

**PRESS RELEASE**

**NOT TO BE RELEASED BEFORE 13-11-2014, 12:00 noon**

**New wiiw forecast for Central, East and Southeast Europe, 2014-2016:  
On thin ice: CESEE core resilient in the face of EU stagnation and the  
Ukraine crisis**

**Despite near stagnation in the euro area and the negative impact of the Ukraine crisis, in most of the NMS economies and some of the Western Balkan countries growth prospects are viewed as positive. While the NMS economies will preserve their positive growth differential vis-à-vis the EU-28, Russia and Ukraine are facing a deterioration of their economic performance.**

External factors have had a major impact on growth performance in the CESEE region. Financial transfers from the EU have lent essential support to economic growth in the European Union's new Member States (NMS). Investment and operational costs funded via those transfers have become an integral and increasingly important part of aggregate demand in the NMS economies. 2013 and 2014 have been among the strongest years in terms of transfers in the framework of the EU cohesion policy. Their impact is comparable to that of fiscal stimuli, albeit better inasmuch as they do not give rise to new debt. A possible disadvantage compared to classic fiscal stimuli is that transfers have no steerable relation to business cycles.

In the eastern part of the CESEE region, the Ukraine conflict has had a pronounced negative impact on economic growth. 25 years after the fall of the Iron Curtain, the current crisis in relations between Russia and the West is evolving into a dangerous geopolitical conflict. In Ukraine, the main victim of the conflict, the economy may decline by 8% over the current year. In Russia, the costs of the conflict are estimated to be to the tune of about 1% of GDP, primarily on account of increased investment risks and the financial sanctions. The impact on the individual EU countries differs according to their exposure to the Russian market. The Baltic States and some other NMS will be those most affected on account of their trade channels with estimated losses in the order of up to 0.4% of GDP.

The global financial crisis has shattered the rapid expansion of financial intermediation in nearly all of the countries in the region; recovery of crediting activities is still fragmentary and weak. High levels of non-performing loans are a major concern throughout much of the region. There seems to be a justified concern over the region having entered a period of 'creditless recovery' which threatens to be much slower than a recovery with strong credit growth.

The outlook for GDP growth in the CESEE region is again fairly diversified. Compared to 2013, the growth performance is expected to improve in twelve and deteriorate in nine of the twenty-one countries in the region in 2014.

The general medium-term trend for the NMS as a whole is seen to be positive: in most of these countries, we expect a gradual acceleration of GDP growth; exceptions are Hungary and Slovenia where a deceleration is forecast, and Poland where the relatively high GDP growth rate will remain practically unchanged. For the current year, the assumption is that the NMS will grow by 1.8 percentage points higher than expansion in the euro area and 1.3 pp above the EU-28 average. In 2015, the gap in favour of NMS growth performance will become somewhat narrower: 1.5 pp relative to the euro area and 1.1 pp to the EU-28 average.

For some of the countries in the Western Balkans, growth prospects will only improve over the period 2015-2016, closely related to the damage caused by the floods this summer. Turkey will continue to register remarkable economic growth. Growth performance in Kazakhstan, Russia and Ukraine will worsen in the current year compared to 2013; the medium-term outlook in Russia and Ukraine is, depending on the evolution of the political crisis, fairly uncertain with considerable downward risks.

As for our forecasts for 2015 and 2016, a further weakening of performance in the euro area poses a downward risk, while a longer lasting drop in oil prices will represent an upward risk, except for energy exporters Russia and Kazakhstan.

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## OVERVIEW 2012-2013 AND OUTLOOK 2014-2016

	GDP					Consumer prices					Unemployment (LFS)					Current account					
	real change in % against prev. year					change in % against prev. year					rate in %, annual average					in % of GDP					
	2012	2013	Forecast			2012	2013	Forecast			2012	2013	Forecast			2012	2013	Forecast			
<b>NMS-11</b>																					
Bulgaria	0.6	0.9	1.9	2.3	2.6	2.4	0.4	-1.0	1.0	2.0	12.3	13.0	12.0	11.5	11.0	-1.1	2.1	1.7	0.7	0.0	
Croatia	-2.2	-0.9	-0.8	0.0	1.0	3.4	2.3	0.5	1.0	1.0	15.9	17.2	17.5	17.5	17.0	-0.2	0.9	0.5	0.2	0.0	
Czech Republic	-0.8	-0.7	2.5	2.4	2.6	3.5	1.4	0.5	1.8	1.5	7.0	7.0	6.4	6.3	6.3	-1.3	-1.4	-0.5	-1.2	-1.6	
Estonia	4.7	1.6	1.7	2.0	2.9	4.2	3.2	0.4	1.5	2.2	10.0	8.6	7.5	7.0	6.5	-2.1	-1.4	-1.6	-2.0	-2.9	
Hungary	-1.5	1.5	3.0	2.2	2.0	5.7	1.7	0.3	2.0	3.0	10.9	10.2	8.5	8.3	8.0	1.9	4.1	3.6	3.2	2.8	
Latvia	4.8	4.2	2.5	2.7	3.0	2.3	0.0	0.6	1.6	2.2	15.0	11.9	10.7	10.0	9.5	-3.2	-2.3	-2.9	-3.2	-3.4	
Lithuania	3.7	3.3	3.0	3.2	3.4	3.2	1.2	0.3	1.2	1.8	13.4	11.8	11.5	10.6	9.8	-1.2	1.6	1.1	-0.4	-0.5	
Poland	2.0	1.6	3.3	3.2	3.1	3.7	0.9	0.3	1.5	2.0	10.1	10.3	10.0	10.0	10.0	-3.6	-1.3	-1.0	-2.0	-2.5	
Romania	0.6	3.5	2.2	2.7	3.0	3.4	3.2	2.0	3.0	3.5	7.0	7.3	7.0	7.0	6.8	-4.4	-1.1	-2.0	-2.2	-2.4	
Slovakia	1.8	0.9	2.4	2.5	2.6	3.7	1.5	0.2	1.5	2.5	14.0	14.2	13.5	13.0	12.0	2.2	2.1	1.5	1.0	0.1	
Slovenia	-2.6	-1.0	1.8	1.5	1.5	2.8	1.9	0.7	1.0	1.0	8.9	10.1	10.0	9.8	9.6	2.8	5.8	5.3	4.7	4.4	
<i>NMS-11<sup>1)</sup></i>	<i>0.8</i>	<i>1.4</i>	<i>2.6</i>	<i>2.6</i>	<i>2.7</i>	<i>3.7</i>	<i>1.5</i>	<i>0.6</i>	<i>1.8</i>	<i>2.2</i>	<i>9.9</i>	<i>10.0</i>	<i>9.5</i>	<i>9.3</i>	<i>9.1</i>	<i>-1.8</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.8</i>	<i>-1.2</i>	
<i>EA-18<sup>2)</sup></i>	<i>-0.7</i>	<i>-0.5</i>	<i>0.8</i>	<i>1.1</i>	<i>1.7</i>	<i>2.5</i>	<i>1.4</i>	<i>0.5</i>	<i>0.8</i>	<i>1.5</i>	<i>11.3</i>	<i>11.9</i>	<i>11.6</i>	<i>11.3</i>	<i>10.8</i>	<i>1.9</i>	<i>2.4</i>	<i>2.5</i>	<i>2.6</i>	<i>2.5</i>	
<i>EU-28<sup>1)2)</sup></i>	<i>-0.4</i>	<i>0.0</i>	<i>1.3</i>	<i>1.5</i>	<i>2.0</i>	<i>2.6</i>	<i>1.5</i>	<i>0.6</i>	<i>1.0</i>	<i>1.6</i>	<i>10.4</i>	<i>10.8</i>	<i>10.3</i>	<i>10.0</i>	<i>9.5</i>	<i>1.0</i>	<i>1.4</i>	<i>1.4</i>	<i>1.5</i>	<i>1.5</i>	
<b>Candidate countries</b>																					
Albania	1.6	0.5	1.3	1.5	0.9	2.0	1.9	1.0	1.0	1.0	13.4	15.6	18.0	18.0	19.0	-10.2	-10.6	-10.0	-9.3	-8.3	
Macedonia	-0.4	2.9	3.0	3.0	3.0	3.3	2.8	0.5	1.5	2.0	31.0	29.0	28.0	27.0	27.0	-3.0	-1.9	-4.0	-4.0	-4.0	
Montenegro	-2.5	3.3	2.1	2.9	3.0	4.1	2.2	0.0	1.0	2.0	19.7	19.5	19.0	19.0	19.0	-18.7	-14.6	-15.4	-15.9	-15.4	
Serbia	-1.5	2.5	-1.0	0.0	1.0	7.8	7.8	2.0	4.0	3.0	23.9	22.1	21.0	23.0	23.0	-12.3	-6.5	-6.2	-6.0	-6.0	
Turkey	2.1	4.1	3.7	2.7	2.8	9.0	7.5	8.6	7.4	6.1	9.2	9.7	9.2	9.5	9.1	-6.0	-7.9	-6.0	-5.9	-6.2	
<b>Potential candidate countries</b>																					
Bosnia and Herzegovina	-1.2	2.1	0.0	1.0	2.0	2.0	0.2	0.0	1.0	2.0	28.0	27.5	27.0	27.0	27.0	-9.2	-5.9	-8.0	-7.0	-8.0	
Kosovo	2.8	3.4	4.7	3.8	3.7	2.5	1.8	1.0	2.0	2.0	30.9	30.0	30.0	29.0	29.0	-7.5	-6.4	-8.9	-10.2	-11.3	
Kazakhstan	5.0	6.0	4.5	4.5	5.0	5.2	5.8	9.0	6.0	6.0	5.3	5.2	5.1	5.0	5.0	0.5	0.5	1.3	-0.1	-1.3	
Russia	3.4	1.3	0.5	1.3	1.9	5.1	6.8	7.5	7.0	6.0	5.5	5.5	5.3	5.2	5.0	3.6	1.6	3.1	3.4	3.0	
Ukraine	0.2	0.0	-8.0	-1.1	1.8	0.6	-0.3	11.0	9.7	4.5	7.5	7.2	9.4	10.0	10.0	-7.9	-8.8	-3.8	-3.2	-3.7	

Note: GDP data are already reported according to ESA 2010 for the following countries: HR, CZ, EE, HU, LV, SI, AL, XK, KZ, UA as well as for EA-18 and EU-28.

LFS: Labour Force Survey. NMS: The New EU Member States. EA: Euro area 18 countries.

1) *wiiv* estimate. - 2) Current account data include transactions within the region (sum over individual countries).

Source: *wiiv* (data until 2013 as of 16 Oct 2014), Eurostat. Forecasts by *wiiv* (Nov 2014) and European Commission for EU and euro area (Autumn Report, November 2014).