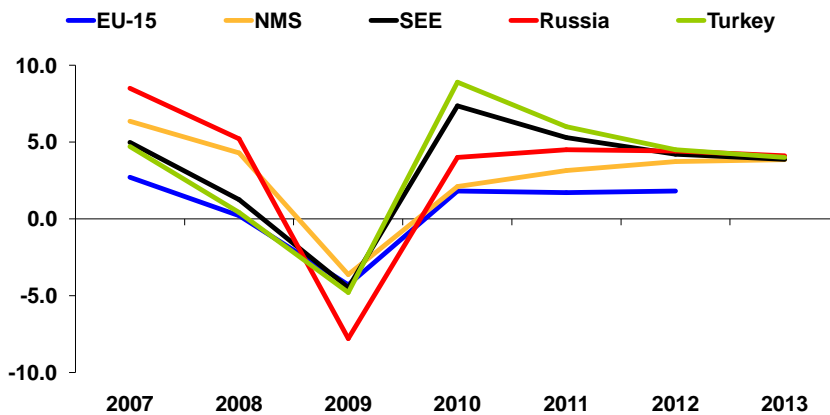


## Recovery: Limp and Battered

### wiiw Current Analysis and Forecast for the countries of Central, East and Southeast Europe

wiiw Press Conference, 7 July 2011

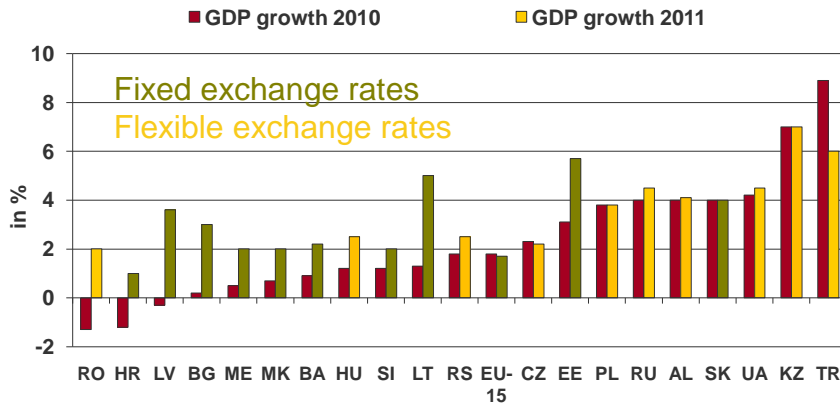
GDP growth in Europe will settle at below 5%  
changes against the previous year in %



Source: wiiw (July 2011), Eurostat.

Forecast: wiiw, European Commission (Economic Forecast, Spring 2011) for EU-15.

GDP growth 2011: moderate, but throughout the region:  
also in countries with no growth in 2010



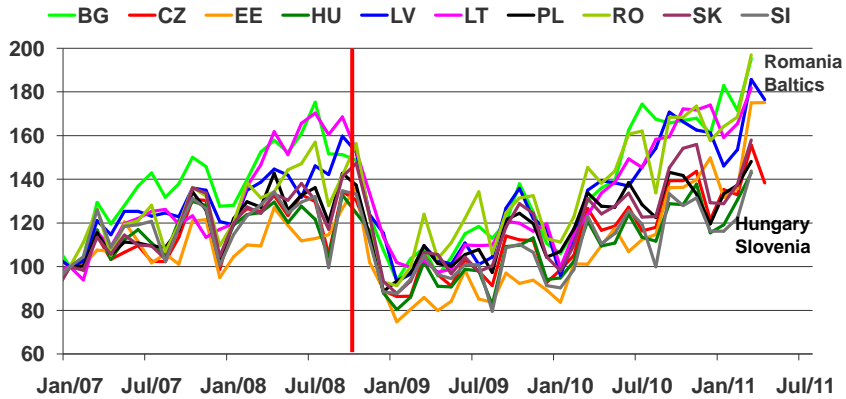
Source: wiiw Database, Eurostat.

Transmission channels of the (moderate) recovery

- I. Strong demand for imports from the CESEE region
  - increase of exports in 2011 (growth engine net exports)
  - later on also revival of domestic demand for consumption and investment, and
  - gradual deterioration of trade balances
- II. Credit financing for households, enterprises and the state continues to be difficult
- III. Governments' leeway for economic policy remains tight because of consolidation measures
- IV. Unemployment stays at a relatively high level

Exports are in most cases already higher than before the crisis ...

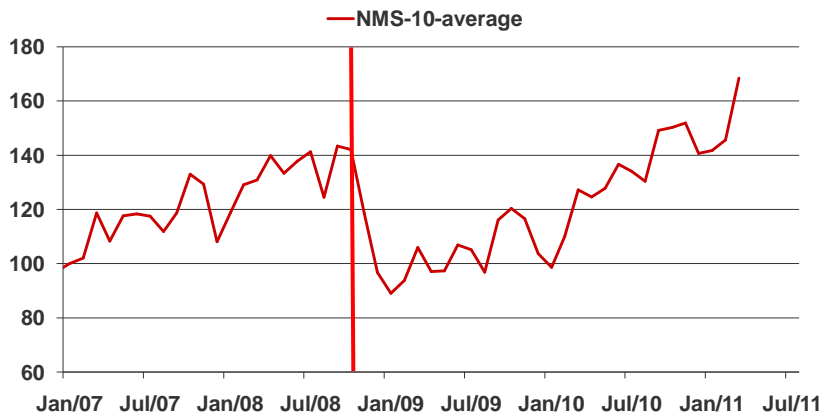
in EUR, January 2007 = 100



Source: wiiw Monthly Database.

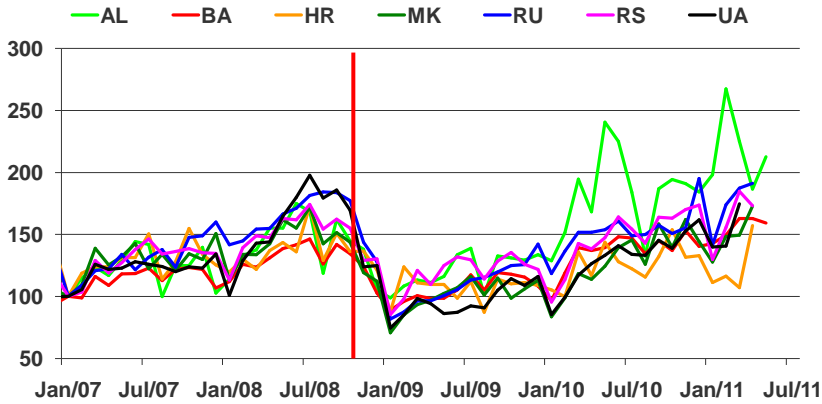
Exports are already higher than before the crisis ...

in EUR, January 2007 = 100



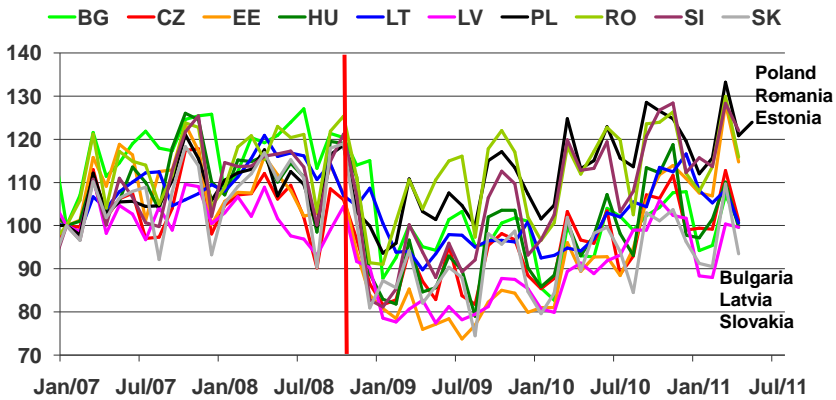
Source: wiiw Monthly Database.

Exports are recovering faster than before the crisis ...  
in EUR, January 2007 = 100



Source: wiiw Monthly Database.

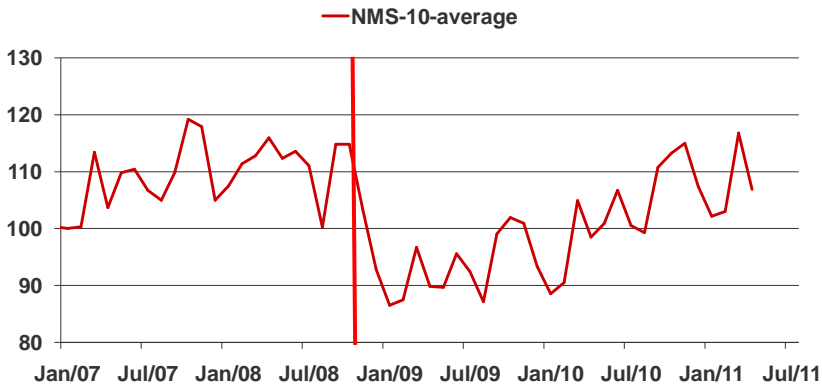
Also industrial production is catching up slowly ...  
January 2007 = 100



Source: wiiw Monthly Database.

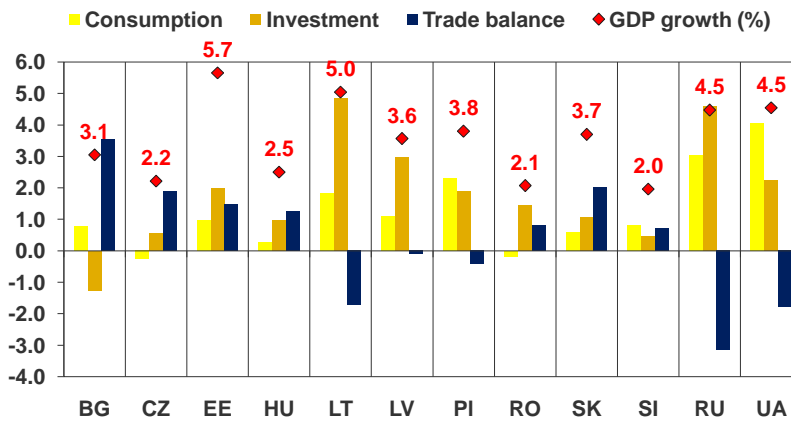
Industrial production is catching up slowly, but pre-crisis level has not yet been reached ...

January 2007 = 100



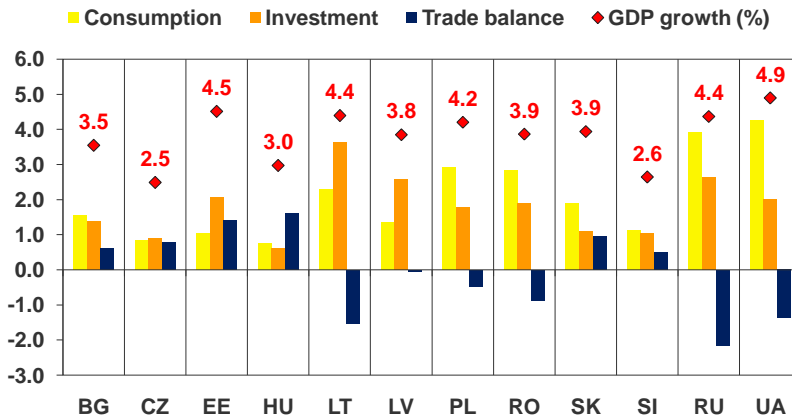
Source: wiiw Monthly Database.

GDP growth 2011 (in %) and the contribution of demand components to GDP growth (in pp)



Source: wiiw Forecast July 2011.

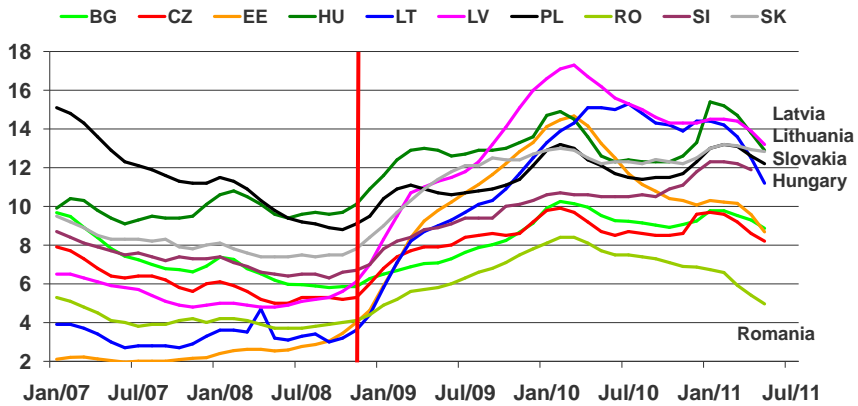
GDP growth 2012 (in %) and the contribution of demand components to GDP growth (in pp)



Source: wiiw Forecast July 2011.

Unemployment declining only slowly and remaining at high level

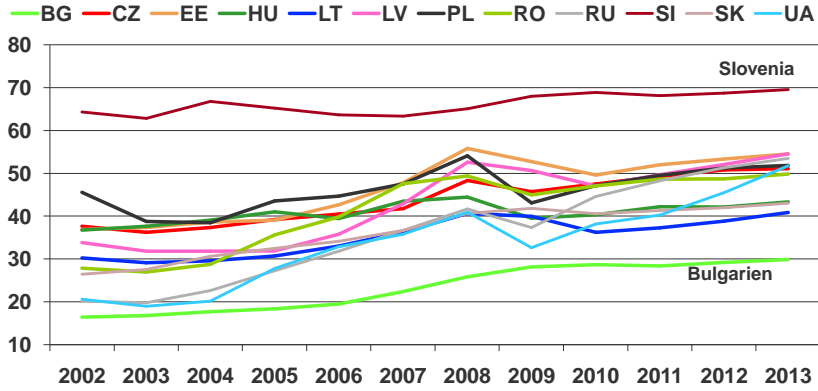
Unemployment rates, registered, in %



Source: wiiw Monthly Database.

### Development of unit labour costs (GDP level): decline in 2009 was only temporary

Austria = 100

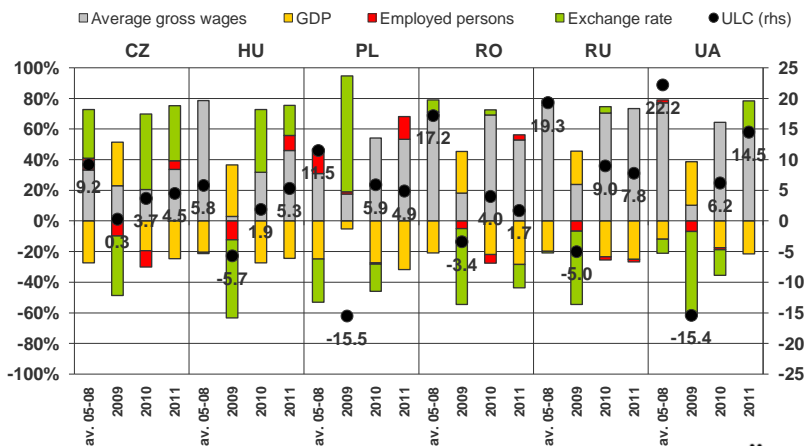


Source: wiiw Database and own estimates.

### Development of unit labour costs and their components

average annual changes against previous year in %, 2005-2011

Countries with 'flexible' exchange rates

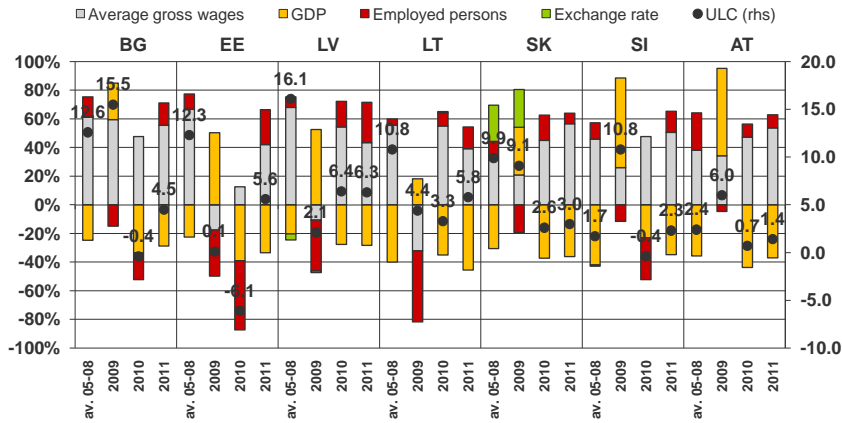


Source: wiiw Database, own estimates and Eurostat.

## Development of labour unit costs and of their components

average annual changes against previous year in %, 2005-2011

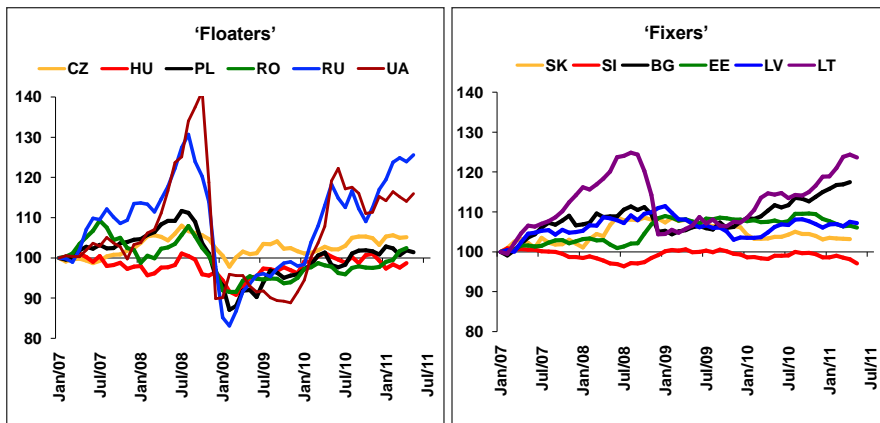
Countries with 'fixed' exchange rates



Source: wiiw Database, own estimates and Eurostat.

## Real exchange rates\*, 2007-2011

EUR per NCU, PPI-deflated, January 2007 = 100



\* Values above 100 indicate real appreciation against January 2007.

Source: wiiw Monthly Database.



## Main findings of the Forecast (I)

- In 2011 the global economy grows faster than expected
- Also Central, East and Southeast Europe is catching up again and all CESEE countries will grow in 2011
- The recession has however left deep scars, mainly with respect to the labour market, investment and an increase in indebtedness
- As before, strong heterogeneity within the region:
  - from Croatia and Romania with weak GDP growth in 2011
  - to the Baltics, Turkey and Kazakhstan with more than 5% GDP growth in 2011

## Main findings of the Forecast (II)

- Private consumption and fixed investment are slowly gaining momentum
- Trade and current account balances are deteriorating again
- Future growth significantly slower than before the crisis
- Labour market situation remains tight, in particular for young and low-skilled labour force segments
- The catching-up process nevertheless continues, after having been interrupted for several years

## Main findings of the Forecast (III)

- Significant risks remain that may impair the future development of the CESEE countries:

return of inflation  
 excessive and volatile inflow of capital  
 currency appreciations  
 loss of competitiveness  
 scarce and/or more expensive credit financing  
 consolidation of state finances, deficit reduction  
 weak investment activity  
 weakening of the euro area and of the whole EU

## wiiw Forecast for the NMS-10

GDP growth from 2011 again faster than in the EU-27

	2009	2010	2011	2012	2013
	Forecast				
Bulgaria	-5.5	0.2	3.1	3.5	3.5
Czech Republic	-4.2	2.3	2.2	2.5	3.7
Estonia	-13.9	3.1	5.7	4.5	4.8
Hungary	-6.7	1.2	2.5	3	3
Latvia	-18.0	-0.3	3.6	3.8	4
Lithuania	-14.7	1.3	5	4.5	4.5
Poland	1.7	3.8	3.8	4.2	4.3
Romania	-7.1	-1.3	2	4	3
Slovakia	-4.8	4.0	4	4	4
Slovenia	-8.1	1.2	2	2.5	3
<b>NMS-10</b>	<b>-3.6</b>	<b>2.1</b>	<b>3.1</b>	<b>3.7</b>	<b>3.8</b>
<b>EU-27</b>	<b>-4.2</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	

Source: wiiw (July 2011); Eurostat.

Forecast: wiiw and European Commission (Spring 2011 for EU-27).

## wiiw Forecast for the SEE region:

GDP growth, in %

	2009	2010	2011	2012	2013
	Forecast				
Croatia	-6.0	-1.2	1	2	3
Macedonia	-0.9	0.7	2	3	3
Montenegro	-5.7	0.5	2	3	3
Turkey	-4.8	8.9	6	4.5	4.0
<b>Candidate countries</b>	<b>-4.8</b>	<b>8.0</b>	<b>5.6</b>	<b>4.3</b>	<b>3.9</b>
Albania	3.3	4.0	4.1	3.9	5
Bosnia and Herzegovina	-3.0	0.9	2.2	3	3
Serbia	-3.1	1.8	2.5	3	3
<b>Potential candidate countries</b>	<b>-1.8</b>	<b>2.0</b>	<b>2.7</b>	<b>3.2</b>	<b>3.4</b>
Kazakhstan	1.2	7	7	6	6
Russia	-7.8	4.0	4.5	4.4	4.1
Ukraine	-14.8	4.2	4.5	5	5
<b>NMS-10</b>	<b>-3.6</b>	<b>2.1</b>	<b>3.1</b>	<b>3.7</b>	<b>3.8</b>
<b>EU-27</b>	<b>-4.2</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>.</b>

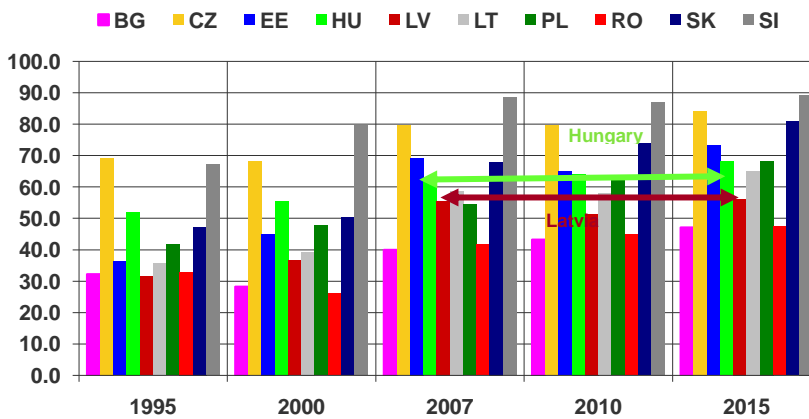
Source: wiiw (July 2011); Eurostat.

Forecast: wiiw and European Commission (Spring 2011 for EU-27).

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## Catching-up process temporarily interrupted

Real GDP per capita, EU-27 average = 100

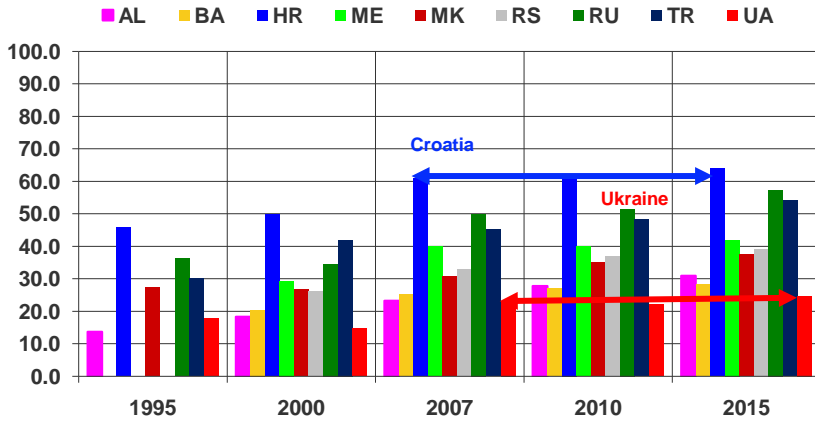


Note: Projection is based on the assumption of a growth differential of 2 percentage points vis-à-vis the EU-15 after 2013.

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### Catching-up process temporarily interrupted

Real GDP per capita, EU-27 average = 100



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