

PRESS RELEASE

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**New wiiw forecast for Central, East and Southeast Europe, 2016–2018.**

**Growth stabilises: investment a major driver, except in countries plagued by recession**

GDP growth in the EU Member States of Central and Eastern Europe (EU-CEE), the Western Balkans (WB) and Turkey will remain stable or even increase. The trend growth path will be around 3%. EU-CEE countries will thus continue to catch up to the EU average, however at low speed. Russia and Ukraine, on the other hand, will show a considerably worse performance: growth will return in 2017 at the earliest. These are the main results of the newly released medium-term macroeconomic forecast by the Vienna Institute for International Economic Studies (wiiw).

In 2015, the EU-CEE group registered the highest rate of economic growth since the outbreak of the financial crisis, 3.4% (see Table 1). In 2016-2017 the group will experience some modest growth deceleration on account of the recent consumption boom subsiding and a temporary decline in EU transfers. As for 2018, the EU-CEE countries will pick up some speed driven by an inflow of new investments and transfers. Uncertainties concerning the global economy do not allow us to predict average growth of more than 3% over the medium term.

Countries in the Western Balkans also improved their performance in 2015 and will maintain positive growth rates in 2016 and beyond. However unimpressive it may be, compared to their need for catching-up, the average growth rate in the WB countries (excluding Serbia) will not lag behind that in the EU-CEE countries. Turkey will maintain a 'fragile stability' despite relatively high inflation and a high current account deficit, while coping with increasing challenges emerging, for instance, from the war in Syria, the refugee crisis and the loss of export and tourism revenue owing to the Russian trade sanctions.

Russia and Belarus will face yet another year of recession in 2016. Russia will continue to suffer from low oil prices, high inflation, currency depreciation, sanctions and fiscal austerity. As usual, structural change and institutional reforms will be slow and half-hearted, incapable of offsetting the losses. Ukraine's economic growth, after the dramatic fall over the past years, will stabilise as the economy will by and large have completed the adjustment process that was triggered by the country decoupling from Russia and the occupied territories. The Russian annexation of the Crimea and the conflict in East-Ukraine look set to last. Export markets lost will not be regained even in the medium term, nor should one expect the volume of exports to the EU to make up for the shortfall quickly.

The divergence of economic performance between the EU-CEE and the WB plus Turkey on the one hand and the CIS-3 (Russia, Belarus, Kazakhstan) and Ukraine on the other hand will continue in 2016 and beyond. The difference between the two large country groups, however, will not take on more pronounced dimensions as the recent collapse of the major commodity prices may turn into stagnation.

**The leading role attributed to household demand in driving economic growth in the EU-CEE and WB countries will be matched by investments.** A medium-term investment revival is expected in most of the CESEE countries in both the public and private sectors. FDI has already shown some signs of emerging from stagnation in the EU-CEE and WB countries. Credit conditions for private borrowers have improved. Moreover, gross fixed capital formation is responding to the transfer of EU funds that are bound to decline in 2016, but will recover later, once access to EU transfers provided under the 2014-2020 financing framework picks up.

**As fiscal consolidation and more rapid economic growth have been achieved, fiscal space has widened in several countries,** thus granting governments more room in which to implement and support investments. Even highly indebted countries have managed to adopt a less restrictive fiscal stance. The CIS-3 and Ukraine are outliers in this respect as well; they have started cutting back on expenditures so as to reduce their fiscal deficits.

**Exports may increase if external demand recovers, but imports may grow even more rapidly as consumption and investment expand in the EU-CEE and WB economies.** Thus, net exports will not be a strong driver of economic growth. Foreign investors' income may rise overall, while remittances and labour income from abroad will remain important sources of current account revenues.

**Special sections** of the Forecast shed light on other topical issues: low oil prices are mainly supply-driven; the Juncker Initiative will not take the place of EU transfers; outmigration and demography are leading to labour shortages in EU-CEE countries; the recent inflow of refugees may, in the medium term, put pressure on existing migrant workers in Austria.

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**For questions please contact:**

Gábor Hunya, Tel. 533 66 10 – 22

[hunya@wiiw.ac.at](mailto:hunya@wiiw.ac.at)

Mario Holzner, Tel. 533 66 10 – 28

[holzner@wiiw.ac.at](mailto:holzner@wiiw.ac.at)

**OVERVIEW 2014-2015 AND OUTLOOK 2016-2018**

	<b>GDP</b> real change in % against prev. year					<b>Consumer prices</b> change in % against prev. year					<b>Unemployment (LFS)</b> rate in %, annual average					<b>Current account</b> in % of GDP				
	2014	2015	Forecast			2014	2015	Forecast			2014	2015	Forecast			2014	2015	Forecast		
<b>EU-CEE</b>																				
Bulgaria	1.5	3.0	2.5	2.5	2.7	-1.6	-1.1	1.0	1.0	1.5	11.4	9.3	9.0	8.5	8.0	1.2	1.2	0.7	0.0	-0.4
Croatia	-0.4	1.5	1.4	1.8	2.0	0.2	-0.3	0.5	1.0	1.0	17.3	16.6	16.5	16.0	16.0	0.8	4.6	3.4	2.2	1.9
Czech Republic	2.0	4.3	2.4	2.3	2.4	0.4	0.3	1.5	1.7	1.9	6.1	5.1	5.0	4.9	4.9	0.6	1.7	0.5	0.0	-0.5
Estonia	2.9	1.2	2.2	2.4	2.6	0.5	0.1	0.5	1.5	2.5	7.4	6.2	6.2	5.9	5.5	1.0	2.5	-0.2	-1.9	-3.5
Hungary	3.7	2.9	2.2	2.3	2.9	0.0	0.1	1.7	2.5	3.0	7.7	6.8	6.5	6.3	6.1	2.3	5.0	4.4	4.1	4.0
Latvia	2.4	2.7	3.0	3.2	3.5	0.7	0.2	0.5	1.8	2.1	10.8	9.9	9.3	8.9	8.6	-2.0	-1.2	-3.6	-3.8	-3.6
Lithuania	3.0	1.6	3.0	3.4	3.5	0.2	-0.7	0.1	2.1	2.3	10.7	9.1	8.5	8.0	7.5	3.6	-2.5	-2.6	-3.0	-3.3
Poland	3.3	3.6	3.4	3.2	3.4	0.1	-0.7	1.2	1.8	2.0	9.0	7.5	7.0	6.5	6.5	-2.0	-0.2	-1.5	-2.0	-3.5
Romania	3.0	3.7	4.0	3.0	3.5	1.4	-0.4	0.0	2.0	2.5	6.8	6.8	6.7	6.6	6.5	-0.5	-1.1	-1.7	-1.9	-2.3
Slovakia	2.5	3.6	3.0	3.2	3.3	-0.1	-0.3	0.6	1.5	1.8	13.2	11.5	10.6	10.0	9.7	0.1	-1.2	-1.6	-2.0	-2.0
Slovenia	3.0	2.9	2.0	2.3	2.8	0.4	-0.8	0.5	1.0	1.0	9.7	9.0	8.5	8.0	7.5	7.0	7.3	5.3	4.7	4.0
<b>EU-CEE <sup>1)2)</sup></b>	<b>2.8</b>	<b>3.4</b>	<b>3.0</b>	<b>2.9</b>	<b>3.1</b>	<b>0.3</b>	<b>-0.4</b>	<b>0.9</b>	<b>1.8</b>	<b>2.1</b>	<b>9.0</b>	<b>7.9</b>	<b>7.5</b>	<b>7.2</b>	<b>7.0</b>	<b>-0.1</b>	<b>0.8</b>	<b>-0.2</b>	<b>-0.7</b>	<b>-1.5</b>
<b>EA-19</b>	<b>0.9</b>	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>	<b>.</b>	<b>0.4</b>	<b>0.0</b>	<b>0.5</b>	<b>1.5</b>	<b>.</b>	<b>11.6</b>	<b>11.0</b>	<b>10.5</b>	<b>10.2</b>	<b>.</b>	<b>3.0</b>	<b>3.7</b>	<b>3.6</b>	<b>3.4</b>	<b>.</b>
<b>EU-28</b>	<b>1.4</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>.</b>	<b>0.5</b>	<b>0.0</b>	<b>0.5</b>	<b>1.6</b>	<b>.</b>	<b>10.2</b>	<b>9.5</b>	<b>9.0</b>	<b>8.7</b>	<b>.</b>	<b>1.6</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>.</b>
<b>Western Balkans</b>																				
Albania	2.0	2.6	3.2	3.5	3.6	1.6	1.9	2.3	2.5	2.8	17.5	17.0	16.8	16.5	16.4	-12.9	-10.0	-9.9	-9.8	-9.3
Bosnia and Herzegovina	1.1	2.3	2.9	2.9	3.1	-0.9	-1.0	1.0	2.0	2.0	27.5	27.7	27.2	26.1	25.0	-7.8	-7.0	-8.0	-8.0	-7.0
Kosovo	1.2	3.7	3.9	4.3	4.0	0.4	-0.5	1.0	2.0	3.0	35.3	34.0	34.0	33.0	32.0	-7.8	-8.2	-9.0	-8.6	-8.3
Macedonia	3.5	3.5	3.4	3.1	3.1	-0.3	-0.3	1.0	2.0	2.0	28.0	27.0	27.0	26.0	25.0	-0.8	0.0	-4.0	-4.0	-4.0
Montenegro	1.8	3.4	2.8	2.8	3.1	-0.5	1.4	2.0	2.0	2.0	18.0	18.0	17.5	17.0	16.5	-15.2	-14.6	-14.6	-14.6	-14.0
Serbia	-1.8	0.7	1.6	1.7	2.0	2.9	1.9	2.0	3.0	3.0	19.4	17.0	17.0	17.0	16.0	-6.0	-6.0	-6.0	-6.0	-6.0
<b>WB <sup>1)2)</sup></b>	<b>0.3</b>	<b>2.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>1.3</b>	<b>0.9</b>	<b>1.7</b>	<b>2.5</b>	<b>2.6</b>	<b>22.5</b>	<b>21.1</b>	<b>21.0</b>	<b>20.6</b>	<b>19.8</b>	<b>-7.2</b>	<b>-6.6</b>	<b>-7.5</b>	<b>-7.1</b>	<b>-6.9</b>
Turkey	2.9	3.3	3.2	3.1	3.0	8.9	7.7	8.2	7.4	6.8	9.9	10.6	10.3	10.2	10.1	-5.9	-4.6	-5.2	-5.0	-5.0
Belarus <sup>3)</sup>	1.7	-3.9	-2.6	0.5	1.5	18.1	13.5	14.0	13.0	12.0	0.5	1.0	2.0	2.5	2.5	-6.9	-2.0	-2.5	-2.7	-2.9
Kazakhstan	4.1	1.2	1.0	2.5	3.5	6.7	6.6	12.0	7.0	6.0	5.0	5.0	5.2	5.0	5.0	2.6	-2.9	-3.2	-2.9	-2.6
Russia <sup>4)</sup>	0.8	-3.7	-0.8	0.8	1.8	7.8	15.5	10.0	6.0	6.0	5.2	5.6	5.3	5.3	5.3	2.9	5.0	4.8	4.2	4.9
Ukraine <sup>5)</sup>	-6.6	-10.5	0.0	1.9	2.5	12.1	48.7	17.0	8.0	6.0	9.3	10.0	11.0	11.0	10.0	-3.4	-0.2	-0.1	-0.1	-0.9

Note: LFS: Labour Force Survey. EU-CEE: European Union-Central and Eastern Europe. EA: Euro area. WB: Western Balkans.

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Unemployment rate by registration. - 4) From 2014 including Crimea. - 5) From 2014 excluding Crimea and parts of Donbas.

Source: wiiw (data until 2015 as of February 2016), Eurostat. Forecasts by wiiw (Feb 2016) and European Commission for EU and euro area (Winter Report, February 2016).