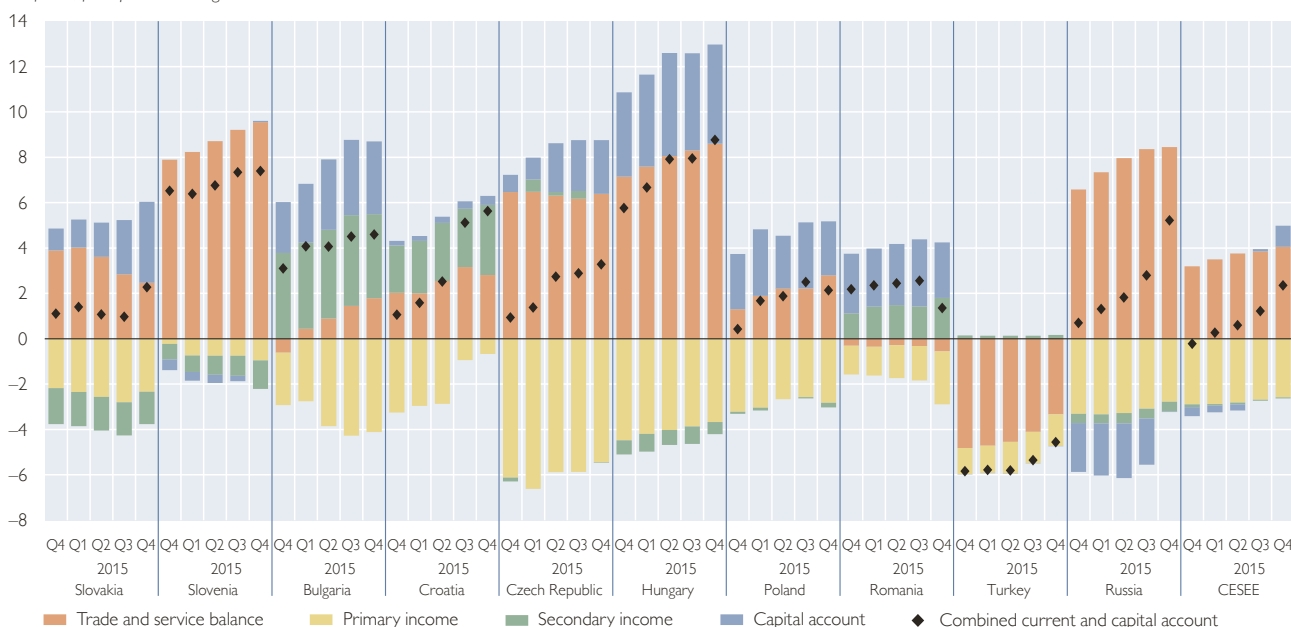
Economic sentiment underlines the favorable situation of CESEE economies. The European Commission's Economic Sentiment Indicator (ESI) stood steady at around 104 points throughout the review period (average for the CESEE EU Member States). This represents a level last seen in late 2008. The Purchasing Managers' Index (PMI) figures for Russia have remained at or below 50 (the threshold indicating an expansion) since late 2014, the start of the Ukraine crisis. In the case of Turkey, PMI readings improved perceptibly in the final quarter of 2015 before declining again until March in parallel to rising political and security risks.

The combined current and capital account balance for the region as a whole improved further in the review period, increasing from a surplus of 0.6% of GDP in the second quarter of 2015 to 2.3% of GDP in fourth quarter of 2015 (four-quarter moving sums). This development was mainly driven by the capital account deficit

The external position of the CESEE region improves further

Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

turning into a surplus as outflows from Russia decreased and inflows into the other countries increased, given drawings on EU funds. The goods and services balance and the balance on primary income improved marginally as well.

With the exception of Romania, all individual countries of the region reported a better external accounts position at the end of 2015 than half a year earlier. In Romania, higher outflows from primary income (especially related to profit repatriation by foreign-owned firms) caused the combined current and capital account surplus to decrease to 1.3% of GDP in the final quarter of 2015. Improvements in the other countries of the region were often related to higher surpluses or lower deficits in the trade balance. Beside the above-mentioned factors bolstering exports, terms of trade effects played some role in the review period. In the Czech Republic and especially in Croatia, the primary income deficit declined noticeably, driven by lower profit repatriation and in Croatia also by some reinvested earnings. Turkey remained the only country to report a shrinking but still sizeable combined current and capital account deficit.

The financial account position of the ten CESEE countries as a whole remained broadly unchanged at 7.1% of GDP in the fourth quarter of 2015 compared to 7.3% of GDP in the second quarter (four-quarter moving sums). Two developments of individual components of the financial account canceled each other out: Net portfolio investments increased just as much as net FDI decreased. With respect to FDI, the region again became a net debtor³ in the review period.

Developments in individual countries were heterogeneous. The financial account deteriorated especially in Romania, Russia and the Czech Republic, caused

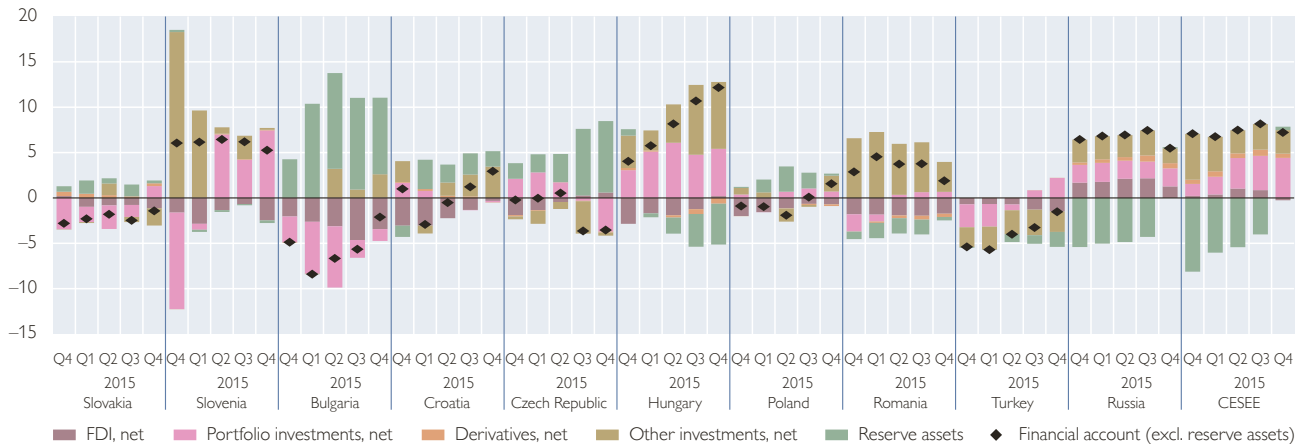
Financial account
developments
remain
heterogeneous

³ The net incurrence of liabilities outweighs the net acquisition of assets.

Chart 4

Financial account balance

% of GDP, four-quarter moving sum



Source: National central banks.

mainly by other investments in the former two countries and by portfolio investments in the latter. While Russia and Romania remained net creditors vis-à-vis the rest of the world, the Czech Republic became a net debtor.

Bulgaria, Croatia, Hungary, Poland and Turkey reported stronger improvements of the financial account, mostly related to FDI and to a better position in other investments traceable primarily to the decline in external liabilities of credit institutions. Only in Bulgaria and Turkey was the improvement driven mainly by portfolio investments. In the fourth quarter of 2015, Croatia and Poland became net creditors, while Hungary remained in a net creditor position. Bulgaria and Turkey continued to incur more liabilities than to acquire assets at the end of 2015.

Declining energy prices kept inflation rates in the CESEE EU Member States in negative territory throughout the review period. Average annual inflation amounted to -0.5% in February 2016 and has hovered around this level during the past months without clearly trending up or down. Deflation was most pronounced in Romania, where a cut in the standard VAT rate from 24% to 20% in January 2016 put a further damper on prices. The Czech Republic and Hungary were the only countries that reported months with (moderately) positive inflation rates.

While declining prices were clearly a function of deflationary pressure from the energy component of the HICP, other components did not add much dynamism to price developments either. Neither food nor industrial goods made a substantially positive contribution to inflation in most countries. Only services pushed prices up somewhat in the CESEE EU Member States. Against this background, core inflation rates remained low but positive in the region. Only Romania reported deflation also for the core components of the HICP.

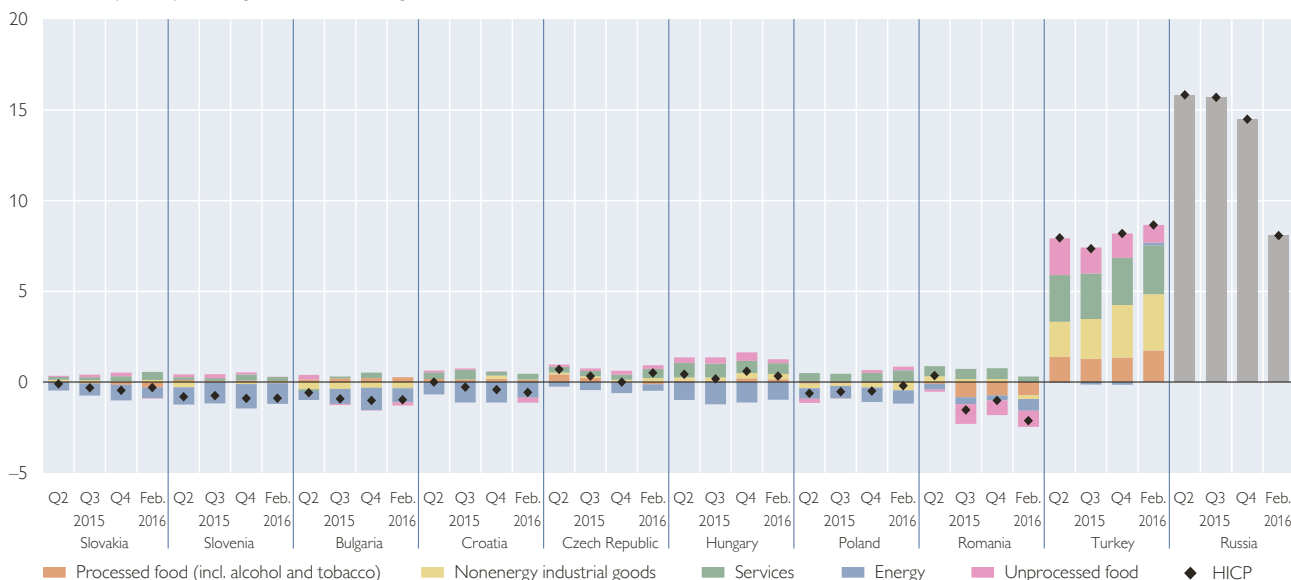
In Turkey, inflation came in at 8.7% in February 2016 and displayed some upward trend in the review period (starting at 7.1% in August 2015). Price rises thus remained clearly above 7%, the central bank's upper bound for its inflation target to be met by December 2015. Inflation was driven especially by industrial goods. Price developments of this HICP component were influenced by the lagged effects

Declining energy prices hold back price dynamics in the CESEE EU Member States

Chart 5

HICP inflation and its main drivers

Contribution to year-on-year change in HICP in percentage points; HICP in %



Source: Eurostat.

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

of the Turkish lira depreciation throughout 2015. Most other components, however, also contributed somewhat greater shares to prices rises than in the first half of 2015.

In Russia, the inflation rate came down from 15.8% in August 2015 to 8.1% in February 2016 despite the further depreciation of the ruble. The drop in annual inflation was aided by a base effect (the impact of the sharp price rise in late 2014 dissipated), persisting weak demand and the shrinking ratio of imports to GDP.

Against the backdrop of disinflation or deflationary trends, the central banks of CESEE countries continued to pursue a policy of monetary accommodation (see chart 6) and retained policy rates at historically low levels. The Hungarian central bank even cut its policy rate by 15 basis points to 1.2% and lowered the overnight deposit rate to below zero (-0.05%) in March 2016. The Czech Republic's policy rate has been standing at "technically zero" since October 2012. In November 2013, the Czech National Bank (CNB) had 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 below CZK 27 per EUR 1. In February 2016, the CNB ruled out a discontinuation of the exchange rate commitment before the start of 2017. In the review period, the CNB intervened several times in the foreign exchange market, buying a total of EUR 7 billion. The CNB had not intervened in defense of its target before July 2015. Russia, Turkey and Poland kept their main policy rates on hold in the review period.

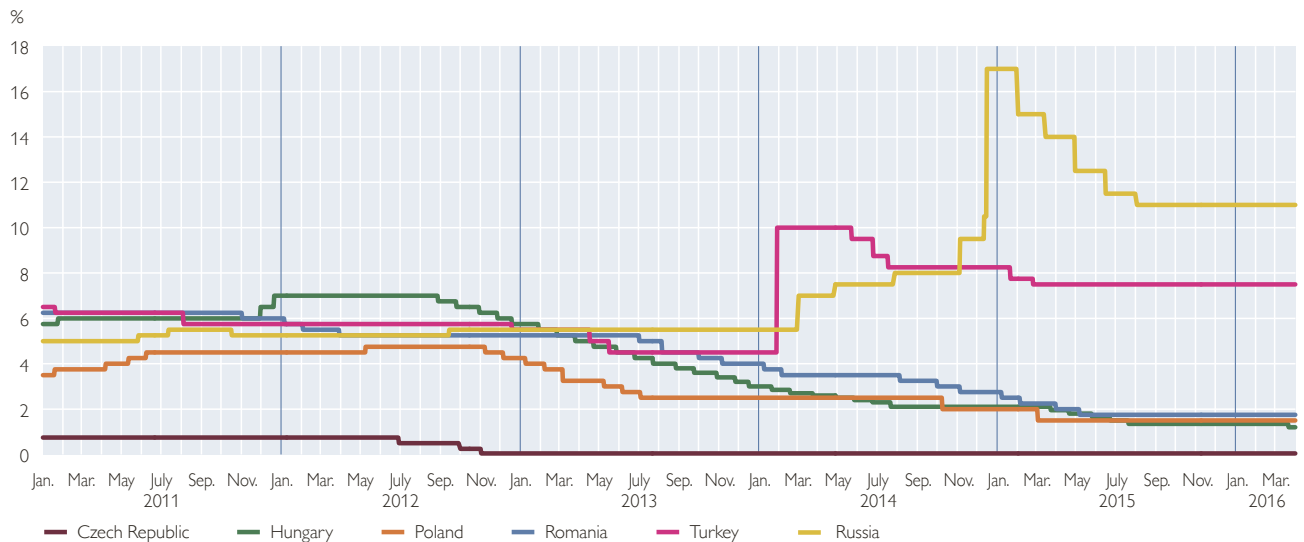
Domestic credit developments (nominal lending to the nonbank private sector adjusted for exchange rate changes) were somewhat more dynamic in the review period in several countries of the region. This is especially true for Slovakia and the Czech Republic, where credit growth has been accelerating slowly but steadily since

Monetary policy stays accommodative

Credit developments remain heterogeneous

Chart 6

Policy rate developments in CESEE



Source: National central banks.

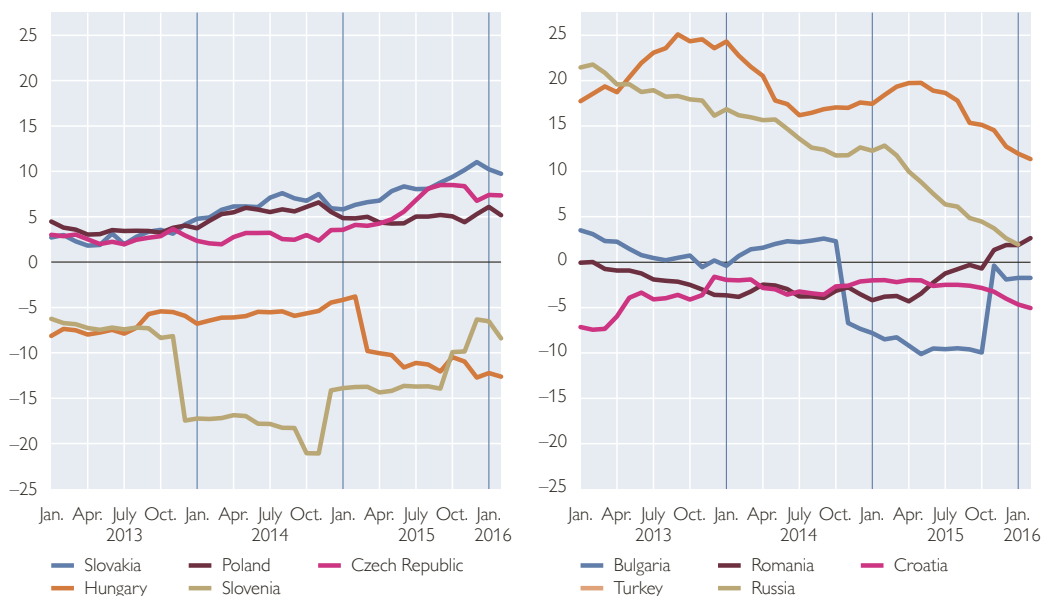
2013 and came in at 9.7% and 7.4%, respectively, in February 2016. In Slovakia, especially corporate credit expanded swiftly, mirroring the strong increase of GFCF. Solid credit developments in both countries were fueled by more favorable expectations for general economic developments and a sound liquidity position. Furthermore, banking sectors are in healthy shape, with low nonperforming loan (NPL) ratios, sound profitability, deposit overhangs over credit, persistent competitive pressure as well as low stocks of loans denominated in foreign currency.

Credit growth was also rather swift in Poland. Key indicators of the country's banking sector, however, are somewhat weaker than in Slovakia and the Czech Republic. In Poland, the loan-to-deposit ratio remained above 100 and profitability deteriorated somewhat in 2015. Furthermore, the country still reports a substantial share of foreign currency loans (especially Swiss franc loans) in total loans. The discussion about a conversion of those loans is ongoing. So far, the central bank and the supervisory authority have assessed the respective legislative proposals as problematic for financial stability. These discussions have increased uncertainty and may have contributed to some tightening of lending standards.

Credit growth in Romania rebounded and came in at 2.6% in February 2016, reflecting strong consumption and wage growth, the surge of investments in the final quarter of 2015, as well as an ongoing NPL workout. Some more positive momentum was also observed in Slovenia: The expansion of credit to households turned mildly positive, which had a favorable impact on total credit to the private sector. But the overall credit stock continued to contract in the review period. Nevertheless, the country made some progress in cleaning up balance sheets, raising banking sector profitability and improving capitalization. Bulgaria also reported a moderate contraction of the credit stock. This development, however, was fueled by the base effect caused by the exclusion of Corporate Commercial Bank's assets from banking statistics after its license for conducting banking activities had been revoked in November 2014.

Growth of credit to the private sector

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



Source: National central banks.

In Hungary, credit growth remained firmly negative. The ongoing strong contraction was related to the conversion of foreign currency loans to households at an exchange rate below the prevailing market exchange rate in the first quarter of 2015 and in December 2015. In Croatia, the process of conversion and the partial write-off of loans in Swiss francs initiated in the last quarter of 2015 added to the impact of the debt overhang and the lack of collateral, thus causing credit growth to decline further in the last quarter of 2015. Credit growth moderated in Turkey and Russia. In Turkey, loan growth came down substantially from high levels against the background of macroprudential measures adopted in previous years. Against this background, consumer loan risk weights were adjusted to bolster consumer credit growth, which had dipped into negative territory. In Russia, the development was clearly related to the ongoing economic recession.

Lending surveys clearly indicated a pickup of demand for credit in the CESEE region. The development of supply conditions, however, was less straightforward. The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB) found that demand for loans improved across the board in the second half of 2015. This marked the fifth consecutive semester of positive developments. All factors influencing demand made a positive contribution. At the same time, supply conditions only relaxed somewhat, thus increasing the demand-supply gap. NPLs, the regulatory environment and banks' capital constraints were perceived as the main factors adversely affecting supply conditions. Access to funding continued to become easier, supported by ready access to retail and corporate deposits, while intragroup funding contracted somewhat. For the first half of 2016, banks anticipate a further broad-based pickup in credit demand. Supply conditions are also

Lending surveys indicate a clear rise in credit demand

expected to ease further, the improvement, however, will continue to fall short of the improvement in demand conditions.

Country-level bank lending surveys support this general picture. Demand rose more or less uniformly in all countries and among all sectors. In most cases, supply conditions also improved. The extent of easing, however, was not uniform across the region. While some countries (e.g. the Czech Republic) reported a rather broad-based easing, the development tended to be confined to specific sectors or loan classes in most other countries (e.g. Bulgaria, Hungary and Romania). Banks generally expected those trends to go on in the coming months.

Unlike banks in the rest of the CESEE region, Turkish banks reported lower demand for household and especially for corporate loans (held back by lower demand for financing for investment). At the same time, credit standards for loans to enterprises were tightened, as the general perception of risk deteriorated (the general and the industry-specific risk outlook as well as the outlook for risk on the collateral).

Analyzing the operation of international banking groups in the region, the EIB survey found that banking groups continue to selectively reassess their country strategies and discriminate between countries of operation. Nevertheless, more than two-thirds of groups describe profitability in CESEE operations as outperforming the profitability of the group as a whole. This explains why a significant number of banking groups signal intentions to expand operations selectively. Market potential continues to differ significantly across countries.

Solid economic dynamics had a positive impact on the budget balance in most countries. Deficits decreased most strongly in Slovenia and Bulgaria (by 2.1% and 3.7% percentage points of GDP, respectively). In both countries, deficits came down from elevated levels in 2014 that were related to one-off factors in connection with financial sector restructuring. Budget balances were also aided by higher tax revenues following improved tax collection in Bulgaria and continued implementation of consolidation measures in Slovenia. Croatia and the Czech Republic also reported an above-average reduction of their budgetary gaps (by 1.4% and 1.5% percentage points of GDP, respectively). Revenue windfalls due to higher-than-expected growth and some containment of expenditure growth have lent support to public finances. The Czech Republic also benefited from falling interest expenditure.

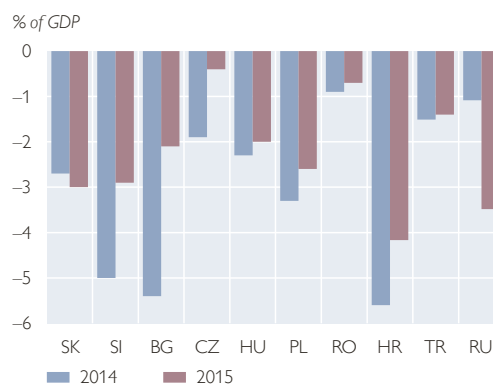
Public finances in Russia were burdened by decreasing revenues, the recapitalization of banks and businesses and some investment expenditure front-loading, with the Reserve Fund being tapped substantially to cover the deficit. This led to an increase in the budget deficit by 2.4% percentage points of GDP.

Budget deficits ranged from -0.4% of GDP in the Czech Republic to -4.2% of GDP in Croatia. Apart from Croatia, no CESEE EU country reported a deficit of above 3% of GDP.

Budgetary consolidation against the background of solid economic dynamics

Chart 8

General government deficit



Source: Eurostat, European Commission.

Slovenia and Croatia remain the only CESEE EU countries still subject to an excessive deficit procedure (EDP). The target date for a correction stood at 2015 in the case of Slovenia and stands at 2016 in the case of Croatia. Given successful consolidation measures that led to a reduction of the budget deficit to 2.9% of GDP in 2015, the EDP for Slovenia might be abrogated in June 2016. It needs to be noted that in early March 2016, the Eurogroup called for additional structural efforts toward the medium-term objective and for compliance with the expenditure benchmark. Croatia's deficit currently stands at 4.2% of GDP and is projected to decrease only slowly.

Box 1

Ukraine: macroeconomic stabilization, but multifaceted challenges

After having declined by 6.8% in 2014, economic activity shrank by a further 9.9% in 2015. GDP dynamics in 2015 were driven by the positive growth contributions of inventories and the reduction of imports, while private consumption, gross fixed capital formation (GFCF) and exports continued to contribute negatively to overall GDP growth. Despite the deep GDP contraction, clear signs of macroeconomic stabilization arose, as seasonally adjusted GDP grew in quarter-on-quarter terms in the third and fourth quarters of 2015. The observation of the cease-fire agreement improved starting from September 2015, which certainly supported the bottoming out of the economy. Yet, the special monitoring mission of the Organization for Security and Co-operation in Europe (OSCE) has reported an increasing number of cease-fire violations since the beginning of 2016. Besides, hardly any progress has been made in implementing the Minsk II agreement, which comprises a complete cease-fire and further steps to settle the conflict in eastern Ukraine.

Meanwhile, disinflation, fiscal efforts and external adjustments underpin macroeconomic stabilization tendencies. After peaking at 60.9% in April 2015, inflation trended downward to 32.7% in February 2016. The National Bank of Ukraine has left its key policy rate unchanged at 22% since September 2015. The budget deficit came down to 2.3% of GDP in 2015. The current account deficit fell to 0.3% of GDP in 2015, while the combined current and capital account recorded a small surplus of 0.2% of GDP. The deficit in the trade and services balance improved, as imports declined more strongly than exports – a development to which the depreciation of the hryvnia contributed. Thanks to the current account adjustment and international financial support, official foreign exchange reserves went up from USD 5.6 billion in February 2015 to USD 13.5 billion in February 2016 (covering 3.6 months of future imports).

However, the four-year USD 17.5 billion IMF Extended Fund Facility (EFF), under which USD 6.7 billion have been disbursed so far, has been on hold, as the second review, on which discussions started in September 2015, has not been finalized yet. The IMF has been waiting for more clarity about the status of the government and for conditions enabling further talks that would pave the way for the completion of the review. In Kyiv, new coalition arrangements were under discussion following political shakeups that, inter alia, showed up in the resignation of the economy minister. In mid-April, the parliament finally approved a new government team. Volodymyr Groysman replaced Arseniy Yatsenyuk as prime minister.

In a noteworthy achievement, Ukraine made progress on the debt restructuring agreed under the EFF. The restructuring of privately held external sovereign debt was completed, but the dispute over the USD 3 billion Eurobond held by the Russian National Welfare Fund has continued. Russia was offered the same restructuring terms as private creditors, but rejected them. In February 2016, the Russian Ministry of Finance filed a lawsuit against Ukraine at the High Court in London over the nonpayment of the Eurobond that matured in December 2015. Although the IMF categorized this Eurobond as official debt, Ukraine's default on this instrument per se does not endanger the continuation of the IMF program, because the IMF changed its lending-into-arrears policy (arrears to official creditors are now accepted under certain circumstances).

After several parts of the EU-Ukraine Association Agreement (AA) had entered into force provisionally in November 2014, the Deep and Comprehensive Free Trade Area (DCFTA) started to be provisionally applied from January 2016. The DCFTA and other parts of the AA will continue to be applied provisionally for the time being, despite the negative outcome of the referendum on the EU-Ukraine AA in the Netherlands, where the AA has not been ratified. Against the background of the DCFTA, Russia repealed its free trade agreement with Ukraine, resulting in an increase of import duties. Moreover, Russia put an embargo on various food imports from Ukraine. Hence, Ukrainian exports to Russia will shrink further due to trade restrictions and the ongoing recession in its formerly most important trading partner.

Box 2

Western Balkans:¹ economic growth accelerates in 2015 amid pronounced rebalancing

In the second half of 2015, economic growth accelerated on an annual basis in most Western Balkan countries with the exception of the Former Yugoslav Republic of Macedonia (FYR Macedonia) and Albania. Nevertheless, even in these two countries, GDP growth edged up to 3.7% and 2.6%, respectively, in 2015, slightly above the 2014 outcome of 3.5% in FYR Macedonia and 2% in Albania. In Serbia, GDP growth entered positive territory in the second half of 2015 and amounted to 1.8% in 2015 (2014: -0.7%). In Bosnia and Herzegovina and in Kosovo², growth rates accelerated by more than 1.5 percentage points against 2014 to 2.9% and 3.5%, respectively. GDP growth in Montenegro broadly stayed at 2.6% on an annual basis in the second half of 2015 and almost doubled for the whole year 2015 to reach 3.1%.

In most countries, GDP growth was pushed up by domestic demand, mostly with private investment acting as the main driver. Particularly in Albania, Kosovo, and Serbia, GFCF gained speed in 2015 largely as a result of higher FDI inflows. In contrast, in Montenegro, public investment pushed up GDP growth more than private investment. Investment developed positively in Bosnia and Herzegovina as well, but to a great extent as a result of ongoing reconstruction after the floods in summer 2014. The contribution of private consumption to growth remained rather weak in most countries despite low inflation rates, increasing wages in some cases and the rise in employment. However, private consumption benefited from an increasing inflow of remittances in 2015 (especially in Albania, Bosnia and Herzegovina as well as in Kosovo), while in Serbia, restrictive fiscal measures dampened private consumption in 2015.

Looking at foreign trade, export growth weakened somewhat as a result of lower prices for oil in Albania and for basic metals in Kosovo. Serbia and Macedonia reported robust growth of exports in 2015, albeit declining in the latter. Montenegro experienced an exceptional tourism season partly due to diversion effects, which was reflected in very strong export growth, predominately in the third quarter of 2015. In contrast to the previous year, where net exports had contributed positively to GDP growth only in Albania and Serbia, in 2015 positive net exports became a growth driver across the whole region. Although increased investment growth fed through into elevated imports, low oil prices suppressed import growth, thus leaving it largely unchanged as compared to 2014 in most countries.

Industrial production accelerated in the second half of 2015 in some Western Balkan countries largely on the back of enhanced export activity. The increase was particularly pronounced in FYR Macedonia, Serbia, and to a lesser extent in Bosnia and Herzegovina. In Albania, industrial production decelerated strongly in late 2015 and early 2016 due to a slump in the output of the extracting industries, which is also reflected in a much lower GDP growth rate in the fourth quarter of 2015. Agricultural production – an important sector in many

¹ The Western Balkans comprise the EU candidate countries Albania, FYR Macedonia, Montenegro and Serbia as well as the potential candidate countries Bosnia and Herzegovina, and Kosovo. The 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.

² Preliminary data.

Western Balkan economies – surged in Bosnia and Herzegovina in 2015 after having been hit by the floods in 2014. In contrast, Serbia's agricultural output plummeted in 2015, and in Albania, floods and droughts in 2015 negatively affected growth.

The labor markets show some signs of improvement. Employment rates went up in 2015 against 2014 in most countries except in Bosnia and Herzegovina (no data available for Kosovo). The increase was strongest in Albania, where the employment rate rose by 2 percentage points to almost 53%, the highest rate in the region but still well below the average employment rate in the euro area (almost 64%). Moreover, unemployment data (according to the labor force survey) suggest some relief. Unemployment dropped most strongly in Serbia, falling by more than 2 percentage points to 17% in 2015 compared to 2014. On a negative note, in Bosnia and Herzegovina and in Kosovo, rates continued to hover around highly elevated levels.

External imbalances remain substantial even though current account deficits narrowed in most countries in 2015. The improvement was most sizeable in Bosnia and Herzegovina (data only available for the first three quarters of 2015) and in Serbia, driven by a lower deficit of the trade balance. By contrast, in Montenegro, the country with the highest current account deficit in the region, the deficit rose further to 17.6% of GDP in 2015 (2014: –15.2%). This rise was partly driven by a further widening of the trade deficit to above 41% of GDP (2014: 39.8% of GDP). 2015 was marked by a powerful inflow of remittances. For instance, the influx of remittances to Kosovo rose by 9% in annual terms until November 2015. The countries also benefited from strong FDI inflows. Coupled with a narrowing of the current account deficit, incoming FDI and remittances brought the coverage ratio of the current account deficit in the four quarters to September 2015 to more than 50% on average. Bosnia and Herzegovina represents the only notable exception in the region, with a coverage ratio of less than one-fourth.

In the second half of 2015, inflation remained subdued in all Western Balkan countries. Weak price dynamics largely reflected still feeble private consumption but also low imported inflation and a downtrend in global commodity prices. In fact, the deflationary trend in Bosnia and Herzegovina that had started in mid-2013 accelerated to –1.7% in the fourth quarter of 2015, while inflation in FYR Macedonia averaged –0.3% in the second half of 2015. By contrast, prices in Albania posted a minor increase on an annual basis to 2% in the fourth quarter of 2015, bringing inflation in the second half of 2015 to 1.9%. Prices in Montenegro bounced back to 2% on average in the second half of 2015, primarily due to the increase of the excise tax on gasoline.

Both inflation-targeting countries – Albania and Serbia – undershot their inflation targets (3% and 4% \pm 1.5 percentage points, respectively). On the back of low inflation and with the intention to reinvigorate credit dynamics, the National Bank of Albania lowered its key policy rate in two steps from 2.75% in November 2015 to 1.5% as of April 2016. The Albanian lek has remained fairly stable against the euro over the past half year. The National Bank of Serbia (NBS) continued to ease its monetary stance as well and cut its key interest rate by a cumulative 350 basis points in 2015 and by a further 25 basis points in February 2016 to a historic low of 4.25%. The Serbian dinar lost nearly 5% against the euro from October 2015 to March 2016. The NBS has intervened frequently in the foreign exchange market to reduce exchange rate volatility.

Credit risk remains an imminent challenge to financial stability, with shares of nonperforming loans (NPLs) in total loans elevated but on the decline. The (unweighted) country average share ran to 14.2% in the third quarter of 2015, down from 17.9% a year earlier. In particular, in the third quarter of 2015, NPLs as a share of total loans ranged from 9.2% in Kosovo to 22% in Serbia, while Albania registered a large drop to 17.7% as of end-2015. NPL levels in Bosnia and Herzegovina and FYR Macedonia, though, remained broadly unchanged, hovering around 12% and 9%, respectively. On a positive note, the levels of provisioning appear to be adequate. The challenges to banks' asset quality have been addressed through the adoption of a comprehensive NPL resolution strategy in Serbia in August 2015. In addition, Albania and FYR Macedonia set up regulations to prompt write-offs of NPLs after three and

two years, respectively, alongside an improved collateral execution. Kosovo and Bosnia and Herzegovina still lack an NPL resolution mechanism.

Despite the ongoing recovery of economic growth in all Western Balkan countries, credit activity in the private sector remained lackluster and was driven mainly by the household sector. In the second half of 2015, credit volume posted sizeable growth only in FYR Macedonia, Kosovo and Montenegro, accelerating to an average of 8.8%, 7.3% and 8.6%, respectively. In the remaining countries, in particular in Albania and Serbia, high levels of NPLs still thwart the credit recovery, although some steps to rectify conditions have been taken. Loan growth slipped into negative territory in Albania (−1.1%) and decelerated substantially in Serbia (2.3%). Lending in Bosnia and Herzegovina remained below the previous year's levels and stood at 1.9% in the second half of 2015. Overall, a slight shift to lending in domestic currency could be observed in most of the countries.

Better-than-expected revenues coupled with rigorous consolidation measures led to a reduction in the fiscal deficit to 3.7% of GDP in Serbia in 2015. Thus, the target of 5.9% of GDP was undershot by a wide margin. Similarly, Albania is estimated to have underperformed its 2015 fiscal target of 4% of GDP, largely because of capital expenditure cuts, though. In Montenegro, in turn, on the back of increased public spending coupled with a shortfall of both direct and indirect taxes, the fiscal stance was considerably loosened, and the deficit reached 7.9% of GDP in 2015 (initial target: 6.5% of GDP). FYR Macedonia succeeded in narrowing the fiscal deficit to an estimated 3.6% of GDP in 2015, but elevated growth in spending on social transfers and wages resulted in an overshooting of the target (3.3% of GDP). In line with the fiscal rule setting the deficit target at 2% of GDP, the budget deficit edged down to 2% of GDP in 2015 in Kosovo on the back of increases in excise and VAT rates. With a deficit of 1.4% of GDP in 2015, Bosnia and Herzegovina tightened its fiscal stance. However, the fiscal situation remains challenging, not least due to upcoming elevated refinancing needs in parallel to an absence of an IMF-supported program.

With respect to the EU accession process, Montenegro occupies the most advanced position among the countries of the region; it opened two additional chapters in December 2015. This brings the total number of open chapters to 22, while two negotiation chapters have been provisionally closed so far. Serbia started negotiating with the EU and opened the first two chapters in December 2015. At the same time, Albania is to adopt a set of judicial reform measures, which might allegedly pave the country's way to the start of negotiations by end-2016. To mitigate the enduring political challenges in FYR Macedonia, the EU brokered an arrangement with the authorities for early general elections, which are set to be held on June 5, 2016. Yet recent domestic political turmoil might put the elections at risk. Kosovo started implementing the Stabilization and Association Agreement (SAA) with the EU as of April 1, 2016. To mitigate adverse effects of the refugee crisis on the Balkan route, the European Commission has continued to provide financial support, notably to Serbia and FYR Macedonia.

Three Western Balkan countries were in programs with the IMF. Though it noted considerable progress, the IMF postponed the conclusion of its fourth review under the precautionary Stand-By Arrangement (SBA) with Serbia to after the general election set for April 24, 2016. The conclusion of the second review under the 22-month SBA with Kosovo was also postponed because further efforts were needed to preserve fiscal sustainability. For Albania, the conclusion of the seventh review (planned for May) under the 36-month Extended Fund Facility program would free up about EUR 35.94 million for disbursement. Although Bosnia and Herzegovina has recently made some progress, it still has to take measures in a number of areas to be considered for a potential IMF-supported program.

2 Slovakia: strong economic performance continues

GDP growth accelerates on the back of solid investment activity

Slovakia's economy expanded rapidly during the second half of 2015, reaching a stellar 4.3% year-on-year GDP growth in the fourth quarter. Domestic demand remains the key driver behind recent developments. GFCF increased by 17.3% in the third quarter and by 19.4% in the fourth. Amid deflationary tendencies and a tightening labor market, disposable income increased markedly, supporting robust private consumption growth. Favorable wage dynamics are expected to further strengthen household spending in the medium run. The significant spike in investment activity was largely due to a late drawdown of EU funds. However, recent FDI statistics indicate that the business environment has become more attractive: As a share of GDP, net inflows reached 3.5% in the fourth quarter. In view of considerable investment announced for the automotive sector (according to the latest IMF Article IV consultations, Land Rover and Jaguar will invest some 2% worth of GDP), FDI is seen as a key driver of real GDP growth. Net exports, on the other hand, continue to dampen economic growth. A steep increase in imports again outpaced the expansion of exports. The trade surplus declined to an average of 0.8% of GDP in the fourth quarter of 2015. With stronger profit repatriation of foreign firms, the current account turned negative in 2015 after running a surplus from 2012 to 2014. Mirroring the increased absorption of EU funds, the capital account improved to 7.0% of GDP in the fourth quarter of 2015.

Public debt levels have stabilized and are expected to decline gradually

Notwithstanding the marginal deterioration in the government balance, total public debt as a share of GDP contracted to 52.9% in 2015, thus easily meeting the constitutional debt limit of 55%. Both government income and spending gained some momentum in 2015. On the expenditure side, subsidies, public sector wages and the cofinancing of investments increased outlays compared to 2014. Moderately rising government revenue could not keep pace. As a consequence, the deficit increased to 3.0% of GDP. On the back of solid economic growth, envisaged savings in the healthcare sector and a reduction in public spending (see the National Reform Programme of the Slovak Republic 2015), the deficit is expected to decline to 2.1% in 2016, however. According to the EU Commission's financial stability report, the public debt should decline gradually to some 51% of GDP until 2017. With demand for government debt securities remaining strong, Slovakia is believed to face only negligible financing risks in the medium term.

Downward pressure on prices remains; low interest rate environment supports positive trend in financial deepening

Consumer prices dropped further during the second half of 2015, largely on account of sluggish price dynamics in the oil and energy sector. While core inflation remained in positive territory, the harmonized consumer price index declined by 0.3% and 0.5% year on year in the third and fourth quarters, respectively. However, with financing conditions favorable and the labor market strengthening, disposable income increased in 2015, further underpinning domestic demand. Deflationary tendencies are thus expected to dissipate soon. Supported by the low interest rate environment, household credit grew by some 6% during the second half of 2015. Private lending is primarily driven by residential property purchases: Mortgage loans account for more than 75% of all household loans. They expanded further in 2015, augmenting by some 14%. While private household lending has developed dynamically ever since the financial crisis, total household debt remains well below the levels in most euro area countries. Importantly, previously weak credit to the corporate sector has also been picking up lately, with growth rates of 0.3% in the third and 1.8% in the fourth quarter.

Table 1

Main economic indicators: Slovakia

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.4	2.5	3.6	2.4	2.8	2.9	3.4	3.7	4.3
Private consumption	-0.8	2.3	2.4	1.6	2.3	1.5	2.3	2.8	2.8
Public consumption	2.2	5.9	3.4	5.2	5.1	1.8	3.6	5.2	3.2
Gross fixed capital formation	-1.1	3.5	14.0	3.9	4.0	6.7	9.6	17.3	19.4
Exports of goods and services	6.2	3.6	7.0	2.0	-0.6	5.4	6.1	7.3	9.2
Imports of goods and services	5.1	4.3	8.2	1.9	-1.5	5.2	7.3	9.9	10.5
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	0.3	2.9	4.7	2.2	1.9	2.5	4.2	5.6	6.3
Net exports of goods and services	1.2	-0.4	-0.8	0.2	0.8	0.5	-0.8	-1.8	-1.0
Exports of goods and services	5.7	3.4	6.4	1.8	-0.6	5.3	5.7	6.2	8.4
Imports of goods and services	-4.5	-3.8	-7.3	-1.6	1.4	-4.9	-6.5	-8.0	-9.4
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.4	0.7	0.8	0.6	0.4	0.7	0.2	0.5	1.6
Unit labor costs in manufacturing (nominal, per hour)	-1.0	-3.6	-1.6	-2.6	-4.3	-7.0	0.1	-1.6	2.1
Labor productivity in manufacturing (real, per hour)	6.5	8.3	5.7	6.6	11.2	13.2	3.3	5.0	2.4
Labor costs in manufacturing (nominal, per hour)	5.3	4.3	4.1	3.8	6.4	5.2	3.4	3.3	4.6
Producer price index (PPI) in industry	-1.0	-3.5	-3.0	-3.7	-3.5	-3.7	-2.6	-2.4	-3.2
Consumer price index (here: HICP)	1.5	-0.1	-0.3	-0.1	-0.1	-0.5	-0.1	-0.3	-0.5
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	14.3	13.2	11.5	12.9	12.6	12.5	11.3	11.3	11.0
Employment rate (%, 15–64 years)	59.9	61.0	62.7	61.3	61.7	61.9	62.5	63.0	63.5
Key interest rate per annum (%)	0.5	0.2	0.1	0.1	0.1	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)	5.9	4.9	11.1	5.4	4.9	5.6	7.5	10.7	11.1
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	-2.7	4.9	6.1	-0.0	4.3	10.4	8.1	10.6	1.7
Domestic credit of the banking system	-6.3	7.9	24.8	10.5	6.7	14.1	11.3	14.2	17.2
of which: claims on the private sector	5.3	10.5	13.2	7.1	5.1	5.7	6.4	6.4	7.7
claims on households	8.2	9.8	11.6	5.1	5.4	5.7	5.7	6.1	5.9
claims on enterprises	-2.9	0.7	1.6	2.0	-0.3	0.0	0.7	0.3	1.8
claims on the public sector (net)	-11.6	-2.6	11.6	3.4	1.7	8.4	4.9	7.8	9.5
Other assets (net) of the banking system	21.9	-1.7	-14.4	-5.1	-6.2	-18.9	-12.0	-14.1	-7.9
<i>% of GDP</i>									
General government revenues	38.6	39.2	42.7	..	..	..	..	..	..
General government expenditures	41.3	41.9	45.6	..	..	..	..	..	..
General government balance	-2.7	-2.7	-3.0	..	..	..	..	..	..
Primary balance	-0.8	-0.8	-1.1	..	..	..	..	..	..
Gross public debt	55.0	53.9	52.9	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	47.9	48.4	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.1	32.8	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	4.6	3.8	2.4	3.7	2.0	5.1	3.2	0.8	0.8
Services balance	0.6	0.1	0.1	0.3	-0.3	0.4	0.2	0.3	-0.4
Primary income	-1.8	-2.2	-2.3	-2.6	-2.0	-2.1	-3.5	-3.5	-0.3
Secondary income	-1.8	-1.6	-1.4	-1.5	-1.3	-1.6	-1.6	-1.4	-1.2
Current account balance	1.5	0.1	-1.3	-0.1	-1.6	1.8	-1.7	-3.8	-1.1
Capital account balance	1.4	1.0	3.6	0.6	2.4	1.2	1.7	4.0	7.0
Foreign direct investment (net)	-1.0	0.2	-1.1	-0.0	-2.1	-4.5	3.0	0.1	-3.5
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	83.0	89.3	86.2	91.7	89.3	90.7	87.8	87.6	86.2
Gross official reserves (excluding gold)	0.9	1.5	2.1	1.0	1.5	3.2	1.8	2.6	2.1
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.1	0.2	0.3	0.1	0.2	0.4	0.2	0.3	0.3
<i>EUR million, period total</i>									
GDP at current prices	73,835	75,560	78,071	19,937	19,362	17,859	19,425	20,619	20,169

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

3 Slovenia: turnaround to the better has succeeded

Temporary strengthening of GDP growth in final quarter of 2015

GDP growth strengthened to 3.3% in the fourth quarter of 2015 on the back of a revival of domestic demand. More generally, private consumption growth picked up in the second half of 2015, supported by improved consumer confidence, stronger employment growth, decreasing unemployment, continued gains in real wages and some expansion of credit to households. Public consumption growth also accelerated in the second half of 2015 (especially in the fourth quarter). GFCF remained volatile, showing a slight expansion overall in the second half of 2015. Investments in machinery and equipment were underpinned by relatively high capacity utilization and the continued moderation in corporate credit contraction. Restocking continued to aid GDP growth in the reporting period. By contrast, the contribution of net exports turned slightly negative at the end of the year, as export growth continued to slow down while import growth was upheld by domestic demand-led imports. High-frequency indicators from early 2016 represent a mixed bag, with further healthy retail sales, a substantial decrease in construction activity and a slowdown in foreign trade.

Budget deficit declines but exit from EDP by mid-2016 not yet certain

The general government deficit declined to 2.9% of GDP in 2015 from 5% in 2014. For 2016, the government plans a further reduction. Nevertheless, it is premature to say whether Slovenia will exit the excessive deficit procedure (EDP) in mid-2016, as in early March 2016, the Eurogroup called for additional structural efforts toward the medium-term objective and compliance with the expenditure benchmark under the Stability and Growth Pact. The European Commission's 2015 Fiscal Sustainability Report found no significant short-term fiscal sustainability risks for the country, though some elements (high nonresident holdings of government debt and high NPLs in the banking sector) may possibly pose challenges. By contrast, the European Commission sees high sustainability risks for Slovenia over the medium and long term, citing the high sensitivity of debt to possible economic and interest rate shocks and the projected steep rise in age-related fiscal costs combined with the high initial debt-to-GDP ratio.

Improving credit market, strengthening banking sector

The latest data have confirmed that banking sector developments have turned to the better. The negative annual growth rate of credit to households and corporations started to diminish in the second half of 2015 as household credit growth turned mildly positive and corporate credit growth contracted less dynamically. This mirrored households' better income position, a revival of the housing market and the favorable overall effect of the economic recovery on the financial position of the nonfinancial sector. Banks' profitability improved as well in 2015, mainly because provisioning and impairment costs dropped significantly, strengthening banks' capital position. The volume and share of nonperforming claims has been diminishing gradually but slowly to reach 10% by end-2015. However, the high share of NPLs, especially in lending to SMEs and foreign borrowers, represents a risk factor for the Slovenian banking sector: It reduces banks' lending and thus profit-generating capacity in an already difficult environment of low and falling interest rates and interest rate spreads.

Table 2

Main economic indicators: Slovenia

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-1.1	3.0	2.9	3.6	2.8	2.8	2.7	2.6	3.3
Private consumption	-4.1	0.7	1.7	0.8	-0.1	0.7	1.2	2.5	2.6
Public consumption	-1.5	-0.1	0.7	-0.5	0.8	-1.2	0.2	0.8	3.0
Gross fixed capital formation	1.7	3.2	0.5	6.6	-4.1	1.5	-0.6	-2.0	3.4
Exports of goods and services	3.1	5.8	5.2	6.4	7.8	6.2	6.2	5.0	3.3
Imports of goods and services	1.7	4.0	4.4	5.6	3.6	6.1	4.1	3.7	3.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-2.1	1.5	1.9	2.6	-0.6	2.3	0.8	1.3	3.4
Net exports of goods and services	1.1	1.6	0.9	1.0	3.4	0.6	1.9	1.4	-0.1
Exports of goods and services	2.2	4.4	4.0	4.8	5.9	4.8	4.6	3.8	2.6
Imports of goods and services	-1.2	-2.8	-3.0	-3.8	-2.6	-4.2	-2.7	-2.5	-2.7
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.2	-1.3	-0.6	-1.2	-0.3	-0.8	-0.2	-1.0	-0.5
Unit labor costs in manufacturing (nominal, per hour)	3.0	-0.0	-5.2	1.2	-2.1	-5.1	-3.9	-7.8	-3.7
Labor productivity in manufacturing (real, per hour)	-2.2	3.7	5.9	4.6	5.4	7.3	6.1	6.3	4.0
Labor costs in manufacturing (nominal, per hour)	0.6	3.8	0.5	5.9	3.2	1.9	2.0	-2.0	0.2
Producer price index (PPI) in industry	0.0	-0.7	-0.2	-0.6	-0.1	0.0	0.6	-0.4	-1.2
Consumer price index (here: HICP)	1.9	0.4	-0.8	0.1	0.0	-0.5	-0.8	-0.8	-0.9
EUR per 1 SIT, + = SIT appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	10.3	9.9	9.1	9.4	9.7	9.9	9.3	8.7	8.5
Employment rate (%, 15–64 years)	63.3	63.9	65.2	64.6	64.0	63.5	65.5	66.7	65.2
Key interest rate per annum (%)	0.5	0.2	0.1	0.1	0.1	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)	0.2	7.8	5.3	6.4	7.8	5.5	5.0	3.8	5.3
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	29.1	48.9	23.4	34.1	25.2	16.8	3.3	-0.7	-1.6
Domestic credit of the banking system	-16.4	-32.9	-10.7	-19.2	-19.1	-11.0	1.0	3.0	7.8
of which: claims on the private sector	-30.0	-38.4	-20.7	-22.6	-15.5	-13.4	-12.6	-12.4	-4.8
claims on households	-2.3	-2.2	-0.3	-1.0	-0.7	-0.1	0.1	0.0	0.4
claims on enterprises	-27.7	-36.2	-20.4	-21.6	-14.8	-13.4	-12.7	-12.4	-5.2
claims on the public sector (net)	13.6	5.5	10.0	3.4	-3.6	2.4	13.6	15.4	12.6
Other assets (net) of the banking system	-13.2	-7.9	0.8	-8.4	1.8	-0.3	0.7	1.5	-0.9
<i>% of GDP</i>									
General government revenues	45.2	44.9	45.1	..	..	..	..	..	..
General government expenditures	60.3	49.9	48.0	..	..	..	..	..	..
General government balance	-15.0	-5.0	-2.9	..	..	..	..	..	..
Primary balance	-12.5	-1.8	0.1	..	..	..	..	..	..
Gross public debt	71.0	81.0	83.2	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	89.4	81.6	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.0	28.5	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	2.0	3.2	4.2	3.2	3.4	3.9	4.2	4.8	3.9
Services balance	4.9	4.7	5.3	6.0	4.2	4.5	5.4	6.3	5.1
Primary income	-0.5	-0.2	-1.0	-1.2	-0.4	-1.4	-0.1	-1.2	-1.2
Secondary income	-0.8	-0.7	-1.3	-0.7	0.5	-2.0	-1.2	-0.9	-1.0
Current account balance	5.6	7.0	7.3	7.3	7.8	5.0	8.3	9.0	6.9
Capital account balance	0.2	-0.5	0.1	0.1	-1.6	0.3	-0.3	0.6	-0.4
Foreign direct investment (net)	-0.1	-1.6	-2.5	-3.6	2.0	-4.0	0.2	-1.0	-5.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	116.8	124.2	116.1	123.9	124.2	125.8	119.7	119.2	116.1
Gross official reserves (excluding gold)	1.6	2.0	1.8	2.0	2.0	2.1	2.1	1.9	1.8
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3
<i>EUR million, period total</i>									
GDP at current prices	35,907	37,303	38,543	9,640	9,410	8,950	9,869	9,904	9,820

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

4 Bulgaria: exports boost GDP growth as private consumption recovers

GDP development pushed by strong net exports

Robust net exports were the key contributing factor to healthy GDP growth of 3% for 2015, which is twice as high as in 2014 (1.5%). Bulgaria managed to increase exports to all important European countries. More than 60% of Bulgaria's exports go to other EU countries, with Germany, Italy, Romania and Greece representing the most important trading partners. However, exports to Turkey, Bulgaria's main non-EU export destination, decreased by 3.3%. Exports also increased in almost all major sectors (manufactured goods: 7.4%, machinery and transport equipment: 14.5%, chemicals: 13.3%).

Domestic demand stabilizes in the second half of 2015

Private consumption rebounded during the second half of 2015, with growth at 2.2% (−0.9% in the first half of 2015). This development was based on steadily decreasing unemployment rates (8% in the fourth quarter of 2015 against 10% in the second quarter of 2015), increasing wages and persistently low oil prices. The positive momentum in the labor market was also underpinned by increasing job vacancies (+6.3% in December 2015). However, significant challenges in the labor market remain, as 60% of the unemployed are long-term unemployed and as the working age population in Bulgaria is still decreasing. The strong positive development of investments in the second half of 2015 (+5.2%) was mainly based on an inflow of funds under EU programs. Although food and service prices continued to rise moderately and electricity prices were also higher, the headline HICP remained negative (−1.0% in February 2016). Even excluding the effect of decreasing oil prices, inflation would have been slightly negative at −0.3% in February 2016.

Credit growth still negative, banks hoard liquidity at the central bank

Credit growth was still negative for loans to households (−0.4%) and loans to businesses (−0.9%) in the fourth quarter of 2015, although deposits were increasing (10.6%). Consequently, Bulgarian banks' liquidity position increased continuously due to the limited demand for loans and the lack of investment opportunities. A substantial part of liquidity – 16% of total assets in December 2015 – was deposited at the Bulgarian National Bank (BNB). Owing to its currency board arrangement based on the euro, the BNB charges negative interest rates on banks' excess reserves, as the interest rate on the ECB deposit facility has gone negative. After the failure of Corporate Commercial Bank in 2014, the BNB launched the ongoing reform of banking supervision practices. The restructuring process will take until end-2016 and will be reviewed by the IMF and World Bank. At the same time, Bulgaria's banking, pension and insurance sectors will undergo asset quality reviews and stress tests. Results are expected at the end of summer for the banking sector and at end-2016 for the pension and insurance sector.

Better-than-expected economic development leads to lower budget deficit

Stronger-than-expected growth and improved tax collectability boosted tax revenues by 8.7% from January to November 2015. As a consequence, the government of Bulgaria was able to help boost cofinanced EU projects under the 2007–2013 framework. Still, overall expenditure increased by just 4% from January to November 2015, mainly because operating expenditures decreased and social security, assistance and social care expenditures remained almost stable. Bulgaria plans to consolidate the budget further until 2018 (2017: budget deficit of 0.6% of GDP, 2018: 0.4% of GDP). Improvements are projected to come mainly from reductions in expenditures.

Table 3

Main economic indicators: Bulgaria

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.3	1.5	3.0	0.7	2.4	3.3	2.8	3.0	2.9
Private consumption	-1.4	2.7	0.8	1.5	3.2	-1.0	-0.7	2.1	2.4
Public consumption	2.3	0.1	0.2	-0.5	-10.2	-3.3	0.8	1.0	2.3
Gross fixed capital formation	0.3	3.4	2.5	3.5	0.1	-3.6	0.6	3.2	7.2
Exports of goods and services	9.2	-0.1	7.6	-3.3	4.2	15.0	6.9	4.3	6.4
Imports of goods and services	4.9	1.5	4.4	-3.0	5.4	6.3	4.9	2.3	4.3
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-1.3	2.7	0.9	1.4	3.3	-2.0	1.5	1.5	1.8
Net exports of goods and services	2.6	-1.1	2.1	-0.4	-0.9	5.1	1.2	1.6	1.1
Exports of goods and services	5.8	-0.1	5.0	-2.4	2.4	9.8	4.5	3.0	3.7
Imports of goods and services	-3.2	-1.0	-2.9	2.0	-3.4	-4.7	-3.3	-1.5	-2.7
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	7.3	4.2	-0.8	6.6	5.5	-0.7	-1.1	-2.5	1.1
Unit labor costs in manufacturing (nominal, per hour)	4.8	0.4	5.6	0.2	1.2	5.3	3.1	6.6	7.4
Labor productivity in manufacturing (real, per hour)	-0.3	6.3	2.4	6.5	5.9	1.2	3.4	2.5	2.2
Labor costs in manufacturing (nominal, per hour)	4.6	6.7	8.1	6.7	7.2	6.6	6.6	9.2	9.8
Producer price index (PPI) in industry	-1.5	-1.2	-2.0	-0.4	-0.4	-1.3	-0.0	-2.4	-4.1
Consumer price index (here: HICP)	0.4	-1.6	-1.1	-1.2	-1.8	-1.7	-0.6	-0.9	-1.0
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)	13.0	11.5	9.3	10.8	10.7	10.7	10.0	8.3	8.0
Employment rate (%, 15–64 years)	59.5	61.1	62.9	62.8	61.4	61.0	62.4	64.5	63.7
Key interest rate per annum (%) ¹	..	..	..	..	..	..	..	..	..
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	8.9	1.1	8.8	7.2	1.1	1.9	2.5	2.1	8.8
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	12.8	15.7	18.3	7.5	9.9	14.0	15.7	11.3	8.3
Domestic credit of the banking system	5.9	-4.9	-5.7	0.9	-7.5	-10.1	-12.5	-8.4	1.7
of which: claims on the private sector	2.9	-6.7	-7.6	2.1	-6.4	-6.8	-8.0	-7.7	-1.2
claims on households	-0.4	-0.5	-0.8	0.0	-0.5	-0.5	-0.5	-0.4	-0.4
claims on enterprises	3.3	-6.2	-6.8	2.0	-5.9	-6.3	-7.5	-7.3	-0.9
claims on the public sector (net)	3.0	1.8	1.9	-1.1	-1.1	-3.3	-4.6	-0.7	2.9
Other assets (net) of the banking system	-0.6	-0.6	-2.6	-1.2	-1.3	-2.0	-0.7	-0.8	-1.3
<i>% of GDP</i>									
General government revenues	37.2	36.6	38.2	..	..	..	..	..	..
General government expenditures	37.6	42.1	40.2	..	..	..	..	..	..
General government balance	-0.4	-5.4	-2.1	..	..	..	..	..	..
Primary balance	0.3	-4.6	..	..	..	..	..	..	..
Gross public debt	17.1	27.0	26.7	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	113.3	116.6	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	25.5	24.9	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-7.0	-6.5	-4.3	-4.6	-6.1	-5.8	-3.8	-2.4	-5.8
Services balance	6.3	5.9	6.1	13.6	1.5	3.0	4.8	13.3	2.5
Primary income	-3.8	-2.3	-4.1	-2.4	-2.1	-4.3	-6.9	-3.9	-1.6
Secondary income	5.7	3.8	3.7	2.3	2.0	8.4	4.0	2.7	1.0
Current account balance	1.3	0.9	1.4	8.9	-4.6	1.3	-1.9	9.7	-3.8
Capital account balance	1.1	2.2	3.2	1.7	3.6	3.2	4.0	2.5	3.2
Foreign direct investment (net)	-3.0	-2.1	-3.4	0.9	-4.2	-6.2	-3.7	-4.8	0.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	92.0	96.7	82.9	93.8	96.7	97.1	86.9	84.7	82.9
Gross official reserves (excluding gold)	31.9	35.6	43.1	33.6	35.6	40.7	40.7	42.8	43.1
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.9	6.5	8.0	6.2	6.5	7.4	7.4	7.9	8.0
<i>EUR million, period total</i>									
GDP at current prices	41,912	42,751	44,162	11,853	11,968	8,965	11,069	12,011	12,117

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

¹ Not available in a currency board regime.

5 Croatia: recovery faces headwinds owing to fiscal consolidation needs

Return to growth backed by recovery of private consumption and investment

The year 2015 marked the end of six years of recession in Croatia: GDP growth turned positive and reached 1.6%. In particular, the third quarter saw surprisingly strong growth. The recovery was based on both domestic demand and export gains. With an overall positive net contribution in 2015, exports helped to lead the country out of recession. Only in the fourth quarter of 2015 did export growth decelerate while imports accelerated further, leading to a negative contribution of net exports. But domestic demand was also a key driver of the recovery. After three years of negative growth, private consumption recovered and accelerated throughout 2015 on the back of a tax reform in January 2015 and an increase in real wages as well as a modest improvement in employment. GFCF accelerated during the whole of 2015, reaching 1.6% average growth in 2015 after having contracted in 2014. Public consumption also grew by 0.6% despite the need for consolidation delineated by the EDP.

Tourism boosts current account surplus; primary income balance improves temporarily

The current account balance stayed in surplus, climbing to 5.2% of GDP in 2015, bolstered by the rise in tourism and a further increase in the surplus of secondary income due to the growing use of EU funds. The large increase in the current account surplus was, however, mainly attributable to a positive primary income balance in the third quarter that resulted from losses by foreign-owned banks following the conversion of Swiss franc loans. In 2015, net FDI declined to 0.3% of GDP. At end-2015, gross external debt, around one-third of which was government debt, stood at 103.7% of GDP. External debt declined by EUR 1.1 billion from 2014, mainly as a result of the deleveraging of credit institutions, while unfavorable exchange rate developments had adverse effects specifically on the government sector's U.S. dollar-denominated external debt.

Price levels contract mildly, Swiss franc loans to households are converted

Inflation turned negative in 2015 mainly as a result of lower energy prices and somewhat lower food prices, while the sharp decrease in unit labor costs leveled out. Deflation is slowing the rate of debt reduction. The ratio of NPLs to total loans remains high, coming to 16.6% at end-2015. Credit growth was again negative in 2015. Although the contraction was much smaller than in previous years, credit growth returned to negative territory in the final quarter of the year. The corporate sector saw a reduction in debt to domestic credit institutions but an increase in borrowing from abroad. Like previous years, 2015 was marked by growth in the indebtedness of private enterprises and deleveraging of public enterprises. The development of household debt was largely influenced by the conversion of Swiss franc loans into euro loans. According to the Croatian National Bank, between November 2015 and January 2016, Swiss franc loans to households declined by HRK 9.4 billion, HRK 6.6 billion of which can be ascribed to conversion and HRK 2.8 billion of which consisted in the write-off of part of the principal of Swiss franc-denominated loans.

Budgetary target for 2016 hinges on growth

The general government deficit decreased from 5.6% to 4.2% of GDP, and gross public debt increased less than originally expected, augmenting from 85.1% to 86.0% of GDP. On March 21, 2016, the Croatian Parliament adopted the 2016 budget with a deficit target of 2.7% of GDP. On March 11, Moody's downgraded Croatia's long-term issuer rating to Ba2, citing the government's large and increasing debt burden and the weak medium-term economic growth prospects.

Table 4

Main economic indicators: Croatia

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-1.1	-0.4	1.6	-0.2	0.2	0.5	1.2	2.8	1.9
Private consumption	-1.8	-0.7	1.2	-1.1	-0.5	0.4	0.6	1.4	2.4
Public consumption	0.3	-1.9	0.6	-1.3	-0.5	0.6	0.4	0.6	0.8
Gross fixed capital formation	1.4	-3.6	1.6	-3.5	-4.1	-0.4	0.8	2.2	3.7
Exports of goods and services	3.1	7.3	9.2	5.0	5.9	7.2	10.2	8.0	11.6
Imports of goods and services	3.1	4.3	8.6	5.2	0.3	5.7	6.9	8.1	13.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-1.1	-1.7	1.2	-0.9	-2.1	0.4	-0.0	1.3	3.0
Net exports of goods and services	0.0	1.3	0.5	0.9	2.2	-0.0	1.1	1.6	-1.1
Exports of goods and services	1.3	3.1	4.2	3.1	2.3	2.5	4.3	5.1	4.8
Imports of goods and services	-1.3	-1.8	-3.8	-2.1	-0.1	-2.5	-3.2	-3.5	-5.9
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	-2.2	-2.4	-0.4	-2.6	-3.8	-0.3	0.7	-0.9	-1.2
Unit labor costs in manufacturing (nominal, per hour)	2.2	-5.6	-3.7	-5.3	-6.1	-0.7	-2.9	-6.0	-5.2
Labor productivity in manufacturing (real, per hour)	-0.7	5.6	6.1	5.4	6.9	2.0	7.1	7.9	6.9
Labor costs in manufacturing (nominal, per hour)	2.0	-0.3	2.0	-0.2	0.3	1.2	4.0	1.4	1.3
Producer price index (PPI) in industry	-0.4	-2.7	-3.9	-2.6	-2.8	-4.6	-2.6	-4.1	-4.2
Consumer price index (here: CPI)	2.3	0.2	-0.3	0.3	0.2	-0.3	-0.0	-0.3	-0.4
EUR per 1 HRK, + = HRK appreciation	-0.8	-0.7	0.3	-1.0	-0.5	-0.4	0.3	0.6	0.6
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	17.5	17.5	16.5	15.8	18.5	18.3	15.8	15.6	16.3
Employment rate (%, 15–64 years)	52.6	54.6	55.8	56.9	54.0	53.8	56.2	57.5	55.8
Key interest rate per annum (%)	..	..	..	..	..	..	..	..	..
HRK per 1 EUR	7.6	7.6	7.6	7.6	7.7	7.7	7.6	7.6	7.6
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	4.0	3.2	5.1	3.2	3.2	2.8	4.8	4.6	5.1
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	12.7	10.9	11.5	8.1	4.8	7.3	5.3	4.7	6.5
Domestic credit of the banking system	-3.1	-1.8	-0.2	-4.8	0.0	-1.2	2.1	1.8	-0.3
<i>of which: claims on the private sector</i>	-7.0	-2.5	-4.1	-2.8	-1.6	-0.8	-0.7	-1.5	-2.4
<i>claims on households</i>	-1.7	-1.3	-1.1	-0.7	-0.4	0.4	0.4	-0.3	-0.7
<i>claims on enterprises</i>	-5.3	-1.2	-3.0	-2.0	-1.2	-1.2	-1.2	-1.2	-1.7
<i>claims on the public sector (net)</i>	3.9	0.7	3.9	-2.0	1.6	-0.4	2.8	3.3	2.2
Other assets (net) of the banking system	-1.8	-1.8	-2.8	-0.2	-1.7	-3.4	-2.6	-1.9	-1.1
<i>% of GDP</i>									
General government revenues	42.5	42.6	43.4	..	..	..	..	..	..
General government expenditures	47.8	48.2	47.5	..	..	..	..	..	..
General government balance	-5.4	-5.6	-4.2	..	..	..	..	..	..
Primary balance	-1.9	-2.1	-0.6	..	..	..	..	..	..
Gross public debt	80.7	85.1	86.0	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	102.8	101.4	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	40.2	40.2	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-15.1	-14.8	-15.1	-13.9	-12.1	-17.1	-16.1	-14.2	-13.4
Services balance	15.6	16.8	17.9	39.6	5.7	3.3	17.3	41.3	5.7
Primary income	-2.0	-3.3	-0.7	-4.1	-1.3	-2.2	-3.8	2.9	-0.2
Secondary income	2.6	2.1	3.1	2.2	2.2	3.1	2.8	2.3	4.3
Current account balance	1.0	0.9	5.2	23.9	-5.5	-12.9	0.3	32.3	-3.6
Capital account balance	0.1	0.2	0.4	0.1	0.4	0.2	0.4	0.3	0.7
Foreign direct investment (net)	-1.9	-3.1	-0.3	-2.6	-3.5	-2.7	-0.2	0.6	0.6
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	105.7	108.5	103.7	108.1	108.5	114.1	112.8	107.5	103.7
Gross official reserves (excluding gold)	29.7	29.5	31.2	28.2	29.5	32.9	31.7	30.8	31.2
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	8.3	8.0	7.9	7.6	8.0	8.7	8.3	8.0	7.9
<i>EUR million, period total</i>									
GDP at current prices	43,492	43,024	43,911	11,738	10,721	9,834	10,965	12,140	10,973

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

6 Czech Republic: solid growth amid sluggish price dynamics

Late drawdown of EU funds fuels real GDP growth in the second half of 2015

The Czech economy expanded rapidly (4.2% year on year) during the second half of 2015 as a result of both temporary effects and structural dynamics. Fueled by a late drawdown of EU funds, public consumption growth peaked at 4.6% in the third quarter, and GFCF expanded swiftly throughout the second half of 2015. Investments were also supported by favorable financing conditions and low oil prices. Accelerating household consumption compensated for a moderate slowdown of government spending in the fourth quarter. Consumption was powered by a further improvement in the labor market. The unemployment rate declined to its lowest level since late 2008 while the employment rate rose to above 70%, its highest reading since the start of transition. Against this background and also given low inflation rates, real wages were on the rise. These trends reconfirm the importance of domestic demand in driving real GDP growth. While foreign demand slackened slightly compared to the first half of 2015, exports remained a critical source of recent growth. Sustained increases in labor productivity (5% in the third quarter) should help make the Czech business environment more attractive for foreign investors in the medium run. In the third and fourth quarter of 2015, FDI decreased slightly, however.

Tightening labor market corroborates positive inflation expectations in the medium term

Headline inflation dropped to 0% in the fourth quarter of 2015, reflecting falling energy prices as well as lower rises in the price of processed food. Against this background, the Czech National Bank (CNB) decided to continue its commitment to support the exchange rate (at a floor of CZK 27.0 per EUR 1 or weaker) and delayed its potential exit from the floor to the start of 2017 at the earliest. In the review period, the CNB intervened in the foreign exchange market several times, buying some EUR 7 billion. Before August 2015, the CNB had not intervened to defend its target. Foreign exchange reserves went up from 31% of GDP in the second quarter to 35.9% of GDP in the fourth quarter of 2015. With this comparatively moderate level of foreign exposure, the CNB is believed to maintain a firm position in fighting deflationary tendencies. Furthermore, a tightening labor market indicates that wage inflation could soon pick up. Consumer prices should follow suit. In fact, inflation already increased to 0.5% in January and February 2016, with all major components of the HICP delivering somewhat higher inflation contributions.

Nominal public debt contracts despite strong fiscal stimuli and banking system remains resilient to adverse shocks

Fiscal policy has been instrumental in the recent economic recovery. Nominal public debt contracted to 41.1% of GDP in 2015 and is expected to remain well below the EU stability threshold of 60% of GDP in the medium term. By cofinancing private investments, government funds most likely contributed to the buildup of private sector credit. Claims on enterprises grew by 4.1% in the third quarter and by 1.8% in the fourth quarter of 2015. At the same time, the share of NPLs remained stable (6.4% for enterprises and 4.5% for households in the third quarter of 2015), and the banking system continues to build up capital buffers. With strong capital adequacy (17.3% in the third quarter of 2015) and profitability figures, the capital buffers of the sector are expected to remain high even in the event of adverse shocks.

Table 5

Main economic indicators: Czech Republic

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-0.5	2.0	4.2	2.6	1.0	4.0	4.5	4.1	4.3
Private consumption	0.7	1.5	2.8	1.6	1.8	2.7	2.8	2.7	3.0
Public consumption	2.3	1.8	2.8	0.4	3.0	2.3	2.5	4.5	1.9
Gross fixed capital formation	-2.7	2.0	7.3	3.0	1.1	3.5	8.6	8.0	8.5
Exports of goods and services	0.0	8.9	7.0	8.5	6.7	7.4	7.2	5.4	8.0
Imports of goods and services	0.1	9.8	7.9	8.8	7.5	9.2	8.3	6.5	7.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-0.5	2.2	4.4	2.5	1.4	4.5	4.8	4.6	3.7
Net exports of goods and services	-0.0	-0.2	-0.2	0.1	-0.4	-0.6	-0.3	-0.5	0.6
Exports of goods and services	0.0	6.8	5.9	6.4	5.1	6.5	6.0	4.4	6.6
Imports of goods and services	-0.0	-7.0	-6.1	-6.3	-5.5	-7.2	-6.3	-4.9	-6.0
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.6	0.1	-0.6	-1.3	2.5	1.3	-0.8	-0.5	-0.5
Unit labor costs in manufacturing (nominal, per hour)	-0.4	-1.8	0.1	-0.8	0.1	-1.7	-1.5	-3.6	7.2
Labor productivity in manufacturing (real, per hour)	3.2	4.9	3.9	2.3	4.1	4.4	4.3	5.0	1.8
Labor costs in manufacturing (nominal, per hour)	2.5	3.1	4.0	1.5	4.2	2.6	2.7	1.2	9.1
Producer price index (PPI) in industry	0.7	1.0	-2.5	1.8	-0.2	-2.0	-1.5	-3.1	-3.4
Consumer price index (here: HICP)	1.4	0.4	0.3	0.7	0.5	0.0	0.7	0.3	0.0
EUR per 1 CZK, + = CZK appreciation	-3.2	-5.6	0.9	-6.4	-3.4	-0.7	0.2	2.0	2.1
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.0	6.2	5.1	6.0	5.8	6.0	5.0	4.9	4.5
Employment rate (%, 15–64 years)	67.7	69.0	70.2	69.3	69.8	69.4	70.2	70.5	70.8
Key interest rate per annum (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
CZK per 1 EUR	26.0	27.5	27.3	27.6	27.6	27.6	27.4	27.1	27.1
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	5.8	5.9	8.0	4.8	5.9	5.6	7.0	8.8	8.0
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	11.3	5.8	7.2	4.6	0.1	0.5	2.2	3.5	6.7
Domestic credit of the banking system	5.2	12.1	10.2	4.9	8.1	8.9	6.8	5.5	2.0
<i>of which: claims on the private sector</i>	4.8	5.8	7.7	2.3	2.9	3.2	4.5	6.3	4.6
<i>claims on households</i>	3.1	2.5	4.0	1.4	1.0	1.1	2.1	2.2	2.8
<i>claims on enterprises</i>	1.6	3.3	3.7	0.9	1.8	2.1	2.4	4.1	1.8
<i>claims on the public sector (net)</i>	0.4	6.3	2.5	2.5	5.2	5.7	2.3	-0.8	-2.6
Other assets (net) of the banking system	-5.6	-5.7	-3.1	-4.6	-2.3	-3.9	-2.1	-0.2	-0.7
<i>% of GDP</i>									
General government revenues	41.6	40.8	42.2	..	..	..	..	..	..
General government expenditures	42.8	42.8	42.6	..	..	..	..	..	..
General government balance	-1.3	-1.9	-0.4	..	..	..	..	..	..
Primary balance	0.1	-0.7	0.7	..	..	..	..	..	..
Gross public debt	45.1	42.7	41.1	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	56.3	58.4	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.0	30.5	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	4.1	5.2	4.7	4.4	3.1	7.5	5.0	3.4	3.3
Services balance	1.7	1.3	1.7	1.2	0.7	1.7	1.8	1.7	1.5
Primary income	-6.1	-6.1	-5.5	-8.2	-4.2	-1.7	-9.2	-8.0	-2.7
Secondary income	-0.3	-0.2	-0.0	-0.9	0.5	1.4	-0.3	-0.2	-0.9
Current account balance	-0.5	0.2	0.9	-3.6	0.2	8.9	-2.6	-3.1	1.2
Capital account balance	2.0	0.8	2.4	0.2	0.7	3.0	4.7	0.7	1.3
Foreign direct investment (net)	0.2	-1.9	0.6	-1.5	0.6	-0.2	-0.6	1.3	1.9
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	63.5	68.7	70.7	66.3	68.7	68.7	68.8	73.0	70.7
Gross official reserves (excluding gold)	25.8	28.8	35.9	27.9	28.8	30.9	32.0	34.7	35.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.4	4.5	5.5	4.4	4.5	4.8	4.9	5.3	5.5
<i>EUR million, period total</i>									
GDP at current prices	156,816	154,722	163,985	39,536	40,502	37,477	40,954	42,166	43,387

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

7 Hungary: EU funds and monetary policy support growth and fiscal consolidation in 2015

GDP growth picks up in fourth quarter of 2015

GDP grew unexpectedly strongly at 3.2% in the final quarter of 2015. The acceleration was attributable mainly to the renewed strengthening of investment activity on the back of strong public investment. Consumption growth of both households and the general government also gained pace. The former was potentially linked to accelerating real wage growth, decreasing unemployment and improving consumer sentiment, whereas household credit continued to contract, partly because the remaining foreign currency household loans were converted in December 2015. Government consumption may have been supported by the year-end spending of available budgetary resources. The contribution of net exports to GDP growth decreased sharply at the end of 2015, as weakening demand from other EU Member States caused export growth to slow down, while import growth remained steady. Destocking shaved a considerable 1.2 percentage points off the GDP growth rate in the fourth quarter of 2015. High-frequency indicators from early 2016 signaled a slowdown of activity in various segments of the economy.

2015 budget deficit well below target

Hungary's general government budget deficit decreased to 2.0% of GDP in 2015, substantially below the target of 2.4%. For 2016, the government envisages a deficit of 1.8%. The European Commission's 2015 Fiscal Sustainability Report sees no significant short-term risks to fiscal sustainability in Hungary, although the high (albeit diminishing) share of government debt denominated in foreign currencies and/or held by foreign investors, and the share of NPLs in the banking sector, point to some challenges. Over the medium term, the report considers Hungary to be at medium fiscal risk (due to a moderately high stock of debt at around 60% of GDP at the end of the projection period combined with the sensitivity to growth and interest rate shocks), while no sustainability risks appear over the long run.

Central bank sets further monetary stimuli

In response to a downshift in the expected path of inflation, the Hungarian National Bank (MNB) cut its policy rate to 1.2% in March 2016 after having kept it stable since July 2015. It also hinted at further rate cuts in the pipeline. The MNB has also introduced other changes to its monetary policy toolkit (e.g. a downward shift in the interest rate corridor for overnight standing facilities, the abolishment of the two-week deposit facility, an increase in the volume and an improvement of the terms of preferential interest rate swap facilities), which should support banks' purchase of long-term government securities and thus help enable more stable and cheaper domestic financing of government debt. As a side effect, however, the move will increase the already comparatively large weight of domestic government securities on banks' balance sheets.

In addition, from the beginning of 2016, the MNB also adapted its Funding for Growth Scheme with an eye to making bank lending less dependent on central bank funding. The MNB's new Growth Supporting Programme narrows the scope for favorable domestic currency financing for SMEs while introducing favorable foreign currency financing for SMEs with natural foreign currency hedging. In addition, a new Market-Based Lending Scheme offers banks the possibility to better manage their interest rate and liquidity risks related to lending to SMEs. In addition, the MNB has committed itself to lowering capital requirements with respect to lending to SMEs. Lending to the corporate sector may also be aided by the removal of distressed commercial real estate assets from banks' balance sheets.

Table 6

Main economic indicators: Hungary

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.9	3.7	2.9	3.4	3.3	3.5	2.7	2.4	3.2
Private consumption	0.3	1.8	3.0	1.0	2.9	3.3	2.7	2.7	3.4
Public consumption	2.4	2.9	0.6	3.1	4.3	-3.3	-2.4	3.5	4.3
Gross fixed capital formation	7.3	11.2	1.9	12.7	1.4	-5.5	5.0	-1.4	6.5
Exports of goods and services	6.4	7.6	8.4	7.2	6.4	8.7	8.8	8.6	7.7
Imports of goods and services	6.3	8.5	7.8	9.7	6.5	7.4	7.5	8.1	8.0
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	1.4	3.9	1.8	4.7	3.0	1.7	1.0	1.3	3.0
Net exports of goods and services	0.5	-0.2	1.2	-1.2	0.2	1.8	1.7	1.1	0.2
Exports of goods and services	5.5	6.7	7.5	6.3	5.4	8.1	7.9	7.6	6.6
Imports of goods and services	-5.1	-6.9	-6.4	-7.5	-5.2	-6.3	-6.2	-6.5	-6.4
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.9	1.9	3.3	2.3	3.3	4.7	3.2	3.2	1.9
Unit labor costs in manufacturing (nominal, per hour)	3.1	-2.4	-0.2	-1.2	0.5	-0.7	0.8	-0.2	-0.7
Labor productivity in manufacturing (real, per hour)	0.6	5.9	4.3	4.4	3.0	4.1	3.6	4.2	5.1
Labor costs in manufacturing (nominal, per hour)	3.6	3.4	4.0	3.1	3.5	3.3	4.4	4.0	4.3
Producer price index (PPI) in industry	0.6	-0.4	-0.9	-0.3	0.4	-2.2	0.2	-0.6	-1.1
Consumer price index (here: HICP)	1.7	0.0	0.1	0.1	-0.4	-0.9	0.4	0.2	0.6
EUR per 1 HUF, + = HUF appreciation	-2.6	-3.8	-0.4	-4.6	-3.6	-0.3	0.0	0.1	-1.3
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	10.3	7.8	6.9	7.4	7.2	7.8	6.9	6.5	6.2
Employment rate (%, 15–64 years)	58.1	61.8	64.0	62.6	62.6	62.4	63.8	64.8	64.8
Key interest rate per annum (%)	4.4	2.4	1.6	2.1	2.1	2.1	1.8	1.4	1.4
HUF per 1 EUR	296.9	308.7	309.9	312.3	308.5	308.9	305.9	312.1	312.6
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	5.5	5.6	6.2	6.0	5.6	4.8	3.9	4.1	6.2
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	11.7	14.5	9.0	16.0	7.5	5.1	2.5	-0.3	1.5
Domestic credit of the banking system	-11.6	0.6	2.3	-7.5	0.4	-3.4	1.3	2.4	1.8
of which: claims on the private sector	-18.1	-4.9	-8.1	-3.1	-0.3	-5.2	-5.6	-6.1	-7.4
claims on households	-9.6	-3.0	-5.3	-1.5	-0.6	-3.7	-3.8	-4.1	-4.4
claims on enterprises	-8.5	-1.9	-2.8	-1.8	0.3	-1.6	-1.8	-2.0	-3.0
claims on the public sector (net)	6.4	5.5	10.4	-4.3	0.7	1.8	6.9	8.5	9.2
Other assets (net) of the banking system	2.0	-3.7	0.8	-2.6	-2.3	3.1	0.1	2.0	3.0
<i>% of GDP</i>									
General government revenues	47.0	47.5	48.7	..	..	..	..	..	..
General government expenditures	49.6	49.8	50.7	..	..	..	..	..	..
General government balance	-2.6	-2.3	-2.0	..	..	..	..	..	..
Primary balance	1.9	1.7	1.6	..	..	..	..	..	..
Gross public debt	76.8	76.2	75.3	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	91.8	88.7	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	28.1	25.3	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.4	2.4	3.9	2.9	1.8	6.0	2.6	3.5	3.8
Services balance	3.9	4.7	4.7	5.9	3.7	4.4	5.2	6.3	2.9
Primary income	-2.9	-4.5	-3.7	-4.5	-4.1	-3.1	-4.3	-3.9	-3.4
Secondary income	-0.4	-0.6	-0.5	-0.1	-0.8	-1.7	-0.2	-0.5	0.1
Current account balance	4.0	2.0	4.4	4.2	0.7	5.7	3.3	5.4	3.4
Capital account balance	3.6	3.7	4.4	3.4	7.0	3.1	4.4	2.4	7.3
Foreign direct investment (net)	-1.1	-2.8	0.2	-4.8	-7.6	0.8	4.5	-2.1	-2.0
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	118.4	114.8	108.9	117.1	114.8	120.6	115.7	108.4	108.9
Gross official reserves (excluding gold)	33.3	33.1	27.8	34.4	33.1	35.0	32.6	29.8	27.8
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.0	4.8	4.0	5.0	4.8	5.1	4.7	4.3	4.0
<i>EUR million, period total</i>									
GDP at current prices	101,268	104,245	108,731	26,648	28,435	24,304	26,924	27,865	29,639

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

8 Poland: further fiscal consolidation postponed

Export growth remains stable, while lower investment growth reduces import growth

GDP growth reached 3.6% in 2015, after having accelerated to 3.8% in the fourth quarter. Total final demand grew by 4.3% in 2015, as real exports rose by 6.5% and domestic demand augmented by 3.3%. Both demand components yielded a roughly equal growth contribution, causing real imports to expand by 6.0%, which implied a net export contribution of 0.4% of GDP. Compared to 2014, export growth remained stable, while domestic demand growth, and thus import growth, strongly decelerated so that the net export contribution switched into positive territory. The goods and services surplus increased to 2.8% of GDP, and the current account deficit narrowed to 0.2%, while the capital account again reached a surplus of 2.4% on the back of EU transfers. The main reason domestic demand growth declined was that inventory buildup contracted. Fixed investment growth decelerated to the still strong rate of 6%. Business investment was supported by contained ULCs, stable profitability, a strong liquidity position, robust corporate loan growth, increased industrial confidence and rising export orders. Public investment benefited from EU funds. Housing investment remained supported by higher incomes and stable housing loan growth. On average in 2015, the real wage sum increased through higher employment, higher nominal wages and deflation. The latter caused the real wage sum to grow more strongly than in 2014 and real retirement pensions to rise at a stable rate. In parallel, consumer confidence improved substantially. However, private consumption expanded less than real income, possibly due to deflation expectations. Moreover, both real wage sum growth and private consumption growth were markedly lower in the second half of 2015 than in the first half. The new government aims at fostering investment. The President of the Republic of Poland submitted a proposal for the conversion of Swiss franc-denominated loans; the central bank and supervisory authority assessed this proposal as problematic for financial stability.

Further deflation expected in the coming quarters

In manufacturing, labor cost rises declined while labor productivity growth remained unchanged. Thus, the rise in ULCs slowed to close to the rate in the euro area. As, in addition, the złoty's euro value remained unchanged on average in 2015, external price competitiveness was maintained. The złoty depreciated against the euro in the second half of 2015; further depreciation in January 2016 was reversed until the end of March. In February, annual headline inflation was negative (−0.2% HICP, −0.8% national CPI), while core inflation stood at 0.3% (HICP) and −0.1% (CPI), with deflation in industrial goods and inflation in services. The Polish Monetary Policy Council (MPC), pursuing an inflation target of 2.5% (CPI), has kept rates on hold since March 2015. On April 6, 2016, it decided to keep the key interest rate at 1.5%, expecting further headline deflation in the coming quarters and stable economic growth.

Fiscal deficit remains close to 3% of GDP

In 2015, the gross general government deficit declined significantly to 2.6% of GDP, a bit lower than the 2.8% projected in the European Commission's autumn 2015 forecast, although revenues of 0.5% of GDP from the sale of mobile internet frequencies were moved to 2016. The headline deficit is seen as rising no higher than 2.8%, as the costs of the new child benefit of 0.9% of GDP are offset by the revenues from the aforementioned sale and from the new taxes on financial institutions and on large retail markets. But the European Commission's staff expects the structural deficit of 2.7% of GDP to climb to 3.2% of GDP in 2016. General government gross debt is anticipated to reach 52.5% of GDP at the end of 2016.

Table 7

Main economic indicators: Poland

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.3	3.3	3.6	2.9	3.8	3.9	3.4	3.5	3.8
Private consumption	0.2	2.5	3.0	2.5	3.1	3.6	3.5	2.6	2.2
Public consumption	2.2	4.9	3.5	5.1	7.6	3.5	2.8	2.4	5.0
Gross fixed capital formation	-1.1	9.8	6.1	9.1	9.6	11.3	6.0	4.9	4.9
Exports of goods and services	6.1	6.4	6.5	4.5	7.9	8.3	4.9	3.9	9.1
Imports of goods and services	1.7	10.0	6.0	10.4	10.1	7.3	5.0	2.8	8.8
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-0.7	4.8	3.3	5.5	4.7	3.2	3.3	3.0	3.6
Net exports of goods and services	1.9	-1.5	0.4	-2.6	-0.9	0.6	0.0	0.6	0.2
Exports of goods and services	2.7	3.0	3.1	2.2	3.4	4.0	2.3	1.9	4.0
Imports of goods and services	-0.8	-4.4	-2.7	-4.8	-4.2	-3.4	-2.3	-1.3	-3.8
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.5	-0.0	-1.7	-0.2	1.4	-1.8	-2.1	-1.2	-1.9
Unit labor costs in manufacturing (nominal, per hour)	-0.2	2.0	1.0	3.5	3.5	0.8	1.1	1.8	0.4
Labor productivity in manufacturing (real, per hour)	3.6	2.4	2.7	0.7	0.7	5.1	1.9	2.6	1.4
Labor costs in manufacturing (nominal, per hour)	3.3	4.6	3.7	4.3	4.3	5.9	3.0	4.5	1.7
Producer price index (PPI) in industry	-1.2	-1.3	-2.1	-1.5	-1.6	-2.4	-1.9	-2.3	-1.6
Consumer price index (here: HICP)	0.8	0.1	-0.7	-0.1	-0.4	-1.2	-0.6	-0.5	-0.5
EUR per 1 PLN, + = PLN appreciation	-0.3	0.3	0.0	1.7	-0.6	-0.2	2.0	-0.3	-1.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	10.5	9.1	7.6	8.3	8.2	8.7	7.5	7.1	7.0
Employment rate (%, 15–64 years)	60.0	61.7	62.9	62.5	62.6	61.9	62.6	63.5	63.7
Key interest rate per annum (%)	2.9	2.4	1.6	2.5	2.0	1.8	1.5	1.5	1.5
PLN per 1 EUR	4.2	4.2	4.2	4.2	4.2	4.2	4.1	4.2	4.3
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	6.2	8.2	9.1	7.9	8.2	8.7	8.2	8.3	9.1
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	0.3	0.4	4.5	1.2	3.1	5.2	2.5	1.8	1.4
Domestic credit of the banking system	9.5	18.2	20.2	10.1	9.5	8.1	9.5	8.1	9.9
<i>of which: claims on the private sector</i>	6.7	11.5	14.3	6.1	6.9	7.6	7.7	7.4	6.8
<i>claims on households</i>	3.0	6.1	7.2	3.2	3.2	4.2	4.7	3.6	3.7
<i>claims on enterprises</i>	3.7	5.4	7.0	3.0	3.7	3.3	3.0	3.8	3.1
<i>claims on the public sector (net)</i>	2.8	6.7	5.9	3.9	2.6	0.5	1.8	0.7	3.0
Other assets (net) of the banking system	1.2	-3.6	-6.7	-3.4	-4.4	-4.5	-3.8	-1.6	-2.1
<i>% of GDP</i>									
General government revenues	38.4	38.9	38.9	..	..	..	..	..	..
General government expenditures	42.4	42.2	41.5	..	..	..	..	..	..
General government balance	-4.0	-3.3	-2.6	..	..	..	..	..	..
Primary balance	-1.5	-1.4	-0.8	..	..	..	..	..	..
Gross public debt	56.0	50.5	51.3	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	44.1	45.0	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	35.4	34.9	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-0.1	-0.8	0.5	-0.4	-1.1	1.7	0.2	-0.8	0.9
Services balance	1.9	2.1	2.3	1.9	1.9	2.2	2.7	2.3	2.0
Primary income	-3.0	-3.2	-2.8	-4.2	-2.0	-2.1	-2.5	-3.8	-2.9
Secondary income	-0.1	-0.1	-0.2	0.4	0.1	-0.9	0.3	0.1	-0.4
Current account balance	-1.3	-2.0	-0.2	-2.4	-1.1	0.9	0.8	-2.2	-0.4
Capital account balance	2.3	2.4	2.4	1.9	2.6	3.7	1.1	4.4	0.7
Foreign direct investment (net)	-0.8	-2.0	-0.7	-3.3	-0.1	-2.4	1.1	-1.3	-0.3
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	70.7	71.1	70.3	71.9	71.1	74.4	73.4	72.5	70.3
Gross official reserves (excluding gold)	18.8	19.3	19.6	18.9	19.3	21.0	21.4	20.6	19.6
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.1	5.0	5.0	5.0	5.0	5.5	5.6	5.3	5.0
<i>EUR million, period total</i>									
GDP at current prices	394,674	410,776	427,716	101,597	113,258	98,885	105,710	104,731	118,390

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

9 Romania: strong but unbalanced growth; political cycle in the spotlight

Consumption-driven growth goes on

GDP growth remained buoyant in the second half of 2015, mainly driven by further accelerating private consumption growth and a continued recovery of GFCF. Fiscal and wage policy measures as well as consumer loans boosted private consumption growth. GFCF picked up in the final quarter of 2015, reflecting public investment activity related to the accelerated absorption of EU funds. Yet, given its subdued base level, GFCF contributed only 1.8 percentage points to overall GDP growth in 2015, much less than private consumption (3.8 percentage points). Export growth decelerated further in the third quarter of 2015 and even became negative in the final quarter against the background of deteriorating competitiveness. Import growth decelerated somewhat as well, but the contribution of net exports to growth remained clearly negative.

Economic policymaking mirrors political cycle

Fiscal and wage policy measures enacted ahead of parliamentary elections in November 2016 are procyclical, which is also visible in private consumption figures. The standard VAT rate was cut by 4 percentage points to 20% from January 2016, and the ongoing series of minimum wage hikes will be continued in May 2016. Both the IMF and the European Commission cautioned that the budget deficit would surpass 3% of GDP in 2017 in a no-policy-change scenario. Minimum wage hikes support private consumption, but weigh on external price competitiveness. While the exchange rate against the euro remained broadly stable, wage increases in the manufacturing sector were not met by productivity increases in 2015. Legislative initiatives in the financial sector, such as the give-in-payment law, which allows retail mortgage borrowers to return real estate collateral to banks in exchange for writing off their loans, drew criticism from the IMF, the European Commission and the ECB, in particular for its retroactive character. Such initiatives overshadow the progress made in the banking sector in recent years, for example in reducing NPLs and in decreasing in the loan-to-deposit ratio.

Small but widening current account deficit

The current account balance deteriorated in the second half of 2015. After having shown a balanced position in the second half of 2014, the current account deteriorated throughout the past year, bringing the deficit to 1.1% of GDP in 2015. The worsening was mainly driven by a widening primary income deficit, but the trade deficit was also higher. As the capital account remained robust, Romania maintained a positive net lending position from the current and capital accounts, however. This implied a further reduction of the gross external debt ratio, but the reduction decelerated in the second half of 2015. Net FDI inflows remained positive at a moderate level.

Tax cuts fuel deflation, policy rate unchanged

The reduction of indirect taxes has impacted consumer prices and in turn real disposable income. After HICP inflation turned negative in the second half of 2015, it fell deeper into negative territory in the first two months of 2016. The year-on-year HICP rate dropped to -2.1% in February 2016. Without VAT rate cuts, HICP inflation would have remained clearly positive. The Banca Națională a României (BNR) projects the headline CPI rate (the inflation rate on which its inflation target is based; -2.7% in February 2016) to become positive again in June 2016 and to enter the target variation band of 2.5% \pm 1 percentage point in early 2017. The BNR has kept its policy rate unchanged at 1.75% since May 2015, pointing inter alia to risks induced by the fiscal and wage policy stance.

Table 8

Main economic indicators: Romania

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	3.5	3.0	3.7	3.2	2.8	4.3	3.4	3.6	3.7
Private consumption	1.3	3.9	6.1	3.7	4.1	4.8	5.4	6.4	7.6
Public consumption	-6.8	0.5	1.8	1.8	2.6	2.9	1.2	2.4	1.2
Gross fixed capital formation	-6.8	3.1	7.0	4.4	3.1	8.1	8.2	3.7	11.0
Exports of goods and services	18.1	8.4	4.6	8.0	4.8	7.9	8.0	4.6	-1.3
Imports of goods and services	9.4	8.3	8.6	6.0	10.6	11.3	9.9	9.7	4.4
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-0.1	3.2	5.3	2.3	6.1	6.7	7.3	4.4	3.6
Net exports of goods and services	3.6	-0.2	-1.6	0.3	-3.5	-2.0	-1.9	-1.5	-1.1
Exports of goods and services	7.4	3.4	1.9	2.1	0.6	4.2	3.3	1.8	-0.4
Imports of goods and services	-3.7	-3.6	-3.5	-1.9	-4.0	-6.2	-5.1	-3.3	-0.7
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.5	2.6	-1.4	4.5	5.3	0.4	-4.2	-0.3	-1.3
Unit labor costs in manufacturing (nominal, per hour)	-0.5	-0.3	9.0	2.2	5.1	7.6	9.4	9.3	9.6
Labor productivity in manufacturing (real, per hour)	6.2	5.8	-0.3	2.8	2.2	0.6	-0.8	-1.2	0.3
Labor costs in manufacturing (nominal, per hour)	5.6	5.6	8.7	5.1	7.3	8.2	8.6	8.0	9.9
Producer price index (PPI) in industry	2.1	-0.1	-2.2	0.3	-0.5	-1.7	-2.3	-2.6	-2.3
Consumer price index (here: HICP)	3.2	1.4	-0.4	1.5	1.4	0.5	0.4	-1.5	-1.0
EUR per 1 RON, + = RON appreciation	0.9	-0.6	-0.0	0.6	0.4	1.1	-0.4	-0.3	-0.5
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.4	7.1	7.1	6.8	7.0	7.6	7.0	6.8	6.8
Employment rate (%, 15–64 years)	60.1	61.0	61.4	62.6	60.8	59.1	62.0	63.2	61.4
Key interest rate per annum (%)	4.8	3.3	1.9	3.3	2.8	2.4	1.8	1.8	1.8
RON per 1 EUR	4.4	4.4	4.4	4.4	4.4	4.5	4.4	4.4	4.5
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	8.8	8.4	9.3	5.1	8.4	6.5	8.8	8.4	9.3
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	20.7	26.6	17.7	10.9	11.9	8.8	6.0	4.4	5.4
Domestic credit of the banking system	-5.4	-10.9	0.6	-6.3	-5.1	-1.4	3.1	3.3	5.3
<i>of which: claims on the private sector</i>	-1.9	-6.3	-0.1	-3.9	-2.7	-2.8	0.1	0.5	2.5
<i>claims on households</i>	-0.5	-1.1	2.0	-1.1	-0.5	-0.0	1.5	1.5	2.2
<i>claims on enterprises</i>	-1.4	-5.2	-2.0	-2.8	-2.3	-2.8	-1.4	-1.0	0.3
<i>claims on the public sector (net)</i>	-3.5	-4.7	0.7	-2.3	-2.4	1.4	3.0	2.7	2.9
Other assets (net) of the banking system	-3.6	2.3	0.2	0.5	1.7	-0.9	-0.2	0.6	-1.4
<i>% of GDP</i>									
General government revenues	33.1	33.5	34.8	..	..	..	..	..	..
General government expenditures	35.2	34.3	35.5	..	..	..	..	..	..
General government balance	-2.1	-0.9	-0.7	..	..	..	..	..	..
Primary balance	-0.4	0.9	0.9	..	..	..	..	..	..
Gross public debt	38.0	39.8	38.4	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	48.0	44.7	..	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	19.0	17.9	..	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-4.0	-4.2	-4.9	-3.5	-5.1	-4.0	-4.6	-4.7	-5.9
Services balance	3.3	3.9	4.3	3.4	3.5	4.7	4.7	4.4	3.8
Primary income	-2.2	-1.3	-2.4	-2.0	1.2	-1.3	-4.1	-2.2	-1.9
Secondary income	1.9	1.1	1.8	1.5	0.9	2.2	1.5	1.3	2.1
Current account balance	-1.1	-0.5	-1.1	-0.7	0.7	1.7	-2.5	-1.2	-1.9
Capital account balance	2.1	2.6	2.4	1.0	3.5	4.9	1.7	2.0	1.8
Foreign direct investment (net)	-2.0	-1.8	-1.7	-2.1	-1.2	-2.6	-2.1	-2.2	-0.4
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	68.4	62.8	56.3	62.9	62.8	60.5	58.9	56.8	56.3
Gross official reserves (excluding gold)	22.7	21.4	20.2	20.8	21.4	20.0	19.5	18.5	20.2
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	6.7	6.2	5.8	6.1	6.2	5.8	5.6	5.3	5.8
<i>EUR million, period total</i>									
GDP at current prices	144,102	150,359	159,791	41,603	44,633	31,530	36,607	44,539	47,115

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

10 Turkey: economy remains resilient despite political headwinds

Pronounced shift toward domestic-driven GDP growth

GDP growth increased to 4% in 2015, with the contribution of domestic growth drivers picking up. In particular, private consumption growth accelerated to 4.5% on the back of still buoyant credit growth and lower oil prices. Conditions on the labor market, however, were less supportive for growth, as the unemployment rate posted a minor increase to 10.5% in 2015. In addition and despite some deceleration in the second half of 2015, GFCF growth turned positive in 2015. External demand exerted a drag on growth in 2015. Available high-frequency indicators for the first months of 2016 show a mixed picture: Industrial production posted a robust increase, while retail sales and consumer confidence indices broadly slowed their pace of increase, reflecting, among other things, heightened political uncertainty.

Lower current account deficit, shift toward longer-term financing resources

Exports contracted by 8.7%, not least due to economic downturns in major trading partner countries (Russia and Iraq) and a deteriorating situation of the tourism sector. Also, exports to the EU weakened even though the Turkish lira depreciated substantially vis-à-vis the euro and labor productivity improved slightly. At the same time, import growth slipped deeper into negative territory in 2015 (−14.4%) on an annual basis. The resulting decline in the trade deficit to 6.7% of GDP as of end-2015 translated into a similar drop of the current account deficit to 4.6% of GDP. In financing the current account deficit, a moderate shift to longer-term financing occurred, with FDI inflows increasing and thus financing one-third of the current account deficit in 2015. At the same time, portfolio investment registered net outflows, also leading to a decline in the central bank's reserve assets.

Central bank refrains from loosening monetary stance in view of soaring inflationary pressures

Against the background of the exchange rate pass-through, headline inflation in 2015 hovered above the inflation target of 5% ±2% (to be met in December). In December 2015, inflation stood at 8.8% and edged up to an average of 9.2% in the first two months of 2016, especially after tax hikes on tobacco, alcohol and electricity.

Credit growth slows

The depreciation of the Turkish lira continued in the second half of 2015 and through the first three months of 2016, losing on average 28% against the U.S. dollar (14% against the euro). The Central Bank of the Republic of Turkey (CBRT) has kept the overnight borrowing rate and the one-week repo rate unchanged since February 2015; it reduced the overnight lending rate marginally by 25 basis points to 10.5% in March 2016. To simplify the monetary policy framework, in October 2015 the CBRT took minor steps to overhaul liquidity management regulations.

Credit growth decelerated somewhat in 2015 to slightly above 13% in exchange rate-adjusted terms, mainly reflecting lower consumer loan growth. Thus, to alleviate supply constraints on consumer lending, the Banking Regulation and Supervisory Agency introduced an arrangement to cut the risk weight of bank capital as from March 2016.

Budget deficit unchanged despite higher expenditures

Revenue growth was solid in the first three quarters of 2015 mainly on the back of tax receipts and social contributions. However, expenditures rose rapidly at the same time, leaving the budget deficit of the general government broadly flat at 1.4% of GDP. For 2016, some fiscal easing is envisaged, including the minimum wage hike by 30% in January 2016 and a subsidy to employers, the fiscal costs of which should be partly offset by increases in tax revenues. Overall, the general government deficit is projected to remain broadly unchanged at 1.3% of GDP.

Table 9

Main economic indicators: Turkey

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	4.2	3.0	4.0	1.8	3.0	2.5	3.7	3.9	5.7
Private consumption	5.1	1.4	4.5	0.1	2.6	4.3	5.5	3.6	4.7
Public consumption	6.5	4.7	6.7	6.6	2.0	2.8	7.3	8.0	8.1
Gross fixed capital formation	4.4	-1.3	3.6	-0.4	-1.0	0.6	10.0	-0.0	3.5
Exports of goods and services	-0.2	7.4	-0.8	8.7	3.7	-1.4	-2.7	-1.4	2.1
Imports of goods and services	9.0	-0.3	0.3	-1.7	4.6	3.7	1.5	-1.2	-2.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	7.4	1.1	4.3	-1.3	4.1	4.2	4.1	4.5	4.3
Net exports of goods and services	-2.3	1.8	-0.3	2.4	-0.3	-1.3	-1.1	-0.1	1.2
Exports of goods and services	-0.1	1.7	-0.2	2.0	0.9	-0.3	-0.7	-0.3	0.5
Imports of goods and services	-2.3	0.1	-0.1	0.4	-1.2	-1.0	-0.4	0.3	0.7
<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)	10.3	12.8	10.3	12.9	13.8	12.9	9.6	11.2	7.7
Labor productivity in manufacturing (real, per hour)	1.6	1.3	4.1	1.4	-0.4	1.1	5.1	4.7	5.4
Gross wages in manufacturing (nominal, per hour)	12.1	14.4	14.9	14.5	13.3	14.1	15.2	16.5	13.5
Producer price index (PPI) in industry	4.5	10.2	5.3	9.7	8.3	3.3	6.0	6.3	5.6
Consumer price index (here: HICP)	7.5	8.9	7.7	9.4	8.8	7.5	7.9	7.4	8.2
EUR per 1 TRY, + = TRY appreciation	-8.6	-12.9	-3.8	-8.9	-2.5	9.5	-1.8	-9.8	-11.3
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	8.9	10.1	10.5	10.2	10.9	11.4	9.5	10.3	10.6
Employment rate (%, 15–64 years)	49.5	49.5	50.2	50.2	49.1	48.4	51.1	51.1	50.0
Key interest rate per annum (%)	4.8	8.7	7.6	8.3	8.3	7.8	7.5	7.5	7.5
TRY per 1 EUR	2.5	2.9	3.0	2.9	2.8	2.8	3.0	3.2	3.2
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	21.1	11.8	16.2	14.9	11.8	15.8	18.3	20.4	16.2
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	-5.2	-10.8	-6.5	-3.6	-4.0	-4.2	-4.7	-2.8	-2.3
Domestic credit of the banking system	51.9	57.7	48.6	24.0	21.5	25.2	27.8	27.9	24.3
<i>of which: claims on the private sector</i>	55.6	58.6	47.2	22.3	20.8	25.1	28.6	28.9	23.6
<i>claims on households</i>	15.2	11.4	5.7	2.9	2.5	3.6	4.0	3.4	2.9
<i>claims on enterprises</i>	40.4	47.2	41.5	19.4	18.3	21.5	24.6	25.5	20.7
<i>claims on the public sector (net)</i>	-3.7	-0.9	1.4	1.8	0.7	0.0	-0.8	-1.0	0.7
Other assets (net) of the banking system	-12.9	-11.7	-12.2	-5.5	-5.7	-5.2	-4.8	-4.7	-5.7
<i>% of GDP</i>									
General government revenues	..	..	..	..	..	..	..	..	..
General government expenditures	..	..	..	..	..	..	..	..	..
General government balance	0.2	-1.5	-1.4	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	36.1	33.5	33.2	..	..	..	..	..	..
<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	-9.8	-8.0	-6.7	-7.5	-9.2	-6.2	-7.7	-6.6	-6.1
Services balance	2.8	3.1	3.3	5.1	2.6	1.6	3.0	6.0	2.6
Primary income	-1.1	-1.1	-1.4	-1.0	-1.1	-1.5	-1.8	-1.0	-1.2
Secondary income	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.3
Current account balance	-7.9	-5.8	-4.6	-3.2	-7.6	-6.1	-6.3	-1.5	-4.4
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)	-1.1	-0.7	-1.5	-0.2	-0.3	-1.4	-1.0	-2.4	-1.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	50.1	59.5	60.1	57.3	59.5	62.4	59.1	57.9	60.1
Gross official reserves (excluding gold)	13.1	14.6	13.2	14.9	14.6	15.0	14.0	14.0	13.2
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.8	5.4	5.1	5.5	5.4	5.7	5.3	5.3	5.1
<i>EUR million, period total</i>									
GDP at current prices	619,300	602,390	646,425	161,420	157,942	160,081	163,560	163,569	159,215

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

11 Russia: further slide of oil price prolongs recession

Russia's recession has reached its trough

The contraction of the Russian economy has reached its bottom. In 2015, GDP declined by 4.5% in the second quarter, 3.7% in the third quarter, and 3.8% in the fourth quarter. The annual contraction came to 3.7%. The Central Bank of Russia (CBR) estimates the decline of GDP to have eased to 1.7%–2.0% in the first quarter of 2016. The slump in 2015 was largely triggered by the near-halving of the oil price to USD 51.2 per barrel (Urals grade crude, annual average), and to a minor degree by the impact of Western sanctions in connection with the Ukrainian crisis. The economic downturn was driven by shrinking domestic demand (particularly private consumption, but also fixed investment). Public consumption also dropped slightly, so that the only positive contribution to growth came from exports. Combined with the substantial contraction of imports, net exports expanded powerfully.

Helped by a base effect and weak demand, inflation falls to single digits

The contraction of private consumption was driven by falling real wages against the backdrop of double-digit inflation, itself triggered by the plunge of the ruble. The Russian currency lost 37% of its external value against the U.S. dollar (annual average) in 2015. This strong depreciation also had a profound impact on imports in the second half of 2015. Due to the base effect (the impact of the sharp rise of prices in late 2014 has dissipated), persisting weak demand, and the shrinking ratio of imports to GDP, CPI inflation (year on year) declined from 15%–16% in the summer to 12.9% at end-2015, dropping further to 8.1% at end-February 2016.

Continuing oil price and ruble weakness prompt the central bank to keep its key rate on hold

Despite this moderation, inflationary pressures persist, fueled by oil price and ruble weaknesses. Therefore, after its last reduction of the key interest rate in August 2015, the CBR has (so far) held the repo auction rate at 11%, pointing to still elevated inflationary expectations. Private net capital outflows from Russia sharply diminished to USD 57 billion in 2015 (from the crisis-triggered height of USD 153 billion in 2014). This decline largely reflected the decrease in debt service and repayment and the repatriation of some assets by Russian residents (banks and businesses).

Forced external deleveraging by state-owned banks and firms in the context of Western sanctions played an important role in the further drop of Russia's total external debt to USD 515 billion (39% of GDP) at end-2015. Given the slide of the ruble and the ongoing recession, financial intermediation continues to show weaknesses: Lending contracted 6% in the year until end-February 2016 (in real terms and exchange rate-adjusted), while deposits increased marginally (+1%). After a limited boost through recapitalization, the capital adequacy ratio again came under pressure and eased to 12.1% at end-January 2016.

Fiscal tightening can be expected, while Russia's external position remains satisfactory

The general government budget deficit in 2015 rose to 3.5% of GDP and was partly financed by the Reserve Fund, whose level fell by about one-third over the year to USD 49.9 billion (around 4% of GDP) at end-February 2016. The National Wealth Fund's assets declined by about 5% to USD 71.3 billion (about 5.5% of GDP) in the same period. The budget plan for 2016, still based on an average annual oil price of USD 50 per barrel, is to be revised shortly. Expanding exports and plummeting imports contributed to a further increase of Russia's current account surplus (to 5.0% of GDP) in 2015. The country's international reserves (including gold) rose slightly in the six months to late March 2016 to USD 384 billion. Russia boasts an active international investor position equivalent to 23.8% of GDP at end-2015.

Table 10

Main economic indicators: Russia

	2013	2014	2015	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.3	0.7	-3.7	0.9	0.2	-2.8	-4.5	-3.7	-3.8
Private consumption	4.3	1.5	-9.5	1.0	1.7	-6.9	-8.0	-10.4	-12.4
Public consumption	1.4	0.2	-1.8	0.3	0.1	-1.8	-1.8	-1.8	-1.7
Gross fixed capital formation	0.9	-2.6	-7.6	-5.6	-2.8	-6.4	-7.3	-11.3	-6.0
Exports of goods and services	4.6	0.6	3.6	1.1	-6.5	5.8	0.5	-1.4	9.8
Imports of goods and services	3.6	-7.6	-25.7	-6.0	-11.8	-26.0	-30.1	-25.4	-21.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	0.8	-0.9	-9.1	-0.7	-0.5	-8.8	-9.8	-8.0	-9.9
Net exports of goods and services	0.5	1.8	6.2	1.7	0.6	7.0	6.3	5.0	6.4
Exports of goods and services	1.3	0.2	1.0	0.3	-1.8	1.7	0.2	-0.4	2.6
Imports of goods and services	-0.8	1.7	5.1	1.4	2.4	5.3	6.1	5.4	3.9
<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)	7.9	5.6	9.9	5.3	5.2	6.9	13.7	9.7	9.4
Labor productivity in industry (real, per person)	2.3	3.4	-1.8	3.4	4.0	0.9	-3.3	-2.7	-1.8
Average gross earnings in industry (nominal, per person)	10.3	9.2	8.0	9.0	9.5	7.8	9.9	6.7	7.4
Producer price index (PPI) in industry	3.4	6.1	12.4	6.0	5.7	9.7	13.8	12.9	13.1
Consumer price index (here: CPI)	6.8	7.8	15.6	7.7	9.6	16.2	15.8	15.7	14.5
EUR per 1 RUB, + = RUB appreciation	-5.7	-17.0	-25.0	-9.6	-26.0	-32.4	-17.5	-31.8	-17.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	5.5	5.2	5.6	4.9	5.2	5.7	5.6	5.3	5.7
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	5.5	7.9	12.6	7.9	10.3	15.5	12.8	11.2	11.0
RUB per 1 EUR	42.3	51.0	68.0	48.1	59.9	71.1	58.1	70.5	72.4
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	15.7	15.5	19.7	10.7	15.5	17.2	17.6	24.0	19.7
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	2.7	24.6	40.1	4.7	19.0	15.3	17.8	28.3	18.3
Domestic credit of the banking system	35.1	33.6	31.6	14.3	13.9	16.1	15.0	16.3	15.4
of which: claims on the private sector	36.9	43.3	33.7	16.0	22.8	19.3	15.7	16.6	9.5
claims on households	16.5	11.9	2.0	5.3	3.9	1.9	0.1	-1.0	-1.6
claims on enterprises	20.4	31.4	31.7	10.7	18.9	17.3	15.6	17.7	11.1
claims on the public sector (net)	-1.9	-9.7	-2.1	-1.7	-8.9	-3.1	-0.7	-0.3	5.9
Other assets (net) of the banking system	-8.2	-24.7	-33.5	-8.2	-17.4	-14.2	-15.2	-20.7	-14.0
<i>% of GDP</i>									
General government revenues	34.4	34.3	32.8	..	..	..	..	..	..
General government expenditures	35.6	35.4	36.3	..	..	..	..	..	..
General government balance	-1.2	-1.1	-3.5	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	9.8	10.8	10.8	..	..	..	..	..	..
<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	8.2	9.3	11.2	8.0	9.4	15.8	12.0	8.6	9.1
Services balance	-2.6	-2.7	-2.8	-3.3	-2.5	-2.9	-2.6	-3.6	-2.0
Primary income	-3.6	-3.3	-2.8	-3.0	-3.3	-2.2	-4.5	-2.1	-2.1
Secondary income	-0.4	-0.4	-0.4	-0.6	-0.5	-0.4	-0.3	-0.6	-0.5
Current account balance	1.6	2.9	5.2	1.1	3.2	10.4	4.6	2.4	4.5
Capital account balance	-0.0	-2.2	-0.0	-1.8	-7.1	-0.0	-0.0	-0.0	-0.0
Foreign direct investment (net)	0.8	1.7	1.3	2.2	3.8	0.3	1.6	2.5	0.5
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	32.0	31.8	39.7	33.3	31.9	36.0	36.0	38.2	39.7
Gross official reserves (excluding gold)	20.5	18.1	24.6	20.1	18.2	20.0	20.4	23.0	24.6
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	11.6	10.4	13.9	11.7	10.4	11.2	11.6	12.8	13.9
<i>EUR million, period total</i>									
GDP at current prices	1,675,267	1,533,694	1,194,438	424,470	359,009	256,162	331,809	302,232	304,235

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