

PRESS RELEASE

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**New wiiw forecast for Central, East and Southeast Europe, 2012-2014:
Eurozone crisis and fiscal austerity push half of the region into
recession**

Export weakness and suppressed domestic demand will push nearly half of the CESEE region into recession this year, including the Czech Republic, Hungary, Slovenia, and nearly all Western Balkan countries. Also elsewhere, wiiw growth forecasts have been generally revised downwards. For the next year, we expect a return to positive growth in all CESEE countries (except Slovenia) which should slightly accelerate in 2014 – barring major shocks and conditional on improvements in the eurozone. These are the main results of the updated medium-term growth forecast for the region by the Vienna Institute for International Economic Studies (wiiw).

wiiw has also just published its annual Handbook of Statistics, providing reliable and comparable economic data on 18 CESEE countries.

The recession in the euro area is proving to be deeper than initially expected and continues to be a drag on economic growth also in the countries of Central, East and Southeast Europe (CESEE). Their exports, which had expanded markedly in the two previous years and boosted GDP growth, nearly stalled in 2012 and are generally recording single-digit growth rates at best. The countries that are performing above average tend to be either energy producers benefiting from high oil prices (Russia and Kazakhstan) or relatively less dependent on the eurozone, such as the Baltic states and Slovakia.

At the same time, domestic demand in most CESEE countries continues to remain anaemic, as uncertainties weigh heavily on the households' mood to spend and the businesses' propensity to invest. Also, bank deleveraging (let alone an outright banking crisis like in Slovenia) are resulting in a credit crunch which is suppressing domestic demand still further, although in some cases (e.g. in the Czech Republic and Poland) the weak credit dynamics is a reflection of the low demand in the face of heightened uncertainties. Once again, the exceptions are to be found primarily on the 'fringes': in Russia and Kazakhstan, consumer lending is on the rise, while in the Baltic states and Ukraine, private consumption is reviving on the back of receding unemployment and recovering wages.

Other differences in the dynamics of domestic demand can be largely attributed to the **fiscal policy stance**. In Bulgaria and Romania, domestic demand is being sustained by the pre-election hikes in incomes and public investments. However, **most other CESEE countries are currently in the midst of budget consolidation programmes**. These are fully justified e.g. in Hungary and Serbia given their high public debts. In many other cases, fiscal austerity is a reaction to the government's difficulties to borrow and the high yields on sovereign bonds. The excessive austerity is less plausible in the Czech Republic and Poland.

The prospects for 2013-2014 are a bit more encouraging – provided the external environment improves. **We expect economic recovery and growth acceleration, respectively, everywhere except Slovenia in 2013**. For 2014, we expect further improvements, but this will be conditional on an improvement in the global economy, particularly that in the eurozone. The New EU Member States with their relatively strong export-oriented industrial sectors should be able to take full advantage of the eventual euro area recovery. This applies however less to the Western Balkan countries whose industrial base is considerably weaker. Finally, in the case of the commodity exporting CIS countries, the dynamics of energy and metals prices will be crucial. Even under the most optimistic scenario, the CESEE countries will be generally unable to replicate the growth rates observed in the pre-crisis period. Despite resumed income convergence, their **growth pace will remain insufficient to bring about a considerable improvement in the labour markets**, with the possible exception of the Baltic states, Bulgaria and Romania which might 'benefit' from outward migration.

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Next regular forecast: March 2013

wiiw Handbook of Statistics 2012

providing a comprehensive dataset of macroeconomic and structural indicators on 18 CESEE countries. Available as Excel file on CD-ROM or in hardcopy.

For information and ordering please go to:

<http://www.wiiw.ac.at/?action=publ&id=series&value=12>

Overview 2010-2011 and outlook 2012-2014

	GDP					Consumer prices					Unemployment, based on LFS					Current account				
	real change in % against previous year					change in % against previous year					rate in %, annual average					in % of GDP				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
			Forecast	Forecast				Forecast	Forecast				Forecast	Forecast				Forecast	Forecast	
NMS-10																				
Bulgaria	0,4	1,7	0,7	1,5	2	3,0	3,4	2,5	3	3	10,2	11,2	12	11	10	-1,5	0,3	-2,0	-2,9	-3,4
Czech Republic	2,5	1,9	-1,2	0,8	2	1,2	2,2	3,2	2	2	7,3	6,7	7,2	7	7	-3,9	-2,9	-1,5	-2,0	-2,1
Estonia	3,3	8,3	2,1	2,9	3,9	2,7	5,1	4,0	4,0	4	16,9	12,5	10,5	9,5	9	2,9	2,1	-2,1	-3,3	-4,6
Hungary	1,3	1,6	-1,3	0,5	2	4,7	3,9	5,7	5	4	11,2	10,9	10,9	10,7	10,5	1,1	0,9	1,2	1,0	1,0
Latvia	-0,9	5,5	3,7	3,3	3,8	-1,2	4,2	2,3	2,8	3,5	18,7	15,4	15,5	14,5	13,5	2,9	-2,1	-2,6	-2,9	-3,3
Lithuania	1,5	5,9	2,7	3,4	4	1,2	4,1	3,2	3,5	3,5	17,8	15,4	13,0	12,5	11,5	0,1	-3,7	-2,5	-3,2	-3,2
Poland	3,9	4,3	2,3	2,1	2,6	2,7	3,9	4,0	2,8	2,5	9,6	9,7	10,2	10,2	10,2	-5,1	-4,9	-4,0	-4,4	-4,3
Romania	-1,6	2,5	1,0	1,5	3	6,1	5,8	3,5	4,5	4	7,3	7,4	7,3	7	7	-4,4	-4,4	-3,9	-4,5	-5,1
Slovakia	4,2	3,3	2,8	2	3	0,7	4,1	3,5	3	3	14,4	13,5	13,5	13,5	13	-3,7	0,1	1,5	1,0	0,7
Slovenia	1,2	0,6	-2,0	-1,5	0,5	2,1	2,1	2,5	2	2	7,3	8,2	8,8	9	9	-0,6	0,0	1,1	1,1	0,8
NMS-10 ¹⁾	2,1	3,2	1,1	1,6	2,5	3,0	4,0	3,8	3,2	3,0	9,9	9,6	9,8	9,6	9,4	-3,3	-2,9	-2,3	-2,8	-3,0
EA-17 ²⁾	2,0	1,4	-0,4	0,1	1,4	1,6	2,7	2,5	1,8	1,6	10,1	10,1	11,3	11,8	11,7	0,5	0,5	1,1	1,5	1,6
EU-27 ²⁾	2,1	1,6	-0,3	0,4	1,6	2,1	3,1	2,7	2,0	1,8	9,7	9,7	10,5	10,9	10,7	-0,2	0,2	0,4	0,9	1,1
Candidate countries																				
Croatia	-1,4	0,0	-1,8	1	2	1,1	2,3	2,5	2,4	2	11,8	13,5	15,5	16	15,5	-1,1	-1,0	-0,7	-1,1	-1,2
Macedonia	2,9	2,9	-0,6	1	1,7	1,6	3,9	3	3	3	32,0	31,4	31	31	31	-2,0	-3,0	-5,8	-5,0	-4,8
Montenegro	2,5	3,2	-1	1	2	0,5	3,1	3	3	3	19,6	19,7	20	20	19	-22,9	-17,7	-21,2	-23,5	-22,2
Potential candidate countries																				
Albania	3,8	3,1	1,5	2,8	3,3	3,6	3,4	1,5	4	4	13,7	14,0	15	14	13	-11,5	-12,1	-11,5	-14,1	-15,0
Bosnia and Herzegovina	0,7	1,3	-0,7	0,8	2	2,1	3,7	2	2	2	27,2	27,6	28	28	28	-5,7	-8,8	-9,1	-8,9	-8,5
Serbia	1,0	1,6	-1,5	1	2	6,8	11,0	7	6	5	19,2	23,0	27	28	28	-7,4	-9,0	-11,0	-11,0	-11,0
Kazakhstan	7,3	7,5	5	5	6	7,1	8,3	5,5	7	6	5,8	5,4	5,2	5	5	1,2	7,2	7,8	6,4	7,6
Russia	4,3	4,3	3,6	3,8	4,2	6,9	8,5	6	5	5	7,5	6,6	6,5	6,7	6,7	4,8	5,3	3,9	3,0	2,2
Ukraine	4,1	5,2	1	3	4	9,4	8,0	0,5	4,5	5	8,1	7,9	7,9	7,7	7,5	-2,2	-6,2	-7,1	-5,3	-6,6

Note: LFS: Labour Force Survey. NMS: The New EU Member States. EA: Euro area 17 countries.

1) wiiw estimate. - 2) Current account data include transactions within the region.

Source: wiiw (November 2012), Eurostat. Forecasts by wiiw and European Commission (Autumn Report, November 2012) for EU and euro area.