

133 252 224



Wiener Institut für  
Internationale  
Wirtschaftsvergleiche

The Vienna Institute  
for International  
Economic Studies

**Current**

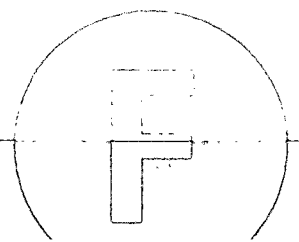
**Analyses and Forecasts | 10 | July 2012**

**Economic Prospects for Central, East and Southeast Europe**

*Leon Podkaminer, Kazimierz Laski, Peter Havlik, Hermine Vidovic, Doris Hanzl-Weiss, Michael Landesmann et al.*

**Fasting or Feasting? Europe – Old and New – at the Crossroads**

**C 267273**



# Contents

<i>Executive summary</i> .....	<i>i</i>
<b>Fasting or feasting? Europe – old and new – at the crossroads</b> .....	<b>1</b>
External environment: stable energy prices and the critical importance of extraordinary developments in the euro area .....	1
The euro area public debt problem: serious but... ..	3
... not really hopeless? .....	4
The world economy recovers - but the euro area returns to recession .....	6
Here we go again: Growth slows down in Central, East and Southeast Europe .....	7
Trade in goods and services: diminishing impact on GDP growth in 2012 .....	12
'Floaters' vs. 'fixers': differential real exchange-rate developments .....	16
'Absolute' levels of over- and under-valuation of the region's price levels .....	19
Growth of gross fixed-capital formation: marked revival in the Baltic countries and steady growth in the East - unimpressive elsewhere .....	21
Growth of private consumption: still quite strong in the East, but slowing down in the new EU member states and in the Balkans .....	25
Fiscal consolidation for the sake of...fiscal consolidation .....	28
Threats and opportunities .....	30
<b>Special section I: Should the European Union strive to achieve permanently balanced public finances?</b> .....	<b>32</b>
Balanced public finances are incompatible with private-sector demand for financial assets .....	32
Destructive fiscal consolidation .....	36
Conclusions .....	38
<b>Special section II: Unit labour cost adjustments in times of crisis</b> .....	<b>40</b>
<b>Special section III: Labour market developments and prospects</b> .....	<b>46</b>
<b>Special section IV: Structural distortions before and adjustments after the crisis: a GIIPS-NMS comparison</b> .....	<b>50</b>

## Country reports

Bulgaria: Economy at the freezing point .....	55
The Czech Republic: The second dip materialises .....	59
Estonia: Domestic demand reinforces growth .....	63
Hungary: Sliding into recession .....	67
Latvia: Eurozone within reach .....	71
Lithuania: Above-average growth .....	75
Poland: Soft landing ahoy .....	77
Romania: New government relaxing the budget .....	83
Slovakia: Export-led growth despite the EU crisis .....	87
Slovenia: Returning recession .....	91
Croatia: Waiting for the turnaround .....	95
Macedonia: The Greek shadow .....	99
Montenegro: Anger and EU Integration .....	101
Turkey: Growth and inflation – mutual slowdown .....	103
Albania: High heels sans Achilles .....	107
Bosnia and Herzegovina: An economy under attack .....	109
Serbia: Post-election crisis .....	111
Kazakhstan: Banking sector problems still to be solved .....	115
Russian Federation: Few changes after the tandem shuffle .....	119
Ukraine: Social spending spree .....	123
<b>Appendix: Selected indicators of competitiveness .....</b>	<b>127</b>