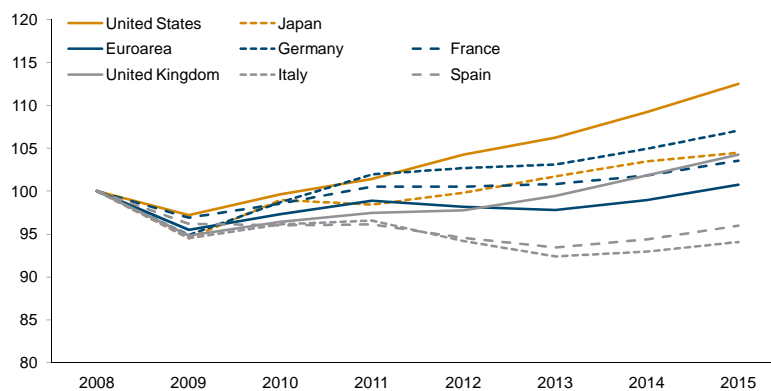


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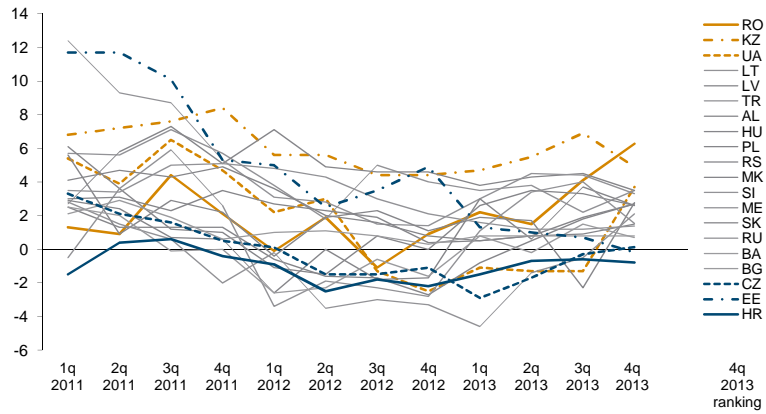
Mario Holzner

Overview of the World Economic Outlook Projections  
Development of GDP, 2008 = 100



Source: Forecasts by European Commission for EU and euro area (Winter Report, February 2014).  
For US and JP: IMF, World Economic Outlook, January 2014.

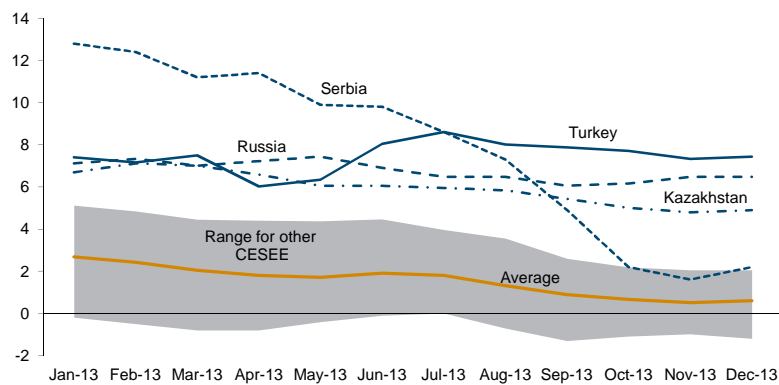
### Development of quarterly GDP real change in % against preceding year



Remark: Highlighted lines represent top 3 and bottom 3 countries referring to growth of 4th quarter 2013.

Source: National and Eurostat statistics.

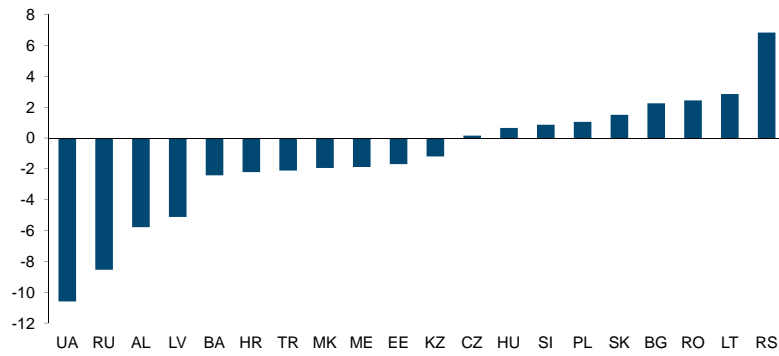
### Consumer prices change in % against preceding year



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

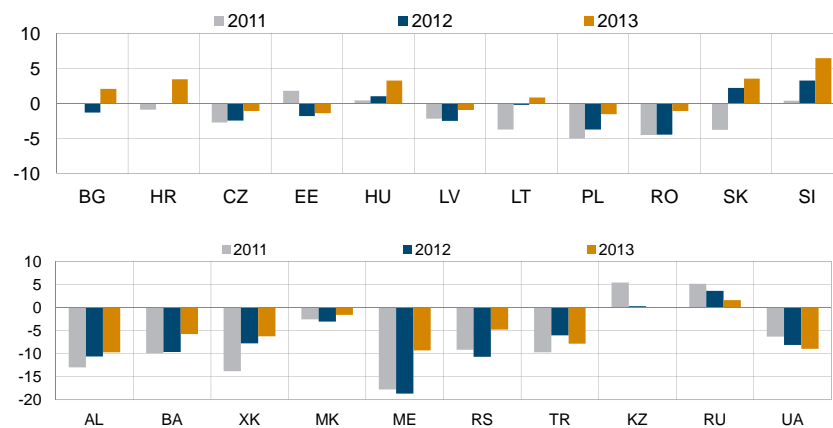
### Imports of goods

change in % against preceding year, 2H2013 vs. 2H2012, current EUR



Source: wiiw Monthly Database incorporating national and Eurostat statistics.

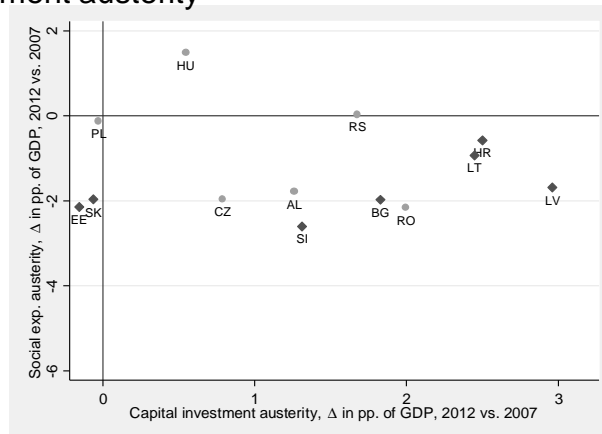
### Current account (net), in % of GDP



Remark: HR, CZ, HU, SK, AL, BA, XK, MK, ME, RS: 2013 data for 3 quarters. BA, KZ and RU: already reporting according to IMF BOP Manual 6th edition.

Source: wiiw Databases incorporating national statistics and Eurostat.

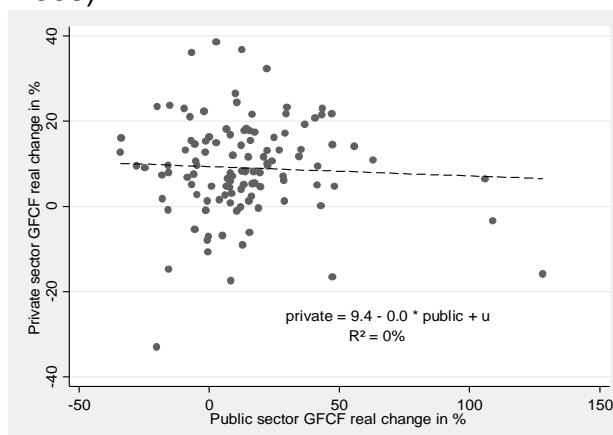
### General government social expenditure vs. capital investment austerity



Note: Positive values of expenditures, expressed in actual 2012 GDP percentage point differences between counterfactual 'potential' and actual shares, hint at fiscal austerity and reduced national income. Diamonds represent countries with fixed exchange rate regimes as opposed to flexible ones.

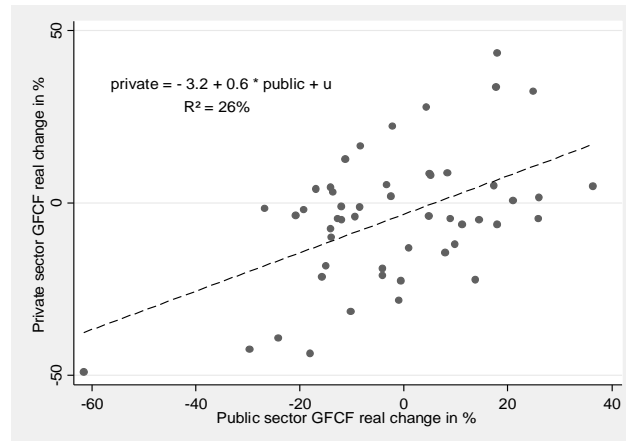
Source: wiiw Annual database incorporating national and Eurostat statistics, own calculation.

### Public and private GFCF growth in 15 CESEE countries, (2000-2008)



Source: National and Eurostat statistics, own calculations.

Public and private GFCF growth in 15 CESEE countries, (2009-2012)



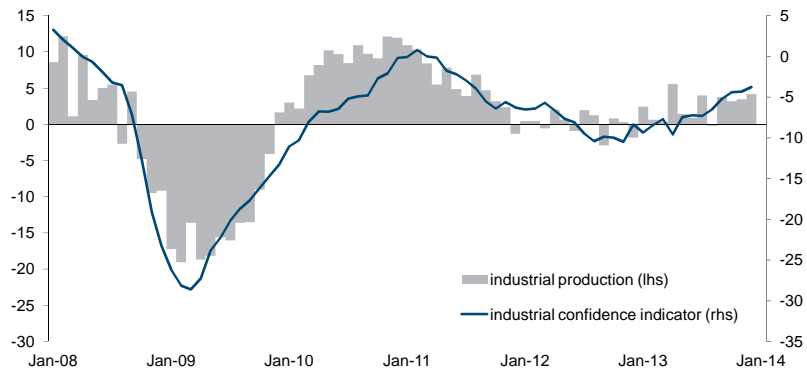
Source: National and Eurostat statistics, own calculation.

(Public) Investment leads the way out of the slump

- Motorways, thermal and nuclear power plant projects in the pipeline
- Intensive use of the remaining disbursement period 2014-2015 of the EU MFF 2007-2013 & national co-financing
- More public capital investment has the potential to spur subsequent private investment
- Improving growth prospects in the euro area are likely to encourage CESEE export industries' investment activity

### CESEE gross industrial production and industrial confidence indicator

production change in % against preceding year / industrial confidence in pp.

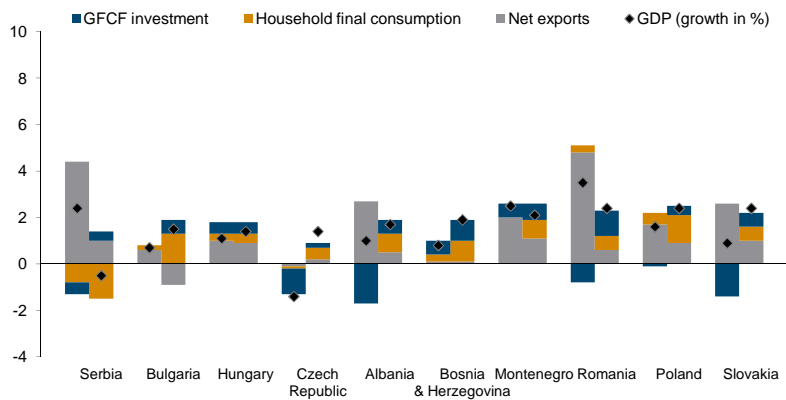


Remark: Average over available countries.

Source: wiiw Monthly Database incorporating national and Eurostat statistics for industrial production. Eurostat and national statistics for industrial confidence.

### GDP growth in 2013 & 2014 in %

and contribution of individual demand components in percentage points, flat household consumption countries

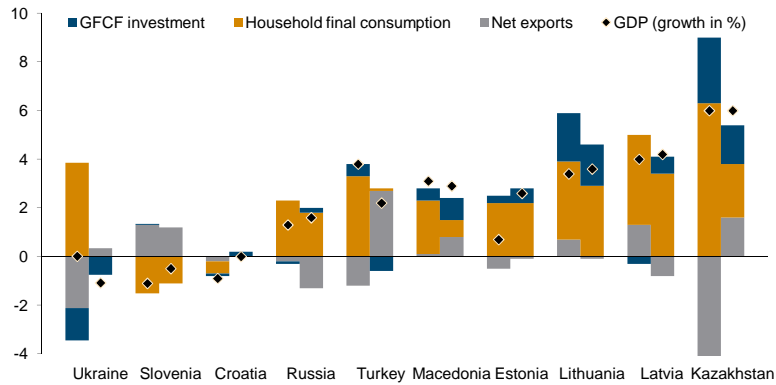


Remark: Ordered by 2014 growth rates.

Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

### GDP growth in 2013 & 2014 in %

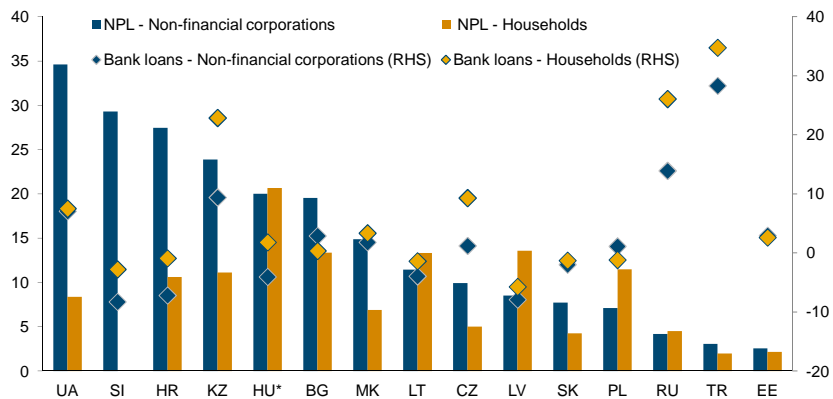
and contribution of individual demand components in percentage points, dynamic household consumption countries



Remark: Ordered by 2014 growth rates.

Source: For 2013 wiiw and national statistics as of March 2014. Forecast 2014 by wiiw.

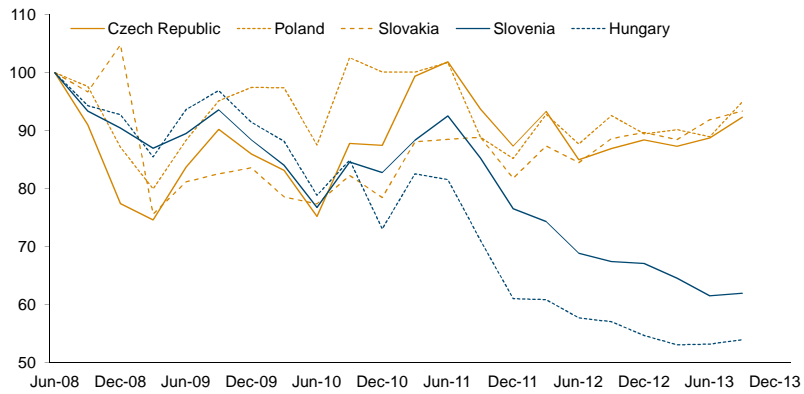
### Non-performing loans in % of total loans (Sept. 2013) and stock of loans to the non-financial sector change in % against preceding year (avg. Dec. 2012 – Nov. 2013)



\*Non-performing loans data for Hungary are for June 2013.

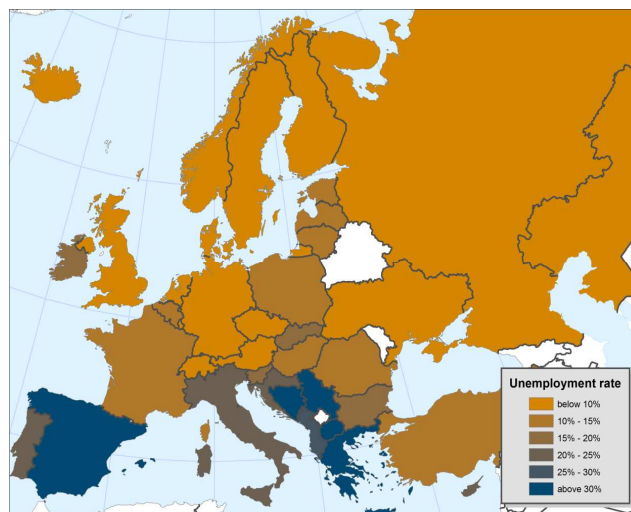
Source: National Bank and Eurostat statistics, wiiw own calculations.

Indices of foreign bank claims of Western European banks to CEE on ultimate risk basis, January 2008 = 100



Source: BIS.

Youth unemployment rate for age group 25-29, %, avg. 1-3q 2013



Source: wiiw calculation incorporating national and Eurostat statistics.



## Summary

- Upward reversal of public investment has potential to spur private
- Motorways, thermal and nuclear power plant projects in the pipeline
- Intensive use of remaining disbursement period 2014-2015 of EU MFF
- euro area growth likely to encourage export industries' investments
- CESEE GDP to pick up speed and grow on average 2-3% 2014-2016

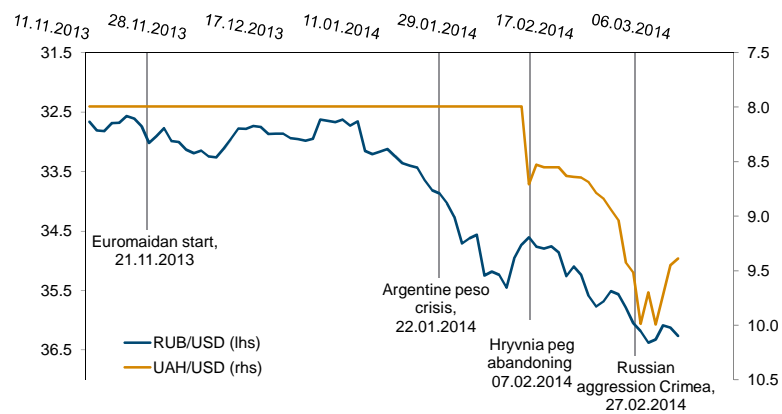
## GDP growth, current wiiw forecast for 2014-2016

	2014	2015	2016
Kazakhstan	6.0	6.5	5.5
Kosovo	5.0	4.0	4.0
Latvia	4.2	4.1	3.9
Lithuania	3.6	3.8	4.0
Macedonia	3.0	3.0	3.0
Estonia	2.6	3.0	3.2
Poland	2.4	3.2	3.1
Romania	2.4	2.7	3.0
Slovakia	2.4	3.0	3.2
Turkey	2.2	3.5	4.5
Montenegro	2.1	2.9	3.0

	2014	2015	2016
Bosnia and Herzegovina	1.9	3.0	3.0
Albania	1.7	1.5	1.0
Russia	1.6	2.3	3.0
Bulgaria	1.5	2.3	2.7
Czech Republic	1.4	2.4	3.0
Hungary	1.4	2.1	2.0
Croatia	0.0	1.0	1.5
Slovenia	-0.5	0.5	1.4
Serbia	-0.5	1.0	1.9
Ukraine	-1.1	0.9	1.8

Source: wiiw forecast, March 2014.

## Exchange rate development RUB/USD, UAH/USD



Source: National central banks.

## Ukraine: budget austerity on the agenda

- Large external financing needs (approx. USD 35 bn, 2014-2015)
- Russian credits agreed in Dec 2013 (USD 15 bn) have stalled
- EU (USD 15 bn), USA (USD 1 bn), WB (USD 3 bn) promises
- Ongoing negotiations over an IMF 'rescue package'
- But: IMF requires budget consolidation
- Public expenditures to be cut by up to 17% in 2014
- Energy tariff hikes for households
- Pensions of working pensioners to be cut by 50%
- Likely consequences: economic recession and rising social tensions

## Possible Crimea crisis effects

- Annexation without shooting: most likely scenario, limited UA/RU trade disruptions, little effects on CESEE, except maybe on 'south stream' countries (BG, RS, HU)
- Annexation with shooting: less likely scenario, major UA/RU trade disruptions, substantial effects on CESEE in terms of energy supply, trade, investment, interest rates
- Super autonomy: less likely scenario, hardly any effects
- Extensive EU trade and finance sanctions against Russia unlikely
- Long-term effects: further energy diversification in CESEE, further EU integration boost (e.g. PL & euro)

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