Outlook for Selected CESEE Countries:

Moderate but Firming Growth[1,2]

1 CESEE-7[3]: Both External and Domestic Demand Will Pick Up

In the CESEE-7 region, economic growth will accelerate to 2.5% in 2014, following a rather weak 1.3% expansion of GDP in 2013. Growth will strengthen further over the projection horizon on the back of recovering domestic demand and against the backdrop of gradually improving external conditions. Apart from Croatia, all countries in the region will post positive growth rates in 2014. Two years ahead, in 2016, Bulgaria, the Czech Republic, Poland and Romania will grow at or above 3%, while the growth rate recorded by Hungary and Croatia will stay closer to 2%. As the growth differential to the euro area will range from 1.1 to 1.4 percentage points in this period, the catching-up process of the CESEE-7 region will resume at a moderate pace.

Strain from fiscal policy recedes

We expect economic growth to gain traction over the projection horizon. Higher growth is fostered by a slightly accelerating recovery in external demand and improved domestic conditions as a result of strongly reduced external imbalances and past fiscal consolidation efforts. Looking ahead, only Croatia is expected to pursue consolidation further, as it is under an excessive deficit procedure (EDP). In Bulgaria, expansive election-related fiscal policy changes in the previous year imply a more cautious stance this year. While Romania will show some consolidation under the precautionary support program, the growth impact will nevertheless be limited. A notable slackening compared with previous consolidation efforts is expected to be seen in the Czech Republic under the new government. The elections in Hungary are likely to have caused some slippage in 2014, but this will not lead to a tighter stance in the remainder of the year. This translates into a neutral fiscal policy compared with the recent past. Still, the growth contribution of public

Table 1

GDP Projections for 2014 to 2016

	GDP	GDP forecasts			Imports	Import forecasts		
	2013	2014	2015	2016	2013	2014	2015	2016
	Annual growth in %							
CESEE-7	1.3	2.5	2.9	3.1	2.5	5.0	6.4	6.7
Bulgaria	0.8	1.8	2.5	3.5	5.7	4.7	4.6	4.6
Croatia	–0.8	–0.6	0.7	1.7	–1.8	–1.1	2.0	2.0
Czech Republic	–0.9	2.5	2.7	3.3	0.6	5.6	7.4	7.4
Hungary	1.2	2.0	2.4	2.4	5.3	4.7	4.9	5.0
Poland	1.5	3.0	3.4	3.4	1.9	5.2	6.9	7.7
Romania	3.5	2.5	2.7	2.9	2.3	5.0	6.9	7.5
Russia	1.3	0.5	1.0	2.0	6.0	–2.0	2.0	3.0

Source: OeNB, BOFIT, Eurostat, Rosstat.

[1] *Compiled by Julia Wörz with inputs from Stephan Barisitz, Markus Eller, Mathias Lahnsteiner, Isabella Moder, Thomas Reininger, Tomáš Slačík and Zoltan Walko.*

[2] *Cutoff date for all projections: April 4, 2014. The projections for the CESEE-7 countries were prepared by the OeNB, those for Russia were prepared by the Bank of Finland in cooperation with the OeNB. Lithuania is not covered by our projections, but is included in the CESEE-7 aggregate based on the IMF World Economic Outlook (WEO) of April 2014.*

[3] *CESEE-7: Bulgaria, Croatia, the Czech Republic, Hungary, Lithuania, Poland, Romania.*

consumption will decline over the projection horizon in the Czech Republic, Hungary and Poland, while it will flatten in Bulgaria and Romania. Croatia is an exception due to rather severe consolidation under the EDP.

In addition, low inflation leaves room for a rather accommodative monetary policy stance. In response to utility price cuts, Bulgaria has experienced some deflation recently, which is expected to be short lived, however. Given a record harvest in 2013, the low price base in Romania will possibly lift inflation somewhat in 2014, but this effect will be temporary. In Hungary, recent and forthcoming utility price cuts will keep inflation low. In the Czech Republic, inflation may rise in 2014 beyond the inflation target due to base effects. However, the central bank is set to return to its inflation target in 2015. In other words, in particular the Czech Republic and Hungary will maintain a loose policy stance this year, but Bulgaria and Croatia will remain accommodative, too. The Romanian central bank has recently lowered interest rates and is not expected to reverse this move in the short run.

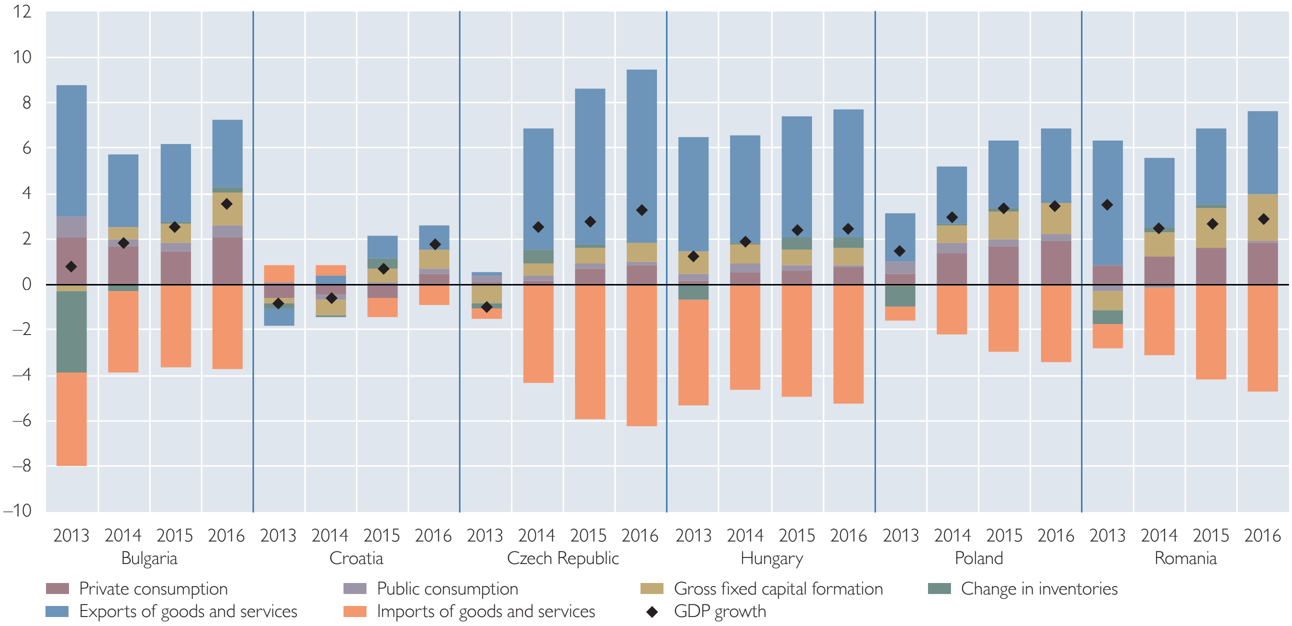
Exports and private consumption will lead the recovery, followed by investments

In all three years, firming domestic and external demand will be a key growth driver (see chart 1). In particular private consumption will experience a strong pickup already in 2014 and thus lead the recovery. The growth contribution of private consumption will rise gradually in all countries apart from Bulgaria. There, some base effects materializing this year will temporarily (i.e. in 2014) reduce the growth contribution. Still mired in recession, Croatia will show a further decline, and hence a negative growth contribution, of private consumption in 2014 and 2015. In sharp contrast, in the Czech Republic and Romania, real wage growth spurs consumption growth.

Chart 1

GDP and GDP Components, Projections for 2014–2016

Contribution of GDP components in percentage points; annual growth in %



Source: OeNB.

As the region is finally emerging from a prolonged period of destocking and low or negative investment, a growing need for inventory buildup and replacement investments has emerged. In 2014 and 2015, the use of remaining and yet-to-be-disbursed EU funds from the 2007–2013 multiannual financial framework will also add to public investment growth. In Hungary, the Funding for Growth Scheme will lift gross fixed capital formation in 2014 notably above the level it would have attained in the absence of such a program, but a base effect from the previous year causes investments to recede slightly in year-on-year terms. In addition to these cyclical effects, gross fixed capital formation will – albeit with a small time lag – satisfy production needs for external and internal demand. Overall growth in gross fixed capital formation will accelerate notably over the three-year horizon and therefore emerge as an increasingly important growth driver. An additional boost will come from increased EU funds utilization, which is expected to rise continuously until 2016.

Thanks to a moderate but steady recovery in the external environment, export growth will likewise attain solid growth rates again. This will, in 2014, result in a sizeable positive contribution to GDP growth in almost all countries. Export growth will range from a meager 1% in Croatia to as much as 6.7% in Romania in 2014. At 6.1%, the Czech Republic likewise posts strong export growth. Croatia's recent EU accession has changed the institutional environment, with previously important CEFTA trading partners substituting away from Croatian goods. As Croatian exporters are not yet sufficiently competitive for the EU market, weak trade creation ensues – an effect that is likely to prevail for some time. In contrast, the Czech Republic has traditionally been affected most severely by changes in export demand from the euro area and is hence quick to respond to the reviving external environment. Moreover, intra-CESEE trade is becoming ever more important, adding to the dynamics. Despite posting solid export growth, Bulgaria, Hungary and Romania will show a modest, temporary growth slowdown this year compared with 2013, which is primarily related to statistical effects. The rather weak performance in 2012 has resulted in a sizeable base effect in 2013. In 2014, the growth contribution of exports will range between 0.4 percentage points in Croatia and 5.3 percentage points in the Czech Republic. In most countries, weakening currencies will support dynamic export growth up to 2016. In Hungary, a large new production capacity for automotive goods has been established, boosting Hungary's supply potential. Over 2015 and 2016, export growth will accelerate further to above 7% in the Czech Republic and Romania and to almost 7% in Poland. In Croatia, export growth will be at 2.5% in 2016, whereas it will reach between 4% and 5% in the remaining countries under review.

All countries (Croatia probably less so) are well integrated into wider European production chains[4] and hence show a strong export-import link. Combined with reviving domestic demand, imports accelerate at a fast pace as well. In consequence, the growth contribution of net exports will recede in the period from 2014 to 2016 and turn slightly negative in three countries by 2016 (Bulgaria, Poland and Romania).

[4] *See for example the "IMF Multi-Country Report: German-Central European Supply Chain – Cluster Report," IMF Country Report No. 13/263 from August 2013.*

Downside risks have risen considerably

The risks to our CESEE-7 projections show a considerable downward bias arising foremost from political uncertainties related to Russia and Ukraine. A further escalation of recent tensions in these two countries would entail severe negative spillovers to the CESEE-7 region, both directly – given their strong dependence on energy imports from Russia, other trade and financial linkages as well as potentially higher global oil prices – and indirectly through the implications of such a scenario for developments in the euro area and in other emerging markets. Lower-than-expected growth in China and Turkey and a general increase in global uncertainty would dampen growth prospects in the CESEE-7 countries. Further downside risks relate to the euro area, where additional fiscal consolidation and stronger-than-expected deleveraging by euro area banks (both in the euro area and in the CESEE-7) might result from a possible negative outcome of the forthcoming asset quality review and stress testing exercise covering EU banks. This would, in turn, lower external demand from the euro area and impact negatively on domestic demand in the CESEE-7 region. We do not expect any adverse consequences from the U.S. Fed's tapering of quantitative easing in the region, as capital inflows have been very moderate in recent years and all countries have substantially reduced their precrisis imbalances. Hence, apart from indirect effects through global repercussions, a less accommodative monetary policy outside the euro area is not expected to pose a risk for the region.

Upside risks emanate from a successful completion of the asset quality review in the euro area, which might lead to rising credit availability over the projection horizon, and, more generally, from stronger-than-expected growth in the euro area.

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

Bulgaria: Moderate recovery will gain momentum gradually

After another year of relatively benign GDP growth in Bulgaria of 0.8% in 2013 (seasonally and working day adjusted), we forecast a moderate acceleration to 1.8% in 2014. The gradual recovery process should continue in 2015 and 2016, with growth reaching 2.5% and 3.5%, respectively.

Resurging private investment and private consumption are the main drivers of this recovery. In addition, slightly positive GDP growth contributions stem from stock replenishment (after a long period of destocking) and public consumption (though not as significant as in 2013). On the other hand, net exports are expected to put a certain strain on GDP growth, as the expansion of domestic demand will also stimulate additional imports. However, despite improved external conditions, exports are not poised for an exceptional takeoff during the forecasting horizon (e.g. because the euro as the Bulgarian anchor currency is expected to appreciate) and the negative contribution of net exports will thus be kept in check.

In 2014, domestic demand is expected to resurge on the back of last year's social legislation changes, most of which materialize this year, such as the increase of minimum wages by nearly 10% (effective from January 1, 2014) or the renewed indexation of pensions (that, after a three-year freeze, rise by a weighted average of productivity and inflation). Moreover, the decline in price levels evident since August 2013 should stimulate private consumption as long as it is only a temporary deflation episode, which can to a large extent be explained by the rollback of electricity tariffs in 2013 and should therefore expire later this year.

A more pronounced economic recovery during the forecasting horizon is basically hampered by still unsettled legacies of the crisis. Unemployment (more than half of which is currently accounted for by long-term unemployment) is expected to remain elevated due to structural factors. There are no clear signs that the credit cycle will turn soon; credit for both enterprises and households could experience a prolonged period of stagnation, also on the back of fairly high nonperforming loan (NPL) ratios. It is also questionable whether the downward trend for net FDI inflows can be stopped as long as intercompany lending remains in the doldrums.

On the positive side, the incumbent government tries to implement several growth-promoting policies during the forecasting horizon, including extra public investment spending and measures targeting education, vocational training, resource efficiency, SME assistance or the promotion of EU-funded projects. However, given rather optimistic tax revenue projections and additional social spending, the public sector will be forced to remain fiscally prudent to keep the budget deficit below the targeted 2% of GDP ceiling and/or to rebuild some fiscal buffers.

Croatia: Recovery delayed by another year

As both the third and the fourth quarter of 2013 again posted negative year-on-year growth rates, we have to revise our forecast for 2014 downward considerably, namely by 1.6 percentage points to –0.6%. We therefore anticipate a recession for the seventh consecutive year. Moreover, we expect consumption to remain in negative territory for several reasons: First, labor market conditions have worsened further recently. Additionally, deleveraging is still under way. Also, we assume public consumption to contribute negatively to overall growth in view of the current austerity plans of the government aimed at bringing the public deficit below the 3% of GDP mark until 2016 in accordance with the EDP. Despite the accessibility of EU funds, we assume that investments will decline, especially because of continued credit contraction and the high level of NPLs. Overall, EU accession has not yet resulted in sufficient restructuring in the economy.

In our forecast, the only positive contribution to growth in 2014 will be from net exports, since we expect exports to rise in line with the recovery in the euro area and further favorable developments in the tourism industry. The positive contribution of net exports is also supported by decreasing imports given suppressed domestic demand.

From 2015 onward, we expect a gradual recovery on the back of increasing domestic demand. We project GDP to grow by 0.7% and to be supported by investments materializing from EU funds as well as by a pickup in credit growth, and a slightly positive contribution of net exports traceable to a stronger rise of exports than imports. Private consumption will, however, remain in negative territory. Further ahead, growth should accelerate to 1.7% in 2016, as preceding investment will start to pay off, new investments will be made and private consumption will finally turn positive again due to improving labor market conditions. As imports will pick up simultaneously to domestic demand, we expect the contribution of net exports to be only marginal.

Apart from the risks outlined for the region as a whole, domestic risk factors are skewed to the downside. Planned austerity measures could affect growth more strongly than currently anticipated, or, even worse, spill over to private consumption and drag it down further. Also, the pickup of investments from 2015 onward could be weaker than expected relating to problems in EU funds utilization or ongoing frictions in the credit market.

Czech Republic: Recovery under way

Spurred by eased monetary and fiscal conditions, recovering export demand and improving consumer and investor sentiment, the Czech economy is expected to expand by 2.5% in 2014, while GDP growth should gradually strengthen thereafter (+2.7% in 2015 and +3.3% 2016). The contribution of both domestic demand and net exports is forecast to increase over the projection horizon.

The frail recovery was given a surprisingly strong boost in the last quarter of 2013 (1.9% quarter on quarter), not only by net exports on the back of the recuperating euro area but, most notably, also by strong gross fixed capital formation and, to a lesser extent, by private consumption. All three major contributing channels were stimulated by the ČNB's decision in early November to intervene against the Czech koruna. The depreciation by approximately 5% not only helped exporters but most likely also encouraged investors and consumers to bring their investment and consumption decisions forward in anticipation of higher import prices. This effect may have continued to some extent also into early 2014. The ČNB, which intends to intervene against the exchange rate until early 2015, hopes that the intervention will boost the Czech economy through various channels also in the medium run. The rise in import prices might redirect households' demand toward domestic goods and services. At the same time, Czech exporters' higher profitability resulting from the weaker exchange rate could raise their willingness to invest, keep and even create jobs and increase wages. These factors would, in turn, boost households' purchasing power and consumption.

Our forecast does not really account for these indirect effects as they are based on certain behavioral assumptions which may or may not materialize. Nevertheless, we believe that as the short-term impact of exchange rate devaluation subsides, private consumption will increasingly benefit from improvements in real disposable income due to moderately accelerating wage growth (including pensions and minimum wages), the low inflation environment and the stabilization in the labor market over the forecast horizon. Consumer sentiment seems to confirm this, which – some setbacks notwithstanding – has now been rising significantly for nearly a year.

In a striking divergence from the austerity focus of the last (elected) administration, the new coalition government signals a strong pro-growth orientation in combination with fiscal prudence. Growth in government consumption is likely to remain strong over the forecasting period, due to, inter alia, the government's plans to support active employment policies or to the envisaged increase in the public sector wage bill. Gross fixed capital formation is forecast to strengthen not only on account of rebounding public investment, but also owing to the prospect of economic revival in the euro area and firming private consumption. In addition, in the first three quarters of 2014, gross fixed capital formation will benefit from the base effect triggered by strong declines in investment activity over the same period in 2013. On the other hand, the recovery in investment activity will be partially dampened by still rather feeble corporate credit growth. Low inflation, solidifying external demand and the weaker exchange rate will lift the contribution of net exports to growth. At the same time, however, this effect will be counteracted by the gradual recovery in import-intensive domestic demand.

Beyond the downward risks from the external environment, in particular related to developments in Russia and Ukraine, also domestic risks are tilted to the downside. The beneficial effects of the weakened exchange rate could prove more short lived than implied by our baseline forecast.

Hungary: Policy-supported growth

In 2013, Hungarian GDP grew at a faster pace than expected (1.2%), largely due to a stronger-than-expected increase in investments and public consumption and a bigger contribution of net real exports as exports had expanded more dynamically than projected in fall. For 2014, we expect growth to pick up speed and come to 2%. Private consumption will be supported by improving consumer confidence, easing credit supply conditions, rising real wages and employment growth. The latter will be traceable mostly to the expansion of the public works scheme, the increasing number of frontier workers and a move of workers from the gray economy into official employment. The increase in real wages comes on the back of substantial wage hikes in parts of the public sector (education and healthcare sectors) and strengthening wage growth in the private sector, combined with the significant decline in inflation (not least owing to further administrative cuts in household utility prices).

Investment growth is expected to slow somewhat following the base effect-supported expansion in 2013. Gross fixed capital formation will nonetheless remain strong on the back of increasing capacity utilization rates, improving business confidence, higher absorption of EU funds and easing credit supply conditions. Additional support comes from the extension of the MNB's Funding for Growth Scheme and substantial policy rate cuts. Public consumption is expected to receive some uplift from the election cycle in 2014 (parliamentary elections in April, local elections in the fall). We expect export growth to ease slightly more strongly than import growth and, by extension, the contribution of net real exports to be roughly zero. After two years of contraction, we expect stock changes to be roughly neutral for the overall growth rate.

In 2015 and 2016, we project growth to accelerate to around 2.4%. Private consumption is expected to strengthen further on the back of better access to credit, alongside with wage and employment growth. Investment growth may fall back somewhat in 2015 as the MNB's Funding for Growth Scheme is discontinued, but post a cyclical recovery in 2016, supported by the easing of credit constraints, by EU funds and increasing capacity utilization. Government consumption is likely to expand at a decreasing pace given the tight limits for fiscal policy. Exports should accelerate at a faster pace than imports, so that net real exports are likely to make a somewhat more positive contribution to GDP growth.

An upside risk to these projections arises from potential further policy measures to lower households' debt servicing burden (following the April 2014 parliamentary elections), which may support disposable income growth beyond expectations.

Poland: Export-led recovery turns into balanced growth

In Poland, annual average growth in 2014 will amount to roughly 3%. The current upswing has been clearly export led, with export growth having accelerated to 5.1% in 2013 (after 3.3% in the previous year). This is even more remarkable as extra-euro area imports continued to contract in the euro area and German imports remained subdued at about 1%, but accelerated in the fourth quarter of 2013. Poland's continued robust export performance reflects geographical reorientation as well as high cost competitiveness, given favorable ULC developments in the manufacturing sector and the hitherto absence of marked reappreciation of the złoty. Moreover, we assume that the impressive Polish export growth figure for 2013 to some extent already reflects early effects of the solid recovery of both total euro area imports and German imports as forecast for 2014. Taking into account such early effects and recent downward revisions of economic growth in Russia, we expect only a modest further acceleration of Polish export growth in 2014 to 5.6%, which is rather on the conservative side given the projected improvement in the euro area.

Overall, roughly half of total final demand growth will come directly from exports, while the other half will stem from domestic demand that will be largely induced by exports. The translation of foreign demand into investment will gain in importance during 2014. First, inventory change will cease to be negative as some restocking takes place. Second, the positive outlook for foreign and domestic demand, the favorable liquidity position of enterprises and the already high capacity utilization rates of manufacturing imply that current demand impulses by exports will lead to gross fixed capital formation by the private sector, as signaled already by business sentiment indicators. Moreover, the narrowing window to get disbursements from the EU multiannual fiscal framework 2007–2013 may foster semi-public sector fixed investment. Both exports and investment will help private consumption gain momentum, via confidence channels and the labor market, and will be additionally supported by low inflation.

As a result, both exports and strengthening domestic demand will increase imports, with import growth accelerating more strongly than export growth, while still remaining at a lower level. The contribution of net exports to GDP growth will decrease but remain positive.

In 2015, we expect GDP to augment by 3.4%. As before, export growth will be underpinned by both euro area and German imports, whose growth will once again pick up considerably. The translation of the foreign stimulus into domestic growth will ensure that a balanced growth structure is maintained. Both foreign and domestic demand will contribute, roughly in equal proportions, to total final demand. On the back of improvements in the labor market, private consumption will gain in importance, both directly and as a factor stimulating private investment. Private consumption growth will, however, still remain below GDP growth, signaling a sound growth structure. Gross fixed capital formation growth will accelerate. In addition to the factors prevailing already in 2014, household residential investment will play a larger role. As a result, imports will continue to expand more dynamically than exports, so that the former will outpace the latter on average in 2015 and the contribution of net exports to GDP growth will turn neutral.

Romania: Exports remain robust, domestic demand strengthens

Posting the highest postcrisis growth rate in 2013 (3.5%), Romanian economic activity is expected to slow down to 2.5% in 2014. Growth in 2013 was to a large extent driven by a bumper harvest, with agriculture delivering a growth contribution of 1.1 percentage points. Yet, agricultural output is rather volatile and cannot be seen as a sustainable growth driver.

While export growth will remain robust thanks to the euro area recovery, we only expect a slow and gradual strengthening of domestic demand. Increasing private consumption will be driven by rising disposable income made possible by targeted public sector wage hikes and moderate real wage growth in the private sector. Romania’s export performance is likely to have a positive impact on the labor market and on wage growth. However, given sizeable and still growing nonperforming loans and cross-border deleveraging of foreign banks, a pickup of credit growth is not yet in sight, which will only allow for a gradual recovery of private consumption. In light of the ongoing fiscal consolidation under the precautionary support program, we do not expect major growth impulses from public consumption.

Growth in gross fixed capital formation will be supported by a continuously improving absorption of EU structural and cohesion funds. Moreover, the euro area recovery will have a positive impact on economic agents' confidence and, in turn, on investment activity. The brightening of the external environment will also help lift FDI inflows. Once the credit cycle turns, we expect growth of private consumption and gross fixed capital formation to pick up speed in 2015 and 2016. Strengthening domestic demand will result in a rebound of imports, which will almost neutralize the contribution of export growth in 2014 and result in net exports becoming negative from 2015.

3 Russia: Crimean Crisis Puts Russian Recovery at Risk

In Russia, business activity will slow further to ½% in 2014 despite a pickup in global economic growth and world trade, as investments are being postponed because of the Crimean crisis. GDP growth of 1.3% in 2013 undershot forecasts by a margin stemming from a tangible slowdown in domestic demand. Amid a continuation of the global economic recovery, growth in Russia will probably pick up again slightly, but remain at low levels (2015: 1%; 2016: 2%).

We expect economic growth to slow further this year (to between 0% and 1%) and thus to almost stagnate. Growth is supported by recoveries in the global economy and in world trade, but is constrained by a slight decline of the oil price. In any case, these impacts are secondary compared with the rise in uncertainty triggered by the events in Crimea, even if the repercussions remain relatively contained both with respect to market reactions and possible sanctions and counter-sanctions. This uncertainty will reduce private investments. As a result of base effects related to the 2014 Olympic winter games in Sochi, public investments declined strongly in the second half 2013 and continue to be low in the first half of 2014. If this marked contraction in fixed capital formation of state-owned companies and the state seen in 2013 can be halted, investments will possibly recede only moderately in 2014 as a whole. Growth in private consumption will slow substantially, in part due to the weakening ruble. No increase in public consumption is likely and export growth will be tepid. Imports will contract slightly in 2014 (by around 2%) as the slide of the ruble in early 2014 has been steeper than that during 2013.

In 2015 and 2016, Russian economic growth will recover a bit as global growth is firming. This weak recovery will be driven by private consumption in 2015, and, in 2016, in equal measure, by gross fixed capital formation and private consumption. However, growth in Russia will remain at about 1½% per annum owing to the lingering impact of the geopolitical tensions and to the projected gradual decline of the oil price (by 10% to 11% over the forecast period 2014–2016). Even this rate of economic expansion will only be reached provided geopolitical tensions remain contained and do not mount further. After their dip in 2014, imports should return to low single-digit year-on-year growth rates. Import growth should not face strong headwinds given that the ruble is not expected to depreciate substantially in real terms. After all, Russian inflation is running well above the inflation rates of the country's main trading partners. The nominal exchange rate of the ruble will gradually decline as the current account surplus disappears and the direction of net capital flows remains outbound.

Yet, this forecast is subject to exceptional downside risks. The fallout of the events in Crimea could be more pronounced than assumed in our forecast, particularly with regard to investor reactions. Also, tensions between Russia and Ukraine could intensify and trigger even more capital flight and sanctions. Even without these complications, domestic uncertainty surrounding private and public capital formation already poses significant risks to the forecast. If the above risks were to materialize, Russian economic growth in 2014 could fall well short of our forecast. Lower-than-forecast world economic growth would impact Russian exports of energy and other basic commodities. Marked depreciation episodes of the ruble, provoked, for instance, by higher-than-expected capital outflows, would fuel inflation, depress consumption and curtail imports more strongly than forecast.

Substantial stimulus measures that might yet be undertaken in Russia pose upside risks. The government has plenty of leeway to take on additional government debt. If necessary, economic stimulus could also be given through the banking sector, particularly via state-owned credit institutions.