

Outlook for Selected CESEE Countries:

Headwinds to Recovery because of Continued Weakness of the External Environment and Only Slow Pickup in Domestic Momentum^{1,2}

1 CESEE-7:³ New Sources of Growth Have Yet to Be Found

The slowdown in economic growth the CESEE-7 region experienced in 2012 will carry over to 2013 so that GDP will expand by only 1.1%, just marginally above the growth rate recorded last year. We expect growth dynamics to accelerate gradually during the course of 2013 and beyond, with GDP growth picking up to reach 2.4% in 2014 and 2.9% in 2015. Given an uptick in import growth combined with an only moderate revival of external demand, the growth contribution of net exports in all countries apart from the Czech Republic will diminish over the forecasting horizon. In the Czech Republic and Hungary, growth drivers will be fairly balanced between external and domestic demand; in all other countries, the moderate recovery will be spurred mainly by domestic demand. Overall, economic growth will remain below potential, and the growth differential to the euro area will be in the approximate order of 1.5 percentage points over the forecasting horizon.

The risks to our CESEE-7 projections remain tilted to the downside and relate to developments in individual euro area countries (e.g. a prolonged political

Table 1

GDP and Import Projections for 2013 to 2015

	GDP				Imports			
	2012	2013	2014	2015	2012	2013	2014	2015
	Year-on-year growth in %							
CESEE-7	1.0	1.1	2.4	2.9	0.3	1.5	6.0	7.3
Bulgaria	0.7	1.3	2.1	2.6	3.8	5.0	5.8	6.2
Czech Rep.	-1.2	0.0	1.6	2.4	2.1	2.1	6.5	8.8
Hungary	-1.8	-0.1	1.3	1.5	0.1	0.5	4.9	5.0
Poland	2.2	1.5	3.0	3.5	-1.8	-0.5	5.9	7.6
Romania	0.9	1.4	2.2	2.5	-0.8	3.1	6.3	7.8
Croatia	-2.0	-0.5	0.9	1.7	-2.0	-1.5	1.5	4.9
Russia	3.4	3.4	3.4	3.0	9.0	5.0	5.0	6.0

Source: OeNB, BOFIT, Eurostat, Rosstat.

Note: CESEE-7 = Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania; seasonally-adjusted data for 2012.

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² The OeNB and the Bank of Finland Institute for Economies in Transition (BOFIT) compile semiannual forecasts of economic developments in selected CESEE countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia and Croatia). These forecasts are based on a broad range of information, including country-specific time series models for Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania (for technical details, see Crespo Cuaresma et al. 2009. *Simple but Effective: The OeNB's Forecasting Model for Selected CESEE Countries*. In: *Focus on European Economic Integration Q4/09*. 84–95). The projections for Russia were prepared by the Bank of Finland and are based on a SVAR model. Latvia and Lithuania are not covered in the OeNB projections, but are included in the CESEE-7 aggregate based on the IMF World Economic Outlook (WEO) projections of April 2013. The cutoff date for all projections was April 2, 2013.

³ Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania.

impasse in Italy or a collapse of economic activity in Cyprus exceeding the expected magnitude) and a resulting possible further fall in external demand from the euro area. Further, this might lead to a deterioration of global financial market conditions, which could in turn translate into an increased risk aversion vis-à-vis CESEE countries. The predictability and credibility of policy frameworks will remain key to shielding countries from contagion effects, should risk aversion increase again internationally. In contrast, improvements in funding conditions on the back of stronger-than-expected domestic deposit growth or higher capital inflows as well as lower-than-expected inflation in recent months pose upside risks.

We expect economic growth to pick up hesitantly during 2013, after having slowed down in the course of 2012. Region-wide GDP growth will amount to 1.1% in 2013. Thus, in line with the weaker external environment as compared to our October 2012 projections, we revise our growth projections downward over the entire horizon, especially for 2013. The pronounced downward revision by 1.1 percentage points for 2013 is due not only to changes in our assumptions on the external environment (mostly related to our assumption on GDP growth in the euro area⁴), but also to a considerable extent to the extremely weak carryover effect from last year. In fact, the pronounced slowdown in economic activity during the second half of 2012 implied a negative carryover in the Czech Republic and in Hungary as well as a markedly reduced positive carryover effect compared to that in 2012 in Poland. Still, all CESEE-7 countries will record positive growth rates in 2013. Further, the positive growth differential vis-à-vis the euro area will remain in an order of 1.5 percentage points. Several dampening factors observed in 2012 will prevail. We do not expect labor market conditions to improve significantly, nor do we see an end to household deleveraging. However, we anticipate a slight recovery of credit conditions, as banks' funding conditions are expected to remain reasonably good (as they were in the first months of 2013) and as risk aversion is expected to remain steady or abate somewhat further.

Very moderate recovery in the course of 2013

The regional differentiation in growth dynamics will remain largely unchanged from 2012, especially in 2013. We envisage some reduction in the growth dispersion between individual countries toward the end of the horizon. The Baltic states and Poland will continue to outperform the region as a whole despite the projected temporary slowdown in economic activity to 1.5% in 2013 in Poland. Bulgaria and Romania will post growth rates similar to that of Poland in 2013 and will grow somewhat less strongly in 2014 and 2015. We also expect the Czech Republic to recover from its recent weakness. Hungary is projected to settle on a lower growth path over the projection horizon.

Turning to the prospects for the CESEE-5⁵ in greater detail, growth will increasingly be driven by domestic demand, while the contribution of net exports to economic growth will soften in all countries (chart 1). In Bulgaria and Romania, net exports will continue to act as a drag on overall growth. Hungary and the Czech Republic will show a moderate rise in the positive contribution of net

Growth drivers shift toward domestic demand

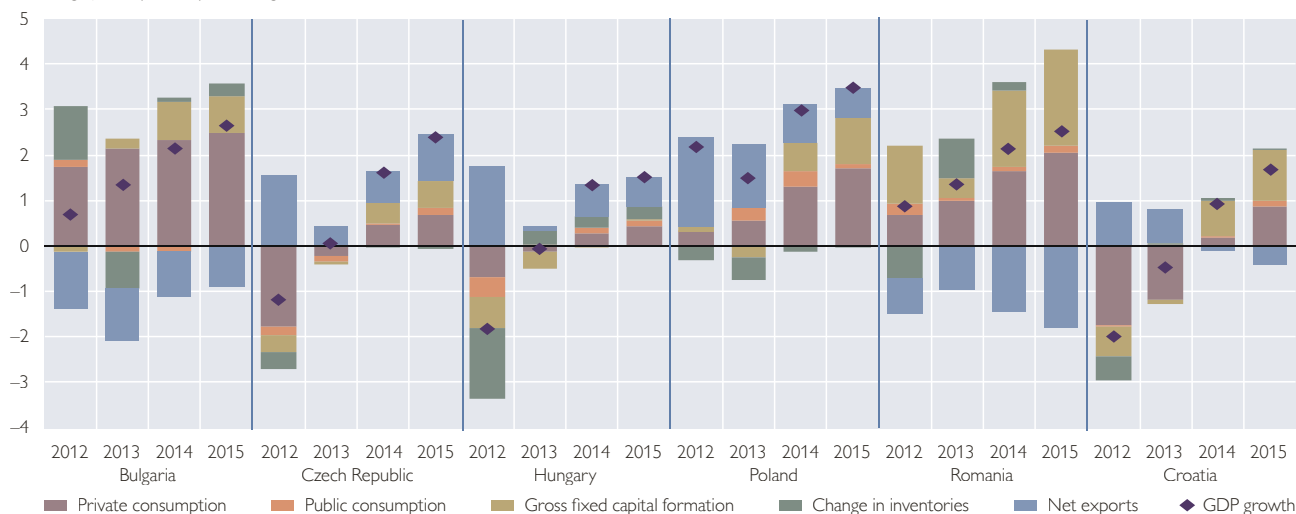
⁴ Our projections rest on technical assumptions and results from the ECB's March 2013 macroeconomic projection exercise (see ECB Monthly Bulletin March 2013 for more details).

⁵ CESEE-5: Bulgaria, the Czech Republic, Hungary, Poland and Romania. As these are the CESEE EU Member States for which we carry out our model-based forecasting, we present developments in this sub-region in greater detail, both in a comparative perspective (in this section) and in a country-by-country account (next section).

Chart 1

GDP and GDP Components – Projections for 2013 to 2015

Percentage points; year-on-year GDP growth in %



Source: OeNB.

exports that is just in line with their overall GDP expansion, thus keeping external and internal growth drivers balanced in all three years. In Poland, we expect the positive net contribution of external demand to fade over the projection horizon. Thus, despite a gradual recovery of external demand, net exports will lose importance as a pillar of growth because on the one hand, import demand from the euro area will be insufficient to trigger strong export growth in the region and on the other hand, CESEE-5 imports are expected to rise in line with exports on the back of slowly improving domestic demand conditions. In Poland, we expect imports to fall less slowly in 2013.

Overall, the gradual recovery will be driven by a resumption of domestic demand growth in all countries. This moderate recovery of internal demand rests on different factors in individual countries: In Romania and Bulgaria, increases in public wages and pensions will play an important role in 2013; minimum wage increases will also support domestic demand in Hungary. In all three countries, compensatory tax measures, the burden of which will be carried mostly by the corporate sector, will contain the effects of higher wage costs on public budgets. In the Czech Republic and in Romania, a slowdown in consolidation efforts in 2013 implies some weak impetus from public consumption. Nevertheless, as a general trend, consolidation is ongoing in all countries, precluding any notable growth impetus from public consumption over the entire horizon. The consolidation effort might be temporarily broken by the election cycle in some countries; we already saw some stimulus ahead of elections in early 2013 in Bulgaria and expect the same in 2014 for the Czech Republic and Hungary.

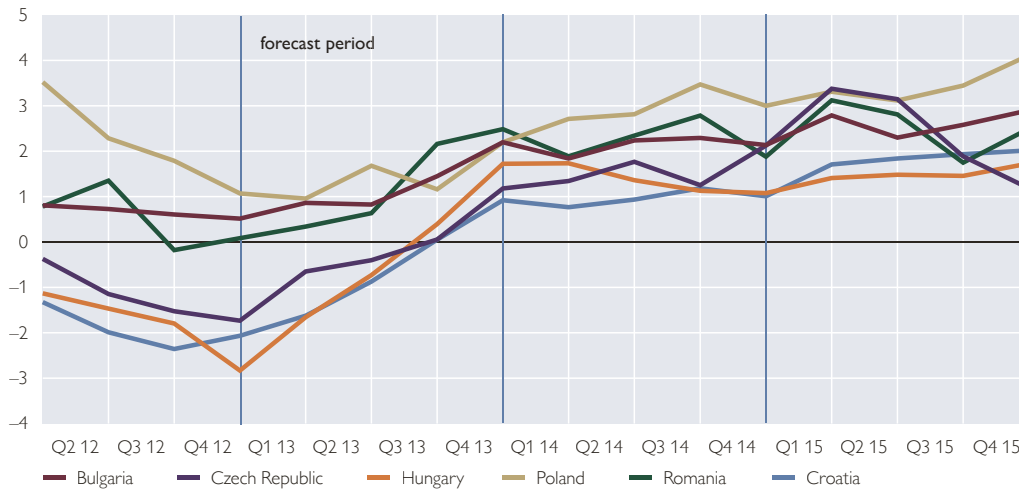
While we assume that a turnaround in growth dynamics occurred at the beginning of 2013 (chart 2), a long-standing weakness in investment growth has reduced potential growth. This weakness is related to the ongoing structural shift in the region's overall growth model away from predominantly FDI-financed invest-

Growth potential reduced by low investment

Chart 2

Quarterly Profile of GDP Projections

Year-on-year change in %



Source: OeNB.

ments toward new sources of financing. Growth in gross fixed capital formation will remain subdued or even negative in 2013, and we do not expect it to revive already in 2013 in any country except Hungary. The weak overall performance of gross fixed capital formation in 2013 is compounded by a negative base effect in Poland related to investment spending for the 2012 European football championship. With investment decisions no longer being postponed and capacity utilization rising, gross fixed capital formation will pick up throughout the region starting in early 2014. In all countries, investments co-financed by the EU continue to play an important role in gross fixed capital formation.

Economic growth will firm somewhat in 2014 and 2015, reaching 2.4% and 2.9%, respectively. In 2014, domestic demand should continue to firm somewhat and should contribute positively to overall GDP growth in all countries. Gross fixed capital formation and private consumption will constitute the main growth drivers. In particular, supply-side constraints on credit growth should ease further in view of gradually improving investor confidence (as incorporated in our external assumptions); precautionary savings should decline as well. However, labor market conditions will not change substantially, preventing a more animated recovery. Furthermore, the general fiscal stance will remain tight in 2014 as well, implying that public consumption will not provide an impetus. We expect no major changes with respect to the growth drivers for 2015.

The downward risks to this outlook have risen somewhat again recently as a result of new risks in the external environment. Developments in the euro area, including a prolonged political impasse in Italy or a stronger-than-expected collapse of economic activity in Cyprus, may translate into lower business and consumer confidence in the euro area, which we did not include in our baseline. This would primarily impact indirectly on the CESEE region through a slower-than-expected recovery (or even a further fall) of external demand and a general decline in consumer and business sentiment, which would further postpone decisions

International developments imply slight increase in downside risks

to invest in the region. Furthermore, global financial market conditions could worsen again in response to continued problems in individual euro area countries; this could also translate into increased risk aversion vis-à-vis CESEE countries. Finally, global growth could be impacted negatively by the U.S. fiscal situation, as our baseline does not incorporate the budget sequestration that came into effect after negotiations between Republicans and Democrats broke down in February. In such an uncertain external environment, the predictability and credibility of policy frameworks will remain key to shielding countries from contagion effects should risk aversion increase again internationally.

However, there are also some upside risks to our projections: further improvements in funding conditions on the back of stronger-than-expected deposit growth (hence a faster transition to a new growth model than envisaged) or higher capital inflows as well as lower-than-expected inflation and hence increased real incomes.

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

Bulgaria: Some fiscal expansion adds to recovery of domestic demand

Following a marked deceleration of real GDP growth in Bulgaria to 0.7% in 2012, down from 1.9% in 2011, we forecast a moderate acceleration of growth to 1.3% in 2013. The process of gradual recovery should continue in 2014 and 2015, with growth reaching 2.1% and 2.6%, respectively. In 2013, the positive contribution of domestic demand will continue, though at a slower pace than in 2012. Private consumption should benefit from the rise in personal incomes, i.e. the increase of minimum wages, while pensions will rise at different rates that average out to 9%. Furthermore, energy prices are set to decline by around 6% in the first half of 2013. This will, in turn, enhance public revenues through higher tax collection volumes, thus providing more favorable conditions for the expansionary fiscal stance envisaged in the 2013 budget (which is to be seen against the background of the parliamentary elections scheduled for the second quarter). On the downside, however, adverse labor market conditions coupled with ongoing deleveraging in the household sector – mostly driven by demand on the back of lower interest rates – increase households' uncertainty and their propensity to save. This might put a strain on the increase of private consumption. After having contracted strongly for several years in a row, gross fixed capital formation is predicted to shrink further, although at a declining pace, counterbalanced somewhat by an expansion of EU-linked investments. The combination of slowly accelerating domestic demand with upward pressure on imports and an even more gradual increase of exports will leave the negative contribution of net exports to GDP growth in 2013 broadly unchanged.

Going forward, we expect Bulgarian real GDP growth to pick up gradually in 2014 and 2015, with the growth structure remaining broadly unchanged from 2013. On the back of the recovery of the Bulgarian labor market, supported by the expiration of labor market restrictions in other EU countries as of the beginning of 2014, increased EU funding as well as the deferral of investments over the past few years, especially in the business sector, domestic demand will remain the main growth driver. Due to base effects, the growth of public consumption will be negative. Finally, despite the further improvement of external demand, the negative

contribution of net exports will remain broadly unchanged, as the moderate growth of domestic demand will keep imports at a comparatively high level.

We expect the Czech economy to stagnate in 2013 after having contracted in 2012. GDP growth will resume in 2014, coming to 1.6%, and will quicken to 2.4% in 2015. The growth structure in 2013 is forecast to be similar to that in 2012, when the economy was driven solely by net exports. In 2013, the contribution of net exports should just cover the negative contribution of domestic demand, which will be less pronounced than last year. Household demand will still be dragged down by the prospect of a weakening labor market accompanied by uncertainty and feeble growth of nominal disposable income eroded by inflation. Though not as extensive as in the past two years, fiscal consolidation will curtail domestic demand as well. Gross fixed capital formation will not resume until 2014, given underutilized capacities, the still paralyzed construction sector, a lack of domestic demand and the expected bottoming out of external demand in the first half of 2013. Exports slowed gradually throughout 2012 as a result of falling external demand and will continue to weaken in 2013 even if the Czech Republic's major trading partners are among the more resilient EU economies. However, these economies' growth is also projected to slow down in 2013. A lack of domestic demand implies weak import growth, which is driven predominantly by the import intensity of exports.

Czech Republic:
External and domestic
uncertainty drives down
growth below potential

In 2014, a parliamentary election year, fiscal consolidation measures already implemented (and any additional measures) are expected to put much less of a strain on the Czech economy than in the previous years. The resulting resurgence of household consumption, though moderate, and no further postponement of investment decisions from previous years should shift domestic demand back to positive territory. Domestic demand continues to be dampened by the general uncertainty emanating not only from the external environment, but also from domestic political turmoil. For example, political instability at the end of 2012 left it unclear until the last days of the year which VAT rates would apply in 2013. The growth contribution of domestic demand in 2014 is expected to be approximately equal to that of net exports, which will be fueled by cautiously recovering exports in line with the gradual recovery of the external environment in 2014. Both trends, i.e. the strengthening of domestic consumption and investment as well as steady improvements in external demand, are expected to be even more pronounced in 2015.

Beyond the downside risks emanating from the external environment, any prolonged domestic political instability would add a further negative bias to our projections for the Czech Republic. While the financial markets hardly ever take note of Czech politics, these politics might have a further adverse effect on the private sector's expectations and confidence if the current discord continues or even intensifies after the elections.

Following a contraction by 1.8% in 2012, Hungarian GDP is expected to stagnate in 2013. A slow and gradual recovery should resume in 2014, but the prospects are held back by the decline in the country's output potential over the past few years. As for the outlook for 2013, we expect a smaller contraction of domestic demand than in the previous years. Private consumption should benefit from the substantial rise in minimum wages (+5.4%) in 2013 and the planned wage increase for teachers toward end-2013 combined with the sharp deceleration in

Hungary: Continued
deleveraging and lack of
investment lower
growth potential

inflation on the back of utility price cuts and the favorable effect of the Job Protection Plan. At the same time, there is no end in sight for the deleveraging of households, and unemployment remains stubbornly high while consumer confidence is well below its historical average. We expect investment to contract again, albeit less than in previous years. Corporate sector deleveraging, an often changing regulatory environment and additional taxes on selected economic sectors will likely hold back investment decisions; moreover, there is also some free capacity in the economy. With export growth slowing down further and import growth accelerating somewhat in view of slightly improved domestic utilization and modest restocking, net real exports should contribute only very little to the overall growth rate in 2013.

The more favorable growth outlook for 2014 is underpinned by expectations that the credit cycle might slowly turn around, especially as monetary policy is widely expected to soften, which will promote the revival of credit. There are also signs that overall economic policy might soften ahead of the elections in spring 2014 (one-off 13th pension payment, additional measures to reduce the foreign exchange exposure of households and corporates), which could have some positive first-round effects on growth. Finally, export growth should recover from 2014 onward, but along with strengthening import growth, the contribution of net real exports will increase only to a limited extent. Our growth outlook for 2015 remains tentative, given considerable economic policy uncertainty following the elections.

Poland: 2013 dip in
growth linked to
investment cycle

We forecast Polish GDP growth to fall to 1.5% in 2013, down by more than half a percentage point from the previous year's growth because annual average growth in 2012 had still benefited from the carryover of the high growth rate of 4.3% in 2011. We forecast a significant acceleration of growth to 3.0% in 2014 and a further uptick to 3.5% in 2015. The economic slowdown in Poland that started in the first quarter of 2012 will bottom out in the first quarter of 2013, as indicated by current surveys and sentiment indicators. Foreign demand (especially from Germany) will act as the main pillar of growth, as euro area imports will stop contracting and will expand marginally, with German imports growing at an above-average rate. The gradual increase in export orders and the improvement of sentiment will translate into domestic demand, in particular stock building and gross fixed capital formation, only later in the year. Turning to domestic demand, extensive public nonresidential investment (linked to the 2012 European football championship and to a large extent funded by the EU) in the previous year implies a negative base effect in the first half of 2013, exacerbating the decline of gross fixed capital formation. Moreover, mortgage lending for households' residential building ground to a halt by the turn of the year, implying a weak contribution to gross fixed capital formation growth in the first half of 2013. Private business investment will resume only after export orders have led to a sufficient increase in capacity utilization toward the end of 2013. During last year's slowdown, employment reductions and negative real wage developments increased households' uncertainty and their propensity to save, hence dampening private consumption growth substantially. However, private consumption will be lifted temporarily in the first part of the year by a shift of (EU-linked) payments for farmers, while the significant decline of inflation to about 1% will have a stimulating effect on private consumption as well as public consumption in the second half of this year. The

combination of stagnating domestic demand and only slowly accelerating exports will not be sufficient to prevent imports from contracting further, albeit less than in 2012. As a result, the positive contribution of net exports to GDP growth will remain roughly unchanged.

In 2014, the acceleration of GDP growth to 3% will be driven by both the further quickening of euro area demand (and hence higher export growth) and by moderately expanding domestic demand. Consumption growth will benefit especially from low inflation – which will further be supported by the expiration of the temporary VAT increase at the beginning of the year – and from the loosening of macroprudential regulation for consumer loans. Gross fixed capital formation will show positive annual average growth again on the back of revived foreign demand and private consumption demand. Fixed investment, including residential building, will benefit from recent (and possibly further) cuts in key interest rates. Pent-up demand, the strong export-import link, the change in the inventory cycle related to the improved outlook plus some currency appreciation will lift imports to such an extent that the positive growth contribution of net exports will moderately decline despite substantially accelerated export growth.

We forecast only moderate growth for the Romanian economy over the forecast horizon. GDP growth will accelerate slightly from 1.4% in 2013 to 2.2% in 2014 and 2.5% in 2015. Our forecast is based on the assumption that the harvest will not be as bad in 2013 as in 2012, so that a positive base effect from agricultural production will back GDP growth this year. Looking at the demand side, private consumption, gross fixed capital formation and inventory restocking will propel growth. Export growth is projected to accelerate in 2014 and 2015 alongside the better growth performance of the euro area. Yet net exports will continue to deliver negative contributions, as imports are anticipated to grow faster than exports due to firming domestic demand, a rise in unit labor costs and the high import content of exports. Fiscal consolidation will continue, but at a reduced speed. The structural budget deficit is set to decline further in 2013 and 2014, but to a smaller extent than in previous years. Accompanied by certain revenue-side measures, some elements of the 2013 budget will moderately support private consumption. In particular, the 2013 budget allows restoring public sector wages to pre-crisis levels and includes a 4% increase in pensions. However, the banking sector is burdened with high and still rising nonperforming loans. In addition, tight lending standards for consumer loans together with a further need to repair households' balance sheets will restrain household consumption. We expect investment to augment only moderately in 2013. After gross fixed capital formation growth suffered a notable setback in the final quarter of 2012, January's construction output figure does not point to a quick rebound. The difficult external environment will hold back a rise in FDI, which has been very low in recent years. Assuming that efforts to increase the absorption of EU funds finally prove moderately successful and that the external environment improves, we expect a notable acceleration of gross fixed capital formation growth in 2014 and 2015.

Romania: Utilization of EU funds remains key

3 Croatia: Investment and Structural Reforms Crucial for Future Growth

Given the slowdown in growth toward the end of 2012, we revise our October 2012 forecast for Croatian annual GDP growth for 2013 down to –0.5% from

0.5%. The downward pressure on GDP growth exerted by the lack of domestic demand will overshadow the expected slight improvement in economic conditions in the second half of 2013 following Croatia's EU accession on July 1, 2013. We expect GDP to expand by 0.9% in 2014 and by 1.7% in 2015.

Positive growth effects from EU accession will materialize only slowly

Fiscal consolidation needs will not provide any leeway for stimulating growth in 2013 by public measures. In particular, private consumption is expected to remain suppressed, given the continued rise in unemployment paired with an unchanged unfavorable employment situation. The relatively high price level fueled by tourism and remittances along with the ongoing need to restructure households' finances additionally weigh on private consumption. Considering these adverse conditions and the fragile external environment with suppressed exports, investment will not meet previous expectations either. Net exports are expected to make a slightly positive contribution to GDP growth. As a consequence, Croatian EU accession might not produce positive effects immediately but rather only over the medium to long term.

Weak export performance given low competitiveness

In 2014, GDP is projected to rebound to 0.9% annual growth. While ongoing fiscal consolidation will rule out any growth impulse from the public sector, domestic demand will regain some ground. Among the demand components, much-needed forward-looking investments in the private sector can be expected to contribute most to GDP growth, as some stimulus from EU funds will finally materialize. These developments will additionally feed into positive import growth, whereas the export potential will remain subdued and stock building will continue. Therefore, the contribution of net exports to GDP growth can be expected to be marginally negative.

Looking further ahead, growth should revive moderately to reach 1.7% in 2015. Preceding investment will start to pay off, as domestic and external demand are expected to improve – the latter being conditional on the outlook of Croatia's main trading partners.

Downside risks prevail as structural reform needs are high

The risks to the outlook are slightly tilted to the downside, because private investment might fall short of expectations either because of deteriorating external demand conditions as a result of developments in the euro area or due to an insufficient implementation of the planned structural reforms.

4 Russia: Economic Growth Set to Continue before Levelling off

Our GDP growth forecast for Russia amounts to 3.4% for both 2013 and 2014; growth is projected to slow to about 3% in 2015. The forecast is based on an expected gradual slide of the oil price in the course of the forecast period, while the global economy and trade are anticipated to revive starting in 2013. Imports will increase by 5% in 2013 and 2014; import growth is set to accelerate somewhat in 2015. Faster import growth will contribute to the slight slowdown of economic growth forecast for 2015.

Lower oil price dampens GDP growth

In the second half of 2013, economic expansion in Russia is expected to revive from the slow rate of the second half of 2012 (less than 3%) to 3.4% for 2013 as a whole. Besides the meager carryover effect from 2012, downward pressure from the projected decline of the oil price will take its toll. On the other hand, the global economy and trade are forecast to start recovering. Russia's fiscal stance is not scheduled to ease as much as was assumed in the previous forecast, while government expenditure will still increase at a notable pace. In 2014, growth will

retain its pace, as the global economy will revive but the oil price will continue to decline slightly. In 2015, growth will head for 3%, boosted by the oil price as well as an uptick in import growth.

Private consumption is expected to increase at a slowing rate but still relatively briskly. Constrained by tighter profitability, the corporate sector is anticipated to keep wage increases roughly in line with the rise of productivity, whereas the pre- and post-election hikes of public sector wages should be moderate. The heated rise of consumer credit (particularly until mid-2012) will continue to cool down somewhat. Public consumption will continue to support growth, although this spending will be eroded by high inflation. The expansion of corporate fixed investment is expected to revive from the sluggish rate of late 2012. Capacity utilization, which has recovered to pre-crisis boom levels, combined with production growth as well as increased wear-and-tear of capital since the recession, has created new capacity needs. The surrounding global uncertainties should abate gradually. Russia's export volumes will continue to grow slowly. With exports of oil products shrinking and gas exports edging up very slowly, crude oil exports should grow minimally during the forecast period. Nonenergy exports (accounting for slightly less than 40% of all revenues from goods and services exports) should take up part of the slack.

We forecast import growth to proceed at a less heated pace following the strong post-slump rebound. Imports are projected to grow by around 5% in 2013 and 2014. Thereafter, the cumulative impact of the appreciation of the ruble's real exchange rate should gradually begin to lift the rate of import growth. Russia's WTO membership will also start to provide some support to import growth.

Our forecast is subject to upside and downside risks. The price of oil could rise or fall faster than assumed, and global upside and downside risks related to Russia's export volumes could also change. Moreover, exports of basic nonenergy commodities could respond better than anticipated to the projected global recovery. Private consumption will exceed the forecast if the current line of wage increases in selected parts of the public sector spread more widely throughout the public sector. Growth in imports could exceed our forecast if the demand emphasis shifted more toward imported goods because domestic inflation continuously exceeds the rise of import prices.

New capacity needs
revive investment

Risks are fairly balanced
and very much tied to
actual oil price
developments