Economic trends in CESEE EU member states

Industrial recession slows economic recovery and inflation moves sideways

Compiled by Josef Schreiner[1]

1 Regional overview

Growth in the global economy remained stable yet underwhelming. In the advanced economies, a better outlook for the United States offset tepid momentum in the largest European countries. Likewise, surging demand for semiconductors and electronics bolstered growth in emerging Asia, which made up for the weak trends in parts of the Middle East, Central Asia and in sub-Saharan Africa.[2, 3]

Subdued economic momentum with uneven trends across countries and sectors

As in the global economy, uneven trends were also observed in Central, Eastern and Southeastern Europe (CESEE). Trends differed across countries and across economic sectors. The cautious upward trend in CESEE EU member states continued, with average growth of 2.6% in the second quarter of 2024 year on year. However, the overall economic momentum remained rather subdued.

On the one hand, this was attributable to the wide range of economic outcomes across the individual CESEE countries (reflecting i.a. different levels of consumption recovery and their impact on import demand, sentiment and its impact on investment, as well as the fiscal stance). Poland and Croatia, for example, were back on a solid growth path, while Slovenia and Romania performed rather weakly. Hungary even reported a contraction of economic output in the second quarter of 2024 (in quarter-on-quarter terms).

On the other hand, modest growth rates can largely be traced back to the economic situation in important trading partner regions – especially in Germany – and the associated hardship for CESEE's export-oriented industrial sector. CESEE's industry has been in recession since the start of 2023, with energy-intensive sectors (chemicals, metals) mainly responsible for the deterioration in the early phase of the downturn, and electrical equipment, machinery and motor vehicles over the most recent months. The recession is proving to be particularly stubborn, however, as there is more to it than just weak international demand. The region's industry is struggling with increasing problems in terms of price competitiveness and, in some cases, also an unfavorable production specialization. All of this is weighing on sentiment and willingness to invest.

Industrial weakness and missing international demand put the brake on growth

Industrial weakness and lack of international demand had a clear impact on the development of individual GDP components. In particular, the external sector's contribution to GDP growth declined from about 3 percentage points on average in 2023 to –1.1 percentage points in the second quarter of 2024 as real export growth declined. At the same time, the first half of 2024 saw an acceleration of import dynamics, which further weighed down net exports. In nominal

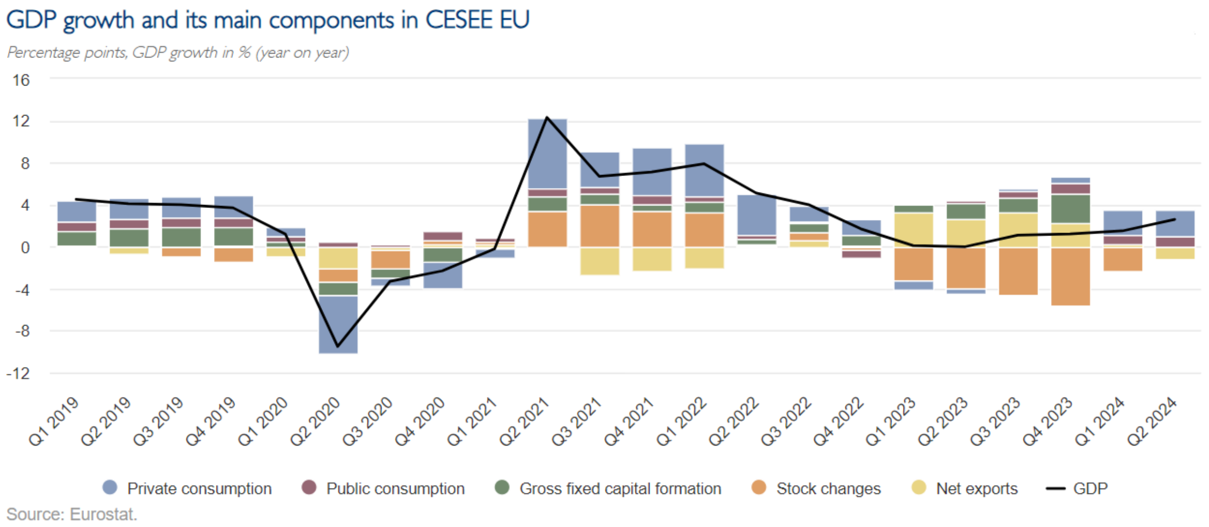
1 *Compiled by Josef Schreiner with input from Katharina Allinger, Mathias Lahnsteiner, Thomas Reininger, Thomas Scheiber, Tomáš Slačík and Zoltan Walko.*

2 *Cut-off date: October 9, 2024. This report focuses primarily on data releases and developments from April 2024 up to the cut-off date and covers Croatia, Slovakia, Slovenia, Bulgaria, Czechia, Hungary, Poland and Romania. The countries are ordered according to their level of EU integration (euro area countries and EU member states).*

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

balance of payment terms, no comparable deterioration was observed though, and the external position of the region remained largely unchanged.

Chart 1



Investments see a dip despite monetary accommodation

Gross fixed capital formation also saw a dip in early 2024, as investment in construction and dwellings contracted and investment in machinery lost some steam. The former was partly related to public sector investment spending as budget balances were stretched in some countries and as EU transfers tailed off. Regular EU disbursements were lower as the 2014–2020 EU budget period had finally ended and those from the 2021–2027 EU budget are yet to pick up. Moreover, disbursements of funds under the Recovery and Resilience Facility (RRF) also slowed notably from their peak in the fourth quarter of 2023 and only picked up again in the third quarter of 2024.

While financing conditions for private investment have improved amid monetary easing, companies are still reluctant to upgrade their machinery. This is because of weak (export) order books, declining capacity utilization and profitability, generally heightened uncertainty and sour sentiment. In many countries, international competitiveness is also becoming more and more of an issue, as wage growth – coupled with anemic productivity developments – continues to outpace that of key trading partner regions. Moreover, pronounced inflation differentials between CESEE countries and important trading partner countries (especially the euro area) pushed up real effective exchange rates by about 10% between late 2022 and mid-2023. Despite some nominal depreciation in the meantime, real exchange rates have remained at around this elevated level to date.

Strong labor markets and private consumption bolster economic growth

Rising import demand was a function of strengthening private consumption, which also contributed strongly to GDP growth. Strong consumption was based on strong labor markets and rising wages, so that the structurally tight labor market became the most important pillar of growth for the CESEE economies in the first half of 2024.

Not only have the crises of recent years left labor markets largely unscathed, in many respects they are tighter than they were before the pandemic. At an average of 3.6% in the second quarter of 2024, the unemployment rate stood just above its historical low of 3.5% in the second quarter of 2019. A broader measure of labor market slack – i.e. the share of persons with an unmet need for employment in the extended labor force – even beat its record-low reading of end-2019. Labor market tightness (and resilience) is also underlined by ongoing labor shortages that refuse to moderate despite rising employment and activity rates, economic slack and strong wage demands.

Nominal wage growth slowed somewhat after peaking in late 2023. However, it remained in the double digits in the first half of 2024 (at around 12% year on year) and clearly elevated, also in a long-term perspective. What is more, disinflation has provided a significant boost to real wage growth, which reached historically high levels in the first half of the year (more than 8% on average). This buoyancy has sustained retail sales growth, car registrations, services output and consumer sentiment, offsetting headwinds from the global economy, the industrial sector and, more recently, investments.

Highly profitable banking sectors amid strong retail demand and high asset quality

The difference between private consumption and investment dynamics also showed up in banking sector developments. Credit to households advanced by around 6.5% on average in the first half of the year, while credit to corporations only grew by 3.5% over the same period. Adjusted for inflation, corporate lending merely stagnated. The EIB's CESEE Bank Lending Survey provides further context for these figures. It finds that overall credit demand improved, but the improvement was driven predominantly by the household sector (reflecting improved sentiment and demand for consumer loans). Within the corporate sector, strong demand was only seen for working capital, while demand for fixed investments declined and supply conditions remained tight (particularly for longer-term financing). On a positive note, the deterioration of asset quality that had been expected in several rounds of the survey once more did not materialize. In fact, nonperforming loan (NPL) ratios remained at very low levels across the region, allowing for a further release of provisions. This, in conjunction with continued high net interest income, kept profitability high so that the average return on assets, in mid-2024, stood at the highest level in more than a decade.

Fiscal loosening stimulates GDP growth but leads to several new EDPs

The second factor behind strong domestic demand – besides labor market buoyancy – was loose fiscal policy. Though revenues kept flowing in, mostly because of higher capital revenues, expenditure grew noticeably as higher interest rates were slowly feeding through into the debt stock. But spending in the region also increased on the back of higher social benefits and subsidies, reflecting measures remaining in place to control inflation and the electoral cycle. Against this backdrop, Hungary, Poland and Slovakia joined Romania in having the EU launch an excessive deficit procedure (EDP) due to their large fiscal shortfalls and timid plans to correct them.

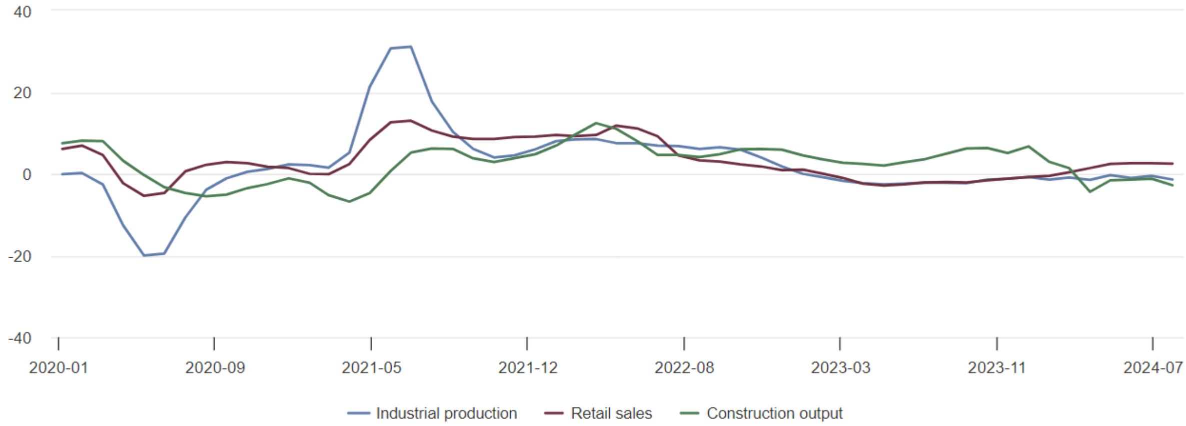
High-frequency activity and sentiment indicators suggest a continuation of current trends

Readily available high-frequency activity indicators do not point to an imminent change in the trends that we observed during the first half of 2024. That means that private consumption likely remained robust in the third quarter as retail sales and services output have grown steadily at about 2.5% in recent months. At the same time, everything else remained in the red. Industrial output has now shrunk for 18 consecutive months and construction activity has also been in recession for several months already. Electricity consumption recovered briefly at the beginning of the year, but a significant decline has been observed again since April. Furthermore, foreign demand is likely to have remained subdued, as industrial sales abroad continued to decline sharply despite the slight recovery in global trade. This suggests that, aside from private (and possibly public) consumption, wide swathes of the economy again lay idle.

Chart 2

High-frequency activity indicators in CESEE EU

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



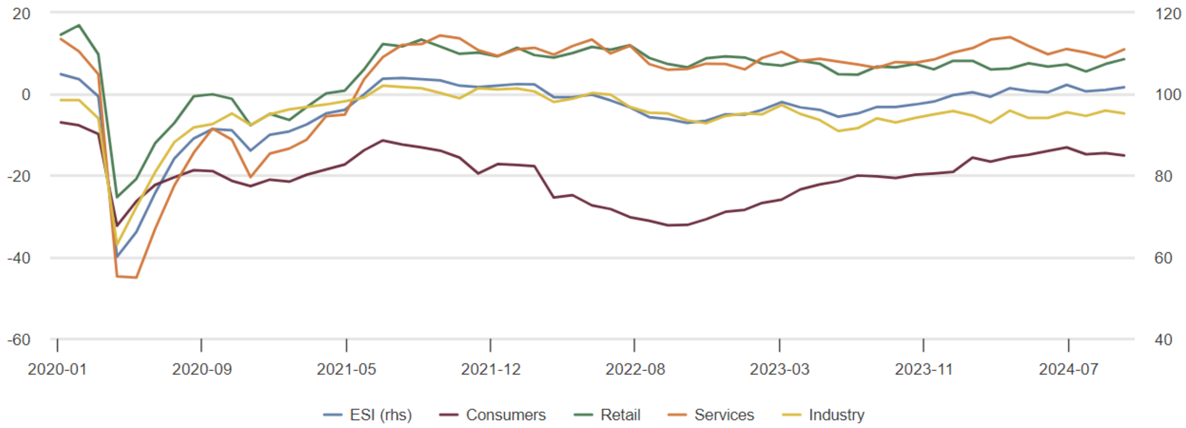
Source: Eurostat.

The picture drawn from sentiment indicators is not unlike. Sentiment in the services and retail sectors is robust and has even improved somewhat in recent months based on expectations of better future demand. Consumer sentiment has recovered from its trough in 2022 on account of disinflation and respondents' more favorable evaluation of the current economic environment and their personal financial situation. However, industrial sentiment is poor and has been moving sideways since mid-2022. Available manufacturing PMIs have recovered somewhat over the past months but remain well below the 50-point threshold. Surveys also show that industry views the current economic situation as significantly more uncertain than any other sector and, especially, more uncertain than consumers. Against this background, GDP forecasts have repeatedly been revised downward over the past months. The region is currently expected to grow by an average of somewhat over 2% in 2024.

Chart 3

Economic sentiment indicator and subcomponents in CESEE EU

Points



Source: European Commission.

Rapid disinflation comes to a halt

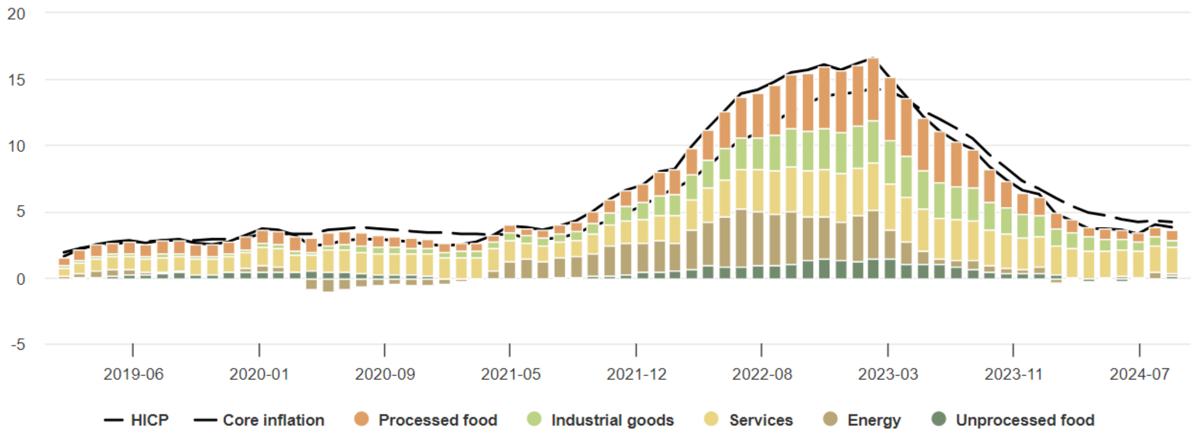
The rapid disinflationary process that CESEE had been experiencing since early 2023 came to a halt in the first half of 2024 and average inflation was reported at somewhat below 4% for the past six months. In August 2024, for example, it stood at 3.8%. The previous downward trend was slowed by fading negative base effects and a series of special effects, which primarily affected energy and food prices (such as higher excise duties on fuel in Romania, energy price deregulation in Poland or an abolition of mandatory discounts in food retailing in Hungary). Although the rate of inflation for industrial goods trended down some more, the period of rapidly falling price growth appears to be over for the time being.

Despite moderating somewhat, core inflation remained well above headline inflation throughout the observation period. This was due to comparatively high price rises in services, a sector in which pricing is heavily dependent on wage trends. The share of inflation that was accounted for by services rose from one-fifth at the beginning of 2023 to more than half in recent months.

Chart 4

Inflation in CESEE EU

Percentage points; HICP and core inflation in %, year on year



Source: Eurostat.

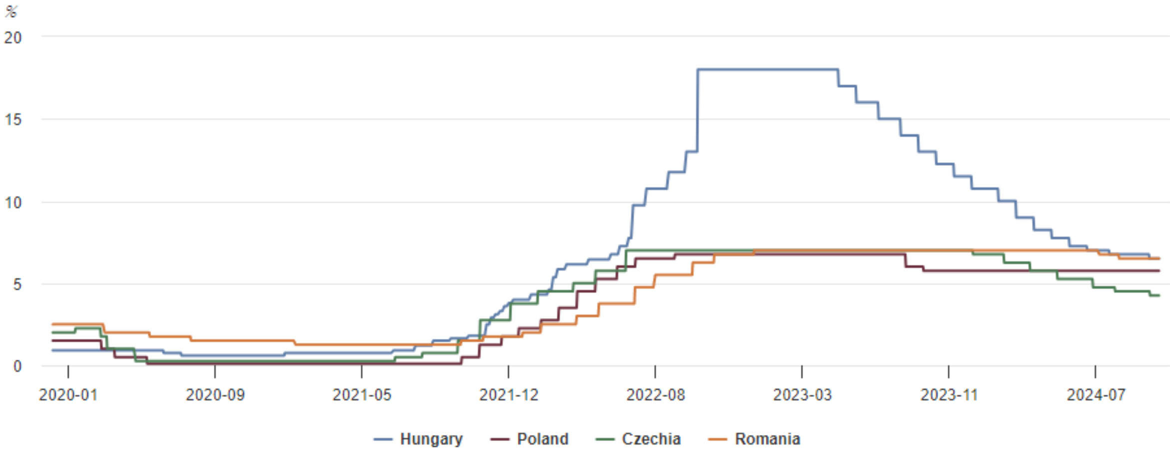
At the country level, too, the unabated stream of positive news concerning inflation came to a halt. Most countries reported renewed price pressures, at least intermittent episodes, and the right calibration of monetary policy has become less straightforward. In Poland, price growth moved away from where it is supposed to be as inflation accelerated to 4.3% in August 2024 (CPI), notably above the target of 2.5% ± 1 percentage point. In Romania, the country with the highest inflation rate, price growth did decelerate but was still well outside the target range (at 5.1% in August with a target of 2.5% ± 1 percentage point). There were also some countries, however, where inflation remained close to the respective inflation targets (e.g. in Hungary at 3.4% in August 2024 (CPI) with an inflation target of 3% ± 1 percentage point and in Czechia at 2.2% (CPI) in August 2024 with a target of 2% ± 1 percentage point). Among the CESEE euro area members, price growth also proved less sticky and inflation continued to trend down at least in Croatia and Slovenia.

Monetary policy more cautious now that inflation is no longer steadily declining

Recent price trends have made the central banks of the inflation-targeting countries in the region more cautious about their next steps in the cycle of interest rate cuts. This caution is clearly warranted as central banks expect some further temporary increase in inflation this year, as the fiscal stance is rather loose in some countries and as the external monetary policy environment has become more accommodative. The Czech central bank continued its stepwise rate cuts, which it had initiated in December 2023, and brought its policy rate down to 4.25% in October 2024 (275 basis points below its peak). In its last two sittings, however, the bank board opted for cuts of 25 basis points instead of the previous 50 basis points. The same pattern applies to the Hungarian central bank: cuts by 75 and 50 basis points were replaced by 25-basis point cuts in June, July and September of 2024, bringing the (effective) policy rate down to 6.5% (1,150 basis points below its peak). The Polish central bank refrained from cutting rates in the review period altogether, as it sees inflation affected by marked wage growth, higher energy prices and – going forward – fiscal and regulatory policy measures. At the same time, price growth in Poland is constrained by the appreciation of the zloty and – amid the current interest rate level – inflation should return to the medium-term target. By contrast, the Romanian central bank finally started its rate-cutting cycle and reduced its policy rate in two steps from 7% in July to 6.5% in September 2024. It argued that inflation and economic activity had turned out lower than anticipated, but that uncertainties surrounding the fiscal and income policy stance were elevated.

Chart 5

Policy rate developments



Source: Macrobond.

2 Croatia: buoyant private consumption and investments drive growth

The Croatian economy continues to perform well, with relatively high growth, decelerating inflation and an improving risk outlook for both the macroeconomy and the financial sector.

GDP growth in Croatia accelerated in the first half of 2024 and reached 3.6% year on year (versus 3.1% year on year in the second half of 2023). On the output side, the strongest growth drivers were wholesale and retail trade and construction. The sectors of agriculture, industry, and arts and entertainment contracted. On the expenditure side, the largest positive contribution to growth came from private consumption, followed by gross fixed capital formation. Net exports made a substantial negative contribution to growth. Exports shrank in year-on-year terms. Imports expanded on the back of buoyant domestic demand.

Private consumption grew by a remarkable 6% in the first half of 2024, supported by strong growth of average real gross wages (12% year on year), partially due to a substantial minimum wage increase on January 1, 2024 (+20%) and a public sector wage reform. In line with the consumption boom, general-purpose cash loans continued to grow rapidly. Gross fixed investment growth was supported by the absorption of RRF and other EU funds. Croatia has already absorbed two-thirds of the total funds allocated through RRF grants.

Despite strong domestic demand, HICP inflation has decelerated rapidly to 3% year on year in August 2024 and is projected to decelerate further. The positive inflation differential as measured against the euro area average has declined. The highest inflation among the HICP subcomponents was registered for restaurants and hotels in line with strong tourism. Tourist arrivals increased by 8% and nights spent by 3% in the first half of 2024 compared to the same period in 2023. In this regard, Croatia outperforms the EU-27 aggregate, where growth of both indicators stagnated.

Since Croatia's accession to the euro area, the fiscal balance has deteriorated somewhat – even though not to a concerning degree. The fiscal deficit was 0.8% of GDP in 2023 and is expected to rise to 1.7% of GDP in 2024 according to the IMF's projections. In 2025, the balance is expected to return to a surplus. The fiscal measures recommended by the IMF include an immediate discontinuation of broad-based cost-of-living measures and a broadening of the tax base. Regarding the former, the government is slow to respond. A seventh support package was recently announced. It includes a reduction but not a full withdrawal of electricity and gas subsidies and some measures targeted toward vulnerable groups. Regarding taxes, the government is aiming to gradually shift more of the burden from labor to property, partially to discourage short-term rentals. Consequently, some tax changes became effective in January 2024 and the government is working on another reform that has not been finalized yet.

The Croatian National Bank (HNB) found that financial stability risks have been declining. Banks' return on assets remains at elevated levels (2.1% mid-2024). The tier 1 capital ratio declined somewhat but is still high. Also, the NPL ratio remained stable, even though the HNB notes that general-purpose cash loans could become an issue in case of a downturn. Roughly one-quarter of these loans have been granted at a debt service-to-income (DSTI) ratio above 40%.

Overall, it is good news that the Croatian economy continues to ride the wave of positive momentum created by several factors, like high EU fund allocation and euro area and Schengen accession. Nonetheless, given the latest figures, it seems prudent to keep a close eye on the future evolution of domestic demand pressures.

Table 1: Main economic indicators: Croatia

Main economic indicators: Croatia

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	13.0	7.0	3.1	1.4	4.4	3.9	3.3
Private consumption	10.6	6.7	3.0	2.8	5.0	5.8	5.9
Public consumption	3.1	2.7	6.6	6.0	4.6	1.0	4.0
Gross fixed capital formation	6.6	0.1	4.2	6.1	6.0	10.8	12.9
Exports of goods and services	32.7	27.0	−2.9	−8.5	−4.4	−2.0	−1.3
Imports of goods and services	17.3	26.5	−5.3	−12.1	−7.1	2.2	5.2
	Contribution to GDP growth in percentage points						
Domestic demand	7.9	7.5	1.3	0.6	2.0	5.4	6.8
Net exports of goods and services	5.2	−0.5	1.7	0.8	2.4	−1.5	−3.5
Exports of goods and services	13.5	13.3	−1.7	−6.7	−2.3	−0.6	−0.6
Imports of goods and services	−8.3	−13.8	3.4	7.5	4.7	−0.9	−2.9
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	..	..	..	..	..	..	..
Unit labor costs in manufacturing (nominal, per hour)	−1.2	6.9	10.5	10.4	12.6	21.4	19.8
Labor productivity in manufacturing (real, per hour)	4.6	1.0	3.0	4.5	2.7	−5.9	−5.5
Labor costs in manufacturing (nominal, per hour)	3.5	8.0	13.8	15.4	15.7	14.2	13.2
Producer price index (PPI) in industry	6.7	18.2	3.7	1.2	−1.0	−1.6	−1.3
Consumer price index (here: CPI)	2.7	10.7	8.4	8.0	5.9	4.8	4.2
EUR per 1 HRK, + = HRK appreciation	0.1	−0.1	..	..	..	..	..
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	7.5	6.9	6.2	5.6	6.1	5.6	4.6
Employment rate (%, 15−64 years)	63.9	65.3	65.7	65.8	66.5	68.0	68.7
Key interest rate per annum (%)[1]	..	..	..	..	..	..	..
HRK per 1 EUR	7.5	7.5	..	..	..	..	..
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	2.4	10.4	7.9	7.4	7.9	7.7	8.2
of which:							
loans to households	4.1	5.3	9.4	7.7	9.4	10.7	10.9
loans to nonbank corporations	−0.1	18.6	5.9	7.0	5.9	3.6	4.3
Share of foreign currency loans in total loans to the nonbank private sector	52.2	58.1	0.4	0.6	0.4	0.6	0.6
Return on assets (banking sector)	1.2	1.0	1.8	1.9	1.8	2.1	2.1
Tier 1 capital ratio (banking sector)	25.4	24.2	23.3	22.7	23.3	22.7	22.2
NPL ratio (banking sector)	4.3	3.0	2.6	2.7	2.6	2.6	2.6
	% of GDP						
General government balance	−2.5	0.1	−0.7				
Primary balance	−1.0	1.5	1.0				
Gross public debt	77.5	67.8	63.0				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	82.1	76.7	72.6				
Debt of households and NPISHs[2] (nonconsolidated)	33.7	30.6	29.9				
	% of GDP (based on EUR), period total						
Goods balance	−19.4	−26.8	−22.9	−20.0	−20.2	−24.1	−24.8
Services balance	16.7	20.6	20.7	42.7	9.3	4.7	16.2
Primary income	−0.5	−0.4	−0.3	−2.5	1.9	1.0	−0.2
Secondary income	3.7	3.2	3.0	2.7	3.4	3.9	3.0
Current account balance	0.5	−3.4	0.4	22.8	−5.6	−14.5	−5.7
Capital account balance	2.4	2.4	2.9	2.2	3.3	1.2	1.5
Foreign direct investment (net)[3]	−5.7	−6.0	−2.4	−4.6	1.1	−4.6	0.1
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	80.2	72.9	83.7	83.5	83.7	79.4	79.2
Gross official reserves (excluding gold)	42.5	40.6	3.8	3.8	3.8	3.2	3.4
	Months of imports of goods and services						
Gross official reserves (excluding gold)	9.8	7.5	0.8	0.8	0.8	0.7	0.7

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

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = 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 Slovakia: shifting drivers of recovery amid rising fiscal challenges

The Slovak economy has shown strengthening signs of recovery, despite continued and new challenges. Real GDP growth accelerated to 2.3% in the first six months of 2024 (after 1.6% in 2023). Yet the drivers of economic growth have shifted dramatically. While GDP growth was largely driven by net exports in 2023, their contribution has turned negative this year. This is partly due sluggish foreign demand, particularly from the stagnant German economy. Additionally, growing structural challenges in the automotive industry, a key sector for Slovakia's economy, have further dampened exports. These dismal developments are reflected in a notable deterioration in industrial sentiment in recent months. At the same time, import growth has accelerated, driven by strengthening domestic demand, which has become the main engine of economic expansion this year.

With disposable incomes rising in response to falling inflation, households have gradually driven up consumption. Nonetheless, they remain somewhat cautious. In fact, consumer sentiment has been declining in recent months, fueled by growing pessimism about the general economic outlook and expectations for savings. The stringent fiscal consolidation the government has planned is likely to further dampen consumer sentiment. After a surge in fixed investment in 2023, driven by last-minute absorption of EU funds from the previous programming period, fixed capital formation has cooled down. The plunge was particularly striking for public investment in transportation and infrastructure, which, as a result, provided a neutral contribution to GDP growth in the first half of 2024. In contrast, after a period of destocking that significantly dampened growth in 2023, changes in inventories have been making a positive and growing contribution.

The historically low unemployment rate – which has continued to gradually decline this year as part of a long-term downward trend – goes hand in hand with a high number of job vacancies. This suggests persistent labor market tightness, amid structural mismatches and sustained labor shortages. Labor shortages have been worsened by the easing of early retirement rules, which has been hindering larger employment gains. As a result, nominal wage growth remains vigorous, while the rapid easing of inflation has led to a rebound in real wages after two years of contraction. Headline inflation gradually fell in the first half of 2024 (reaching 2.4% in June) but rose again to 3.2% in August. This uptick was partly due to higher inflation in processed food and, most notably, the still elevated and resurgent inflation in services. As a result, core inflation accelerated to 4.4% in August.

Recognizing Slovakia's urgent need to restore public finances, the ruling coalition approved a fiscal consolidation package. Despite heavy criticism – even within the coalition – particularly for the package's bias toward the revenue side and insufficient focus on government savings, it was ultimately passed by lawmakers in early October 2024. The consolidation measures center on VAT, corporate income and financial transaction taxes on the revenue side. On the expenditure side, the most significant measures are changes in the parental pension. The package aims to reduce the general government deficit to 4.7% of GDP in 2025, down from a rough estimate of 6% of GDP in 2024 and in 2025 without consolidation.

Table 2: Main economic indicators: Slovakia

Main economic indicators: Slovakia

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	4.8	1.9	1.6	2.0	2.2	2.7	1.9
Private consumption	2.6	6.1	−3.2	−2.5	−3.0	3.5	2.4
Public consumption	4.2	−4.5	−0.6	2.5	1.7	6.5	4.8
Gross fixed capital formation	3.5	5.7	10.6	6.9	13.1	1.7	0.7
Exports of goods and services	10.5	3.0	−1.4	−0.1	−1.3	1.8	2.5
Imports of goods and services	11.7	4.3	−7.6	−3.9	−6.1	2.9	6.0
	Contribution to GDP growth in percentage points						
Domestic demand	5.7	3.0	−4.9	−2.1	−2.7	3.9	5.1
Net exports of goods and services	−0.9	−1.1	6.5	4.1	5.0	−1.2	−3.1
Exports of goods and services	8.9	2.8	−1.4	−0.5	−1.2	1.4	2.3
Imports of goods and services	−9.8	−3.9	7.9	4.6	6.1	−2.6	−5.4
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	1.3	5.4	9.0	7.6	10.0	6.3	5.2
Unit labor costs in manufacturing (nominal, per hour)	−3.4	12.1	4.9	6.0	2.3	12.9	7.4
Labor productivity in manufacturing (real, per hour)	9.4	−1.8	1.6	1.3	4.3	−1.6	1.7
Labor costs in manufacturing (nominal, per hour)	6.3	10.0	6.6	7.4	6.8	11.1	9.1
Producer price index (PPI) in industry	6.8	26.3	8.4	3.5	2.7	−9.2	−8.6
Consumer price index (here: HICP)	2.8	12.1	11.0	9.6	7.1	3.6	2.5
EUR per 1 SKK, + = SKK appreciation	..	..	..	..	..	..	..
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	6.9	6.2	6.0	6.0	5.7	5.7	5.3
Employment rate (%, 15−64 years)	69.5	71.4	72.0	71.9	72.7	72.0	72.4
Key interest rate per annum (%)[1]	0.0	0.6	3.8	4.2	4.5	4.5	4.5
SKK per 1 EUR	..	..	..	..	..	..	..
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	7.3	10.5	3.6	4.9	3.6	2.8	1.9
of which:							
loans to households	8.8	10.3	4.1	4.9	4.1	3.6	3.4
loans to nonbank corporations	4.3	10.8	2.5	5.0	2.5	0.9	−1.3
Share of foreign currency loans in total loans to the nonbank private sector	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Return on assets (banking sector)	0.7	0.8	1.0	1.0	1.0	0.9	0.9
Tier 1 capital ratio (banking sector)	18.5	18.1	19.0	18.5	19.0	19.4	19.5
NPL ratio (banking sector)	1.9	1.7	1.8	1.9	1.8	1.9	1.8
	% of GDP						
General government balance	−5.2	−1.7	−4.9				
Primary balance	−4.0	−0.7	−3.7				
Gross public debt	61.1	57.7	56.0				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	52.7	51.9	46.5				
Debt of households and NPISHs[2] (nonconsolidated)	47.0	47.1	44.0				
	% of GDP (based on EUR), period total						
Goods balance	−0.3	−5.5	1.3	1.8	−0.4	2.6	1.0
Services balance	0.5	0.4	0.5	0.3	0.1	0.2	0.6
Primary income	−3.2	−1.4	−2.6	−2.5	−2.9	−2.6	−2.4
Secondary income	−1.0	−0.7	−0.8	−0.9	−0.4	−0.7	−0.5
Current account balance	−4.0	−7.3	−1.6	−1.4	−3.6	−0.5	−1.3
Capital account balance	1.1	1.1	1.1	0.6	3.7	−0.3	2.9
Foreign direct investment (net)[3]	−1.3	−2.1	−0.1	2.8	−4.0	0.2	0.4
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	134.2	103.0	96.0	99.2	96.0	100.5	98.3
Gross official reserves (excluding gold)	6.8	7.2	6.8	6.4	6.8	9.3	10.1
	Months of imports of goods and services						
Gross official reserves (excluding gold)	0.9	0.8	0.9	0.8	0.9	1.3	1.4

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

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = 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 Slovenia: economy started somewhat weaker into 2024 but inflation slowed considerably

GDP growth in Slovenia decelerated somewhat to 1.4% year on year (unadjusted) during the first half of 2024 after 1.6% in 2023. In seasonally and calendar-adjusted terms, GDP basically stagnated during the first half of 2024. Public consumption grew strongly in year-on-year terms, while changes in inventories boosted GDP growth as well. In the second quarter, private consumption eased back somewhat although consumer confidence further improved and inflation slowed. As suggested by the relatively high savings rate in early 2024, households used part of their income to start rebuilding financial buffers and reduce their debt. In addition, employment growth moderated continuously in recent quarters and real wage growth slowed sharply in the second quarter of 2024. Investment activity weakened considerably during the first half of 2024, mainly as a result of decelerating construction investments, but investments in machinery and equipment kept contracting as well, mirroring a further decline in industrial capacity utilization, the poor export outlook and continued sluggish corporate credit activity. Net real exports became a drag on GDP growth following a strong contribution in 2023, as exports continued to contract while import growth turned positive on the back of strengthening domestic demand.

Given that Slovenia posted a general government budget deficit of 2.5% of GDP in 2023 and the European Commission's 2024 spring forecast projected a deficit of less than 3% of GDP for both 2024 and 2025, the European Commission decided not to propose opening an excessive deficit procedure for the country. At the same time, the Council issued various recommendations to Slovenia in mid-July 2024 (in addition to putting government debt on a plausible downward trajectory and maintaining a government deficit of less than 3% of GDP) to ensure long-term fiscal sustainability and progress in various reform areas. The recommended measures included – inter alia – ensuring the fiscal sustainability of social protection, rebalancing tax revenues toward more growth-friendly sources, improving the efficiency of public spending, boosting skill levels, addressing labor shortages and promoting the absorption of EU cohesion and RRF funds.

HICP inflation moderated notably during the first eight months of 2024 to stand at 1.1% in August, mainly on the back of decelerating price growth for nonenergy industrial goods and food (both unprocessed and processed). Despite some slowdown, inflation in the services sector remained well above the overall HICP inflation rate. Energy price inflation was rather volatile, reflecting base effects and the contemporaneous fluctuations of global energy prices.

During the first half of 2024, the surplus on the combined current and capital account (on a rolling four-quarter basis) remained roughly at the level seen in 2023. The surplus on the goods and services balances declined modestly, but this was counterbalanced by smaller deficits in the income balances (primary and secondary) and the capital account.

Banking sector profitability remained broadly stable during the first half of 2024 (compared to the same period of 2023). While net interest income grew amid a small decline in client lending rates and a modest recovery in lending volumes, operating expenses increased as well (all as a percentage of average assets). Provisioning costs remained low as did the share of nonperforming exposures.

Table 3: Main economic indicators: Slovenia

Main economic indicators: Slovenia

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	8.4	2.7	2.1	1.9	2.7	2.1	0.7
Private consumption	10.5	5.3	0.1	−1.1	0.8	1.9	1.3
Public consumption	6.2	−0.7	2.4	1.5	5.1	6.4	12.7
Gross fixed capital formation	12.3	4.2	3.9	2.6	3.2	0.9	−1.7
Exports of goods and services	14.5	6.8	−2.0	−9.0	−2.3	−0.8	−0.8
Imports of goods and services	17.8	9.2	−4.5	−10.7	−1.8	0.4	3.1
	Contribution to GDP growth in percentage points						
Domestic demand	9.4	4.2	−0.2	0.5	3.1	2.9	4.0
Net exports of goods and services	−1.0	−1.5	2.3	1.4	−0.4	−0.9	−3.3
Exports of goods and services	11.3	5.7	−1.9	−8.6	−2.4	−1.1	−0.9
Imports of goods and services	−12.3	−7.2	4.1	9.9	1.9	0.3	−2.4
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	0.9	5.1	9.1	8.5	6.9	5.7	6.8
Unit labor costs in manufacturing (nominal, per hour)	−2.8	1.4	14.5	19.0	13.2	5.8	9.2
Labor productivity in manufacturing (real, per hour)	9.7	6.0	−4.4	−13.1	−0.2	−1.3	−0.4
Labor costs in manufacturing (nominal, per hour)	6.8	7.4	9.5	3.4	13.1	4.4	8.8
Producer price index (PPI) in industry	5.6	19.6	6.3	2.4	0.4	−2.7	−2.5
Consumer price index (here: HICP)	2.0	9.3	7.2	6.3	5.0	3.4	2.4
EUR per 1 SIT, + = SIT appreciation	..	..	..	..	..	..	..
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	4.8	4.0	3.6	3.9	3.4	3.4	3.3
Employment rate (%, 15−64 years)	71.5	73.1	72.5	72.6	72.8	73.8	73.3
Key interest rate per annum (%)[1]	0.0	0.6	3.8	4.2	4.5	4.5	4.5
SIT per 1 EUR	..	..	..	..	..	..	..
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	5.6	10.4	−2.5	−1.3	−2.5	1.2	1.4
of which:							
loans to households	5.0	7.5	3.5	3.2	3.5	4.3	5.6
loans to nonbank corporations	6.2	13.4	−8.5	−5.7	−8.5	−2.2	−3.0
Share of foreign currency loans in total loans to the nonbank private sector	1.1	0.8	0.7	0.7	0.7	0.7	0.6
Return on assets (banking sector)	1.1	1.0	2.1	1.9	2.1	1.8	1.9
Tier 1 capital ratio (banking sector, consolidated)	16.9	16.2	18.0	16.9	18.0	18.0	17.8
NPL ratio (banking sector)	0.8	0.7	0.6	0.7	0.6	0.7	0.7
	% of GDP						
General government balance	−4.6	−3.0	−2.5				
Primary balance	−3.4	−1.9	−1.3				
Gross public debt	74.4	72.5	69.2				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	46.2	45.7	40.6				
Debt of households and NPISHs[2] (nonconsolidated)	26.5	26.0	23.9				
	% of GDP (based on EUR), period total						
Goods balance	1.7	−3.8	0.7	−0.2	−0.2	0.7	0.1
Services balance	4.2	6.1	6.0	6.3	6.1	5.0	5.3
Primary income	−1.5	−2.2	−1.4	−1.7	−1.6	−0.3	−0.1
Secondary income	−1.1	−1.2	−1.0	−1.1	−0.4	−1.0	−0.5
Current account balance	3.3	−1.0	4.4	3.4	3.9	4.3	4.7
Capital account balance	0.3	−0.4	−0.3	0.1	−0.4	0.1	−0.3
Foreign direct investment (net)[3]	−0.8	−2.3	−0.8	0.4	0.3	−0.5	−0.3
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	97.9	91.1	90.6	92.0	90.6	91.2	91.1
Gross official reserves (excluding gold)	3.5	3.4	3.1	3.2	3.1	3.4	3.6
	Months of imports of goods and services						
Gross official reserves (excluding gold)	0.5	0.4	0.5	0.5	0.5	0.6	0.6

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

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = 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 Bulgaria: mortgage boom, weak exports and political crisis

Real GDP growth accelerated to 2.1% in the first half of 2024. While domestic demand contributed 3.4 percentage points to GDP growth, net exports ate up 1.2 percentage points. External demand, particularly from the euro area, remained weak and led to shrinking exports and rising inventories while imports picked up in the second quarter.

Monetary tightening in the euro area has been transmitted relatively slowly to interest rates in Bulgaria. As a result, credit demand remained strong, which supported domestic demand. Fiscal policy supported the recovery from the pandemic but contributed to the inflation surge. Currently, the fiscal policy stance has been slightly expansionary, with a targeted deficit of 3% of GDP in 2024 and 2025. In addition, real wage growth averaged 14% in the first half of the year, driven by a 20% increase in the minimum wage and relatively tight labor markets. As a result, private consumption proved quite resilient. The mix of rising incomes, strong credit growth and a lack of investment opportunities continues to fuel a construction boom, mainly in Sofia and the regional capitals. Euro adoption expectations may provide an additional incentive for households to take out mortgages, which soared by 25% in July. House prices continue to outpace consumer prices; they rose by 16% in the first quarter of 2024. Apart from the booming real estate sector, industrial production continued to decline in the first half of 2024, and manufacturing sentiment remains below average.

Headline inflation decelerated gradually from 5% in December 2023 to 2.4% in August 2024. The disinflation was driven by all main components, except rather sticky services prices. As a result, core inflation excluding energy, food, alcohol and tobacco fell from 5.4% to 2.9% over the same period.

Bulgaria experienced strong disinflation of industrial producer prices on the domestic market. Pipeline pressures declined substantially in the early stages of the production, mainly due to declining prices for raw material and energy, but remained relatively high in the final stages of the value chain, especially for durable consumer goods. Moreover, labor cost pressures proved to be sticky, as labor shortages persisted in the industrial and service sectors of the economy. Rising compensation per employee and only modest gains in productivity growth per employee, pushed up unit labor costs for the economy by 12.4% in the second quarter of 2024.

In May 2024, Bulgaria met all nominal convergence criteria for joining the euro area except the inflation convergence criterion. This will delay its accession to the euro area planned for 2025. Although meeting the inflation criterion seems to be only a matter of time, reducing inflation over the coming months may prove to be difficult given the pro-inflationary trends in energy prices and unit labor costs.

At present, the ongoing political instability in Bulgaria is likely to pose a greater hurdle to joining the euro area, delaying the necessary preparations and undermining public support. The scheduled change of prime minister at the end of March 2024 did not take place; instead, Bulgaria went to the polls on June 9 for the sixth snap election in three years. Efforts to form a coalition government failed again this summer, and the seventh snap election is now scheduled for October 27. It remains to be seen whether the recent dissolution of the Movement for Rights and Freedoms party will significantly strengthen far-right and/or pro-Western parties.

Table 4: Main economic indicators: Bulgaria

Main economic indicators: Bulgaria

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	7.7	3.9	1.8	1.5	1.8	1.9	2.3
Private consumption	8.5	3.8	5.4	4.8	3.2	3.7	3.4
Public consumption	0.4	5.5	−0.4	0.3	0.6	2.3	1.8
Gross fixed capital formation	−8.3	6.5	3.3	12.6	5.2	8.4	2.1
Exports of goods and services	11.2	11.6	−1.9	−2.8	−1.9	−2.5	−0.4
Imports of goods and services	10.7	15.0	−6.3	−6.8	−4.3	−3.9	4.9
	Contribution to GDP growth in percentage points						
Domestic demand	7.2	5.7	−1.2	−1.1	0.5	0.4	5.6
Net exports of goods and services	0.4	−1.8	3.0	2.6	1.4	1.5	−3.3
Exports of goods and services	6.3	7.1	−1.3	−2.0	−1.6	−2.4	−0.6
Imports of goods and services	−5.8	−8.9	4.3	4.6	3.0	3.8	−2.7
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	3.8	9.1	12.7	11.1	9.7	12.4	12.4
Unit labor costs in manufacturing (nominal, per hour)	−0.4	1.7	21.3	18.6	19.5	20.1	12.9
Labor productivity in manufacturing (real, per hour)	7.2	15.6	−3.5	−2.0	−5.3	−5.0	−0.9
Labor costs in manufacturing (nominal, per hour)	7.0	17.6	17.1	16.2	13.2	14.0	11.8
Producer price index (PPI) in industry	16.6	40.8	−9.7	−21.9	−17.5	−13.0	−3.6
Consumer price index (here: HICP)	2.8	13.0	8.6	7.2	5.5	3.5	2.7
EUR per 1 BGN, + = BGN appreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	5.3	4.2	4.4	4.1	4.3	5.1	4.3
Employment rate (%, 15−64 years)	68.5	70.7	70.7	71.5	70.5	70.2	71.0
Key interest rate per annum (%)[1]	..	..	..	..	..	..	..
BGN per 1 EUR	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[2]	8.6	12.7	12.3	11.3	12.3	13.1	13.7
of which:							
loans to households	13.4	14.6	15.9	14.0	15.9	17.5	19.0
loans to nonbank corporations	5.5	11.4	9.9	9.5	9.9	9.9	9.9
Share of foreign currency loans in total loans to the nonbank private sector	29.3	26.2	23.8	24.7	23.8	23.0	22.5
Return on assets (banking sector)	1.1	1.4	2.1	2.2	2.1	1.9	2.1
Tier 1 capital ratio (banking sector)	22.0	20.5	20.5	20.7	20.5	20.1	21.2
NPL ratio (banking sector)	3.7	2.8	2.1	2.4	2.1	2.1	2.1
	% of GDP						
General government balance	−3.9	−2.9	−1.9				
Primary balance	−3.4	−2.5	−1.5				
Gross public debt	23.9	22.6	23.1				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	68.8	59.5	55.7				
Debt of households and NPISHs[3] (nonconsolidated)	23.8	22.5	23.7				
	% of GDP (based on EUR), period total						
Goods balance	−4.1	−5.7	−3.9	−2.9	−6.6	−5.4	−4.9
Services balance	5.7	6.2	7.1	10.3	5.4	6.5	7.4
Primary income	−4.7	−2.8	−5.0	−6.7	−4.7	−1.9	−5.2
Secondary income	1.2	1.7	1.5	0.7	2.8	0.8	1.2
Current account balance	−1.8	−0.6	−0.3	1.5	−3.1	−0.1	−1.4
Capital account balance	0.7	1.0	1.6	1.3	1.6	2.9	1.3
Foreign direct investment (net)[4]	−1.8	−2.3	−3.3	−5.3	−0.7	−3.1	2.4
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	60.2	56.7	48.3	47.2	48.3	47.0	45.4
Gross official reserves (excluding gold)	47.3	46.4	42.0	37.7	42.0	37.5	35.6
	Months of imports of goods and services						
Gross official reserves (excluding gold)	9.5	8.3	8.7	7.6	8.7	8.0	7.7

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

[1] *Not available in a currency board regime.*

[2] *Foreign currency component at constant exchange rates.*

[3] *Nonprofit institutions serving households.*

[4] *+ = 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 Czechia: modest recovery amid weak foreign demand

After the Czech economy had stagnated for four consecutive quarters, experiencing a mild contraction throughout 2023, it began to recover in the second quarter of 2024. Nonetheless, the recovery has been modest so far, and the economy remains below its potential. Net exports have been the primary driver of the rebound, though this mainly reflects weak imports rather than a resurgence in exports. In fact, despite annual export growth turning positive in recent months, foreign demand remains weak and firms report that this is limiting their production capacity.

While overall domestic demand continued to weigh on GDP growth in the first half of 2024, both private and government consumption provided significant positive contributions. Household consumption benefited from a rapid increase in real disposable income, driven by robust wage growth, fading inflation and declining interest rates. In contrast, fixed investment contracted year on year in the first six months of 2024, reflecting, among other factors, weak external demand, slow absorption of EU funds, and reduced public investment. Moreover, firms' continued destocking following the normalization of global supply chains also resulted in a significant negative contribution from inventory changes.

The modest surplus in Czechia's current account from 2023 has expanded noticeably this year, largely due to strong surpluses in the services and goods trade balances, driven by a comparably low import bill. As usual, primary income remains deeply negative, due to strong though fluctuating outflows of dividends.

Czechia's labor market remains tight – though slightly easing – with stable employment and unemployment rates, which are still hovering around their historical highs and lows, respectively. The unemployment rate thus continues to be the lowest in the EU and ranks among the lowest globally. As a result, nominal wage growth, especially in market sectors, remains high by historical standards. Combined with a sharp decline in inflation, real wage growth returned to positive territory in early 2024 after more than two years of contracting.

Annual consumer price inflation has remained close to the target set out by the Czech National Bank (CNB) and within its tolerance band (2% ± 1 percentage point) throughout 2024. However, there were slight setbacks on the disinflation path in some months, which, in part, came as a surprise compared to market expectations and CNB projections. These interim upticks were mainly driven by faster growth in (processed) food prices. Despite a strong decline since the peak in early 2023, inflation in services also remains rather elevated and persistent at more than 6%. The CNB has continued its monetary policy easing, which began in December 2023, reducing the key policy rate in 25- to 50-basis point steps at each of the seven board meetings since, bringing it down to the current 4.25%.

Owing to the fiscal consolidation package implemented in 2024, the government had aimed to reduce the general government deficit from 3.7% of GDP in 2023 to 2.5% of GDP this year. However, the floods in September forced the government to revise the planned deficit upward by about 12% for this year (and approximately 5% for 2025), meaning it is likely to end up just shy of 3% of GDP in 2024.

Table 5: Main economic indicators: Czechia

Main economic indicators: Czechia

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	4.0	2.8	−0.1	−0.6	0.0	−0.1	0.9
Private consumption	4.2	0.5	−2.8	−3.1	−0.4	1.4	1.3
Public consumption	1.5	0.4	3.5	3.7	3.7	3.1	4.3
Gross fixed capital formation	6.7	6.3	2.5	2.8	4.7	−2.8	−1.0
Exports of goods and services	8.2	5.1	2.7	−1.0	0.8	−1.5	1.1
Imports of goods and services	13.7	5.9	−0.9	−2.5	−4.8	−3.9	−1.0
	Contribution to GDP growth in percentage points						
Domestic demand	6.9	3.2	−2.7	−1.7	−4.0	−1.6	−0.5
Net exports of goods and services	−2.8	−0.3	2.6	1.1	4.1	1.5	1.4
Exports of goods and services	5.5	3.6	2.0	−0.7	0.6	−1.5	0.7
Imports of goods and services	−8.3	−4.0	0.6	1.8	3.4	3.1	0.7
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	3.0	5.0	7.9	7.8	6.3	6.3	4.6
Unit labor costs in manufacturing (nominal, per hour)	1.9	3.1	6.4	8.2	5.4	4.5	7.7
Labor productivity in manufacturing (real, per hour)	1.1	1.8	1.2	0.5	0.4	2.1	0.5
Labor costs in manufacturing (nominal, per hour)	3.4	4.9	7.6	8.7	5.8	6.7	8.2
Producer price index (PPI) in industry	6.1	18.5	4.5	3.5	1.6	0.6	2.9
Consumer price index (here: HICP)	3.3	14.8	12.0	9.5	8.4	2.4	2.7
EUR per 1 CZK, + = CZK appreciation	3.2	4.4	2.3	1.9	−0.5	−5.1	−5.5
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	2.9	2.3	2.7	2.7	2.6	2.8	2.6
Employment rate (%, 15−64 years)	74.4	75.5	75.1	75.3	75.4	74.9	75.3
Key interest rate per annum (%)[1]	0.9	5.9	7.0	7.0	7.0	6.4	5.4
CZK per 1 EUR	25.6	24.6	24.0	24.1	24.5	25.1	25.0
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	9.7	6.2	5.8	5.3	5.8	5.1	4.7
of which:							
loans to households	9.9	4.8	4.7	4.7	4.7	4.9	4.3
loans to nonbank corporations	9.4	8.3	7.4	6.1	7.4	5.3	5.1
Share of foreign currency loans in total loans to the nonbank private sector	14.6	19.4	22.2	21.6	22.2	22.9	22.6
Return on assets (banking sector)	0.8	1.1	1.1	1.1	1.1	1.0	1.2
Tier 1 capital ratio (banking sector)	22.8	21.5	21.7	21.8	21.7	21.1	21.4
NPL ratio (banking sector)	2.3	1.9	1.6	1.7	1.6	1.6	1.6
	% of GDP						
General government balance	−5.1	−3.2	−3.7				
Primary balance	−4.3	−2.1	−2.4				
Gross public debt	42.0	44.2	44.0				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	51.9	49.4	50.4				
Debt of households and NPISHs[2] (nonconsolidated)	34.6	32.1	29.8				
	% of GDP (based on EUR), period total						
Goods balance	1.1	−0.3	3.8	1.9	4.5	7.2	5.9
Services balance	1.7	1.4	1.2	1.4	0.8	1.5	1.6
Primary income	−5.0	−5.2	−4.2	−2.7	−4.6	−3.5	−6.8
Secondary income	−0.5	−0.6	−0.5	−0.5	−0.2	0.2	−0.9
Current account balance	−2.7	−4.7	0.4	0.0	0.6	5.4	−0.2
Capital account balance	1.7	0.7	1.2	0.2	1.1	0.2	2.3
Foreign direct investment (net)[3]	−0.5	−1.2	−0.2	1.8	−0.5	−2.1	1.2
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	73.8	67.4	59.9	60.3	59.9	61.4	61.9
Gross official reserves (excluding gold)	62.1	45.5	41.7	41.2	41.7	42.9	42.5
	Months of imports of goods and services						
Gross official reserves (excluding gold)	11.0	7.6	7.8	7.5	7.8	8.2	8.2

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

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = 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: weaker than expected recovery during the first half of 2024

Following the contraction of GDP by 0.9% in 2023, the economy started to recover during the first half of 2024 (+1.3% year on year) but not as fast as expected. Investment demand was dragged down mainly by machinery and transport equipment, but construction investments also continued to decrease. Like in previous quarters, weak investments were largely explained by weak capacity utilization, a further deterioration in industrial confidence and the export outlook, the postponement of public investments and the ongoing freeze of a big portion of EU funds. While public consumption decreased modestly due to fiscal constraints, private consumption started to recover from a weak base. However, consumption growth lagged substantially behind the expansion of real average wages by nearly 10%. Also a modest rise in employment and the strengthening of consumer confidence could not boost consumption. Instead, households bolstered their financial savings; however, the real value of savings was still lower in the first quarter of 2024 than before early 2022. Net real exports contributed 2.4 percentage points to the GDP growth rate despite weak export performance. The volume of exports continued to shrink in year-on-year terms amid weak foreign demand, but imports contracted even more.

In order to put the public budget on track for achieving the deficit target of 4.5% of GDP for 2024, the government announced the delay of various investment projects in April and September 2024. Furthermore, it decided to prolong the windfall taxes on banks, energy and retail companies into 2025. The financial transaction tax was raised and its base broadened (to cover foreign exchange conversions). However, fiscal consolidation is hampered by weaker than expected VAT revenues and high interest rates. Given the large and only slowly declining budget deficit, Hungary has been subject to an excessive deficit procedure since July 2024. Recommendations for the correction of the excessive deficit will follow toward the end of 2024.

Mandatory price discounts and remaining price caps by retail food companies were discontinued at the beginning of July 2024. This seems to have led to a temporary rise in food prices, which sent inflation above the upper end of the tolerance band around the inflation target (3% ± 1 percentage point) as set by Magyar Nemzeti Bank (MNB). Inflation fell again in August as the result of declining energy prices, reinforced by a base effect. Services price inflation decelerated over the reporting period but remained still much above headline inflation. Against the background of July inflation data, MNB's monetary council left its policy rate unchanged at its meeting in August 2024 for the first time since the rate-cutting cycle started in May 2023. The slowdown in inflation in August and the MNB's expectation of a further decline in September, together with monetary loosening in the US and the euro area and some improvement in the country's risk perception, allowed a 25-basis point rate cut in September.

Banking sector profitability improved markedly during the first half of 2024, mainly on the back of net trading income and dividends. Net interest income as a percentage of average assets remained unchanged amid declining interest rates, accelerating lending activity and the prolongation of the interest rate cap on mortgage loans to households until end-2024. Operating expenses decreased modestly as a percentage of average assets, in part due to the lowering of the extra-profit tax, while provisioning costs remained negligible given the continued decline in the NPL ratio.

Table 6: Main economic indicators: Hungary

Main economic indicators: Hungary

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	7.1	4.6	−0.9	−0.4	−0.0	1.1	1.5
Private consumption	4.6	7.1	−2.0	−1.9	0.6	3.8	4.1
Public consumption	1.8	2.9	1.2	5.1	−0.4	−1.0	−0.7
Gross fixed capital formation	5.7	1.4	−7.4	−10.7	−2.8	−6.9	−15.4
Exports of goods and services	8.3	11.4	0.9	−1.8	−4.1	−5.3	−1.8
Imports of goods and services	7.3	10.8	−4.3	−6.8	−8.4	−9.2	−3.2
	Contribution to GDP growth in percentage points						
Domestic demand	6.2	4.1	−5.8	−5.2	−4.3	−2.8	0.8
Net exports of goods and services	0.9	0.5	4.9	4.9	4.3	3.9	0.7
Exports of goods and services	6.5	9.1	0.8	−1.7	−3.8	−6.5	−1.5
Imports of goods and services	−5.6	−8.6	4.0	6.5	8.0	10.4	2.2
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	2.3	13.6	15.1	15.0	14.4	12.2	11.9
Unit labor costs in manufacturing (nominal, per hour)	−1.0	8.3	20.7	19.5	19.1	15.0	14.5
Labor productivity in manufacturing (real, per hour)	7.1	4.0	−2.0	−1.7	−3.1	−1.4	−3.3
Labor costs in manufacturing (nominal, per hour)	6.8	12.7	18.2	17.5	15.4	13.4	10.8
Producer price index (PPI) in industry	13.5	33.4	7.2	−1.7	−6.9	−4.9	0.0
Consumer price index (here: HICP)	5.2	15.3	17.0	14.6	7.6	3.6	3.7
EUR per 1 HUF, + = HUF appreciation	−2.0	−8.4	2.5	5.2	7.5	0.1	−4.8
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	4.1	3.7	4.2	4.1	4.5	4.7	4.4
Employment rate (%, 15−64 years)	73.1	74.4	74.8	75.0	75.0	74.7	75.1
Key interest rate per annum (%)[1]	1.1	8.0	12.8	13.0	12.0	9.9	7.6
HUF per 1 EUR	358.5	391.3	381.9	383.6	382.1	388.2	391.3
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	12.1	9.9	5.1	4.6	5.1	3.9	5.0
of which:							
loans to households	14.9	6.3	2.3	2.4	2.3	3.8	5.6
loans to nonbank corporations	9.9	12.6	7.2	6.2	7.2	4.0	4.6
Share of foreign currency loans in total loans to the nonbank private sector	20.3	23.3	25.9	25.8	25.9	27.7	28.3
Return on assets (banking sector)	0.9	0.7	2.0	2.1	2.0	2.6	2.5
Tier 1 capital ratio (banking sector)	18.1	17.5	18.0	17.2	18.0	17.3	17.7
NPL ratio (banking sector)	1.6	2.0	1.8	2.0	1.8	1.8	1.8
	% of GDP						
General government balance	−7.2	−6.2	−6.7				
Primary balance	−4.9	−3.4	−2.0				
Gross public debt	76.7	74.1	73.5				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	78.3	82.1	74.9				
Debt of households and NPISHs[2] (nonconsolidated)	20.5	18.3	16.7				
	% of GDP (based on EUR), period total						
Goods balance	−3.0	−9.1	0.0	0.6	−0.6	2.8	2.9
Services balance	3.1	4.4	5.0	5.9	4.2	4.8	5.0
Primary income	−3.2	−2.9	−3.2	−3.8	−3.2	−1.8	−3.2
Secondary income	−1.1	−0.9	−1.1	−1.2	−1.1	−0.5	−1.0
Current account balance	−4.1	−8.6	0.7	1.5	−0.6	5.4	3.7
Capital account balance	2.4	2.0	0.9	0.8	0.7	0.6	0.1
Foreign direct investment (net)[3]	−2.2	−2.8	−0.5	−2.6	−6.0	−1.6	4.7
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	87.1	92.4	85.9	88.5	85.9	85.4	85.9
Gross official reserves (excluding gold)	21.8	19.9	18.2	18.4	18.2	20.0	19.5
	Months of imports of goods and services						
Gross official reserves (excluding gold)	3.3	2.5	2.9	2.6	2.9	3.3	3.3

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

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = 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: fiscal policy supports growth while cost pressures calm down

Annual GDP growth accelerated to 4.4% in the second quarter of 2024, quarter-on-quarter growth to 1.5%. Both domestic demand (excluding inventory) and foreign demand contributed substantially to growth. Within domestic demand, private consumption started to grow in the first half of 2024, while public consumption continued its strong growth. In contrast, fixed-investment growth was markedly weaker after double-digit results in 2023. Real exports were weaker in early 2024 but expanded again in the second quarter. Total final demand had its strongest increase since 2022, and the same applies to real imports, which are driven by that aggregate.

Private consumption grew on the back of further improving consumer confidence and substantial increases in both the real wage sum and real gross retirement pensions, as nominal increases continued to be even stronger than past inflation while ongoing disinflation enhanced real disposable income. The slowdown in fixed-investment growth reflected lower public sector investment, with EU funds under the old framework no longer available and absorption under the new facilities not yet in full swing. Lower profitability in early 2024 led the corporate sector to postpone part of its investments. Residential investment shrank in the first quarter but recovered in the second in year-on-year terms, in tandem with housing loan growth and rising support by the government's new mortgage program.

The surplus of the goods and services balance declined somewhat in annual terms in the first half of 2024 to roughly 5.5% of GDP. The combined current and capital account surplus rose slightly to 1.7% of GDP, while net FDI inflows halved to 1.7% of GDP.

In the second quarter of 2024, the year-on-year rise of nominal unit labor cost (ULC) of manufacturing gross value added (GVA) slowed markedly, as hourly compensation rose less and the stronger GVA growth accelerated productivity increases. The resulting moderate ULC increase was smaller than in the euro area for the first time since early 2022. Yet, external price competitiveness remained almost unchanged as a result of nominal appreciation.

According to HICP (and national CPI) definition, annual headline inflation declined from 6.3% (6.4%) in the fourth quarter 2023 to 2.9% (2.5%) in the second quarter 2024 but rose to 4.0% (4.3%) in August 2024 as energy price-related measures were softened or phased-out by mid-2024. In contrast, core inflation declined from more than 7% to about 3.8% both in the second quarter and in August 2024. Nonenergy industrial goods showed particularly strong disinflation, and manufacturing PPI inflation continued to be negative.

The Monetary Policy Council (MPC), pursuing a medium-term CPI inflation target of 2.5% ± 1 percentage point, has maintained its main policy rate at 5.75% since October 2023. In early October, the MPC decided to keep interest rates unchanged, pointing at fundamentally justified appreciation of the zloty and expecting that – amid the current interest rates level – inflation should return to target.

In May, the European Commission staff forecast that the general government deficit would rise from 5.1% of GDP in 2023 to 5.4% of GDP in 2024. In 2024, the expenditure-to-GDP ratio will rise more than the revenue ratio, due to a further expansion of defense spending, higher support for families with children, and rising public sector wages, particularly for teachers. General government debt is forecast to rise from 4.96% of GDP at end-2023 to 53.7% of GDP at end-2024.

Table 7: Main economic indicators: Poland

Main economic indicators: Poland

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	6.9	5.6	0.2	0.8	1.4	1.4	4.4
Private consumption	6.1	5.5	−1.0	1.4	0.2	4.2	4.4
Public consumption	5.0	0.5	2.8	2.6	8.4	10.9	9.5
Gross fixed capital formation	1.2	2.7	13.1	10.9	17.0	−1.4	3.3
Exports of goods and services	12.3	7.4	3.4	4.9	3.8	0.4	4.9
Imports of goods and services	16.1	6.8	−2.0	−3.0	−0.8	−0.0	4.9
	Contribution to GDP growth in percentage points						
Domestic demand	8.0	5.1	−3.1	−4.0	−1.4	1.2	4.0
Net exports of goods and services	−1.1	0.6	3.3	4.8	2.9	0.3	0.4
Exports of goods and services	6.5	4.3	2.1	3.1	2.1	−0.1	2.7
Imports of goods and services	−7.6	−3.7	1.2	1.8	0.8	0.3	−2.4
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	0.7	7.3	13.4	10.9	12.6	12.0	7.5
Unit labor costs in manufacturing (nominal, per hour)	−4.6	2.2	11.7	12.5	10.5	11.7	8.4
Labor productivity in manufacturing (real, per hour)	12.9	8.4	−0.5	−0.7	0.8	1.4	2.5
Labor costs in manufacturing (nominal, per hour)	8.0	10.8	11.2	11.8	11.3	13.2	11.1
Producer price index (PPI) in industry	7.9	23.6	4.4	−2.0	−4.9	−11.2	−7.5
Consumer price index (here: HICP)	5.2	13.2	10.9	9.2	6.3	3.6	2.9
EUR per 1 PLN, + = PLN appreciation	−2.7	−2.6	3.2	5.4	7.0	8.6	5.5
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	3.4	2.9	2.9	2.8	3.1	3.2	2.7
Employment rate (%, 15−64 years)	70.4	71.5	72.4	72.4	72.7	72.3	72.3
Key interest rate per annum (%)[1]	0.3	5.3	6.5	6.6	5.8	5.8	5.8
PLN per 1 EUR	4.6	4.7	4.5	4.5	4.4	4.3	4.3
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	5.0	0.8	0.5	−0.8	0.5	1.1	2.8
of which:							
loans to households	4.2	−4.7	−1.9	−3.1	−1.9	0.2	1.6
loans to nonbank corporations	6.5	10.8	4.3	2.8	4.3	2.4	4.5
Share of foreign currency loans in total loans to the nonbank private sector	17.5	18.5	16.6	18.5	16.6	16.1	15.7
Return on assets (banking sector)	0.2	0.4	1.0	1.0	1.0	1.3	1.3
Tier 1 capital ratio (banking sector)	17.4	18.6	20.1	20.4	20.1	19.5	19.7
NPL ratio (banking sector)	5.8	5.5	5.4	5.7	5.4	5.3	5.1
	% of GDP						
General government balance	−1.8	−3.4	−5.1				
Primary balance	−0.7	−1.9	−3.0				
Gross public debt	53.6	49.2	49.6				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	43.2	40.7	38.8				
Debt of households and NPISHs[2] (nonconsolidated)	32.0	26.5	24.7				
	% of GDP (based on EUR), period total						
Goods balance	−1.3	−3.4	0.6	0.2	−0.4	1.1	−0.2
Services balance	4.6	5.5	5.2	5.3	4.5	4.9	5.0
Primary income	−4.4	−4.0	−3.8	−3.9	−2.6	−2.8	−4.2
Secondary income	−0.2	−0.4	−0.3	−0.6	−0.0	−0.8	−0.3
Current account balance	−1.4	−2.3	1.8	1.0	1.5	2.4	0.3
Capital account balance	0.8	0.2	0.2	1.5	0.7	−0.5	1.2
Foreign direct investment (net)[3]	−4.0	−4.2	−2.4	−4.3	0.9	−3.0	−0.4
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	56.1	52.9	51.4	51.4	51.4	51.7	51.2
Gross official reserves (excluding gold)	23.4	21.9	20.5	20.8	20.5	21.2	21.3
	Months of imports of goods and services						
Gross official reserves (excluding gold)	5.2	4.3	4.7	4.6	4.7	5.0	5.2

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

[1] *Foreign currency component at constant exchange rates.*
[2] *Nonprofit institutions serving households.*
[3] *+ = 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: growth slows and becomes unbalanced, revealing urgent need for fiscal correction

Romania's GDP grew only modestly in the first half of 2024. Compared to 2023, the growth structure changed, as private consumption became the main growth driver. Real wage growth stayed high, supported by hikes in minimum wage and public sector wage. Gross fixed capital formation continued to contribute positively to growth, but to a noticeably lower extent than in 2023. Construction output, that rose strongly in 2023 supported by EU funds, declined year on year in the first quarter of 2024, followed by a faint recovery in the second quarter. Greenfield investment projects and investments in the area of green transition (e.g. electricity storage) were important pillars to maintain overall positive growth of gross fixed capital formation. The growth of domestic credit to households accelerated but remained below the growth of credit to nonfinancial corporations (despite some deceleration in the latter). The negative contribution of net exports deepened, as imports expanded in response to vivid domestic demand, while exports declined amid weak external demand. The export decline is also mirrored in weak industry and ICT sector data. The rise in unit labor costs in the manufacturing sector slowed but remained sizable alongside an only slight depreciation of the leu vis-à-vis the euro.

The imbalanced growth pattern is also reflected in a noticeable widening of the deficit in the goods and services balance and in turn also in the current account deficit. The net borrowing position from current and capital account (including EU fund inflows) deteriorated to 6.6% of GDP in the first half of 2024, of which only a quarter was covered by net FDI inflows in the first half of 2024. Under the Recovery and Resilience Facility, the disbursement of the third tranche, for which a request was made in December 2023, remained pending, as some conditions still remained unfulfilled. Substantial portfolio investment net inflows acted as the main source of external financing. These were largely related to sovereign Eurobonds issued to finance the hefty budget deficit.

In the election year 2024, the budget deficit is set to widen from the already high level recorded in 2023. Romania has been subject to an excessive deficit procedure since 2020. According to a Council recommendation adopted in June 2021, Romania should have brought the deficit down to 2.9% of GDP this year. In July, the Council of the European Union established that no effective action has been taken by Romania in response to the Council recommendation of 2021. It concluded that Romania's fiscal efforts fell significantly short of what had been recommended by the Council. In August, Romania's government announced that it proposed a 7-year transition period to bring the deficit below 3% of GDP. In early September, the government approved a package to improve revenue collection including a tax amnesty scheme. Afterward, in the framework of the first budget revision, the budget deficit (in cash terms) was revised upward to 6.9% of GDP from 4.9% of GDP under the original budget plan. Romania's Fiscal Council sees the budget gap rising to 8% of GDP after the budget revision.

Consumer price inflation came down slowly to 5.1% in August. Citing disinflationary trends, the National Bank of Romania cut its key policy rate in two steps of 25 basis point each, lowering it from 7% to 6.5%. It expects inflation to return to slightly below the upper bound of the target band (2.5% ± 1 percentage point) next year.

Table 8: Main economic indicators: Romania

Main economic indicators: Romania

	2021	2022	2023	Q3 23	Q4 23	Q1 24	Q2 24
	Year-on-year change of the period total in %						
GDP at constant prices	5.7	4.1	2.1	3.6	1.1	2.1	0.7
Private consumption	7.2	5.8	2.8	1.5	3.3	5.4	9.4
Public consumption	1.8	−3.3	6.0	8.8	8.1	−5.5	0.8
Gross fixed capital formation	2.9	5.9	14.4	11.4	17.1	8.2	3.4
Exports of goods and services	12.6	9.7	−1.4	−3.4	−4.1	1.8	−3.1
Imports of goods and services	14.8	9.5	−1.4	−8.1	−0.4	4.8	7.5
	Contribution to GDP growth in percentage points						
Domestic demand	7.2	4.6	2.1	1.0	2.4	3.5	5.4
Net exports of goods and services	−1.5	−0.5	0.1	2.7	−1.3	−1.4	−4.7
Exports of goods and services	4.6	3.9	−0.6	−1.4	−1.6	0.3	−1.5
Imports of goods and services	−6.1	−4.4	0.7	4.1	0.3	−1.7	−3.2
	Year-on-year change of the period average in %						
Unit labor costs in the whole economy (nominal, per person)	1.4	8.6	14.6	12.7	17.6	19.7	18.2
Unit labor costs in manufacturing (nominal, per hour)	3.9	11.7	18.0	15.8	14.6	15.5	13.9
Labor productivity in manufacturing (real, per hour)	2.8	1.0	−1.7	−1.0	1.6	−0.7	−0.7
Labor costs in manufacturing (nominal, per hour)	7.0	12.7	16.1	14.7	16.5	14.7	13.1
Producer price index (PPI) in industry	14.9	43.6	4.6	−2.3	−4.8	−6.7	−1.3
Consumer price index (here: HICP)	4.1	12.0	9.7	9.1	7.4	7.1	5.8
EUR per 1 RON, + = RON appreciation	−1.7	−0.2	−0.3	−0.7	−1.0	−1.1	−0.5
	Period average levels						
Unemployment rate (ILO definition, %, 15−64 years)	5.6	5.6	5.6	5.4	5.9	5.3	5.0
Employment rate (%, 15−64 years)	61.9	63.0	63.1	63.3	63.0	64.2	64.4
Key interest rate per annum (%)[1]	1.4	4.3	7.0	7.0	7.0	7.0	7.0
RON per 1 EUR	4.9	4.9	4.9	4.9	5.0	5.0	5.0
	Nominal year-on-year change in period-end stock in %						
Loans to the domestic nonbank private sector[1]	14.2	12.1	6.0	4.4	6.0	4.6	6.4
of which:							
loans to households	9.3	4.3	1.2	0.1	1.2	3.3	5.7
loans to nonbank corporations	19.8	20.0	10.4	8.4	10.4	5.7	7.0
Share of foreign currency loans in total loans to the nonbank private sector	27.6	31.1	31.6	31.9	31.6	31.1	30.9
Return on assets (banking sector)	1.4	1.5	1.8	1.9	1.8	1.8	1.8
Tier 1 capital ratio (banking sector)	20.9	20.5	20.7	19.2	20.7	20.1	21.1
NPL ratio (banking sector)	3.4	2.7	2.4	2.6	2.4	2.4	2.5
	% of GDP						
General government balance	−7.2	−6.3	−6.6				
Primary balance	−5.6	−4.8	−4.6				
Gross public debt	48.5	47.5	48.8				
	% of GDP						
Debt of nonfinancial corporations (nonconsolidated)	33.2	30.6	28.7				
Debt of households and NPISHs[2] (nonconsolidated)	15.7	13.9	12.4				
	% of GDP (based on EUR), period total						
Goods balance	−9.6	−11.3	−8.9	−8.2	−8.9	−9.3	−10.3
Services balance	3.9	4.6	4.2	3.5	3.3	4.3	3.7
Primary income	−2.0	−3.0	−2.7	−3.3	−2.2	−2.3	−3.0
Secondary income	0.4	0.5	0.5	0.5	0.7	1.4	0.2
Current account balance	−7.2	−9.2	−7.0	−7.6	−7.1	−5.9	−9.4
Capital account balance	2.2	2.5	2.1	3.4	2.0	1.4	0.7
Foreign direct investment (net)[3]	−3.7	−3.1	−2.0	−3.1	−1.1	−3.5	0.1
	% of GDP (rolling four-quarter GDP, based on EUR), end of period						
Gross external debt	56.5	50.7	52.5	52.0	52.5	52.5	52.5
Gross official reserves (excluding gold)	16.8	16.4	18.4	19.0	18.4	19.5	19.1
	Months of imports of goods and services						
Gross official reserves (excluding gold)	4.3	3.9	5.0	5.0	5.0	5.4	5.4

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

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = 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).

Address: Otto-Wagner-Platz 3, 1090 Vienna
PO Box 61, 1011 Vienna, Austria
Website: www.oenb.at

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