

**SeeNews**

• Research on demand

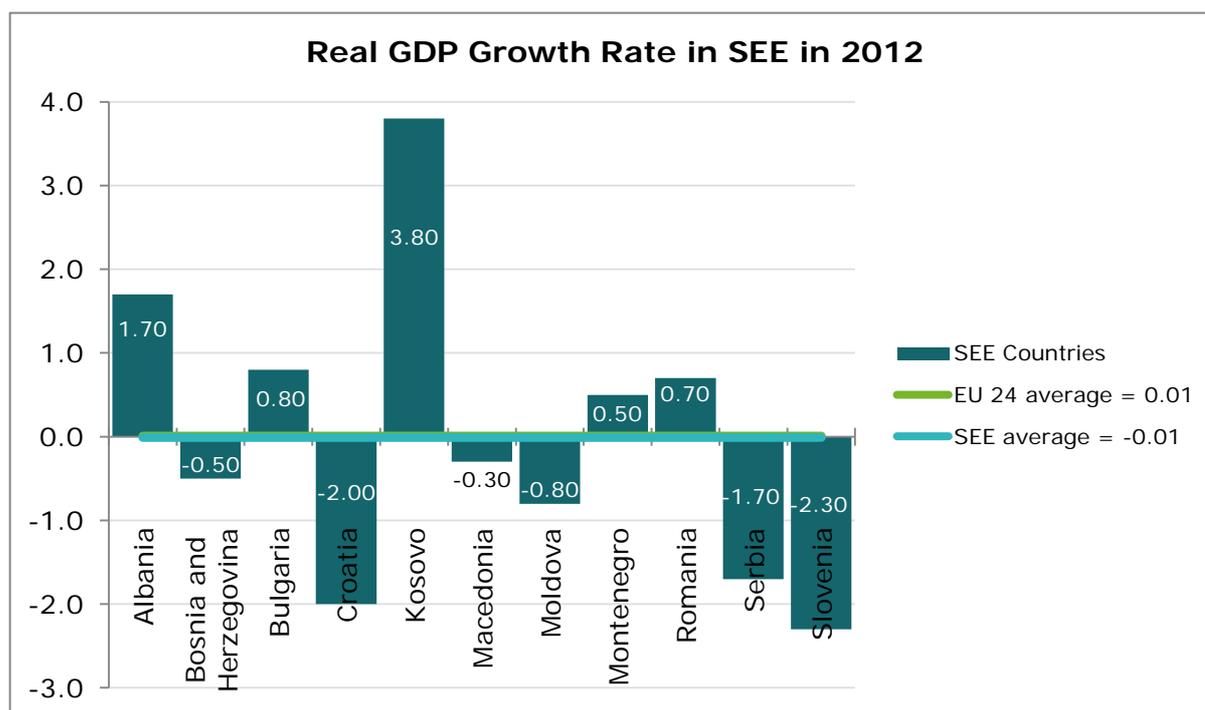
## **SEE countries in 2012 – "a rising tide lifts all boats"**

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Southeast European (SEE) countries, with their own good and weak points, painted a mixed picture in 2012, but in general slowdown in economic activity and soaring unemployment rates put a mark on the year all over. The recession in the Eurozone had unfavourable influence upon SEE countries' foreign direct investment and external demand.

All countries in the region reported slower GDP growth rates in 2012 than in 2011. The main deterrent to the economic activity was the crisis in the Eurozone, the major trade partner of SEE countries, which led to slump in exports in 2012. Low household consumption was another important cause for the sluggish performance of SEE economies. Harsh winter, spring floods, summer drought and forest fires in the region devastated crops and affected trade, physical infrastructure and economic activity in the region.

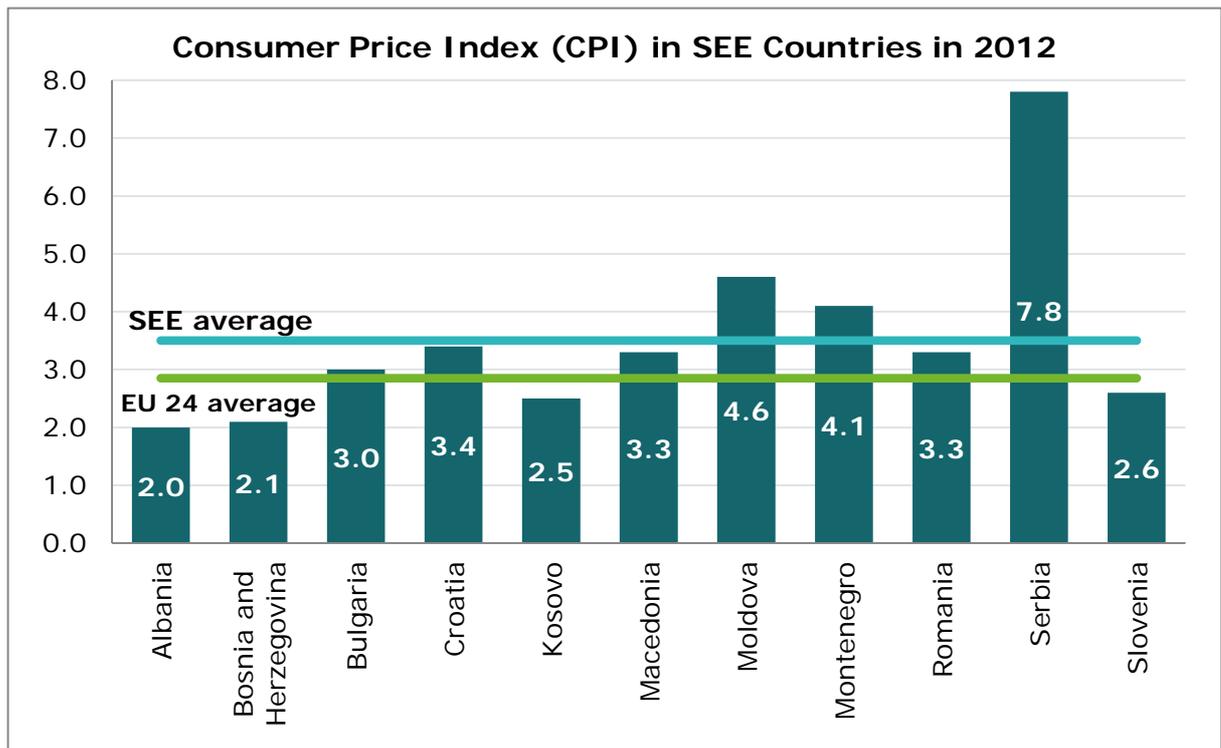


However, data from national statistical offices reveals that countries such as Albania, Bulgaria, Kosovo, Montenegro and Romania achieved a slight economic growth. With 3.8% Kosovo registered the steepest increase in GDP in SEE in 2012 as a result of remittances from emigrants, significant public investments and stable private consumption and public expenditures. In Albania

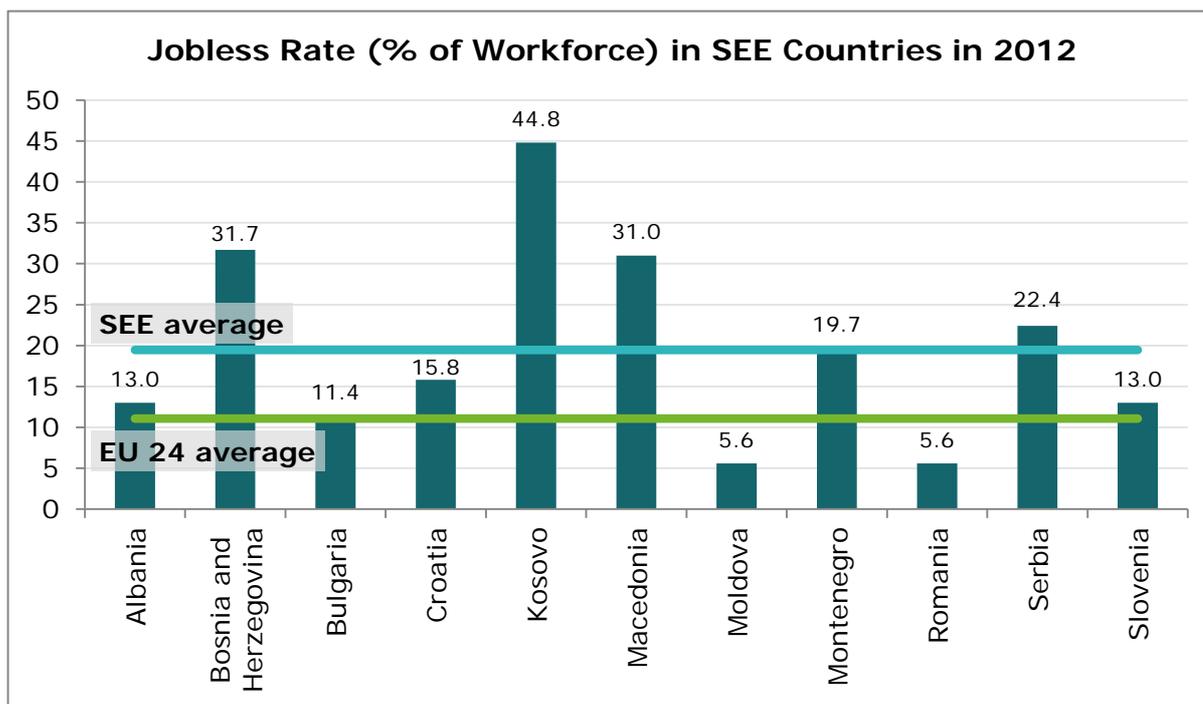
the positive result of 1.7% was supported by the thriving tourism industry and the boost in the domestic production and demand. In Bulgaria the GDP went up by 0.8% in 2012 compared to 1.8% in 2011. The main reason for the weaker economic activity was the dwindling foreign demand for Bulgarian goods and services. The Montenegrin tourism sector enjoyed dynamic development in 2012 and contributed to the 0.5% annual GDP rise. The economic recovery process in Romania slowed down in 2012. The falling agricultural output as a result of the atrocious weather conditions kept the GDP growth rate moderate at 0.7% in 2012 versus 2.2% in 2011.

The GDP decline monitored in the other SEE countries in 2012 was determined by various factors. Slovenia suffered the most severe downturn in the region with -2.3% on the year. It resulted from considerable reduction in domestic investment spending, insufficient government and household consumption and negative trade balance. In Croatia the lack of investments and heavier tax burden on the population, which caused another decline of the domestic demand, were the crucial factors for the GDP decrease of 2.0%. In Bosnia and Herzegovina intrinsic economic deficiencies, as well as waning demand in EU and the neighbouring countries, conducted to the GDP shrinkage of 0.5%. The Eurozone financial crisis has led to declined internal demand in Macedonia and the country joined the list of SEE countries with diminishing GDP with 0.3%. In Moldova the GDP contracted by 0.8%, greatly affected by the downslide in agricultural production by 20%. In Serbia the GDP change of -1.7% was a consequence of sluggish foreign demand and low temperatures during winter that led to temporary close of many production facilities.

Inflation calmed down in 2012 and was lower than in 2011 in eight of the SEE countries. The main drivers behind the price rise in SEE were the high energy and food prices. The lowest inflation was monitored in Albania (2.0%), Bosnia and Herzegovina (2.1%) and Kosovo (2.5%). The combination of very low inflation rates and sound GDP growth in Albania and Kosovo illustrates a common trend in emerging markets plagued by uncertainty. As long as prices are kept stable, they create trust in the economic system and encourage both investments and final consumption. The highest rates occurred in Serbia (7.8%), Moldova (4.6%) and Montenegro (4.1%).



The average jobless rate in SEE in 2012, when Croatia was still outside the European Union, was notably above the EU24 (EU excluding Bulgaria, Romania and Slovenia) average of 11.08%. The slow economic recovery and tough austerity measures carried out by governments resulted in worsening situation on the labour market in 2012. These measures helped most countries maintain acceptable levels of GDP and inflation rates, but the price was borne by the citizens through climbing unemployment rates. Kosovo remained on top of the negative ranking with striking 44.8%, followed by Bosnia and Herzegovina with 31.7% and Macedonia with 31%. At the other extreme, Romania and Moldova boasted the lowest jobless rates in the region with 5.6% each. This value is a consequence of the traditionally high share of subsistence employment in agriculture and labour migration to other EU countries. High unemployment rates in SEE in 2012 exercised adverse influence on domestic consumption in the countries, further impeding economic progress.



Macroeconomic stability varies substantially throughout the region. While Bulgaria and to some extent Romania have put significant efforts in that direction, their regional peers Serbia, Croatia and Slovenia failed to secure public debt sustainability in 2012.

### Forecasts

According to most expectations, 2013 will mark a weak, but still better than in 2012, improvement of the SEE economic activity, affected by individual consumption, investments and exports. Our forecasts are for an average annual GDP growth in SEE of 0.6% in 2013 and 1.1% in 2014.

According to Raiffeisen Research the average real GDP in SEE (excluding Macedonia, Moldova and Montenegro) will go up by 0.9% in 2013 compared to the estimated -0.2% in 2012. In Serbia the GDP is expected to grow by 1.0% in 2013 opposed to -1.9% in 2012, as registered by Raiffeisen Research - the largest positive change among all SEE countries. The growth is expected to slow down only in Bulgaria to 0.5% from 0.8% in 2012.

Inflation is anticipated to keep approximately the same values in 2013 in the majority of SEE countries, with Serbia being the only exception – a rise to double-digit number above 11% compared to the present 7.8%.

The average jobless rate for SEE region is awaited to alleviate by 2014. The most considerable decrease is predicted to come about in Macedonia – to 28%. Slovenia will be the single country to deviate from the common trend.

The accession of Croatia to the European Union in July 2013 will impose certain effects on the short-term macroeconomic situation in the country. A general concern is that the EU membership will push prices in Croatia up at faster rate. However, immediately after the accession, electricity and mobile communication prices went down due to increased competition and regulatory changes. The access to EU financing and foreign markets will give impetus to the Croatian economy to finally score positive GDP growth after four years of recession.

Similar, although less explicit effects are expected to follow from the official start of EU accession negotiations with Serbia and Macedonia.

Given the difficulties faced by the Eurozone and the disastrous macroeconomic condition in the European South, the stable picture in SEE suggests that the small boats could survive more easily in the rough waters.