

Developments in selected CESEE countries

Strongest economic momentum in years^{1,2,3}

Supportive
international
economic
environment ...

1 Regional overview

Global macroeconomic and financial market conditions remained favorable in the review period. Equity prices trended upward amid strong earnings, improved consumer and business confidence, and favorable macroeconomic data. At the same time, market volatility remained low and risk appetite strong. Capital flows to emerging market economies have remained resilient in recent months, continuing their recovery after the slump in late 2015 and early 2016.

The accelerated global momentum appears to be well entrenched, given notable upward revisions in major regions of the world economy (including the euro area, Japan, China and Canada), thus pushing up global growth to its highest level since 2011. The euro area has done particularly well, with growth accelerating to 2.3% year on year in the second quarter of 2017 – also the strongest pace since 2011. Global trade likewise rebounded to its most dynamic level in years despite constant fears of a return of protectionist tendencies: The upturn in emerging markets and advanced economies and moderately higher commodity prices lifted world trade growth to 5% annually in summer 2017. Furthermore, Brexit has not yet altered the functioning of the European economy and common European principles (including the free movement of people). More narrowly confined problems like the Volkswagen emission violations have not acted as a game changer either: So far, passenger car registrations in the EU have continued their upward trend, with a drop in diesel sales offset by an increase in petrol vehicles, thus supporting the region's key automotive sector. Finally, while geopolitical risks for CESEE remain elevated, they have not intensified over the review period, and increasing anti-European sentiment and rising populism in some countries have not yet affected economic developments through increased risk perception by investors.

... lifts growth in
CESEE EU Member
States to fastest
pace in years

The favorable international environment has provided the backdrop for a continuing strong momentum of the regions' economies. Average growth in the CESEE EU Member States amounted to 1.2% and 1.3% in the first two quarters of 2017, respectively (quarter-on-quarter rates adjusted for working days and seasonality; see table 1). This represents a major acceleration compared to the previous year and one of the fastest expansions since the downturn in 2008. The Czech Republic stands out with a growth rate of 2.5% (quarter on quarter) in the second quarter, the highest reading since the start of the Czech GDP series in 1996. The CESEE EU Member States' trade openness and integration into international production networks provided for a quick and comprehensive absorption of external growth impulses. Furthermore, important macroeconomic imbalances have been successfully addressed in recent years, thus paving the way for a more balanced and broad-based economic development.

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² Cutoff date: October 6, 2017. This report focuses primarily on data releases and developments from April 2017 up to the cutoff date and covers Slovakia, Slovenia, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Turkey and Russia. The countries are ranked according to their level of EU integration (euro area countries, EU Member States, EU candidate countries and non-EU countries). For statistical information on selected economic indicators for CESEE countries not covered in this report (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, Serbia and Ukraine), see the statistical annex in this issue.

³ All growth rates in the text refer to year-on-year changes unless otherwise stated.

Growth picked up also in Turkey and Russia. Turkey benefited especially from expansionary fiscal policies. In addition, rebounding external demand (reflecting, among other things, a more competitive Turkish lira and the lifting of the Russian ban on certain Turkish goods and services) and declining political uncertainty after the April referendum also supported the economy. Russian economic growth accelerated in line with a recovery of the oil price and strengthening private consumption.

Also Russia and Turkey perform well

Driven by swift economic expansion, the CESEE EU Member States stand to achieve a growth differential of almost 2 percentage points in 2017 vis-à-vis the euro area according to the latest projections. At the same time, progress with catching up remains heterogeneous across the CESEE countries. For example, Croatia has not yet reached its pre-crisis output levels, while most other CESEE countries (and the euro area) did so several years ago. Furthermore, GDP per capita (at PPP) is still notably below euro area levels in all CESEE countries, ranging from 50% in Bulgaria to 80% in the Czech Republic. The respective figures for Turkey and Russia are within a range of 60% to 65%.

Private consumption remained the major pillar of growth throughout the CESEE region, benefiting especially from improving labor market conditions and rising real wages (see chart 1). At the same time consumer sentiment climbed to historical heights.

Tightening labor market conditions fuel wage growth and private consumption

In fact, labor markets are becoming increasingly tight in many countries, especially in the CESEE EU Member States. Unemployment rates have been falling consistently in recent years, from an average level of around 11% in early 2013 to 6% in July 2017. The Czech Republic reported an unemployment rate of 2.9% in July 2017, the lowest rate in the EU. Positive labor market developments are also substantiated by several other indicators: Unemployment even declined among the most vulnerable age cohorts, namely young persons (below 25 years) and older persons (above 50 years). The trend in long-term unemployment was positive as well and rather broad-based. At the same time, labor shortages are increasingly perceived as a problem in most of the countries. Employment expanded throughout the region, reaching the highest level since late 2008. Strong employment growth also pushed up average employment rates (employed persons in relation to

Table 1

Real GDP growth

	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
	Period-on-period change in %							
Slovakia	3.8	3.3	0.6	0.8	0.7	0.8	0.8	0.8
Slovenia	2.3	3.1	0.8	0.9	1.4	1.3	1.2	1.1
Bulgaria	3.6	3.9	1.1	0.9	0.8	1.1	0.9	1.0
Croatia	2.2	3.0	0.6	0.8	1.4	0.5	0.6	0.8
Czech Republic	5.3	2.6	0.3	0.8	0.2	0.4	1.5	2.5
Hungary	3.1	2.0	-0.5	1.1	0.5	0.8	1.4	0.9
Poland	3.9	2.6	-0.1	0.9	0.4	1.7	1.1	1.1
Romania	3.9	4.8	1.2	1.5	0.7	1.6	1.8	1.7
Turkey	6.1	3.2	0.8	0.2	-0.2	3.8	1.4	2.1
Russia	-2.8	-0.2	0.5	-0.6	0.0	0.5	..	..
Euro area	2.1	1.8	0.5	0.3	0.4	0.6	0.6	0.7

Source: Eurostat, national statistical offices.

the total population aged between 15 and 64) to euro area levels. Some countries (e.g. Czech Republic, Hungary and Slovenia) already reported higher employment rates than the euro area.

Against this background, nominal wages rose powerfully in the review period, increasing by around 9% per annum, on average, in the first half of 2017, from 6% in the second half of 2016. Several countries reported double-digit increases, with Romania leading the ranking: Caused by, among other things, a minimum wage hike, wages in the country increased by close to 19% in the second quarter of 2017. Slowly rising inflation rates somewhat cut into purchasing power throughout the region. Nevertheless, real wages rose by some 8% on average in the first half of 2017.

Rebound in investment helped by stepped-up utilization of EU funds

After a slack in 2016, gross fixed capital formation started to gain speed notably in the first half of 2017 as private investment was rebounding, given capacities approaching their limits, strong industrial confidence and improved credit market conditions amid low interest rates. Investment in construction and public investment picked up, too, being strongly supported by stepped-up utilization of EU funds in many countries as the 2014–2020 programming period unfolded. The recovery in capital formation was especially pronounced in Hungary but also notably above average in Slovenia and the Czech Republic.

Construction activity also lifted capital formation in Russia and Turkey. For Turkey, a more detailed analysis of investments shows that construction (which amounts to around 60% of total investment) grew by 25% year on year. By contrast, machinery and equipment investment (about 35% of the total) contracted for the fourth quarter in a row, falling by 8.6% year on year in the second quarter. In Russia, construction was supported by large infrastructure projects.

External sector's growth contribution diminishes on the back of higher import demand ...

The external sector's contribution to growth declined in most CESEE countries and was either neutral or slightly negative. Exports broadly retained their previous momentum despite a loss in price competitiveness against the background of stronger external demand. At the same time, imports accelerated noticeably given the dynamic development of private consumption and the recovery of investment.

On the country level, net exports delivered the strongest growth contribution in Turkey, helped by currency depreciation, more vivid services exports on the back of a slight recovery in tourism and also by a base effect related to exports after the exceptionally weak performance in previous years. Among the CESEE EU Member States, the Czech Republic was the only country to report a substantial growth contribution as exports accelerated at a noticeably stronger pace than imports.

... and price competitiveness suffers from pronounced growth in labor costs

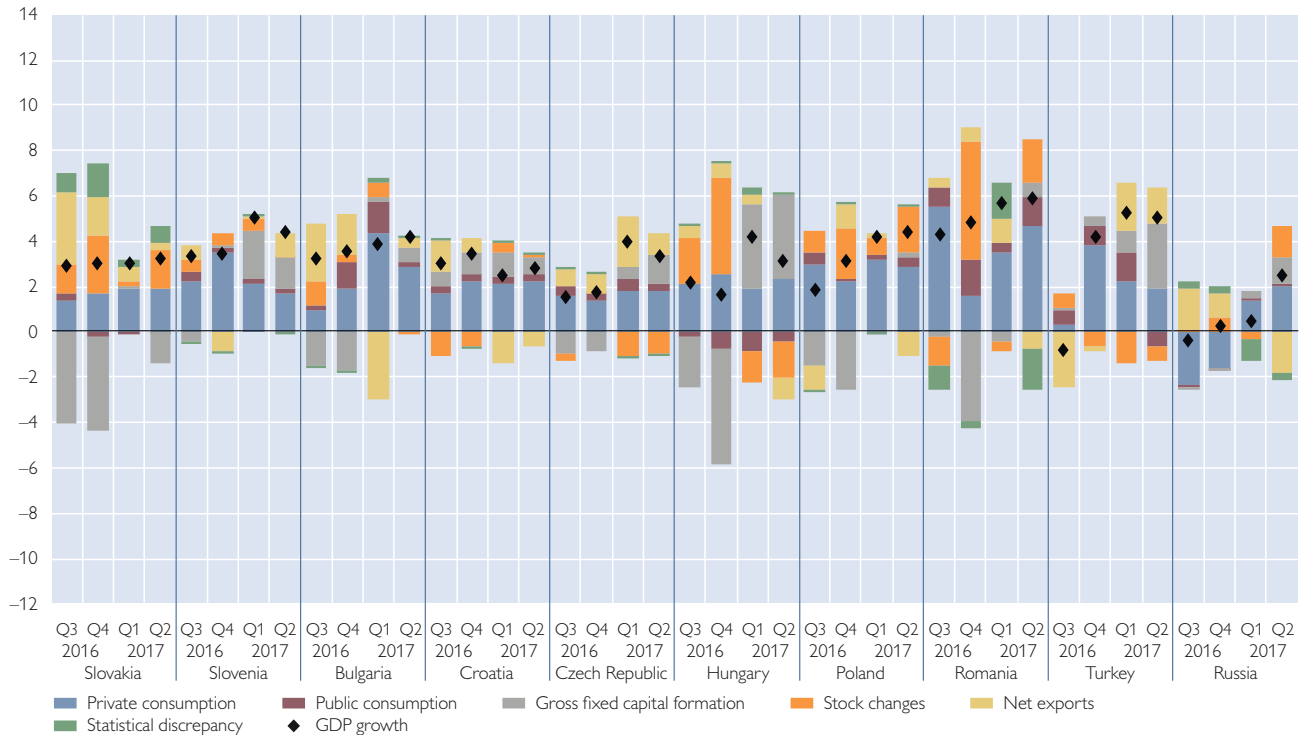
The external sector performed reasonably well given the fact that unit labor costs (ULC) in manufacturing (measured in euro) continued to deteriorate throughout most of the region. On a positive note, productivity growth re-entered positive territory after a prolonged period of slack as increasingly tight labor markets prevented labor input growth from keeping pace with manufacturing output growth. Productivity advances, however, were not strong enough to offset cost increases: Labor cost growth was in the high single or even double digits in the first half of 2017. Furthermore, currency appreciation negatively impacted price competitiveness especially in Central European countries (e.g. in the Czech Republic, Hungary and Poland) and Russia.

Turkey was the only country to report a clear decline in ULC as currency depreciation was strong enough to improve the country's competitive position even in the face of double-digit labor cost rises. Among the CESEE EU Member

Chart 1

GDP growth and its main components

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



Source: Eurostat, national statistical offices.

States, only Slovenia managed to marginally cut its ULC in the review period as labor costs growth fell short of the costs observed by other regional peers, especially in the first quarter of 2017.

Strong domestic demand and reduced international competitiveness have already had some impact on external balances. The combined current and capital account balance for CESEE as a whole remained broadly stable in the first half of 2017 at around 0.5% of GDP (four-quarter moving sums; see chart 2). The average, however, masks differing trends. Russia was the only country in the region that managed to improve its external position moderately between the fourth quarter of 2016 and the second quarter of 2017, mainly on the back of an oil price-triggered recovery of exports. All other countries reported a deterioration. This development was especially pronounced in Bulgaria and Romania, where a worsening of the goods and services balances and lower inflows via the capital account adversely impacted external positions. Both factors were at play in most other CESEE countries as well. Developments in the trade balance can be related to the surge in domestic demand as well as to deteriorating price competitiveness. Terms-of-trade effects further contributed somewhat to the explanation. Weakening capital accounts to some extent reflect unusually low EU fund inflows in 2016 that continue to affect annualized figures throughout 2017.

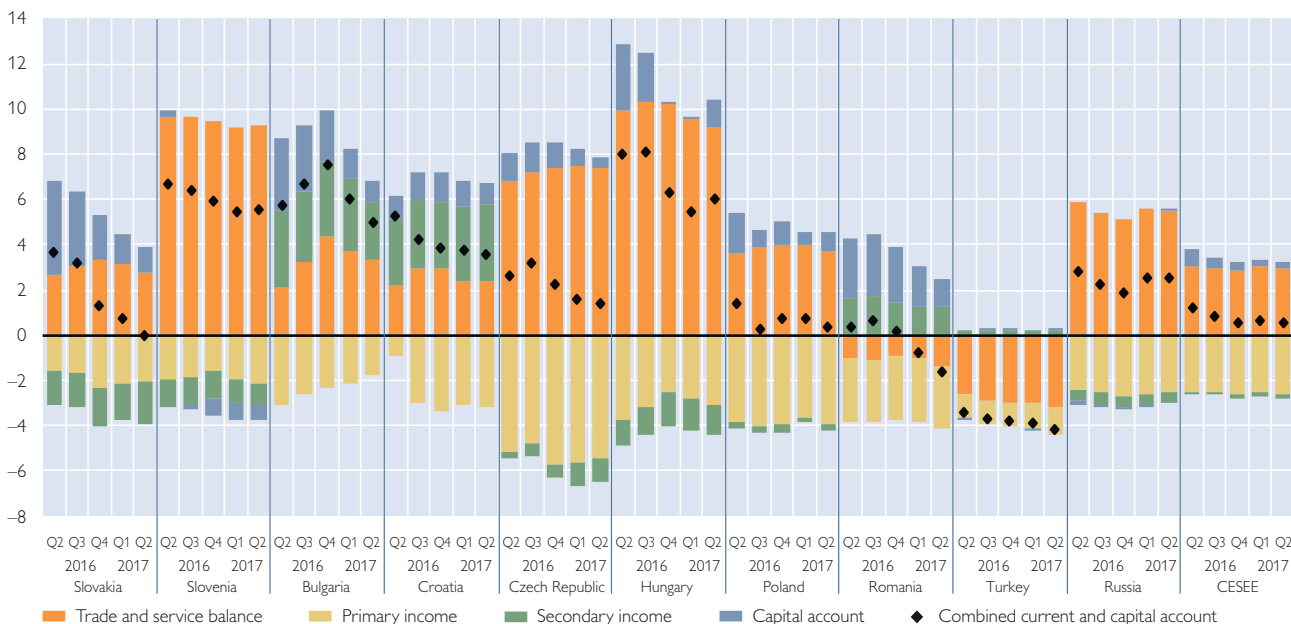
So far, these drops in external surpluses are not worrisome as the region continues to attract international capital. The aggregate financial account balance (i.e. the difference between the net acquisition of assets and the net incurrence of

Deteriorating trade balances weigh on the current account

CESEE continues to attract international capital

Combined current and capital account balance

% of GDP, four-quarter moving sum



Source: Eurostat, IMF, national central banks.

liabilities, excluding reserves) of the ten CESEE countries as a whole diminished from -3% of GDP in the fourth quarter of 2016 to -5.5% of GDP in the second quarter of 2017 (see chart 3). Accordingly, CESEE countries were able to raise additional capital in the magnitude of 1.5% of GDP from international creditors, with portfolio investments being the key driver of this development. On the country level, the Czech Republic stands out with a surge in investment, partly for speculative reasons, prior to the abolition of the exchange rate floor of the Czech koruna in April. This not only had a substantial effect on the inflow of portfolio investments but also strongly raised other investment inflows.

More notable movements in the financial account were also reported for Croatia and Hungary (where the financial account balance declined on the back of other investments) as well as for Slovakia (with FDI and portfolio investments being the key drivers). Poland's financial account turned from a deficit to a balanced position as other investments entered positive territory.

Price pressures increase ...

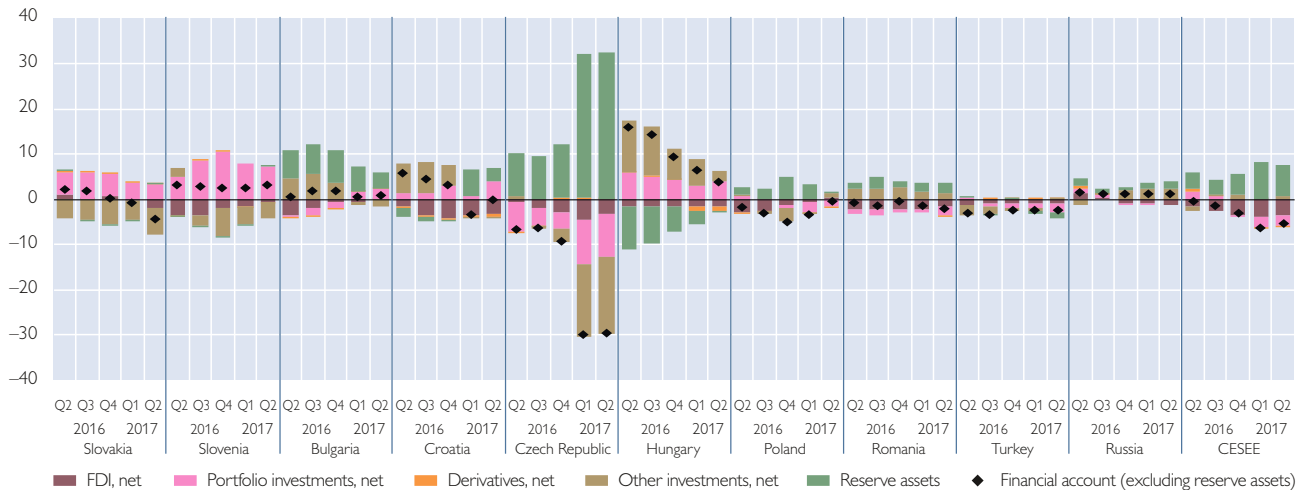
After a prolonged period of deflation, prices in the CESEE EU Member States finally started to rise again in mid-2016. Mirroring developments in world markets, energy prices were among the key drivers of inflation in early 2017, before being superseded by other and less volatile components – especially processed food (including alcohol and tobacco) and services – in recent months. This suggests that general economic factors are becoming more important for price developments, which is also underlined by core inflation: Core inflation more or less continuously increased throughout 2017 and even exceeded headline inflation in several countries (e.g. the Czech Republic, Croatia, Romania and Slovakia) by August 2017.

Several other factors suggest the build-up of more domestic price pressures: According to the European Commission the output gap of the CESEE EU Member

Chart 3

Financial account balance

% of GDP, four-quarter moving sum



Source: National central banks.

States will close in 2017 and become increasingly positive in 2018. Furthermore, capacity utilization has risen continuously since 2013 and reached levels of around 80% in the third quarter of 2017 – some 5 percentage points above its long-term average. Surveys also show that labor is increasingly perceived as a limiting factor for production; corresponding observations in fact hit a historical high in the third quarter of 2017. All of this points toward an increasing utilization of available means of production.

Nevertheless, inflation has been broadly kept in check so far, within a range of 0.6% (Romania) and 2.7% (Hungary) in August 2017 (see chart 4). This was helped by still comparatively moderate commodity and oil prices, compared to earlier years, as well as by low imported inflation, as exchange rates appreciated moderately especially in Croatia, the Czech Republic, Hungary and Poland.

Some countries took first steps to end the period of monetary accommodation. Most importantly, the Czech central bank (CNB) increased its policy rate by 20 basis points to 0.25% in August 2017 after having abandoned its commitment to maintain an exchange rate floor against the euro in April 2017 (see chart 5).

The Romanian central bank (NBR) in September 2017 decided to narrow the symmetrical corridor of interest rates on its standing facilities around the policy rate to ± 1.25 percentage points from ± 1.5 percentage points. Specifically, the deposit facility rate was raised to 0.5% and the interest rate on the lending facility was lowered to 3%, while the key policy rate was kept unchanged at 1.75%.

In contrast, a favorable price outlook provided policy space for the Hungarian central bank (MNB) to further selectively loosen its monetary policy. In September 2017, the overnight deposit rate was cut from -0.05% to -0.15% . The MNB also repeatedly reduced the cap on its three-month deposit facility and extended its foreign currency swap facility in order to boost Hungarian forint liquidity in the system.

The Turkish central bank (CBRT) tightened policy rates between November 2016 and May 2017 in response to sharp falls in the value of the Turkish lira in November 2016 and January 2017, which contributed to a surge in inflation: Price rises reached

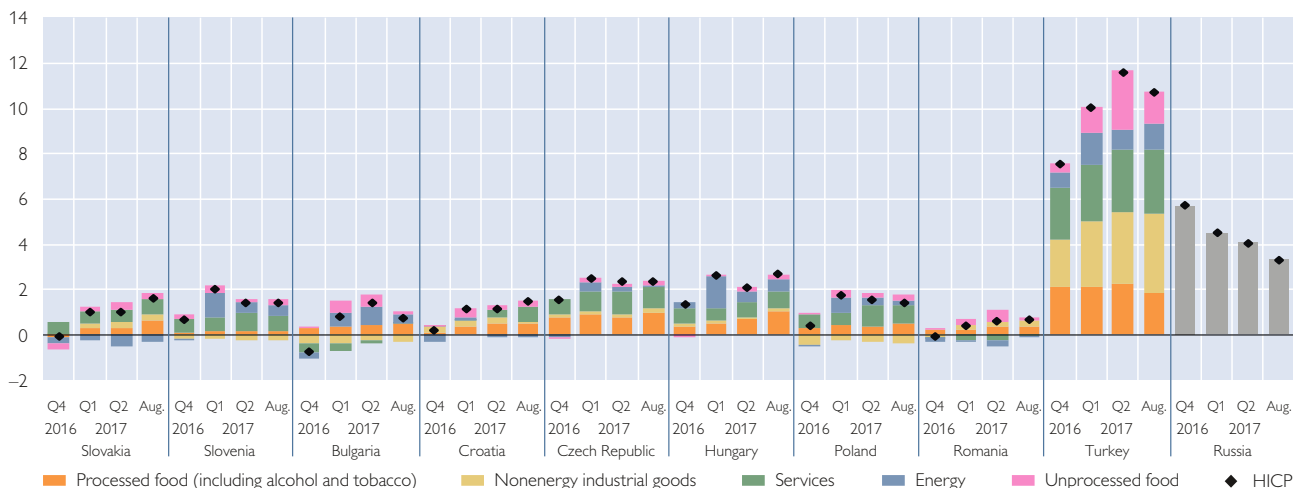
... but inflation remains broadly in check

Some countries have started to tighten monetary policy

Chart 4

HICP inflation and its main drivers

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



Source: Eurostat.

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

levels of close to 12% in April and May 2017, before moderating again somewhat in recent months. By raising its late-liquidity-window lending rate and reducing the volume of central bank lending at lower rates, the CBRT increased the weighted average cost of funding the banking system from less than 8% to around 12%.

Russia was the only country in the region to report a clear and broad-based downward trend in price pressures. At 3%, the inflation rate for September 2017 was the lowest on record and well below the 4% target. Lower inflation was supported by sharp declines in food and alcohol prices (which account for just over one-third of the consumer price index) but also by the strengthening Russian ruble. Easing inflation, conservative bank lending and firming economic recovery allowed the central bank of Russia (CBR) to cut its key refinancing rate from 9% to 8.5% in September 2017. This was the latest step in a row of rate cuts throughout 2017, which brought down policy rates from 10% at the beginning of the year.

Broad-based acceleration of credit growth

Growth of domestic credit to the private sector (nominal lending to the non-bank private sector adjusted for exchange rate changes; see chart 6) gained further speed in the review period, reflecting solid general economic conditions in an environment of low interest rates, monetary accommodation in the euro area and ample global liquidity.

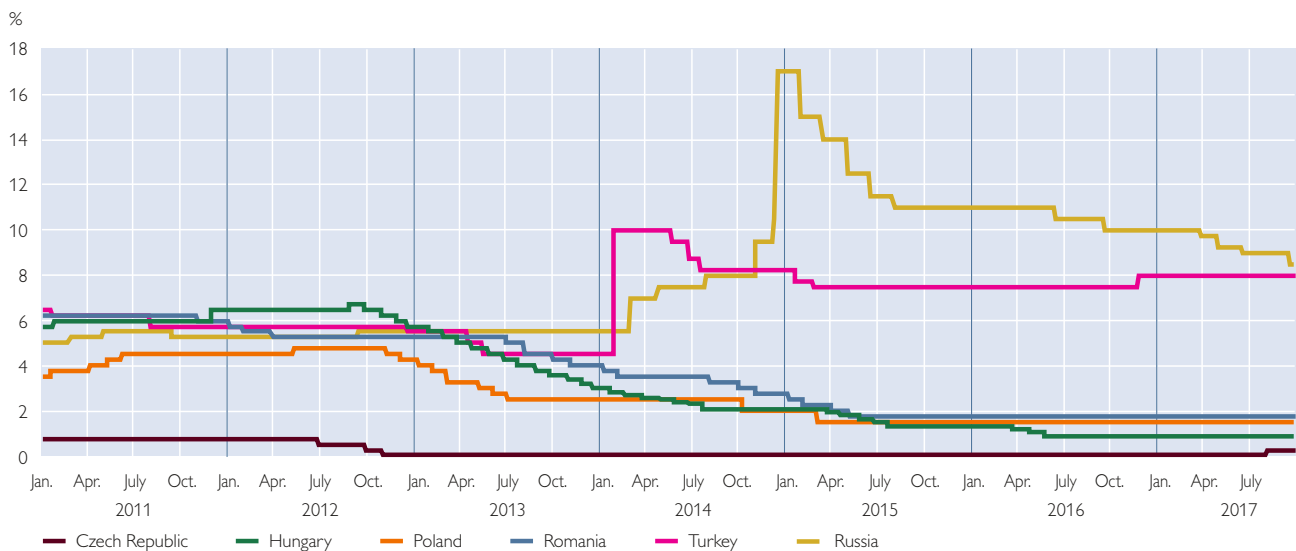
Czech Republic and Slovakia stand to increase countercyclical capital buffers

Credit growth picked up especially in Bulgaria, Hungary, Romania and Slovenia – the countries that had experienced only very moderate or even negative credit expansion back in 2016. All of these countries reported progress in shoring up their banking sectors in recent years: NPLs and loan-to-deposit ratios have been lowered, and credit is fully funded by stable local deposits. Furthermore, the share of foreign currency-denominated credit decreased substantially. Credit developments also benefited from reduced banking sector uncertainty (e.g. in Romania) and central bank measures (e.g. in Hungary).

Among the CESEE EU Member States, the Czech Republic and Slovakia reported the strongest loan growth at or above 10% in annual terms. Central

Chart 5

Policy rate developments in CESEE



Source: National central banks.

banks in both countries decided to introduce a countercyclical capital buffer of 0.5% of total risk exposure as of January and August 2017, respectively, to prevent credit from growing excessively fast. Furthermore, this capital buffer is to be raised to 1% in the Czech Republic and 1.25% in Slovakia by July and August 2018, respectively. Rapid growth in loans went hand in hand with a strong growth of real estate prices. The CNB, for example, considers residential property in the Czech Republic to be moderately overvalued and lending standards for the provision of mortgage loans to be highly relaxed. It has therefore introduced loan-to-value ratios for housing loans as an additional macroprudential measure.

Croatia was the only CESEE EU Member State in which the credit stock continued to decrease in the review period even once the effect of the conversion and partial write-off of loans denominated in Swiss franc had ended. The rate of decrease, however, moderated notably. This development was mainly attributable to some recovery in household credit, reflecting an improvement of the general economic environment and labor market conditions. At the same time, the corporate credit stock was reduced by the sale of nonperforming assets. While those sales had a positive impact on NPL ratios, profitability was hurt by the banking sector's provisioning for its exposure to Agrokor, the country's ailing retailer.

Credit growth was highest in Turkey where accommodative macroprudential policies as well as fiscal measures and incentives pushed up credit expansion to close to 15%.

Lending surveys indicate a continued strength in demand for credit in the CESEE region. The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB) found that demand for loans improved across the board in the first half of 2017. This marked the fourth year of favorable developments. All factors influencing demand made a positive contribution. Notably, investment accounted for a good part of the strengthening in demand, whilst debt restructuring

Lending surveys indicate rising credit demand amid broadly unchanged supply conditions

was almost irrelevant. Access to funding also continued to improve in CESEE, supported by easy access to domestic sources (mainly retail and corporate deposits).

Aggregate supply conditions remained basically unchanged during the first half of 2017 according to the EIB survey. Across the client spectrum, supply conditions eased partially in the corporate segment, including SME lending, while credit standards have tightened on mortgages and consumer credit. Changes in regulation and banks' capital constraints are perceived as key factors adversely affecting supply conditions.

While the mismatch between rising demand and broadly unchanged supply conditions might hint toward a credit squeeze, it could also imply that credit is more prudently allocated and that most of the new credit is on average of a better quality than in prior credit cycles.

Country-level bank lending surveys conducted by national central banks partly corroborate these findings: While virtually all countries reported rising demand for loans across sectors, trends in lending conditions were reported to be more heterogeneous than in the EIB report and ranged from a considerable easing (e.g. housing and consumer loans in Croatia) to a tightening (e.g. housing loans in the Czech Republic). On average, lending conditions seem to have been eased somewhat more strongly than the EIB report survey suggests.

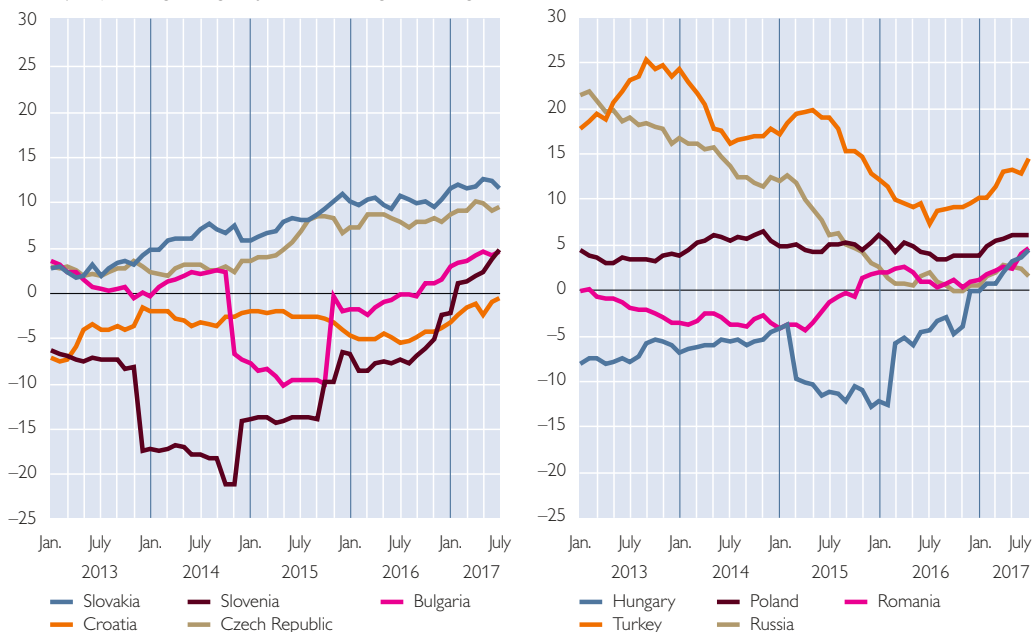
Favorable lending conditions underline the current dynamism of the region's economies. Leading indicators also support the picture of a broad-based and dynamic economic upturn that will continue at least in the near future.⁴ The growth rates of industrial production and retail sales have increased strongly since

High-frequency and sentiment indicators point toward continued solid growth

Chart 6

Growth of credit to the private sector

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



Source: National central banks.

⁴ For the GDP forecast for the CESEE region, see "Outlook for selected CESEE countries" on page 40 in this issue.

the start of the year and both reached multi-annual highs in July 2017 (see chart 7). Construction output, which still had contracted in January 2017, started to expand subsequently and recorded an increase of 5.0% in July 2017. This positive momentum was not only confined to the CESEE EU Member States but also encompassed Russia and Turkey.

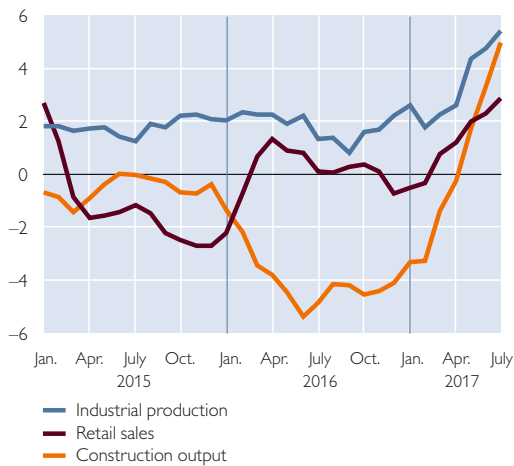
Economic sentiment developed equally favorably. The Economic Sentiment Index (ESI; average for the CESEE EU Member States) stood at levels substantially above its long-term average throughout the review period. In September 2017, it peaked at 108.4 points, the highest reading since May 2007. Increases in the index were led by sentiment in construction and the retail sector, with all other components of the index developing positively, too. The Purchasing Managers' Index (PMI) for Russia declined somewhat since the beginning of the year but remained firmly above 50 points (the threshold indicating an expansion). Turkey's PMI increased from 48.7 points in January 2017 to around 54 points in summer 2017. This was the highest reading since late 2013.

Chart 7

Leading indicators

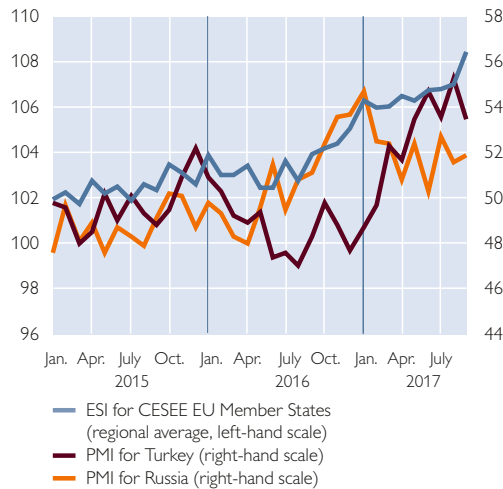
Activity indicators (CESEE regional average)

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



Sentiment indicators

Points



Source: Eurostat, wiw, European Commission, Markit.

Ukraine regains market access, while recovery stays moderate and external vulnerabilities linger

In the first half of 2017, the moderate recovery continued with GDP growth at 2.4% year on year, driven by private consumption and gross fixed capital formation. Year-on-year export growth turned negative again, partly due to the trade embargo imposed by Ukraine vis-à-vis the non-government controlled area. At the same time import growth slowed down markedly. Net exports, public consumption and inventories delivered a negative growth contribution. The National Bank of Ukraine (NBU) cut its key policy rate in April and May by 50 basis points each time, to 12.5%. Having fallen to single digits in the course of 2016, the annual inflation rate accelerated to 16.2% in August, mainly due to food and administered prices. Meanwhile, core inflation (excluding raw food, fuel and administered prices) went up to 7.8%. Inter alia pointing to upcoming base effects, the NBU expects headline inflation rates to trend downward again toward the end of the year, but to stay above the mid-point of the target range (8% \pm 2 percentage points) at end-2017.

The disbursement of the fourth IMF tranche in the amount of USD 1 billion together with a further EU tranche in the amount of EUR 600 million raised the NBU's international reserves to USD 17.2 billion in April. Since then, international reserves increased further to USD 18.6 billion at end-September 2017. In addition to official financing, the reduction of foreign currency cash outside the banking system (which is recorded as a capital inflow), trade credits and moderate net FDI inflows were instrumental in generating a net inflow in the financial account in the first seven months of this year. The economy's gross external debt is still very high (USD 114 billion or 114% of GDP in mid-2017), and substantially rising public external debt repayments in the next two years appear challenging. The current account deficit increased slightly to 3.8% of GDP in the four quarters up to mid-2017, from 3.7% of GDP at end-2016.

Ukraine managed to regain access to international markets in September 2017. The Ukrainian government sold USD 3 billion of 15-year eurobonds with a 7.375% annual yield, partially to buy back USD 1.6 billion of 2019 and 2020 eurobonds, alleviating forthcoming repayment spikes somewhat. The bond issue was oversubscribed more than three times. The smooth issuance shows that the IMF program was successful with regard to macroeconomic stabilization, but it also reflects prevailing positive global market conditions. At the same time, the eurobond issue illustrates that the dependence on IMF disbursements has declined, at least tentatively.

Indeed, progress on reform steps needed to complete the fourth review (pension and land reform, anti-corruption court legislation, measures to speed up privatizations) in order to unlock the fifth IMF tranche has been sluggish. Discussions with the IMF on the fourth review were initiated in May. A pension reform was adopted by parliament in early October, but it remained unclear whether it fully met IMF expectations. In the other areas, hardly any effective steps were taken and signals from the political leadership rather pointed to a stalling reform process. Yet, most recent remarks by the Ukrainian president might suggest a shift to a more complacent stance with regard to the anti-corruption court, the creation of which seems to be a key issue for the IMF. It remains to be seen whether a consensus on how to embed it into the judicial system can be reached among Ukrainian lawmakers and with the IMF. On top of uncertainties around the realization of required reforms, difficulties in completing the review will likely emanate from the government's reluctance to increase gas prices by deviating from the IMF-agreed automatic tariff adjustment mechanism.

Private consumption growth in the Western Balkans¹ supported by labor market developments

GDP in the Western Balkans increased by 2% (weighted average) in the first half of 2017 (compared to 2.9% in the first half of 2016 and 3.0% for 2016 as a whole). The deceleration was mainly driven by Serbia, where GDP growth moderated to 1.2% due to unfavorable weather conditions (very cold winter, heat waves in spring and summer). In FYR Macedonia, GDP growth even turned negative, due to political instability, coming in at -0.9%. By contrast, Albania, Montenegro and Kosovo saw economic growth accelerate to around 4%.

Real GDP growth in the Western Balkans

	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
	Period-on-period change in %							
Albania	2.2	3.4	3.5	3.2	2.7	4.1	4.0	4.1
Bosnia and Herzegovina	3.1	3.2	2.8	2.6	3.8	3.6	2.8	1.7
Montenegro	3.4	2.5	1.1	2.7	2.4	3.4	3.2	5.1
FYR Macedonia	3.8	2.4	2.4	2.9	2.0	2.4	0.0	-1.8
Serbia	0.8	2.8	3.8	2.1	2.8	2.5	1.0	1.3
Kosovo	4.1	3.4	3.6	3.3	3.8	3.0	3.8	4.6

Source: National statistical offices.

In the first half of 2017, private consumption supported GDP growth in all Western Balkan countries. Improving labor markets across the region and partly rising (real) wages, in particular in Albania, fueled real disposable incomes. Unemployment (based on labor force survey data) dropped most strongly in Bosnia and Herzegovina, to about 20%, in the first quarter of 2017 (no data available for the second quarter of 2017 yet). In Albania and Serbia, the countries with the lowest unemployment rates in the Western Balkans, unemployment continued to fall to below 14% and 12%, respectively, in the second quarter of 2017. Only Kosovo registered increasing joblessness (rising to above 30%, the highest rate in the region) compared to a year earlier. However, participation rates increased at the same time (to above 40%), suggesting that the higher unemployment rate also reflects a larger labor force. In all Western Balkan countries, employment has increased noticeably in the first half of 2017 compared to the same period of 2016. Despite these positive short-term developments, youth and structural unemployment, high inactivity rates as well as brain drain keep weighing on economic growth. Remittances remained generally robust² in the period under review, thus supporting private spending, together with some increase in lending to households (see below).

Developments in public consumption were more mixed. In Albania as well as in Montenegro, public consumption growth turned out to be strong in the first half of 2017, largely driven by higher public wages. In Kosovo, public consumption growth continued to be negative because of the ongoing reform process of public administration, which involves a reduction of the public wage bill. Public consumption growth in Serbia slowed down somewhat on the back of fiscal consolidation measures.

Investment activity delivered a mixed picture in the region in the first half of 2017 as well. In FYR Macedonia and in Montenegro, gross (fixed) capital formation³ declined in the second quarter of 2017. In FYR Macedonia, the decrease by close to 10% (due to a huge slump in the second quarter of 2017) was due partly to a base effect and partly to the protracted political crisis that had resulted in early parliamentary elections in December 2016. However, the new government was formed only in May and the prolonged period of uncertainty restrained (pub-

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 According to World Bank data, remittances are particularly important for Kosovo (14.8% of GDP in 2016), Bosnia and Herzegovina (11.1%) and Montenegro (9.5%).

³ For FYR Macedonia, only data on gross capital formation on a quarterly basis are available.

lic and private) investments in the first half (and especially in the second quarter) of 2017. The 10% decline in Montenegro in the second quarter (following an acceleration by more than 30% in each of the four preceding quarters) is largely due to the finalization of a large energy project. The picture is less volatile in the remaining countries under review here: Investment growth continued to be strong in Albania (largely driven by the energy sector) and in Kosovo. Investment activity, in contrast, was rather sluggish in Bosnia and Herzegovina (low public capital spending) as well as in Serbia (partly hampered by cold weather).

The robust economic performance in the EU, by far the largest trading partner for most Western Balkan countries, resulted in robust export growth across the region. Moreover, the countries have been able to benefit from the revival in global export growth. Particularly strong export growth was recorded in Albania (on the back of rising energy exports), in Montenegro as well as in Kosovo (due to higher exports of raw materials and energy) and in Bosnia and Herzegovina (where exports of electricity increased).

In most Western Balkan countries, import growth moderated in the first half of 2017 compared to the same period of 2016. Lower import growth in FYR Macedonia and Montenegro (in both countries only in the second quarter of 2017) was the result of low investment activity in that period. By contrast, import growth in Serbia accelerated in the first half of 2017 compared to the corresponding period of 2016 as the adverse weather conditions that strongly affected Serbia in the first half of 2017 prompted the country to import more energy and food.

In Albania, strong export growth and somewhat weaker import growth resulted in a positive contribution of net exports to GDP growth in the first half of 2017. In FYR Macedonia and Montenegro, the drop in import growth resulted in a positive contribution of net exports in both countries only in the second quarter of 2017 (after a negative contribution in the first quarter of 2017). In Serbia, the contribution of net exports turned negative (after a positive contribution in the first half of 2016).

Overall, the Western Balkan countries continue to report elevated trade deficits mirroring their weaknesses in competing on international markets. In Montenegro and Kosovo, the countries with the largest shortfalls, trade deficits even widened further, to above 44% of GDP and close to around 38% of GDP, respectively, in the first half of 2017 despite robust export growth. In Montenegro, this outcome was driven by continued strong import growth in the first quarter of 2017. Apart from imports for consumption purposes, high trade deficits also result from the high import content of major (in particular public) investment projects. Serbia reports the lowest trade deficit (around 12% in the first half of 2017), yet some worsening compared to the 2016 outcome occurred. In Albania and Montenegro, favorable developments in tourism boosted service exports in the first half of 2017 and compensated somewhat the shortfall in the goods trade balance. Current account deficits have also widened in accordance with higher trade deficits and are highest in Montenegro (close to 19% of GDP in the first half of 2017) and Kosovo (close to 10%). With a current account deficit of around 3% of GDP, FYR Macedonia reports the lowest shortfall in the Western Balkan countries. In the first half of 2017, FDI inflows covered the current account deficits in Albania, Serbia and FYR Macedonia. In the remaining countries, FDI coverage ranged between around 44% in Kosovo and 60% in Montenegro in that period. FDI inflows increased noticeably in Albania in the second half of 2017 due to investment in the energy sector (Trans-Adriatic Pipeline). Furthermore, Kosovo registered strong inflows of FDI driven by investment in the financial sector, construction and real estate. In Bosnia and Herzegovina as well as in FYR Macedonia FDI inflows were weak, possibly due to the fragile political situation.

In the first half of 2017, growth of domestic credit to resident households and nonfinancial corporations accelerated strongly in Kosovo and Montenegro (with lending rates of around 10% year on year). Also Bosnia and Herzegovina and Serbia (adjusted for exchange rate movements) recorded robust lending rates. In FYR Macedonia particularly weak credit growth in the first half of 2017 – likely being related to subdued demand as a result of the political crisis – was followed by much stronger credit growth in July and August. Similarly, lending to the nonbank private sector in Albania was almost flat in the first half of 2017 but recovered more recently to around 2% annually. As a common feature of the whole region, household lending has recently developed much more dynamically than lending to corporates. In the short run, demand for credit is supported by economic recovery and presumably also by more

optimistic growth expectations going forward. Taking a longer-term perspective, the ongoing reduction of nonperforming loans (NPLs) due to restructuring, work-out and sales bodes well for new lending. However, as the stock of NPLs is still high, they remain a considerable obstacle to lending activity. In this respect, Albania and Serbia are most strongly burdened by NPLs in the region, with ratios of around 15%. Albania managed to bring down the level of NPLs most strongly (by almost 3 percentage points) in the six months to June 2017. With a ratio below 4%, Kosovo is least burdened with NPLs in the region.

Up to September 2017, inflation increased markedly across the Western Balkans, largely driven by supply-side factors: Global energy prices recovered and food prices increased because heatwaves and drought affected agricultural output. Inflation increased most strongly in Serbia (up from around 1% in 2016 to rates of above 3% annually) and peaked at 4% in April 2017. Despite rising inflationary pressure, the National Bank of Serbia loosened its monetary policy stance and cut its key repo rate to 3.5% in two steps (in September and October 2017) from 4% as inflation is expected to remain within the tolerance band of 1.5 to 4.5% in the medium term. In Albania – where the central bank also targets inflation – price pressures have picked up as well, but at roughly 2% per annum inflation remains at the lower bound of the central bank's target range (3% \pm 1 percentage point). In August and September, inflation moderated slightly to 1.6% annually compared to previous months. Bosnia and Herzegovina and FYR Macedonia clearly left the deflationary territory in which they were in 2016, and a similar development was observed in Kosovo. Following no price level increase in 2016, inflation in Montenegro increased noticeably to 2.5% annually in the first half of 2017 and even further during the summer months as the favorable tourist season put upward pressure on prices.

A number of governments in the Western Balkans have recognized the need to consolidate their finances in light of rising public debt levels. The Montenegrin authorities, for instance, adopted comprehensive fiscal consolidation measures (such as VAT increases, more targeted social spending) in June 2017 to address the strongly accelerating public debt level strained by the Bar-Boljare highway project. These efforts to stabilize the fiscal situation prompted Moody's to change the outlook for Montenegro's B1 sovereign rating from negative to stable in September 2017. Serbia continues its stability-oriented policies in compliance with the IMF program (see below). The IMF expects the general government debt ratio to fall to around 71% of GDP by the end of 2017, compared to 76% of GDP at end-2015 when the debt level had reached its peak. In FYR Macedonia, the new government adopted a supplementary budget for 2017 in August, taking account of lower growth this year. The target is to limit the budget deficit to 3% of GDP in 2017.

Currently, three Western Balkan countries have programs with the IMF. In September, Serbia successfully completed the 7th economic review under its three-year stand-by arrangement (SBA) with the IMF. So far, Serbia has not drawn any resources under the arrangement and the Serbian authorities do not intend to do so going forward. The SBA will expire in February 2018. Concerning Kosovo, the outstanding review of the current SBA with the IMF (expiry date: August 2017) has not been completed so far because the forming of a new government after the June 2017 election was only completed in early September and the final disbursement has not been carried out. Regarding Bosnia and Herzegovina, the lending arrangement (Extended Fund Facility) with the IMF is still off track due to the insufficient implementation of stipulated economic reforms.

The formal EU accession process of the Western Balkans has continued at a very measured pace. In October, the 8th Stabilization and Association Committee meeting between the candidate country Albania and the European Union took place, with the EU welcoming the Albanian progress in implementing reforms in a number of areas. Against this backdrop, it is becoming more likely that the EU will open accession negotiations with Albania in the near future. In June 2017, Montenegro and the EU opened two more chapters of negotiations (chapter 1 on free movement of goods and chapter 22 on regional policy) and provisionally closed chapter 30 on external relations. Thus, 28 out of 35 negotiations chapters have been opened by now (of which 3 have been provisionally closed). Serbia has opened 10 chapters (of which 2 have been provisionally closed by now). Accession negotiations with FYR Macedonia have not yet started, inter alia due to the continuing country name dispute with Greece.

Private consumption has replaced exports as the major growth driver

2 Slovakia: growth composition increasingly based on domestic demand

Slovakia's real GDP growth largely maintained its swift pace also during the first half of 2017. In the first six months of 2017, private consumption was the main driver of growth, particularly in retail trade, in the restaurant sector and other private sector services. Household consumption benefited from real income increases fostered by historically high employment, rising average wages as well as still low commodity prices. In contrast, growth in exports (especially of cars) slowed down marginally compared to 2016 while import growth accelerated. The weakening of car exports is likely to reflect largely falling demand for high-end SUV vehicles. The contribution of net exports to the economic expansion fell significantly but remained mildly positive. Unlike in most of its regional peers, in Slovakia the low interest rate environment and rather strong demand did not provide a sufficient stimulus for investment to grow. Hence, large investment in a new automotive plant notwithstanding, fixed capital formation continued to shrink in the six months to June, although at a significantly slower pace than in 2016. Not surprisingly in the context of negative investment and rather strong growth, capacity utilization increased further, averaging 86% in the first three quarters of 2017, compared to 84.5% in 2016 and around 77% in 2013.

A slight increase in the services balance in the first half of 2017 compared to end-2016 was fully offset by a similar deterioration in the trade balance. Hence, as the income balance remained broadly stable, so did the mildly negative current account deficit. Having declined to 1.7% of GDP in 2016, the general government deficit is projected to fall further this year. The deficit reduction will be driven by higher tax revenues amid robust economic growth, lower interest expenses as well as restrained growth in social spending and intermediate consumption. General government debt, hovering slightly above 50% of GDP, is still rather high by historical standards but thanks to fiscal restraint it has been going down since 2013.

Inflation has turned positive at last, supported, inter alia, by a booming labor market

Economic growth has translated into favorable developments in the labor market. High demand for skilled labor is reflected in marked employment and wage growth, particularly at larger companies in manufacturing, retail and services. As a result, while employment has reached record highs, unemployment has continued to decline, dropping to levels last seen in the early 1990s (e.g. 7.7% in July 2017). On the flip side, shortages of skilled labor are increasingly perceived as a constraint to economic growth. However, the ensuing wage hike has outpaced productivity growth since the second half of 2016, entailing accelerated increase in unit labor costs.

Inflation turned positive in early 2017. Following a 1% increase in prices in the first six months of 2017, inflation accelerated to 1.6% in August. A granular view suggests that the recent boost to inflation has been brought about particularly by (unprocessed) food, services on the back of continued growth in wages and, to a lesser extent, nonenergy industrial goods. The rise in prices of the latter reflects an ascending trend in import prices as well as robust household demand. In contrast, fuel and energy prices continued to decline.

Private credit continues to grow strongly

In spite of several macroprudential measures introduced by the Slovak central bank since 2014, the stock of household loans has been continuously growing at rather high speed in recent years. It continued to expand at double-digit rates nominally in the first seven months of 2017. Correspondingly, the stock of household loans has doubled since late 2010. Household credit growth has been largely driven by mortgage loans, which make up more than three-quarters of household debt.

Table 2

Main economic indicators: Slovakia

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	2.6	3.8	3.3	3.4	3.8	3.0	3.0	3.1	3.3
Private consumption	1.4	2.2	2.9	2.6	3.1	2.5	3.2	3.3	3.5
Public consumption	5.3	5.4	1.6	3.6	2.5	2.1	-1.0	-0.7	-0.1
Gross fixed capital formation	1.2	16.9	-9.3	1.8	-1.1	-17.0	-15.0	0.9	-6.7
Exports of goods and services	3.7	7.0	4.8	0.3	7.8	4.5	6.3	8.6	0.2
Imports of goods and services	4.4	8.1	2.9	0.3	5.9	0.8	4.5	8.3	-0.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.0	4.6	0.9	3.4	1.9	-1.1	-0.1	2.1	2.2
Net exports of goods and services	-0.5	-0.7	1.8	0.0	1.9	3.2	1.8	0.6	0.3
Exports of goods and services	3.4	6.4	4.5	0.3	7.3	3.8	6.0	8.2	0.2
Imports of goods and services	-3.9	-7.2	-2.7	-0.3	-5.4	-0.7	-4.2	-7.6	0.1
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.7	1.2	0.9	1.0	-0.1	0.3	2.1	2.5	3.2
Unit labor costs in manufacturing (nominal, per hour)	1.8	-2.0	2.5	2.4	-1.3	5.1	3.7	0.4	7.9
Labor productivity in manufacturing (real, per hour)	2.4	6.3	1.7	1.4	3.8	0.4	1.1	5.1	0.4
Labor costs in manufacturing (nominal, per hour)	4.2	4.1	4.2	3.8	2.4	5.5	4.9	5.6	8.3
Producer price index (PPI) in industry	-3.5	-3.0	-4.0	-4.2	-5.1	-4.3	-2.3	2.7	3.0
Consumer price index (here: HICP)	-0.1	-0.3	-0.5	-0.5	-0.6	-0.7	-0.1	1.0	1.0
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	13.2	11.5	9.7	10.4	9.7	9.6	9.2	8.8	8.2
Employment rate (%, 15–64 years)	61.0	62.7	64.9	64.1	64.9	65.1	65.3	65.8	66.1
Key interest rate per annum (%)	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	4.9	11.1	5.4	9.3	8.8	8.2	5.4	5.3	5.2
<i>Contributions to the year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	4.3	1.8	7.6	-2.2	2.9	5.4	7.6	12.0	9.8
Domestic credit provided by the banking system	6.7	17.3	8.3	13.5	12.4	10.8	8.3	7.2	7.3
<i>of which: claims on the private sector</i>	5.1	7.8	7.5	6.5	5.7	7.2	7.5	9.0	9.6
<i>claims on households</i>	5.4	5.9	6.5	5.8	6.1	6.4	6.5	6.8	6.6
<i>claims on enterprises</i>	-0.3	1.9	1.0	0.7	-0.4	0.8	1.0	2.2	2.9
<i>claims on the public sector (net)</i>	1.7	9.6	0.8	7.0	6.7	3.6	0.8	-1.8	-2.3
Other assets (net) of the banking system	-6.2	-8.1	-10.5	-2.0	-6.6	-7.9	-10.5	-13.9	-11.9
<i>% of GDP</i>									
General government revenues	39.3	42.5	39.3	..	..	..	..	..	..
General government expenditures	42.0	45.2	41.5	..	..	..	..	..	..
General government balance	-2.7	-2.7	-2.2	..	..	..	..	..	..
Primary balance	-0.8	-1.0	-0.6	..	..	..	..	..	..
Gross public debt	53.5	52.3	51.8	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	52.7	51.8	55.2	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	32.6	35.1	38.3	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.6	2.6	2.8	3.3	4.0	2.2	1.8	2.3	2.0
Services balance	0.2	0.2	0.5	0.5	0.6	0.7	0.2	0.9	1.1
Primary income	-1.0	-1.0	-2.4	-2.5	-2.6	-2.4	-2.0	-1.4	-2.5
Secondary income	-1.7	-1.6	-1.7	-2.0	-1.4	-1.6	-1.8	-1.7	-2.3
Current account balance	1.1	0.2	-0.7	-0.6	0.6	-1.0	-1.8	0.2	-1.7
Capital account balance	1.0	3.5	2.0	3.2	2.4	0.6	2.1	0.0	1.8
Foreign direct investment (net) ¹	0.6	0.0	0.6	-0.5	6.0	-2.7	-0.3	-4.5	-0.7
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	90.2	85.4	91.1	85.4	87.8	90.0	91.1	95.3	95.5
Gross official reserves (excluding gold)	1.5	2.1	2.0	2.0	2.0	2.0	2.0	1.8	2.0
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
<i>EUR million, period total</i>									
GDP at current prices	75,946	78,686	80,958	18,524	20,242	21,256	20,936	19,276	21,066

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)

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

3 Slovenia: strong growth momentum, balanced developments

Rebounding investments push up GDP growth in first half of 2017

Economic expansion during the first half of 2017 substantially outpaced growth seen in 2016 despite some deceleration in the second quarter. Strong GDP growth was attributable to a substantial rebound of investments, driven particularly by nonresidential construction and machinery and equipment. The revved-up investment activity is primarily attributable to the private sector and reflects record-high capacity utilization rates in industry, strong business confidence and improving credit market conditions for corporates. Domestic consumption growth slowed gradually during the first half of 2017, albeit from a very strong final quarter in 2016. In the public sector this was in line with further efforts to cut the budget deficit. While the slowdown of private consumption mirrored slowing real wage growth, it coincided with accelerating growth of credit to households, record strong consumer confidence and a pick-up in employment growth. Export and import growth accelerated roughly by the same magnitude as in 2016, and the contribution of net real exports remained slightly positive at 0.6 percentage points.

Headline budget deficit on a downward path as economic dynamics beat expectations

In its spring 2017 forecast, the European Commission expects Slovenia's fiscal deficit to narrow to 1.4% of GDP in 2017 and further to 1.2% in 2018 from 1.8% in 2016. The improvement is expected to rest on strong economic growth while the country's structural deficit is expected to widen from 1.7% in 2016 to 2.3% of GDP by 2018. Therefore, in its assessment of Slovenia's fiscal prospects in June 2017, the Council of the European Union came to the conclusion that there was an increasing risk of deviation from the adjustment path to the country's medium-term objective (MTO), which would require further substantial fiscal effort. With regard to the country's medium-term fiscal strategy, the Council recommended to push ahead with the planned healthcare, long-term care and pension reforms, and increase the employability of low-skilled and older workers. Improving financing conditions especially for corporations and strengthening the performance and governance of state-owned enterprises (including a revision of the state's asset management strategy) remain on the reform agenda. Declining fiscal deficits and favorable debt developments were also the major drivers for the upgrade of Slovenia's foreign currency debt ratings by S&P (June 2017) and Moody's (September 2017). Both agencies warned that the political cycle (parliamentary elections by mid-2018 at the latest) in the fragmented political landscape could push structural reforms into the background in the near future.

Inflation in low positive territory, domestic lending recovering

Following the spike in inflation to 2.5% in early 2017 on the back of rising energy and unprocessed food prices, HICP growth fell back to around 1% to 1.5% by the third quarter of 2017. The slowdown was again attributable primarily to energy and to a smaller extent to the unprocessed food component, while core inflation was unchanged at slightly less than 1% year on year. The recovery of lending to households and corporates, which began in February 2017, has so far not stopped adverse developments in banks' net interest income. As net noninterest income also continued to decline while operating costs remained steady, bank profitability deteriorated somewhat during the first half of 2017. Nonetheless, in the assessment of Banka Slovenije, the banking sector continues to be well capitalized and liquid, and nonperforming exposures keep falling.

Table 3

Main economic indicators: Slovenia

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	2.6	3.8	3.3	3.4	3.8	3.0	3.0	3.1	3.3
Private consumption	1.4	2.2	2.9	2.6	3.1	2.5	3.2	3.3	3.5
Public consumption	5.3	5.4	1.6	3.6	2.5	2.1	-1.0	-0.7	-0.1
Gross fixed capital formation	1.2	16.9	-9.3	1.8	-1.1	-17.0	-15.0	0.9	-6.7
Exports of goods and services	3.7	7.0	4.8	0.3	7.8	4.5	6.3	8.6	0.2
Imports of goods and services	4.4	8.1	2.9	0.3	5.9	0.8	4.5	8.3	-0.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.0	4.6	0.9	3.4	1.9	-1.1	-0.1	2.1	2.2
Net exports of goods and services	-0.5	-0.7	1.8	0.0	1.9	3.2	1.8	0.6	0.3
Exports of goods and services	3.4	6.4	4.5	0.3	7.3	3.8	6.0	8.2	0.2
Imports of goods and services	-3.9	-7.2	-2.7	-0.3	-5.4	-0.7	-4.2	-7.6	0.1
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.7	1.2	0.9	1.0	-0.1	0.3	2.1	2.5	3.2
Unit labor costs in manufacturing (nominal, per hour)	1.8	-2.0	2.5	2.4	-1.3	5.1	3.7	0.4	7.9
Labor productivity in manufacturing (real, per hour)	2.4	6.3	1.7	1.4	3.8	0.4	1.1	5.1	0.4
Labor costs in manufacturing (nominal, per hour)	4.2	4.1	4.2	3.8	2.4	5.5	4.9	5.6	8.3
Producer price index (PPI) in industry	-3.5	-3.0	-4.0	-4.2	-5.1	-4.3	-2.3	2.7	3.0
Consumer price index (here: HICP)	-0.1	-0.3	-0.5	-0.5	-0.6	-0.7	-0.1	1.0	1.0
EUR per 1 SIT, + = SIT appreciation	..	..	..	..	..	..	..	..	..
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	13.2	11.5	9.7	10.4	9.7	9.6	9.2	8.8	8.2
Employment rate (%, 15–64 years)	61.0	62.7	64.9	64.1	64.9	65.1	65.3	65.8	66.1
Key interest rate per annum (%)	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Nominal year-on-year change in the period-end stock in %</i>									
Broad money (including foreign currency deposits)	4.9	11.1	5.4	9.3	8.8	8.2	5.4	5.3	5.2
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	4.3	1.8	7.6	-2.2	2.9	5.4	7.6	12.0	9.8
Domestic credit provided by the banking system	6.7	17.3	8.3	13.5	12.4	10.8	8.3	7.2	7.3
<i>of which: claims on the private sector</i>	5.1	7.8	7.5	6.5	5.7	7.2	7.5	9.0	9.6
<i>claims on households</i>	5.4	5.9	6.5	5.8	6.1	6.4	6.5	6.8	6.6
<i>claims on enterprises</i>	-0.3	1.9	1.0	0.7	-0.4	0.8	1.0	2.2	2.9
<i>claims on the public sector (net)</i>	1.7	9.6	0.8	7.0	6.7	3.6	0.8	-1.8	-2.3
Other assets (net) of the banking system	-6.2	-8.1	-10.5	-2.0	-6.6	-7.9	-10.5	-13.9	-11.9
<i>% of GDP</i>									
General government revenues	39.3	42.5	39.3	..	..	..	..	..	..
General government expenditures	42.0	45.2	41.5	..	..	..	..	..	..
General government balance	-2.7	-2.7	-2.2	..	..	..	..	..	..
Primary balance	-0.8	-1.0	-0.6	..	..	..	..	..	..
Gross public debt	53.5	52.3	51.8	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	52.7	51.8	55.2	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	32.6	35.1	38.3	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	3.6	2.6	2.8	3.3	4.0	2.2	1.8	2.3	2.0
Services balance	0.2	0.2	0.5	0.5	0.6	0.7	0.2	0.9	1.1
Primary income	-1.0	-1.0	-2.4	-2.5	-2.6	-2.4	-2.0	-1.4	-2.5
Secondary income	-1.7	-1.6	-1.7	-2.0	-1.4	-1.6	-1.8	-1.7	-2.3
Current account balance	1.1	0.2	-0.7	-0.6	0.6	-1.0	-1.8	0.2	-1.7
Capital account balance	1.0	3.5	2.0	3.2	2.4	0.6	2.1	0.0	1.8
Foreign direct investment (net) ¹	0.6	0.0	0.6	-0.5	6.0	-2.7	-0.3	-4.5	-0.7
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	90.2	85.4	91.1	85.4	87.8	90.0	91.1	95.3	95.5
Gross official reserves (excluding gold)	1.5	2.1	2.0	2.0	2.0	2.0	2.0	1.8	2.0
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
<i>EUR million, period total</i>									
GDP at current prices	75,946	78,686	80,958	18,524	20,242	21,256	20,936	19,276	21,066

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)

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

4 Bulgaria: ongoing economic recovery despite political uncertainty

Improved labor market conditions push up private consumption while inflation has remained benign

Economic growth continued at a swift pace of 3.7% in the first half of 2017. Private consumption and exports exhibited by far the largest growth contributions, while due to buoyant imports, net exports were negative (for the first time since late 2015). Private consumption showed the strongest expansion since end-2015, benefiting from substantial improvements in the labor market. The unemployment rate reached its lowest level since 2009 (6.4% in June) and the employment rate climbed to its highest level in two decades (above 67%). As a consequence of labor market tightening but also due to a 10% hike in statutory minimum wages at the beginning of the year, real wages continued to grow annually at about 9% in the first half of 2017, again above productivity advances. Following a long deflationary episode from August 2013 until December 2016, annual HICP inflation turned positive at the beginning of the year and reached a maximum of 1.7% in April 2017 before declining again to 0.7% in August 2017. Food and energy prices have been the main drivers of recent price dynamics (core inflation has not reached more than 0.2% yet, i.e. until August 2017).

Robust export performance offset by rising import demand

In line with improved external demand, exports continued to grow strongly and expanded by 4.8% on average in the first half of 2017. After an already outstanding tourism season 2016, Bulgaria has so far experienced another very dynamic year: up to July 2017, nights spent by nonresidents in Bulgarian tourist accommodations have grown by 11% compared to the same period a year ago. Mirroring the strong increase in domestic demand, also imports widened substantially (by nearly 8% in the first half of 2017).

Sound financial sector developments support domestic demand though NPL legacies persist

Lending to corporates and households returned to rates not seen for several years (with annual growth rates of 4% and 5.7%, respectively, in July 2017). After-tax profits of the banking sector declined somewhat in the first half of 2017 from very high 2016 levels. Yet, profitability remained high, with returns on assets and on equity reaching 1.4% and 10.9%, respectively, in June 2017. Capitalization of the banking sector has remained strong too, with a total capital adequacy ratio of 22.5% in mid-2017. At the same time, it has not been possible to reduce NPLs during the review period at a similar pace as in the past two years. Despite growing loans, the NPL ratio (>90 days overdue specification) decreased only slightly from 9.0% in December 2016 to 8.7% in June 2017. The coverage of NPLs by provisions and reserves has remained stable (74.1% in June 2017 compared to 75.4% in December 2016).

Early parliamentary elections brought a heterogeneous government coalition into power; some expansionary fiscal stance expected for 2017

Following the snap parliamentary elections of end-March, a new government coalition (with a thin majority in parliament) was formed in early May 2017, led again by the conservative party GERB with nationalist parties (the three-party bloc United Patriots) as a new junior partner. The new government's priorities lie in running a successful EU presidency in the first half of 2018 and in achieving progress in further EU integration during the years ahead (i.e. exiting the co-operation and verification mechanism and entering the Schengen area and ERM II).

Domestically, the focus has been set on strengthening household income, public infrastructure, defense and education. Against this background, the government targets a modest general government budget deficit of 0.6% of GDP in 2017. The medium-term goal is a deficit of 0.5% of GDP in 2018 and surpluses of 0.1% of GDP in the period from 2019 to 2020.

Table 4

Main economic indicators: Bulgaria

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	1.3	3.6	3.9	4.2	4.5	3.0	4.3	3.6	3.9
Private consumption	2.7	4.5	3.6	6.4	2.8	0.4	4.7	3.8	5.7
Public consumption	0.1	1.4	2.2	-2.6	1.0	3.0	6.8	5.8	1.2
Gross fixed capital formation	3.4	2.7	-6.6	-1.4	-3.1	-9.5	-10.0	2.4	4.0
Exports of goods and services	3.1	5.7	8.1	2.8	7.4	10.7	10.6	6.1	3.6
Imports of goods and services	5.2	5.4	4.5	3.2	3.7	5.9	4.9	9.1	6.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	2.7	3.5	1.6	4.4	2.0	-0.5	1.3	5.3	5.2
Net exports of goods and services	-1.3	0.1	2.3	-0.4	2.4	3.7	3.0	-2.2	-1.5
Exports of goods and services	2.0	3.7	5.2	1.9	4.8	7.2	5.9	4.0	2.3
Imports of goods and services	-3.4	-3.6	-2.9	-2.4	-2.5	-3.5	-2.9	-6.2	-3.8
<i>Year-on-year change of the period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	4.5	2.3	2.5	4.4	2.7	2.8	-0.3	2.6	4.1
Unit labor costs in manufacturing (nominal, per hour)	4.7	1.7	7.8	7.5	10.9	6.4	6.3	7.1	2.5
Labor productivity in manufacturing (real, per hour)	0.9	7.4	2.1	2.8	-0.2	3.3	2.5	3.1	8.8
Labor costs in manufacturing (nominal, per hour)	5.6	9.2	10.0	10.5	10.8	10.0	9.0	10.4	11.5
Producer price index (PPI) in industry	-1.2	-2.0	-3.1	-4.7	-5.2	-3.0	0.6	4.8	4.2
Consumer price index (here: HICP)	-1.6	-1.1	-1.3	-1.1	-2.3	-1.1	-0.8	0.8	1.4
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)	11.5	9.3	7.7	8.7	8.2	7.1	6.7	7.0	6.4
Employment rate (%, 15–64 years)	61.1	62.9	63.4	62.3	63.7	64.2	63.4	64.3	67.2
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)	1.1	8.8	7.6	6.1	8.9	8.7	7.6	8.5	7.0
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	9.9	8.3	12.3	11.0	14.1	13.7	12.3	6.3	1.6
Domestic credit provided by the banking system	-7.5	1.7	-3.1	-3.0	-2.5	-2.4	-3.1	2.6	4.3
<i>of which: claims on the private sector</i>	-6.4	-1.2	1.2	-1.8	-0.6	-0.1	1.2	2.7	3.1
<i>claims on households</i>	-0.5	-0.4	0.5	-0.4	-0.2	0.1	0.5	1.1	1.4
<i>claims on enterprises</i>	-5.9	-0.9	0.7	-1.4	-0.4	-0.2	0.7	1.6	1.6
<i>claims on the public sector (net)</i>	-1.1	2.9	-4.3	-1.2	-2.0	-2.3	-4.3	-0.1	1.2
Other assets (net) of the banking system	-1.3	-1.3	-1.6	-2.0	-2.7	-2.7	-1.6	-0.5	1.2
<i>% of GDP</i>									
General government revenues	36.6	39.1	34.9	..	..	..	..	..	..
General government expenditures	42.1	40.7	35.0	..	..	..	..	..	..
General government balance	-5.5	-1.6	0.0	..	..	..	..	..	..
Primary balance	-4.6	-0.7	0.8	..	..	..	..	..	..
Gross public debt	27.0	26.0	29.0	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	108.9	98.4	93.5	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	24.9	23.6	23.1	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-6.5	-5.8	-2.0	-3.2	-2.1	-0.4	-2.8	-7.0	-4.2
Services balance	5.9	6.6	6.4	3.0	5.6	13.8	2.5	3.8	6.1
Primary income	-3.1	-4.5	-2.4	-3.1	-2.1	-2.0	-2.3	-2.2	-0.7
Secondary income	3.8	3.6	3.3	5.0	5.5	1.6	1.8	4.6	2.9
Current account balance	0.1	0.0	5.3	1.8	6.9	13.0	-0.8	-0.7	4.1
Capital account balance	2.2	3.1	2.2	5.6	2.2	1.4	0.6	1.1	0.6
Foreign direct investment (net) ²	-2.1	-5.1	-0.7	-2.8	-4.0	-0.8	3.7	-1.9	-1.3
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	97.5	82.0	79.2	81.3	82.2	79.7	79.2	78.9	77.4
Gross official reserves (excluding gold)	35.8	42.2	46.7	43.4	45.1	46.5	46.7	46.5	45.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	6.6	8.0	9.4	8.5	8.9	9.3	9.4	9.1	8.8
<i>EUR million, period total</i>									
GDP at current prices	42,762	45,287	48,129	9,957	11,603	13,076	13,493	10,260	12,347

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

¹ Not available in a currency board regime.

² + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

5 Croatia: economic recovery continuing on the back of private consumption

Growth driven by
upturn in private
consumption

The recovery of the Croatian economy broadly continued in the first half of 2017. Annual GDP growth increased from 2.5% in the first quarter to 2.8% in the second quarter of 2017, driven mainly by domestic demand, in particular private consumption. The increase of 3.8% in private consumption in the second quarter of 2017 was the highest on record since 2008. Consumer optimism took a temporary hit in April when Croatia's largest private company, Agrokor, became insolvent, but consumer sentiment has recovered since then. The growth in private consumption was fueled by a cut in income taxes and a 6% increase in public sector wages in 2017. In addition, moderate improvements in the labor market supported private consumption growth: Unemployment declined to 11.1% in the second quarter of 2017 and employment increased to 59.2% mainly due to another record tourist season. Although this is the highest employment rate recorded in Croatia since 2009, it is still the second-lowest within the EU after Greece. Furthermore, the reduction in the unemployment rate was likely driven in part by continuing emigration – in 2016, according to the Croatian Bureau of Statistics around 36,500 Croatians emigrated, the majority of whom are of working age. After having picked up to 5.1% in 2016, investment growth continued in the first quarter at 5.4% but then slowed down significantly to 3.2% in the second quarter of 2017. Given the strong increase in private consumption, import growth exceeded export growth, leading to an overall negative contribution of net exports to growth in the review period.

Current account
position unchanged,
external
vulnerability
moderately reduced

Croatia's current account position barely altered in the first half of 2017. Another record tourist season bodes well for the full-year current account to remain in surplus. According to Croatia's Ministry of Tourism, tourist arrivals increased by 23% in the first half of 2017 compared to the first half of 2016. In the first quarter of 2017, gross external debt increased to 94.7% of GDP but decreased in the second quarter to 86.1% of GDP. This quarterly movement was largely due to government refinancing patterns – with significant bond issuance happening in March and repayment taking place in April 2017.

Appreciation
pressures on the
kuna exchange rate

Inflation remained in positive territory in the first half of 2017. The central bank (HNB) intervened to stem appreciation pressures on the exchange rate of the Croatian kuna against the euro and conducted four foreign exchange interventions, purchasing EUR 601.5 million in total from banks until early October 2017. The HNB and the government are currently preparing a joint documentation on Croatia's preparations and milestones for future euro area accession. The main initial goal is to disseminate information and raise awareness for the issues involved. In a recent interview, Governor Vujčić stressed that euro area membership would have little costs for Croatia given its persistent and high level of euroization and the resulting limited de-facto flexibility on the exchange rate side. Around 63% of deposits and 65% of loans to resident non-MFIs are denominated in foreign currency.

Fiscal consolidation
but increased
uncertainty

In 2017, Croatia exited the excessive deficit procedure after the general government balance had come in at -0.8% of GDP in 2016 while gross public debt still amounted to 84.2% of GDP. While the government has repeatedly committed to further fiscal consolidation, so far deficit reduction has mainly been achieved by economic growth and favorable debt repayment conditions. General government expenditures are still among the highest in CESEE at 48.4% of GDP in 2016. Fiscal risks originate from the debt crisis surrounding Agrokor and lawsuits connected to the so-called "Lex Agrokor" that barred bankruptcy procedures and allowed the appointment of a special commissioner to oversee the restructuring of the company.

Table 5

Main economic indicators: Croatia

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	-0.5	2.2	3.0	2.7	2.7	3.0	3.4	2.5	2.8
Private consumption	-1.6	1.1	3.3	3.0	3.0	3.4	3.6	3.4	3.8
Public consumption	-0.8	-1.4	1.3	-0.5	2.0	1.8	1.7	1.6	1.7
Gross fixed capital formation	-2.8	3.8	5.1	5.7	7.1	3.2	4.6	5.4	3.2
Exports of goods and services	6.0	9.4	5.7	6.9	3.8	5.7	6.8	8.6	3.6
Imports of goods and services	3.1	9.2	5.8	5.6	7.3	5.4	5.0	10.1	4.6
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-1.8	2.0	2.9	2.8	4.5	1.6	2.8	3.9	3.4
Net exports of goods and services	1.3	0.3	0.1	0.0	-1.8	1.4	0.6	-1.4	-0.6
Exports of goods and services	2.6	4.3	2.8	2.6	1.7	3.8	3.0	3.3	1.6
Imports of goods and services	-1.3	-4.0	-2.7	-2.6	-3.5	-2.4	-2.4	-4.7	-2.2
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	-5.3	-3.7	51.4	42.6	55.1	58.3	50.9	7.2	-2.2
Labor productivity in manufacturing (real, per hour)	5.4	6.3	-31.4	-26.5	-33.4	-34.3	-30.5	0.3	6.7
Labor costs in manufacturing (nominal, per hour)	-0.4	2.3	4.2	4.8	3.3	3.9	4.9	7.6	4.4
Producer price index (PPI) in industry	-2.7	-3.9	-4.3	-4.7	-6.1	-4.6	-1.7	2.3	1.8
Consumer price index (here: CPI)	0.2	-0.3	-0.6	-0.5	-1.1	-1.1	0.2	1.1	1.1
EUR per 1 HRK, + = HRK appreciation	-0.7	0.3	1.1	0.8	0.9	1.1	1.3	2.0	1.0
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	17.5	16.4	13.3	15.6	13.0	11.0	13.5	14.1	11.1
Employment rate (%, 15–64 years)	54.6	56.0	56.9	55.0	57.4	58.4	56.8	55.9	59.2
Key interest rate per annum (%)	..	..	..	..	..	..	..	..	..
HRK per 1 EUR	7.6	7.6	7.5	7.6	7.5	7.5	7.5	7.5	7.4
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	3.2	5.1	4.7	3.4	4.6	4.3	4.7	3.7	2.9
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	4.8	6.5	4.1	3.7	5.9	5.4	4.1	6.2	2.2
Domestic credit provided by the banking system	0.0	-0.3	-0.4	-2.4	-2.6	-2.7	-0.4	-1.7	-0.1
<i>of which: claims on the private sector</i>	-1.6	-2.4	-2.9	-5.2	-4.8	-4.1	-2.9	-1.3	-1.2
<i>claims on households</i>	-0.4	-0.7	-2.4	-3.8	-3.4	-3.0	-2.4	-0.4	-0.3
<i>claims on enterprises</i>	-1.2	-1.7	-0.5	-1.4	-1.4	-1.1	-0.5	-0.9	-0.8
<i>claims on the public sector (net)</i>	1.6	2.2	2.5	2.8	2.2	1.3	2.5	-0.4	1.1
Other assets (net) of the banking system	-1.7	-1.1	1.0	2.1	1.3	1.6	1.0	-0.7	0.8
<i>% of GDP</i>									
General government revenues	43.1	45.2	47.6	..	..	..	..	..	..
General government expenditures	48.5	48.6	48.4	..	..	..	..	..	..
General government balance	-5.4	-3.4	-0.8	..	..	..	..	..	..
Primary balance	-1.9	0.2	2.4	..	..	..	..	..	..
Gross public debt	86.6	86.7	84.2	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	101.2	100.3	95.6	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	40.3	38.8	35.6	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-15.2	-15.8	-16.0	-17.3	-18.3	-15.1	-13.7	-18.5	-19.2
Services balance	17.1	18.2	18.9	3.7	18.1	43.7	6.1	3.1	19.2
Primary income	-2.0	-0.7	-3.4	-3.6	-3.3	-4.9	-1.6	-2.5	-3.3
Secondary income	2.1	2.9	3.0	1.7	4.3	2.4	3.3	3.4	4.6
Current account balance	2.0	4.6	2.5	-15.4	0.9	26.2	-6.0	-14.4	1.2
Capital account balance	0.4	0.7	1.3	1.2	1.2	1.0	1.8	0.6	0.4
Foreign direct investment (net) ¹	-1.6	-0.6	-4.2	-4.8	-2.4	-5.9	-3.7	-2.1	-1.1
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	108.0	103.0	90.9	99.7	97.0	93.6	90.9	94.7	86.1
Gross official reserves (excluding gold)	29.5	31.1	29.5	29.7	28.9	28.8	29.5	34.7	29.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	8.1	8.0	7.6	7.7	7.4	7.4	7.6	8.7	7.4
<i>EUR million, period total</i>									
GDP at current prices	42,982	44,082	45,832	10,209	11,395	12,685	11,544	10,724	11,939

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

6 Czech Republic: GDP growth is broad based

Private consumption as well as re-energized investment and net exports spur economic expansion

After real GDP growth in the Czech Republic had slowed down significantly in 2016, mainly due to slower absorption of EU funds, economic expansion edged up to 3.7% in the first half of 2017. The boost was broadly balanced, brought about by both domestic and foreign demand. On the domestic side, private consumption was the key driver, supported by sustained nominal and real wage growth in a low interest rate environment, persistent optimistic consumer sentiment and rising employment. The growth contribution of public consumption, however, remained moderate as in 2016. Contrasted with 2016, fixed investment rebounded noticeably in the first half of 2017 amid continued growth in external and domestic demand and still low domestic real interest rates. Also the contribution of net exports to real GDP growth strengthened somewhat in the first half of 2017 as growth of exports outpaced imports. Following a slowdown in the second half of 2016, exports bounced back, reflecting firm external demand in particular in the crucial automotive industry.

Subdued commodity prices helped maintain a solid positive trade and services balance, which was echoed also in a significant surplus of the current account balance. The latter was further aided by the favorable fiscal position. The budget is expected to remain in a moderate surplus also in 2017. On the revenue side this would be thanks to higher-than-expected tax revenues on the back of strong economic growth as well as some government measures (e.g. the launch of electronic sales registration). On the expenditure side, the fiscal performance will be supported by lower debt servicing costs. As a result of fiscal restraint, the debt ratio is expected to decline by about 1 percentage point of GDP this year.

The mirror image of the robust economic growth is a further tightening in the labor market. Employment has reached historical highs (more than 73%) while the unemployment rate is the lowest in the EU. Filling vacancies is thus becoming an increasing challenge for firms. Among industrial corporations, the perception of labor shortages as a constraint for production is reportedly at its peak since measurement started in 2005. Not surprisingly, the tight labor market is increasingly reflected in rising wage pressures. Correspondingly, growth in labor costs exceeded labor productivity growth in the manufacturing sector in the first half of 2017.

After a long period of subdued price increases, inflation has hovered in the upper half of the tolerance band of Czech National Bank's (CNB) target ($2\% \pm 1$ percentage points) since early 2017, reaching 2.4% in August. The CNB expects inflation to peak in the second half of the year and to decrease toward the target at the start of 2018. Inflation acceleration has been driven by the booming domestic economy plus some one-off effects: The already mentioned roll-out of electronic sales registration in December 2016 has induced noticeable price rises in nontradables such as housing, recreational, cultural and gastronomical services. Food prices have also gone up while growth in fuel prices slowed down recently on the back of moderating oil prices and an appreciating Czech koruna vis-à-vis the dollar. In light of recent and projected inflation developments, the CNB increased the two-week repo rate by 20 basis points to 0.25% in August 2017. This was the first adjustment of the key policy rate since November 2012 and the first hike since November 2007. Since the CNB removed the exchange rate floor in early April 2017, the Czech koruna has appreciated rather continuously by about 4% against the euro, without any interventions by the CNB.

CNB's first policy rate increase since 2007 amid accelerated inflation growth

Table 6

Main economic indicators: Czech Republic

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	2.7	5.3	2.6	3.2	4.0	1.6	1.7	4.0	3.4
Private consumption	1.8	3.7	3.6	3.8	4.1	3.5	3.0	3.7	3.8
Public consumption	1.1	1.9	2.0	2.2	2.8	1.9	1.2	2.8	1.8
Gross fixed capital formation	3.9	10.2	-2.3	0.4	-2.5	-3.5	-3.1	2.4	5.2
Exports of goods and services	8.7	6.0	4.5	6.0	8.3	1.8	2.2	7.4	3.9
Imports of goods and services	10.1	6.8	3.4	6.0	5.7	0.8	1.1	5.3	2.9
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.2	5.5	1.4	2.8	1.6	0.7	0.8	1.8	2.3
Net exports of goods and services	-0.5	-0.2	1.2	0.5	2.4	0.8	0.9	2.2	1.1
Exports of goods and services	6.6	5.0	3.7	5.1	6.7	1.4	1.7	6.2	3.2
Imports of goods and services	-7.1	-5.2	-2.5	-4.6	-4.3	-0.6	-0.9	-4.0	-2.1
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.4	-0.8	3.2	2.1	1.4	4.7	4.8	3.1	5.1
Unit labor costs in manufacturing (nominal, per hour)	-1.3	-1.0	0.8	-4.0	3.5	7.6	-3.4	5.6	3.0
Labor productivity in manufacturing (real, per hour)	4.9	4.2	2.2	3.4	0.9	1.6	2.8	3.8	7.5
Labor costs in manufacturing (nominal, per hour)	3.6	3.2	3.0	-0.8	4.3	9.3	-0.7	9.6	10.8
Producer price index (PPI) in industry	1.0	-2.5	-3.2	-4.0	-4.5	-3.0	-1.3	2.6	1.9
Consumer price index (here: HICP)	0.4	0.3	0.6	0.4	0.1	0.5	1.5	2.5	2.3
EUR per 1 CZK, + = CZK appreciation	-5.6	0.9	0.9	2.2	1.3	0.2	0.1	0.1	1.8
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	6.2	5.1	4.0	4.4	4.0	4.0	3.6	3.5	3.0
Employment rate (%, 15–64 years)	69.0	70.2	72.0	71.0	71.7	72.2	72.9	72.8	73.3
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	27.5	27.3	27.0	27.0	27.0	27.0	27.0	27.0	26.6
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	5.9	8.0	6.5	9.4	9.5	8.4	6.5	11.8	12.0
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	0.1	6.7	7.4	6.4	8.0	8.1	7.4	16.1	12.8
Domestic credit provided by the banking system	8.1	2.0	0.6	1.7	1.1	1.2	0.6	-2.4	-3.6
<i>of which: claims on the private sector</i>	2.9	4.6	5.2	5.8	5.6	5.3	5.2	6.2	6.0
<i>claims on households</i>	1.0	2.8	2.7	2.8	2.4	2.6	2.7	2.9	3.0
<i>claims on enterprises</i>	1.8	1.8	2.6	3.0	3.2	2.7	2.6	3.3	3.0
<i>claims on the public sector (net)</i>	5.2	-2.6	-4.6	-4.2	-4.5	-4.1	-4.6	-8.6	-9.6
Other assets (net) of the banking system	-2.3	-0.8	-1.5	1.4	0.4	-0.9	-1.5	-2.0	2.9
<i>% of GDP</i>									
General government revenues	40.3	41.1	40.1	..	..	..	..	..	..
General government expenditures	42.2	41.7	39.4	..	..	..	..	..	..
General government balance	-1.9	-0.6	0.7	..	..	..	..	..	..
Primary balance	-0.6	0.5	1.6	..	..	..	..	..	..
Gross public debt	42.2	40.0	36.8	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	64.0	58.6	56.5	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	30.1	30.4	31.1	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	5.1	4.1	5.2	7.5	6.7	3.8	3.2	7.8	6.0
Services balance	1.3	1.7	2.1	2.2	2.0	2.3	2.0	2.3	2.4
Primary income	-6.0	-5.6	-5.7	-0.5	-8.8	-7.2	-5.9	-0.4	-7.8
Secondary income	-0.2	0.0	-0.6	0.6	-0.9	-0.7	-1.1	-1.3	-1.2
Current account balance	0.2	0.2	1.1	9.9	-1.0	-1.9	-1.8	8.4	-0.6
Capital account balance	0.8	2.2	1.1	1.7	1.8	1.0	0.1	0.1	0.6
Foreign direct investment (net) ¹	-1.9	1.1	-3.0	0.9	-6.9	-4.3	-1.2	-5.4	-2.3
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	69.6	70.2	74.0	69.8	70.4	71.5	74.0	91.9	94.4
Gross official reserves (excluding gold)	28.4	35.0	45.9	37.4	38.6	41.7	45.9	68.7	68.6
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.5	5.6	7.6	6.0	6.3	6.9	7.6	11.3	11.3
<i>EUR million, period total</i>									
GDP at current prices	156,641	168,514	176,564	41,021	44,888	44,750	45,904	42,920	47,719

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

7 Hungary: EU funds and policy measures push up GDP growth

Notable acceleration of GDP growth in the first half of 2017

GDP grew by 3.6% year on year during the first half of 2017 (up from 2% in 2016). In line with previous expectations, the acceleration was attributable to the very sharp rebound of investment activity. This was most evident for public investment, which was presumably supported by stronger EU funds disbursement, but private investments also accelerated on the back of strengthening credit growth and galloping construction activity. Private consumption growth remained strong, although somewhat slower than in 2016, despite a steep rise in real wage growth and accelerating credit to households. Rather unexpectedly, public consumption contracted by a comparably large 3%, probably reflecting efforts to keep a lid on the budget deficit amid selected tax cuts (VAT, corporate income tax, family tax benefits), increased subsidies (e.g. for housing) and despite selected public sector wage hikes. Net exports shaved 0.3 percentage points off the overall growth rate, as the leap in domestic demand soaked in imports, with which the increase in export growth could not keep up.

Fiscal policy moving away from MTO

According to the European Commission's spring 2017 forecast, the budget deficit will likely rise to 2.3% of GDP in 2017 (from 1.8% in 2016) and further to 2.5% of GDP in 2018. Adjusted for changes in the output gap, the fiscal loosening estimated by the European Commission could be even larger (structural deficit up from 1.9% of GDP in 2016 to 3.4% in 2017 and 3.7% of GDP in 2018, i.e. moving away from Hungary's medium-term objective (MTO) of 1.5%). Therefore, in June 2017, when assessing the country's fiscal outlook, the Council of the European Union warned of risks of a significant deviation from the recommended fiscal adjustment toward the MTO in both 2017 and 2018. At the same time, the Council expressed its opinion that Hungary would need to undertake additional fiscal efforts already in 2017 to comply with its obligations under the Stability and Growth Pact. The Council also repeated its recommendations to improve competitiveness and potential growth, while strengthening the functioning of the labor market and the education system also remain on the agenda.

Credit growth continues to recover; inflation slower than previously expected

The Hungarian central bank (MNB) in late May 2017 announced modifications to its market-based lending (MBL) scheme. The modifications have allowed banks to make additional lending commitments and thus promote credit growth additionally and keep the growth of credits to SMEs in the upper part of the 5% to 10% range deemed as "sound and desirable" in the MNB framework. In addition, in the context of MBL, the MNB promotes lending to SMEs by progressive allowances on capital requirements, based on banks' fulfilment of their MBL commitments. In fact, credit growth to corporates accelerated gradually during the first seven months of 2017 and the share of corporates citing financial constraints as a factor limiting production continued following its decreasing trend. At the same time, lending to households also intensified and returned to positive territory in year-on-year terms by mid-2017. Following the spike to close to the MNB's 3% medium-term target during the first quarter of 2017, inflation decelerated to around 2% by mid-year, before rebounding to 2.7% in August. The MNB expects inflation to ease in the second half of 2017 and then remain at 2% to 2.5% until end-2018 and to climb gradually to the 3% inflation target by mid-2019 (later than previously expected). In response to the repeated delay in the expected achievement of the inflation target, the MNB in late September cut its overnight deposit rate by 10 basis points to -0.15%. It intends to maintain loose monetary conditions for an extended period and even loosen its stance further with nonstandard measures if inflation remains persistently below the target.

Table 7

Main economic indicators: Hungary

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	4.0	3.1	2.0	1.1	2.8	2.2	1.6	4.2	3.2
Private consumption	2.5	3.4	5.0	4.8	5.2	4.6	5.2	3.6	4.6
Public consumption	4.5	1.0	0.1	1.3	4.8	-1.2	-3.9	-3.9	-2.3
Gross fixed capital formation	9.9	1.9	-15.5	-10.2	-19.3	-9.9	-19.6	28.4	21.2
Exports of goods and services	9.8	7.7	5.8	4.6	10.3	5.2	3.1	9.4	3.5
Imports of goods and services	10.9	6.1	5.7	7.4	7.9	5.1	2.7	10.0	5.1
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	4.2	1.3	1.4	3.0	0.0	1.7	1.0	3.7	4.1
Net exports of goods and services	-0.2	1.8	0.6	-1.9	2.8	0.6	0.6	0.4	-1.0
Exports of goods and services	8.4	6.8	5.2	4.4	9.4	4.7	2.7	9.1	3.3
Imports of goods and services	-8.6	-5.0	-4.7	-6.3	-6.5	-4.1	-2.2	-8.7	-4.3
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	2.0	0.6	5.6	7.5	4.0	6.2	4.6	4.4	5.9
Unit labor costs in manufacturing (nominal, per hour)	-2.5	-0.1	8.6	8.9	6.7	10.5	8.4	7.2	9.7
Labor productivity in manufacturing (real, per hour)	6.0	4.1	-2.8	-3.5	-1.9	-3.7	-2.1	4.0	2.7
Labor costs in manufacturing (nominal, per hour)	3.5	4.0	5.6	5.1	4.6	6.4	6.2	11.6	12.7
Producer price index (PPI) in industry	-0.4	-0.9	-1.6	-1.5	-2.0	-2.5	-0.3	3.4	2.9
Consumer price index (here: HICP)	0.0	0.1	0.4	0.4	0.0	0.1	1.3	2.6	2.1
EUR per 1 HUF, + = HUF appreciation	-3.8	-0.4	-0.5	-1.0	-2.4	0.3	1.1	1.0	1.1
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.8	6.9	5.2	6.1	5.1	4.9	4.5	4.6	4.3
Employment rate (%, 15–64 years)	61.8	64.0	66.5	65.1	66.4	67.1	67.5	67.1	68.1
Key interest rate per annum (%)	2.4	1.6	1.0	1.3	1.0	0.9	0.9	0.9	0.9
HUF per 1 EUR	308.7	309.9	311.5	312.1	313.3	311.1	309.4	309.1	309.9
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	5.1	6.3	7.1	5.0	5.4	4.2	7.1	7.7	10.1
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	7.5	1.4	3.4	-1.2	-0.6	1.3	3.4	3.6	1.0
Domestic credit provided by the banking system	0.4	1.8	1.8	6.4	4.5	0.6	1.8	2.2	5.9
<i>of which: claims on the private sector</i>	-0.3	-7.4	0.1	-3.3	-2.8	-2.0	0.1	0.7	2.0
<i>claims on households</i>	-0.7	-4.4	-0.8	-2.2	-2.0	-1.4	-0.8	-0.2	0.2
<i>claims on enterprises</i>	0.3	-3.0	1.2	-0.9	-0.6	-0.4	1.2	1.0	1.9
<i>claims on the public sector (net)</i>	0.7	9.2	1.7	9.8	7.4	2.7	1.7	1.5	3.8
Other assets (net) of the banking system	-2.8	3.1	1.9	-0.2	1.4	2.3	1.9	1.9	3.2
<i>% of GDP</i>									
General government revenues	46.8	48.2	44.8	..	..	..	..	..	..
General government expenditures	49.5	50.2	46.7	..	..	..	..	..	..
General government balance	-2.7	-2.0	-1.9	..	..	..	..	..	..
Primary balance	1.3	1.5	1.3	..	..	..	..	..	..
Gross public debt	75.2	74.7	73.9	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	80.8	76.9	71.7	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	25.1	21.1	20.6	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	2.0	4.0	4.2	5.6	5.6	3.4	2.5	2.6	4.9
Services balance	4.4	4.9	6.0	5.3	6.6	7.3	4.8	5.5	5.7
Primary income	-4.2	-4.5	-2.5	-1.9	-2.8	-2.5	-2.7	-3.1	-4.2
Secondary income	-0.7	-0.9	-1.5	-1.8	-1.4	-1.3	-1.6	-1.5	-0.6
Current account balance	1.5	3.5	6.2	7.2	8.1	6.9	3.0	3.6	5.8
Capital account balance	3.7	4.7	0.1	0.4	0.2	-0.3	0.0	0.5	4.6
Foreign direct investment (net) ¹	-2.8	-1.0	-1.7	-0.9	2.4	-5.2	-2.8	-1.2	2.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	115.4	108.2	97.3	105.6	105.4	99.5	97.3	96.4	93.7
Gross official reserves (excluding gold)	32.9	27.6	21.7	25.0	22.3	21.1	21.7	21.2	20.0
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	4.8	4.0	3.2	3.6	3.3	3.1	3.2	3.1	2.9
<i>EUR million, period total</i>									
GDP at current prices	104,959	109,657	112,429	24,631	27,825	28,922	31,051	26,808	30,067

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

8 Poland: growth mainly driven by accelerating domestic demand

Surplus in the goods and services balance remains high

GDP growth accelerated to 4.3% in the first half of 2017. Total final demand growth accelerated to 5.3%, with real export growth slowing sharply to 6% and domestic demand growth speeding up to 5.0%, so that real import growth decelerated moderately to 7.5%. For the first time since 2014, foreign demand contributed less than domestic demand to annual GDP growth, while the net export contribution turned negative. In the first half of 2017, the goods and services surplus at 4.3% of GDP and the current account surplus at 0.3% of GDP were both lower by about 0.5 percentage points compared to the same period a year earlier, and the same applies to the capital account surplus at 0.7% of GDP. The main reason for the pick-up of domestic demand growth was the start of recovery in fixed investment, following severe contraction in 2016. In parallel, the strong inventory build-up continued. Private business investment was boosted by improved industrial confidence, the recent further increase of already high capacity utilization rates, the continued strong liquidity position plus low interest rates and the broadly stable profitability of enterprises. At the same time, labor cost increases exceeding productivity advances tend to erode profitability in manufacturing. Housing investment growth seems to have accelerated, judging from the number of dwellings under construction. Private consumption growth was even slightly higher than in the second half of 2016 and thus above GDP growth. This reflected the further improvement of consumer confidence, disappearing deflation expectations and the lagged effect of higher child benefits. Moreover, it was roughly in line with real wage sum growth, driven by both employment growth and stable real wage growth.

Inflation expected to remain moderate in the quarters ahead

Manufacturing ULC continued to increase more strongly than in the euro area in year-on-year terms in the first half of 2017. In addition, the Polish zloty's euro value was about 2.5% higher on average during the first half of 2017 than a year earlier. However, this rise was partly reversed in July and August. In August, annual headline inflation was positive (1.4% HICP, 1.8% national CPI), while core inflation stood at 1.2% (HICP, excluding energy and unprocessed food) and 0.7% (CPI, excluding energy and all food), with rising deflation in industrial goods and stable inflation in services. The Polish Monetary Policy Council (MPC), pursuing an inflation target of 2.5% (CPI), has kept its policy rate at 1.5% since March 2015. In its latest meeting on October 4, 2017, it expected inflation to remain moderate until the second half of 2018, with an only gradual rise in domestic inflationary pressure and stabilizing energy commodity prices.

Fiscal deficit expected to increase to close to 3% of GDP in 2017

For 2017, the European Commission forecasts the gross general government deficit to reach 2.9% of GDP, equal to the target in the government's Convergence Programme of April 2017 and higher than in 2016 (2.4% of GDP). The structural deficit target implies an even larger increase to 2.9% of GDP from 2.2% in 2016, while the European Commission forecasts 3.2% of GDP. While the revenue-to-GDP ratio is set to rise due to measures on indirect taxes, the expenditure ratio will rise far more by social transfers and by public investment. Against this background, the Council of the European Union saw a risk of deviation from the adjustment recommended for 2017 of 0.5% of GDP toward the medium-term budgetary objective of a structural deficit of 1% of GDP. Hence, it recommended that Poland should take action in 2017 and 2018 to pursue a substantial fiscal effort in 2018. European Commission staff projections expect general government gross debt to reach 54.6% of GDP by the end of 2017.

Table 8

Main economic indicators: Poland

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	3.3	3.9	2.6	2.5	3.0	1.8	3.1	4.2	4.4
Private consumption	2.4	3.0	3.8	3.2	2.8	4.9	4.4	4.9	4.8
Public consumption	4.1	2.4	2.8	4.8	3.2	3.3	0.6	1.1	2.6
Gross fixed capital formation	10.0	6.1	-7.9	-10.1	-4.5	-7.5	-9.2	-0.3	0.9
Exports of goods and services	6.7	7.7	9.0	7.2	13.9	6.5	8.6	9.0	3.0
Imports of goods and services	10.0	6.6	8.9	8.6	11.3	9.3	6.7	9.4	5.5
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	4.6	3.2	2.4	3.0	1.3	3.0	2.1	4.1	5.5
Net exports of goods and services	-1.3	0.6	0.3	-0.4	1.6	-1.2	1.1	0.1	-1.1
Exports of goods and services	3.1	3.7	4.5	3.7	6.9	3.3	4.0	4.8	1.7
Imports of goods and services	-4.4	-3.0	-4.1	-4.1	-5.3	-4.4	-2.9	-4.7	-2.7
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	0.6	-0.6	-0.7	-0.6	-0.6	-0.7	-1.0	-0.7	..
Unit labor costs in manufacturing (nominal, per hour)	2.0	1.0	2.9	3.5	2.3	4.4	1.5	2.6	3.4
Labor productivity in manufacturing (real, per hour)	2.5	2.9	0.9	0.1	0.8	-0.8	3.7	1.7	4.1
Labor costs in manufacturing (nominal, per hour)	4.7	3.9	3.9	3.7	3.1	3.5	5.2	4.3	7.6
Producer price index (PPI) in industry	-1.3	-2.1	-0.3	-1.5	-1.0	-0.2	1.6	4.1	2.7
Consumer price index (here: HICP)	0.1	-0.7	-0.2	-0.3	-0.4	-0.4	0.4	1.7	1.5
EUR per 1 PLN, + = PLN appreciation	0.3	0.0	-4.1	-4.0	-6.5	-3.5	-2.6	1.0	3.7
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	9.1	7.6	6.3	7.1	6.3	6.0	5.6	5.5	5.0
Employment rate (%, 15–64 years)	61.7	62.9	64.5	63.7	64.3	64.9	65.1	65.4	66.2
Key interest rate per annum (%)	2.4	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
PLN per 1 EUR	4.2	4.2	4.4	4.4	4.4	4.3	4.4	4.3	4.2
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	8.2	9.1	9.6	9.1	11.4	9.4	9.6	7.8	5.0
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	3.1	1.3	4.1	-1.1	4.3	2.7	4.1	5.1	0.1
Domestic credit provided by the banking system	9.5	9.9	8.7	11.5	10.8	8.7	8.7	4.6	3.2
of which: claims on the private sector	6.9	6.8	4.4	4.6	4.9	3.9	4.4	4.9	4.0
claims on households	3.2	3.7	2.9	2.5	2.7	2.8	2.9	2.5	1.7
claims on enterprises	3.7	3.1	1.5	2.1	2.2	1.1	1.5	2.4	2.3
claims on the public sector (net)	2.6	3.0	4.3	6.9	6.0	4.8	4.3	-0.2	-0.7
Other assets (net) of the banking system	-4.4	-2.1	-3.2	-1.3	-3.7	-2.0	-3.2	-1.9	1.7
<i>% of GDP</i>									
General government revenues	38.7	38.9	38.7	..	..	..	..	..	..
General government expenditures	42.3	41.6	41.2	..	..	..	..	..	..
General government balance	-3.6	-2.6	-2.5	..	..	..	..	..	..
Primary balance	-1.7	-0.9	-0.8	..	..	..	..	..	..
Gross public debt	50.2	51.1	54.1	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	45.2	46.3	49.4	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	34.9	35.4	36.4	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-0.8	0.5	0.7	1.2	1.7	-0.4	0.4	0.6	0.4
Services balance	2.2	2.5	3.3	3.2	3.7	3.3	3.1	3.6	4.0
Primary income	-3.4	-3.4	-4.0	-4.1	-3.6	-5.0	-3.2	-2.7	-4.9
Secondary income	-0.1	-0.2	-0.3	-0.5	0.0	-0.3	-0.5	0.1	-0.3
Current account balance	-2.1	-0.6	-0.3	-0.2	1.7	-2.5	-0.2	1.6	-0.8
Capital account balance	2.4	2.4	1.1	2.4	0.0	0.0	1.7	0.6	0.8
Foreign direct investment (net) ¹	-2.4	-2.1	-1.2	-3.9	-1.9	-0.7	1.3	-1.2	2.3
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	71.4	70.5	75.2	70.4	73.2	74.5	75.2	74.8	72.3
Gross official reserves (excluding gold)	19.3	19.5	24.6	19.8	22.4	22.6	24.6	23.4	21.4
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.0	5.0	6.1	5.1	5.7	5.7	6.1	5.7	5.2
<i>EUR million, period total</i>									
GDP at current prices	410,921	429,904	424,208	98,055	102,733	104,418	119,004	105,025	112,541

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

9 Romania: vivid GDP growth and increasing twin deficits

Private consumption drives growth, but not exclusively

Real GDP growth speeded up markedly in the first half of 2017, getting close to 6% annually. Growth of private consumption resurged, driven by additional stimulating fiscal and income policy measures, supportive labor market developments and reviving consumer lending. Brisk wage growth not only supported private consumption but also fueled further rising ULC in the manufacturing sector, despite considerable productivity gains. Moreover, following the adoption of various expansionary fiscal policy measures in this year's budget plan, the government made some adjustments in late summer (such as increasing the fuel excise duty) with a view to keeping the budget deficit below 3% of GDP this year. In June 2017, the Council of the European Union concluded that significant measures were needed as of 2017 to comply with the provisions of the Stability and Growth Pact, in light of a strongly deteriorating fiscal outlook.

While private consumption clearly dominated growth, other demand components developed largely favorably as well. A marked contraction in gross fixed capital formation in the second half of 2016 was followed by relatively high seasonally adjusted quarter-on-quarter growth rates in the first two quarters of 2017, resulting in a moderately positive year-on-year growth rate in the second quarter. Gross fixed capital formation grew in spite of further delays in absorbing EU structural and investment funds under the 2014–2020 programming period and overall weak public investment activity. Residential building construction was backed by swiftly growing housing loans, and equipment purchases rebounded in the industrial sector in the second quarter. The recovery also extended to loans to nonfinancial corporations. Meanwhile, exports continued to perform well, though some moderation was seen in the second quarter. Yet, as import growth remained at a high level, the contribution of net exports turned negative again in the second quarter of 2017.

Current account deficit widens, while financing structure deteriorates

The current account deficit increased by about 1 percentage point of GDP in the first half of 2017 compared to the first half of 2016. The deterioration was broad based, but the largest contribution to the widening current account gap emanated from the growing trade deficit. In parallel, the surplus in the capital account dropped sharply due to meager inflows from EU funds. As a result, the combined current and capital account balance turned negative, posting a deficit of 3.3% of GDP in the first half of 2017, thereby surpassing the level of net FDI inflows. As an external financing source, debt-creating inflows – namely net portfolio investments – gained increasing importance. External debt increased in absolute terms, but the external debt ratio declined because of favorable GDP developments.

Demand pressures leave footprint in inflation developments

CPI and HICP inflation rates went up in the course of 2017. The rise was more pronounced in monetary policy-relevant CPI terms, with annual CPI inflation reaching 1.4% in July before slowing slightly to 1.2% in August. Core inflation rose as well, indicating that demand pressures have started to affect prices to a more visible extent. The central bank (NBR) has kept its policy rate unchanged at 1.75%, but tightened the interest rate corridor on October 3, 2017, and made it symmetric by hiking the deposit facility rate by 25 basis points to 0.5% and cutting the lending facility rate to 3%. The NBR expects inflation to rise slightly faster in the coming months than projected in the August forecasting round. The August forecast had already put inflation at 3% in the first quarter of 2018 – a level that is above the target of 2.5%, but still within the 1 percentage point variation band.

Table 9

Main economic indicators: Romania

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	3.1	3.9	4.8	4.3	6.0	4.3	4.8	5.7	5.9
Private consumption	4.5	5.9	7.5	9.1	10.4	6.7	4.5	7.3	8.0
Public consumption	1.1	0.1	5.3	-0.4	1.9	1.8	14.6	4.4	1.9
Gross fixed capital formation	3.2	8.0	-3.1	1.0	6.0	-1.0	-14.2	-1.0	2.4
Exports of goods and services	8.3	5.3	8.1	5.3	8.6	7.9	11.2	10.5	6.5
Imports of goods and services	8.7	9.4	10.1	10.1	13.7	7.7	8.7	10.4	9.2
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.4	5.5	5.5	7.5	5.9	4.8	4.5	2.9	8.3
Net exports of goods and services	-0.3	-1.6	-0.7	-2.5	-2.3	0.4	0.7	1.0	-0.7
Exports of goods and services	3.2	2.2	3.4	1.7	4.0	3.3	4.2	5.8	2.7
Imports of goods and services	-3.5	-3.8	-4.1	-4.2	-6.2	-2.9	-3.5	-4.8	-3.5
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per person)	3.7	-3.5	5.4	4.9	8.6	2.1	5.4	9.9	7.6
Unit labor costs in manufacturing (nominal, per hour)	-0.6	6.9	9.9	10.1	12.6	9.2	7.7	7.9	4.3
Labor productivity in manufacturing (real, per hour)	5.8	-0.3	-0.2	-2.3	-1.7	1.2	1.8	6.7	11.2
Labor costs in manufacturing (nominal, per hour)	5.3	6.6	9.7	7.7	10.7	10.6	9.7	15.1	16.0
Producer price index (PPI) in industry	-0.1	-2.2	-1.8	-2.9	-2.6	-1.9	0.1	3.5	3.2
Consumer price index (here: HICP)	1.4	-0.4	-1.1	-2.0	-2.1	-0.1	-0.1	0.4	0.6
EUR per 1 RON, + = RON appreciation	-0.6	0.0	-1.0	-0.9	-1.2	-0.8	-1.1	-0.6	-1.2
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	7.1	7.1	6.1	6.8	6.1	5.9	5.6	5.6	5.0
Employment rate (%, 15–64 years)	61.0	61.4	61.6	59.8	61.8	63.1	61.6	61.2	65.5
Key interest rate per annum (%)	3.3	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
RON per 1 EUR	4.4	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.6
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	8.4	9.3	9.7	9.9	13.1	12.2	9.7	12.2	9.0
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	11.9	5.5	10.8	7.0	11.3	13.7	10.8	11.0	8.0
Domestic credit provided by the banking system	-5.1	5.4	-2.8	2.8	2.7	-1.4	-2.8	1.0	-0.4
<i>of which: claims on the private sector</i>	-2.7	2.5	0.8	2.4	1.0	1.0	0.8	2.3	3.1
<i>claims on households</i>	-0.5	2.2	1.8	2.2	2.1	2.5	1.8	2.2	2.1
<i>claims on enterprises</i>	-2.3	0.3	-1.0	0.2	-1.1	-1.5	-1.0	0.1	1.0
<i>claims on the public sector (net)</i>	-2.4	2.9	-3.6	0.4	1.8	-2.3	-3.6	-1.4	-3.5
Other assets (net) of the banking system	1.7	-1.5	1.7	0.2	-1.0	-0.1	1.7	0.3	1.5
<i>% of GDP</i>									
General government revenues	33.5	34.9	31.0	..	..	..	..	..	..
General government expenditures	34.9	35.7	34.0	..	..	..	..	..	..
General government balance	-1.4	-0.8	-3.0	..	..	..	..	..	..
Primary balance	0.2	0.8	-1.5	..	..	..	..	..	..
Gross public debt	39.4	37.9	37.6	..	..	..	..	..	..
<i>% of GDP</i>									
Debt of nonfinancial corporations (nonconsolidated)	44.7	43.1	40.1	..	..	..	..	..	..
Debt of households and NPISHs (nonconsolidated)	17.9	17.2	16.6	..	..	..	..	..	..
<i>% of GDP (based on EUR), period total</i>									
Trade balance	-4.3	-4.9	-5.5	-5.7	-5.8	-5.0	-5.4	-5.9	-7.1
Services balance	3.9	4.2	4.5	5.6	5.0	4.1	3.9	5.2	4.9
Primary income	-1.3	-2.4	-2.8	-2.5	-4.8	-2.4	-2.0	-2.1	-4.6
Secondary income	1.1	1.7	1.4	1.7	1.5	1.7	1.0	0.8	1.6
Current account balance	-0.7	-1.2	-2.3	-1.0	-4.1	-1.6	-2.5	-2.1	-5.2
Capital account balance	2.6	2.4	2.5	4.0	3.2	2.5	1.0	0.5	0.5
Foreign direct investment (net) ¹	-1.8	-1.8	-2.3	-4.1	-3.1	-1.1	-1.5	-3.1	-1.3
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	62.0	56.6	54.5	56.3	55.9	56.5	54.5	53.3	53.3
Gross official reserves (excluding gold)	21.4	20.2	20.2	19.4	19.4	20.1	20.2	20.0	19.9
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	6.2	5.8	5.7	5.5	5.5	5.7	5.7	5.6	5.5
<i>EUR million, period total</i>									
GDP at current prices	150,488	159,978	169,567	32,594	39,733	46,453	50,787	36,323	43,202

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

10 Turkey: policy measures support economic growth, lira depreciation fuels inflation

Strong investment activity pushed up GDP growth

GDP growth started to gain momentum in the first half of 2017 (5.2% year on year) as net exports started to contribute positively to growth. Domestic demand, however, continued to deliver the largest growth contributions. Private consumption was supported by a modest uptick in employment (1.7% year on year), moderate wage growth and some fiscal measures such as the temporary VAT reduction on durable goods. Gross fixed capital formation exhibited a strong increase (6.2% year on year), benefiting inter alia from the newly established Credit Guarantee Fund. External demand started to support growth in the first half 2017 as exports increased by as much as 10.7%, not least due to the ongoing depreciation of the Turkish lira and in line with a slight upswing of the tourism sector. In contrast, import growth slowed down to 1.5% year on year – the lowest growth rate since 2015.

CBRT unassertive in reacting to rising inflation

Headline inflation came in at 8.5% at the end of 2016, clearly above the monetary policy target of 5% due to exchange rate pass-through and high inflation expectations. Between the start of January and the end of September 2017, the Turkish lira depreciated by 13% against the euro (1% against the dollar). Most recently, due to tensions between Turkey and U.S.A., the lira again came under pressure: It depreciated by 3% against the euro and by 4.8% against the U.S. dollar between September 28 and October 9, 2017. Price pressures increased in the review period partly due to temporary tax reductions on durable goods that boosted consumption. At the same time, soaring prices of unprocessed food generated additional price pressures, which brought CPI inflation to 11.2% in September. In August 2017, the central bank (CBRT) revised its end-year inflation forecast upward by 0.2 percentage points to 8.7% for 2017, while keeping the forecast for 2018 unchanged at 6.4%.

Despite stronger price rises, the CBRT has kept interest rates broadly unchanged in 2017, citing transitional and abating inflationary pressures. Accordingly, the benchmark interest rate stood at 8% since the latest hike in November 2016 (by 25 basis points), while the late liquidity window rate, i.e. the upper bound of the interest rate corridor, was raised by 125 basis points in two steps, to 12.25% (in March and April).

External imbalances on the rise again in tandem with growing exchange rate risks

Driven partly by strong depreciation, the trade deficit deteriorated somewhat, thus widening the four-quarter moving-average current account deficit to 4.2% of GDP in mid-2017 from 3.8% of GDP in 2016. Broadly stable net FDI inflows of around 1% of GDP kept the coverage of the current account deficit to close to 25%. Following a temporary slump in the fourth quarter of 2016, the traditionally sizeable portfolio inflows returned and increased to 6.3% of GDP in the second quarter of 2017. Gross external debt is slowly creeping up and stood at 50.7% of GDP as of mid-2017. At the same time, gross external financing needs remain elevated.

Annual credit growth has been on the rise since mid-2016, increasing to 14.4% in exchange rate adjusted terms in July 2017, which is slightly below the CBRT target rate of 15% (exchange rate-adjusted, 13-week moving average). Domestic credit to the private sector remains higher than deposits by a sizeable margin and this void has grown further, raising the loan-to-deposit ratio to 141% as of June 2017 (up from 136% at end-2016). In addition, exchange rate risks remained elevated as the indebtedness in foreign currency of the corporate sector stood at 45.3% of GDP by mid-2017 (although declining somewhat during 2017).

Table 10

Main economic indicators: Turkey

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	5.2	6.1	3.2	4.8	4.9	-0.8	4.2	5.2	5.1
Private consumption	3.0	5.4	3.7	2.5	5.2	0.5	6.3	3.6	3.2
Public consumption	3.1	3.9	9.5	12.4	15.0	5.8	6.1	9.7	-4.3
Gross fixed capital formation	5.1	9.3	2.2	6.2	2.0	0.3	1.2	3.0	9.5
Exports of goods and services	8.2	4.3	-1.9	1.9	-1.7	-9.4	2.5	10.9	10.5
Imports of goods and services	-0.4	1.7	3.7	2.8	7.1	2.1	2.9	0.7	2.3
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	3.7	6.5	4.1	5.0	5.8	1.1	5.1	4.4	4.1
Net exports of goods and services	1.8	0.5	-1.3	-0.3	-2.1	-2.5	-0.2	2.2	1.6
Exports of goods and services	1.7	0.9	-0.4	0.4	-0.4	-2.0	0.5	2.4	2.2
Imports of goods and services	0.1	-0.4	-0.9	-0.7	-1.7	-0.4	-0.6	-0.2	-0.6
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per hour)	..	..	..	..	..	..	..	..	..
Unit wage costs in manufacturing (nominal, per hour)	12.9	10.6	14.9	14.0	15.4	17.4	12.9	8.2	7.7
Labor productivity in manufacturing (real, per hour)	1.3	4.0	3.0	5.4	2.8	0.4	3.6	3.7	6.0
Gross wages in manufacturing (nominal, per hour)	14.3	15.0	18.3	20.2	18.5	17.8	16.9	12.2	14.1
Producer price index (PPI) in industry	10.2	5.3	4.3	4.7	3.2	2.9	6.4	15.0	15.5
Consumer price index (here: HICP)	8.9	7.7	7.7	8.5	6.7	7.9	7.6	10.0	11.6
EUR per 1 TRY, + = TRY appreciation	-12.9	-3.8	-9.6	-14.6	-9.8	-3.9	-10.2	-17.5	-17.0
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	10.1	10.5	11.1	11.0	9.6	11.4	12.2	12.9	10.3
Employment rate (%, 15–64 years)	49.5	50.2	50.7	49.4	52.0	51.1	50.1	49.5	52.2
Key interest rate per annum (%)	8.7	7.6	7.5	7.5	7.5	7.5	7.7	8.0	8.0
TRY per 1 EUR	2.9	3.0	3.3	3.2	3.3	3.3	3.5	3.9	3.9
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	11.8	16.2	17.9	13.2	12.0	7.7	17.9	18.2	19.7
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	-4.0	-2.3	1.9	-0.1	1.5	0.6	1.9	-2.3	-3.2
Domestic credit provided by the banking system	21.5	24.3	19.8	19.1	16.2	11.9	19.8	24.7	27.2
<i>of which: claims on the private sector</i>	20.8	23.6	19.4	17.8	15.1	10.4	19.4	24.3	26.0
<i>claims on households</i>	2.5	2.9	3.0	2.2	2.1	1.9	3.0	3.8	4.1
<i>claims on enterprises</i>	18.3	20.7	16.3	15.6	13.0	8.4	16.3	20.5	21.9
<i>claims on the public sector (net)</i>	0.7	0.7	0.4	1.3	1.1	1.6	0.4	0.4	1.1
Other assets (net) of the banking system	-5.7	-5.7	-3.8	-5.8	-5.6	-4.8	-3.8	-4.2	-4.3
<i>% of GDP</i>									
General government revenues	31.7	32.4	..	..	..	..	..	..	..
General government expenditures	31.6	31.1	..	..	..	..	..	..	..
General government balance	0.1	1.3	-0.9	..	..	..	..	..	..
Primary balance	2.3	3.3	1.1	..	..	..	..	..	..
Gross public debt	28.6	27.5	28.3	..	..	..	..	..	..
<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	-6.8	-5.6	-4.7	-4.3	-5.5	-4.7	-4.4	-4.8	-6.8
Services balance	2.9	2.8	1.8	0.9	1.4	3.2	1.5	1.2	1.9
Primary income	-0.9	-1.1	-1.0	-1.0	-1.2	-1.0	-1.0	-1.2	-1.6
Secondary income	0.2	0.2	0.2	0.3	0.2	0.1	0.3	0.3	0.3
Current account balance	-4.7	-3.7	-3.8	-4.1	-5.1	-2.4	-3.6	-4.5	-6.3
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment (net) ¹	-0.6	-1.5	-1.1	-1.0	-0.8	-1.2	-1.2	-1.1	-0.6
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	50.9	48.4	50.1	48.4	50.7	49.9	50.1	50.7	50.7
Gross official reserves (excluding gold)	12.5	11.1	11.2	11.0	11.9	11.5	11.2	10.8	10.4
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	5.4	5.1	5.4	5.1	5.7	5.6	5.4	5.0	4.7
<i>EUR million, period total</i>									
GDP at current prices	705,229	771,913	778,812	173,644	193,034	201,310	210,825	164,986	186,400

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)
 - = Net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital)

11 Russia: GDP growth back to modest levels, inflation down to post-Soviet low

Economic recovery supported by private consumption and fixed investment

After stabilizing in 2016, GDP expanded by 0.5% in the first quarter of 2017, and 2.5% in the second quarter, producing growth of about 1.5% in the first half of 2017. Recovering private consumption and fixed investment (3.5% and 4.3% in the first half, year on year) superseded net exports and the build-up of inventories (2016) as the driving forces of economic activity. While private domestic demand recovered, the impact of public consumption remained more or less neutral. As may be expected, the contribution of net exports to growth turned negative. Looking at the production side of GDP, industrial activity led the recovery (1.9% in the first eight months), while the protected agricultural sector as well as services lagged behind. The unemployment rate fell to 4.9% in August 2017.

Oil price-triggered revaluation of ruble and CBR's tight monetary policy drive down inflation

The economic upturn was certainly helped by the partial recovery of oil prices, which (on average) gained more than one-quarter in the first eight months of 2017 over their rather low level of a year before. However, the Russian ruble also revalued in this period (by about 15%). This revaluation as well as continued monetary tightening by the central bank (CBR) contributed to the historically low level of CPI inflation (3.3% at end-August 2017). The monetary authority resumed its cautious key policy rate cuts (in late April, mid-June and mid-September by a cumulative 125 basis points to 8.5%).

Higher oil price and expenditure restraint rein in fiscal deficit

Increasing revenues stemming from higher oil prices combined with upheld restraint in spending contributed to the decline of the federal budget deficit to 0.7% of GDP in the first eight months of 2017 (against over 2.8% in the corresponding period of 2016). The modest shortfall was fully financed through borrowing on the financial market. Thus, as of August, the government had neither resorted to the (fiscal) Reserve Fund nor to the National Wealth Fund (whose main purpose is to support the pension system) for budget finance in 2017. As of end-August, the Reserve Fund continued to stand at a low 1.1% of GDP, and the National Wealth Fund at 4.8% of GDP.

Current account surplus expands slightly, while capital outflows remain low; international reserves recover to pre-crisis level

The oil price-triggered recovery of exports (valued in U.S. dollars) was the key factor supporting Russia's current account surplus of 2.1% of GDP in the first eight months of 2017 (compared with 1.7% of GDP in the corresponding period of the previous year). Net private capital outflows reached 1.2% of GDP, largely connected to banks' stepped-up debt repayment activities, while the revival of the economy turned other sectors into net importers of capital. The country's international reserves reached EUR 360 billion by mid-2017, re-attaining the levels observed in the fall of 2014 prior to the then oil price plunge and Russian ruble crisis.

Bank profitability improving, but NPLs still high; recent bailout of two relatively large ailing banks

Given the country's yet weak economic growth and the still high ratio of NPLs (16.9% at end-July 2017, based on a broad definition including doubtful loans), lending only expanded very moderately by 1.6% in June 2017, while deposits grew by 6%. Recovering interest margins and the pick-up in economic growth have helped banks' profits recover from a modest level. Meanwhile, in early September the CBR nationalized the privately-owned banks Otkrytie and B&N, Russia's eighth- and twelfth-largest banks, respectively (together accounting for 5% to 6% of total sector assets). Both had been expanding aggressively, suffered from bad loans, and lately became subject to runs on their deposits.

Table 11

Main economic indicators: Russia

	2014	2015	2016	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
<i>Year-on-year change of the period total in %</i>									
GDP at constant prices	0.7	-2.8	-0.2	-0.4	-0.5	-0.4	0.3	0.5	2.5
Private consumption	1.9	-9.7	-4.5	-4.2	-5.9	-4.8	-3.2	2.7	4.3
Public consumption	-2.1	-3.1	-0.5	-0.4	-0.5	-0.5	-0.5	0.4	0.5
Gross fixed capital formation	-1.8	-9.9	-1.8	-6.9	-1.4	-0.8	-0.2	2.3	6.3
Exports of goods and services	0.5	3.7	3.1	-0.3	4.9	4.2	3.7	7.1	3.3
Imports of goods and services	-7.3	-25.8	-3.8	-7.8	-4.6	-3.7	0.4	16.5	20.7
<i>Contribution to GDP growth in percentage points</i>									
Domestic demand	-0.7	-8.7	-2.1	-2.0	-2.8	-2.5	-1.1	1.5	4.6
Net exports of goods and services	1.7	6.1	1.5	1.1	2.2	1.8	1.0	0.0	-1.8
Exports of goods and services	0.1	1.0	0.9	-0.1	1.5	1.2	1.1	2.3	1.1
Imports of goods and services	1.6	5.1	0.6	1.2	0.7	0.6	-0.1	-2.3	-2.9
<i>Year-on-year change of period average in %</i>									
Unit labor costs in the whole economy (nominal, per hour)	..	..	..	..	..	..	..	..	..
Unit labor costs in industry (nominal, per person)	5.6	7.3	5.5	5.2	3.7	7.1	5.8	27.7	..
Labor productivity in industry (real, per person)	3.5	0.8	3.4	3.9	3.7	3.0	3.2	-0.3	..
Average gross earnings in industry (nominal, per person)	9.2	8.0	9.1	9.4	7.5	10.4	9.2	27.3	31.1
Producer price index (PPI) in industry	6.1	12.4	4.2	4.4	3.6	3.9	5.0	13.1	5.5
Consumer price index (here: CPI)	7.8	15.6	7.1	8.4	7.4	6.8	5.7	4.5	4.0
EUR per 1 RUB, + = RUB appreciation	-17.0	-25.0	-8.4	-13.8	-21.8	-2.3	6.5	31.9	18.1
<i>Period average levels</i>									
Unemployment rate (ILO definition, %, 15–64 years)	5.2	5.6	5.5	5.9	5.7	5.3	5.4	5.6	5.2
Employment rate (%, 15–64 years)	..	..	..	..	..	..	..	..	..
Key interest rate per annum (%)	7.9	12.6	10.6	11.0	10.9	10.4	10.0	10.0	9.4
RUB per 1 EUR	51.0	68.0	74.2	82.5	74.4	72.1	68.0	62.5	62.9
<i>Nominal year-on-year change in period-end stock in %</i>									
Broad money (including foreign currency deposits)	14.8	19.7	-0.9	15.9	14.3	5.7	-0.9	1.2	4.3
<i>Contributions to year-on-year change of broad money in percentage points</i>									
Net foreign assets of the banking system	18.3	18.2	-10.7	15.4	12.5	-1.1	-10.7	-8.7	-1.5
Domestic credit provided by the banking system	21.1	16.7	5.6	15.6	14.8	10.9	5.6	4.8	5.4
of which: claims on the private sector	30.2	10.6	-0.6	8.9	8.9	3.8	-0.6	1.4	4.1
claims on households	4.2	-1.6	0.2	-0.9	-0.3	-0.1	0.2	0.6	1.3
claims on enterprises	26.0	12.2	-0.8	9.8	9.2	3.9	-0.8	0.7	2.8
claims on the public sector (net)	-9.0	6.2	6.2	6.8	6.0	7.1	6.2	3.4	1.3
Other assets (net) of the banking system	-24.7	-15.3	4.2	-15.2	-13.1	-4.1	4.2	5.1	0.4
<i>% of GDP</i>									
General government revenues	33.8	32.3	32.2	..	..	..	..	..	..
General government expenditures	34.9	35.7	35.9	..	..	..	..	..	..
General government balance	-1.1	-3.4	-3.7	..	..	..	..	..	..
Primary balance	..	..	..	..	..	..	..	..	..
Gross public debt	13.0	13.2	12.9	..	..	..	..	..	..
<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	9.1	10.9	7.0	8.9	7.2	5.2	7.1	10.1	6.6
Services balance	-2.7	-2.7	-1.8	-1.8	-1.9	-2.0	-1.6	-1.5	-2.0
Primary income	-3.3	-2.7	-2.7	-1.4	-4.3	-2.4	-2.5	-1.5	-3.5
Secondary income	-0.4	-0.4	-0.5	-0.5	-0.4	-0.7	-0.4	-0.5	-0.4
Current account balance	2.8	5.0	1.9	5.1	0.6	0.1	2.6	6.6	0.7
Capital account balance	-2.1	0.0	-0.1	0.0	-0.4	0.0	0.1	0.0	0.0
Foreign direct investment (net) ¹	1.7	1.1	-0.8	3.1	-0.1	-0.6	-4.1	1.0	-1.2
<i>% of GDP (rolling four-quarter GDP, based on EUR), end of period</i>									
Gross external debt	31.5	38.8	41.7	38.3	42.0	41.3	41.7	39.0	35.1
Gross official reserves (excluding gold)	17.9	23.9	25.7	24.1	26.2	26.3	25.7	24.4	22.5
<i>Months of imports of goods and services</i>									
Gross official reserves (excluding gold)	10.4	13.9	15.0	14.2	15.0	15.1	15.0	14.6	13.4
<i>EUR million, period total</i>									
GDP at current prices	1558,123	1230,279	1172,299	228,146	274,771	315,170	354,212	321,352	344,577

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

¹ + = Net accumulation of assets larger than net accumulation of liabilities (net outflow of capital)

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