

**PRESS RELEASE**

**NOT TO BE RELEASED BEFORE 13-03-2014, 12.00 a.m.**

**The Vienna Institute for International Economic Studies (wiiw) expects GDP in Central, East and Southeast Europe (CESEE) to pick up speed and grow on average by 2-3% over the forecast period 2014-2016: a major driving force rooted in an upward reversal of public and private investment.** The question remains, however, whether investment-led growth in the CESEE countries is merely a statistical base effect of a few replacement investments or an indication of a profound paradigmatic shift. Increasing evidence suggests the latter for a number of reasons.

During the ongoing economic crisis, public investment was severely reduced. However, in times of extreme uncertainty, the private sector is hesitant to invest. Hence, the public sector has to take the lead. It seems that the time for action has now come. This holds especially true for the New Member States, where towards the end of the previous year additional efforts were made to raise the absorption rate of the funds allocated within the context of the EU multiannual financial framework for 2007-2013 that was about to come to a close. Over the remaining disbursement period of the biennium 2014-2015 substantially higher amounts of EU-funded investment are to be expected. Given that, in practically all cases, national co-financing is also required, CESEE public capital investment will increase, with private investors likely following in its slipstream.

Apart from a number of transport infrastructure projects, a host of thermal power plant projects are in the pipeline, as are several major investments in the construction and expansion of nuclear power plants across the region. Apart from public and semi-public infrastructure investment initiatives that have the potential to spur subsequent private investment, improving growth prospects in the euro area, the CESEE economies' main trading partner, are likely to encourage export industries in the region to modernise and increase their capital stock. This should help avert a lapse into a deflationary spiral and foster a shift towards better equilibrium with lower unemployment rates over the medium term.

However, substantial downward risks include possible effects from the current Russia-Ukraine conflict; in particular the interruption of energy supplies, potential trade embargoes or additional interest rate risk premia. All this could adversely affect investment-led growth in CESEE.

wiiw, 12 March 2014

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## OVERVIEW 2012-2013 AND OUTLOOK 2014-2016

	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				
	2012	2013	2014	Forecast 2015	Forecast 2016	2012	2013	2014	Forecast 2015	Forecast 2016	2012	2013	2014	Forecast 2015	Forecast 2016	2012	2013	2014	Forecast 2015	Forecast 2016
<b>NMS-11</b>																				
Bulgaria	0,8	0,7	1,5	2,3	2,7	2,4	0,4	1,5	2,0	2,0	12,3	12,9	12,5	12,0	11,5	-1,3	2,1	1,0	0,0	-1,3
Croatia	-1,9	-0,9	0,0	1,0	1,5	3,4	2,3	1,5	1,5	1,5	15,9	17,5	17,5	17,5	17,0	0,0	1,4	0,9	0,8	0,7
Czech Republic	-1,0	-1,2	1,4	2,4	3,0	3,5	1,4	1,7	1,8	1,5	7,0	7,0	7,7	7,3	7,0	-2,4	-1,2	-1,5	-1,6	-1,7
Estonia	3,9	0,7	2,6	3,0	3,2	4,2	3,2	2,5	2,8	3,2	10,0	8,6	7,8	7,2	6,8	-1,8	-1,4	-1,6	-2,0	-2,8
Hungary	-1,7	1,1	1,4	2,1	2,0	5,7	1,7	2,9	3,0	3,0	10,9	10,2	10,0	9,0	8,5	1,0	2,0	1,3	0,9	0,6
Latvia	5,2	4,0	4,2	4,1	3,9	2,3	0,0	1,8	2,2	2,6	15,0	11,7	10,2	9,0	8,0	-2,5	-0,9	-1,4	-2,3	-3,2
Lithuania	3,7	3,4	3,6	3,8	4,0	3,2	1,2	1,5	2,8	3,0	13,4	11,8	10,6	9,7	9,0	-0,2	0,9	-0,3	-0,4	-0,5
Poland	1,9	1,6	2,4	3,2	3,1	3,7	0,9	1,8	2,0	2,0	10,1	10,6	10,8	10,5	10,0	-3,7	-1,5	-2,5	-3,0	-3,1
Romania	0,7	3,5	2,4	2,7	3,0	3,4	3,2	2,5	3,0	3,5	7,0	7,4	7,3	7,0	7,0	-4,4	-1,1	-2,0	-3,0	-3,0
Slovakia	1,8	0,9	2,4	3,0	3,2	3,7	1,5	2,0	3,0	3,0	14,0	14,4	14,0	13,0	12,0	2,2	3,2	3,0	2,5	2,1
Slovenia	-2,5	-1,1	-0,5	0,5	1,4	2,8	1,9	1,9	1,9	1,8	8,9	10,1	11,5	11,5	11,0	3,3	6,5	5,3	4,9	4,5
<i>NMS-11<sup>1)</sup></i>	<i>0,8</i>	<i>1,3</i>	<i>2,0</i>	<i>2,7</i>	<i>2,9</i>	<i>3,7</i>	<i>1,5</i>	<i>2,0</i>	<i>2,3</i>	<i>2,4</i>	<i>9,9</i>	<i>10,1</i>	<i>10,2</i>	<i>9,7</i>	<i>9,3</i>	<i>-2,1</i>	<i>-0,1</i>	<i>-0,9</i>	<i>-1,4</i>	<i>-1,6</i>
<i>EA-18<sup>2)</sup></i>	<i>-0,7</i>	<i>-0,4</i>	<i>1,2</i>	<i>1,8</i>	<i>.</i>	<i>2,5</i>	<i>1,4</i>	<i>1,0</i>	<i>1,3</i>	<i>.</i>	<i>11,4</i>	<i>12,1</i>	<i>12,0</i>	<i>11,7</i>	<i>.</i>	<i>1,8</i>	<i>2,7</i>	<i>2,7</i>	<i>2,7</i>	<i>.</i>
<i>EU-28<sup>1)2)</sup></i>	<i>-0,4</i>	<i>0,1</i>	<i>1,4</i>	<i>2,0</i>	<i>.</i>	<i>2,6</i>	<i>1,5</i>	<i>1,2</i>	<i>1,5</i>	<i>.</i>	<i>10,5</i>	<i>11,0</i>	<i>10,7</i>	<i>10,4</i>	<i>.</i>	<i>0,9</i>	<i>1,7</i>	<i>1,7</i>	<i>1,7</i>	<i>.</i>
<b>Candidate countries</b>																				
Macedonia	-0,4	3,0	3,0	3,0	3,0	3,3	2,8	3,0	3,0	3,0	31,0	29,2	29,0	28,0	28,0	-3,0	-2,0	-4,0	-4,0	-4,0
Montenegro	-2,5	2,5	2,1	2,9	3,0	4,1	2,2	3,0	3,0	3,0	19,7	20,0	19,0	19,0	19,0	-18,7	-15,0	-15,4	-15,4	-15,0
Serbia	-1,5	2,4	-0,5	1,0	1,9	7,8	7,8	4,0	4,0	3,0	23,9	23,6	24,0	23,0	23,0	-10,7	-7,0	-6,0	-6,0	-6,0
Turkey	2,2	3,8	2,2	3,5	4,5	9,0	7,5	6,0	6,5	6,8	8,2	8,5	9,0	9,0	8,5	-6,2	-7,9	-3,5	-5,5	-6,5
<b>Potential candidate countries</b>																				
Albania	1,5	1,0	1,7	1,5	1,0	2,0	2,0	1,0	1,0	1,0	13,4	14,0	15,0	15,0	15,5	-10,6	-11,2	-9,5	-8,8	-7,8
Bosnia and Herzegovina	-1,7	0,8	1,9	3,0	3,0	2,0	0,2	1,5	2,0	2,0	28,0	27,5	27,0	27,0	27,0	-9,6	-9,0	-8,0	-7,0	-8,0
Kosovo	2,5	4,0	5,0	4,0	4,0	2,5	1,8	4,0	4,0	3,0	30,9	31,0	29,0	30,0	30,0	-7,7	-6,7	-12,3	-12,9	-10,6
Kazakhstan	5,0	6,0	6,0	6,5	5,5	5,2	5,8	8,0	6,0	6,0	5,3	5,2	5,1	5,0	5,0	0,3	0,1	2,1	4,1	6,7
Russia	3,4	1,3	1,6	2,3	3,0	5,1	6,8	6,0	5,0	5,0	5,5	5,5	5,5	5,5	5,4	3,6	1,6	1,3	0,9	0,9
Ukraine	0,2	0,0	-1,1	0,9	1,8	0,6	-0,3	4,0	5,0	4,5	7,5	7,5	7,5	7,5	7,5	-8,1	-8,9	-7,4	-6,7	-6,0

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

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

Source: wiw (March 2014). Eurostat. Forecasts by wiw and European Commission for EU and euro area (Winter Report. February 2014).