National Bank of Poland

Economic Institute
Bureau of World Economy

# Analysis of economic situation in the countries of Central and Eastern Europe

January 2012

The report *Analysis of economic situation in the countries of Central and Eastern Europe* is prepared twice a year by economists of the Bureau of World Economy in cooperation with the Bureau of Public Finance at the Economic Institute of the National Bank of Poland. The report presents an analysis of the current economic situation in the region of Central and Eastern Europe and the key macroeconomic issues in individual countries of this region.

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This report has been prepared for information purposes on the basis of various research sources independent of the National Bank of Poland.

General information on CEE countries in 2010

| | Area ($km^2$) | Population | | GDP (EUR bn) | GDP per capita (EUR) | |
|---|---|---|---|---|---|---|
| | | thousand of inhabitants | inhabitants per 1 $km^2$ | | current prices | PPP adjusted |
| Bulgaria | 110 879 | 7 564 | 68 | 36 034 | 4 700 | 10 600 |
| Czech Republic | 78 867 | 10 507 | 133 | 145 049 | 13 800 | 19 500 |
| Estonia | 45 227 | 1 340 | 30 | 14 501 | 10 800 | 15 900 |
| Lithuania | 65 300 | 3 329 | 51 | 27 410 | 8 300 | 14 200 |
| Latvia | 64 559 | 2 248 | 35 | 17 970 | 8 000 | 12 600 |
| Poland | 312 685 | 38 167 | 122 | 353 667 | 9 300 | 15 200 |
| Romunia | 238 391 | 21 462 | 90 | 121 942 | 5 700 | 11 000 |
| Slovakia | 49 035 | 5 425 | 111 | 65 906 | 12 100 | 18 100 |
| Slovenia | 20 273 | 2 047 | 101 | 35 974 | 17 600 | 21 200 |
| Hungary | 93 028 | 10 014 | 108 | 98 446 | 9 800 | 15 700 |

Source: Eurostat.

Gross domestic product growth rate (seasonally adjusted constant prices)

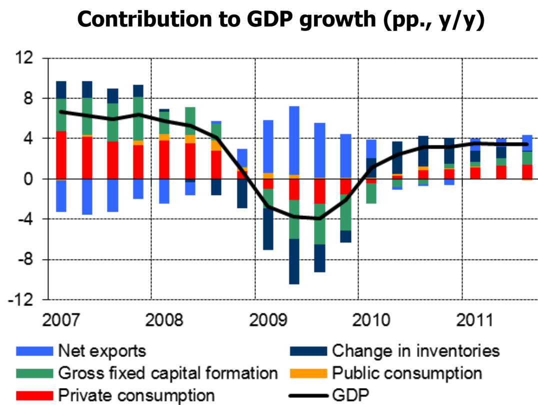
| | 2010 | 2011 | | | 2010 | 2011 | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| | q/q | | | | y/y | | | |
| Bulgaria | 0.5 | 0.5 | 0.3 | 0.3 | 3.7 | 3.3 | 2.0 | 1.6 |
| Czech Republic | 0.6 | 0.6 | 0.2 | -0.1 | 3.0 | 2.8 | 2.0 | 1.2 |
| Estonia | 2.1 | 3.0 | 1.7 | 1.2 | 6.2 | 9.5 | 8.4 | 8.3 |
| Lithuania | 1.8 | 2.1 | 1.8 | 1.4 | 4.4 | 5.4 | 6.5 | 7.3 |
| Latvia | 0.9 | 1.2 | 2.1 | 1.7 | 3.1 | 3.1 | 5.3 | 6.1 |
| Poland | 0.9 | 1.0 | 1.2 | 1.0 | 4.1 | 4.5 | 4.6 | 4.2 |
| Romunia | 0.5 | 1.2 | 0.9 | 1.8 | 0.0 | 1.3 | 1.9 | 4.4 |
| Slovakia | 0.8 | 0.8 | 0.8 | 0.8 | 3.4 | 3.4 | 3.4 | 3.2 |
| Slovenia | 0.3 | -0.1 | 0.0 | -0.2 | 2.2 | 1.9 | 0.7 | -0.1 |
| Hungary | 0.2 | 0.5 | 0.2 | 0.5 | 2.5 | 1.9 | 1.7 | 1.5 |

Source: Eurostat.

## Executive Summary

Following a quick recovery in 2010, the first three quarters of 2011 saw gradual stabilisation of the economic growth in Central and Eastern Europe (CEE). GDP in the region increased during this period by 3.3%. At the same time a change in the growth structure was observed. The contribution of net exports increased significantly, primarily due to slower imports growth. On the other hand, the expected deterioration of economic situation decelerated the process of rebuilding inventories, which had been fuelling the growth since early 2010. Domestic demand, consumption in particular, were growing at a very slow rate in that period.

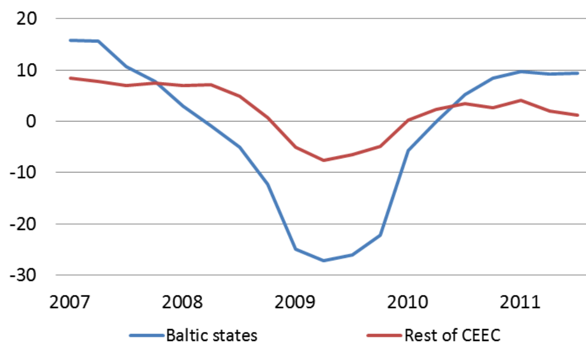
**Contribution to GDP growth (pp., y/y)**




Source: Eurostat

GDP growth rate varied among the countries in the region. Baltic states, recovering from the deep crisis of 2008–2010, recorded the average growth rate in the first three quarters of 2011 at the level of 6.5% y/y (almost 9% in Estonia). At the opposite end were Slovenia, Hungary and the Czech Republic, where annual GDP growth rate did not exceed 2% y/y (0.9% in Slovenia). Diversified growth within the CEE region resulted primarily from the disproportions in the pace of domestic demand growth.

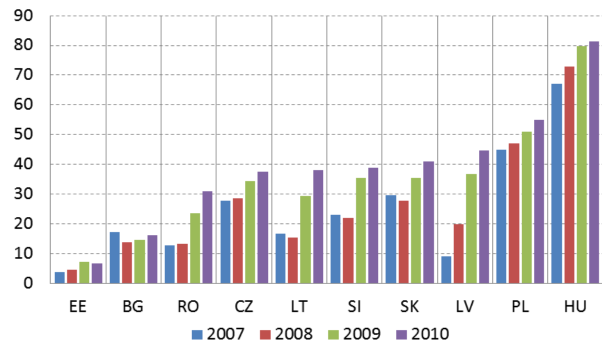
**GDP growth rate in the Baltic states and the rest of CEE (in %, y/y)**




Source: Eurostat

In the Baltic states in 2011 private consumption grew by 6% y/y. Fixed capital formation increased even faster - more than 20% y/y. In other countries the growth was much slower and amounted to 1.6% y/y and 2.3% y/y, respectively. The bipolar GDP growth in the CEE region resulted, among others, from the fact that in the previous years, the Baltic states conducted an extensive fiscal consolidation plans, whereas other countries in the region are currently undergoing such process (Czech Republic, Slovakia, Hungary) or practically have not even started it yet (Slovenia). These actions led not only the reduction in public expenditure, but also contributed to the contraction of household spending and reduction in public investment in 2011.

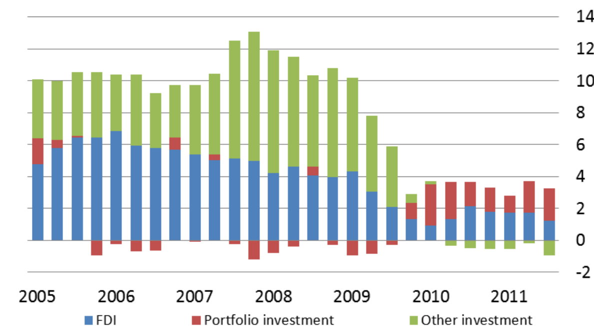
**Public debt in % of GDP**




Source: Eurostat

Slow domestic demand growth in the CEE countries also results from deceleration in lending activity. Quick credit growth, observed till mid-2008, was, in the major part, financed by the inflow of foreign capital (mainly from euro area countries) and constituted one of the main factors behind fast economic growth in CEE countries in that period.

**Net foreign Capital inflow into CEE economies, in % of GDP, 4-quarter moving average**




Source: Eurostat

During the first wave of the crisis, inflow of capital from European parent banks, which had dominated the banking sector in the CEE countries, into their branches and subsidiaries ceased. Such a situation persisted until the end of 2011. It is difficult to expect that in the nearest future banks from the euro area will resume to supply their branches and subsidiaries in CEE countries, taking into account their liquidity problems and the necessity to fulfil increased capital requirements. This concerns, in particular, the Balkan states (Bulgaria, Romania), where banks from countries which had most been affected by

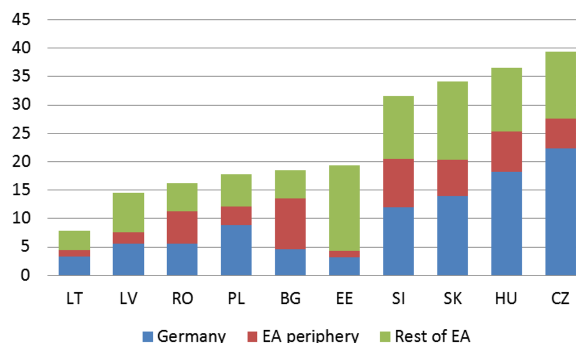
the crisis (Greece, Italy) play a dominant role in the banking sectors.

A characteristic feature of the CEE bank credit markets was a high share of foreign currency (FX) loans. It was particularly visible in Romania and Hungary, where the FX loans represented approximately 2/3 of all loans for the private sector. Increased risk aversion related to the euro area crisis led to a depreciation of the CEE's currencies in the second half of 2011. It was particularly noticeable in case of Hungarian forint, which depreciated against the euro by 19% between May 2011 and January 2012. Depreciation of domestic currencies, accompanied by such a large share of FX loans, has an effect similar to monetary policy tightening, causing reduction in households' and enterprises' disposable income and thus additionally reducing their spending.

Increased risk aversion also resulted in a marked growth in government bond yields. This implies the existence of yet another factor, apart from currency depreciation, increasing the debt service cost, in this case primarily the public debt service cost. In 2011, it represented a particularly significant burden for the economies of the region because in 2008–2010 a sharp increase in public debt was observed triggered by the deterioration in public finances during the first wave of the crisis. A decrease in foreign investors' confidence in the second half of 2011 concerned, to the largest extent, Hungary and Slovenia, which struggled with domestic economic and political problems over the last months. On the other hand, the Czech Republic was treated as a "*CEE safe haven*" and its financial assets suffered the least during the euro area crisis. Better attitude towards Czech economy resulted, among others, from a positive assessment of the financial system stability and relatively small external imbalances.

With domestic demand persisting at a low level in the majority of countries of the region, the main driving force of economic recovery in 2011 was exports. The anticipated decrease in the euro area demand, resulting from the persisting crisis, will be the factor hampering GDP growth in the region. The effects of weaker euro area demand may be partially compensated for by the changing geographical structure of exports. As observed in the previous years, the weakening European demand might be substituted by increased exports to the emerging markets. A specific example in this respect is the Slovak automotive sector. One of the major car manufacturers in this country increased sales of its vehicles to China (as a result, in 2011 Q3, China had a 20% share in the exports of cars manufactured in Slovakia) considerably, due to declining demand in Europe. In consequence, China's share in exports from Slovakia increased to 2.9% (while in the remaining countries of the region, it amounts, on average, to only 1.1%).

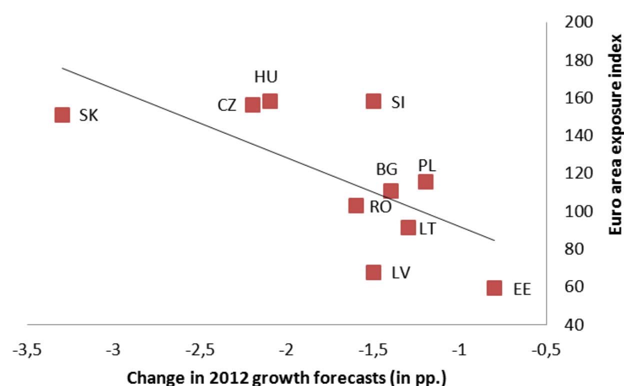
**CEE exports to the euro area as % of GDP**




Source: Eurostat

The declining exports growth rate and persistently low domestic demand will probably lead to weaker economic activity in the region in 2012. The anticipated slowdown will be relatively less noticeable in Poland and the Baltic states, where GDP growth rate in 2012 should exceed 2.5%. It results from smaller exposure of these economies to the euro area. On the other hand, in the Czech Republic, Slovakia and Hungary, a fall in economic activity will probably be more significant. A particularly severe slowdown is anticipated in Hungary, where GDP may even decrease in annual terms. Additionally, strong depreciation of the forint and a rise in indirect tax rates (the highest VAT rate in the EU — 27% since the beginning of 2012) will also make Hungary the country with the highest inflation in the region.

**Euro area exposure and the change in 2012 growth forecasts**




Source: Eurostat, FitchRatings, European Commission

# COUNTRIES OF CENTRAL AND EASTERN EUROPE

**Diversified economic growth rate**

Economic recovery in countries of Central and Eastern Europe, which began in 2010, continued (and even accelerated) in the first half of 2011. The annual GDP growth rate during the first three quarters of 2011 amounted to 3.3% as compared to 2.2% in 2010. GDP growth rates in the region in each of the three quarters of 2011 was at a similar level, although growth structure was changing. Since the beginning of 2011, process of rebuilding inventories decelerated and deteriorating imports boosted the role of net exports.

However, the situation in individual countries of the region was diversified. It may be said that Central and Eastern Europe is a region with two different speeds. On the one hand, the growth rate in Poland and Baltic states between 2011 Q1 and Q3 exceeded 4% y/y (in Estonia, it amounted to almost 9%). In Slovakia, it was slightly lower, amounting to 3.5% y/y. On the other hand, GDP growth in the remaining countries was considerably lower in this period and did not exceed 2% y/y. In Lithuania, Latvia and Romania the GDP growth rate was increasing in each subsequent quarter of 2011, while in other countries of the region it was gradually dropping. It was particularly visible in Slovenia (the only country in the region to have experienced a decrease in real GDP y/y in 2011 Q3), the Czech Republic, Slovakia and Hungary.

**Exports stimulated by external demand**

The common factor stimulating the recovery after the first wave of the crisis in CEE countries was a fast growing export. Although its pace of growth decelerated in 2011, it was still the fastest growing national accounts category. In the first three quarters of 2011, exports increased by nearly 11% y/y (as compared to 14% in 2010). Its high growth rate was observed in all countries of the region. With the exception of Poland and Slovenia, it increased at a double digit pace. The dynamic exports growth resulted from strong external demand. It concerned primarily Germany, the main trading partner of CEE countries, as much as fast-developing emerging, mainly Asian, markets. At the same time, with the exception of Baltic states, imports growth rate decreased from 12.5% in 2010 to 8% in the first three quarters of 2011, which resulted in the increased of net exports contribution to economic growth rate in the CEE region.

**Division of the region according to growth rate of consumption ...**

Diverse GDP growth rate resulted primarily from disproportions in domestic demand growth rates. In Poland, private consumption had been relatively high since the beginning of 2010. Its growth pace exceeding 3% y/y in the first three quarters of 2011. During the corresponding period of 2011, a clear rise in private consumption in the Baltic states could be observed. Private consumption in these countries was growing at a rate exceeding 3% y/y (up to 6% in Lithuania) due to increased income of households (improved situation in the labour market, growth in foreign transfers inflow), and a reduced scale of fiscal tightening. In other countries of the region household consumption was much weaker in that period. Unlike the Baltic states, the labour market in these countries was still experiencing stagnation, accompanied by intensified fiscal consolidation efforts. At the same time, the entire CEE region continued to experience very low activity on the credit market in 2011, in particular regarding consumer loans, which was an additional factor responsible for the low level of households spending.

Low household consumption in most CEE countries was accompanied by deteriorating consumers sentiment. A survey conducted by the European Commission indicates its successive decrease since early 2011 (except for Lithuania and Latvia, where consumer sentiment improved). Data on retail sale also indicate persistently low consumer activity. Its value remained practically unchanged from January to October 2011.

The process of ongoing fiscal consolidation in the CEE region affected the very low growth of public consumption. The largest increase was recorded in the Baltic states, where the process of fiscal policy tightening in 2009 and 2010 was especially pronounced . On the other hand, Slovakia and Romania experienced strong drops in public consumption (by 3% and 4%, respectively, as compared to the first half of 2010).

**… and investment**

The situation was similar as regards gross fixed capital formation. However, in this case, the disproportion in growth rates was even more considerable. A very quick increase in fixed investment during 2011 Q1–Q3 could be observed in Baltic states (more than 20% y/y) which was can be attributed to low base effect and the postponement of investments which had been given up in preceding years. In addition, growing domestic and foreign demand, in the real estate market among others, motivated entrepreneurs to invest. A positive, albeit considerably lower investment expenditure growth was also observed in Bulgaria, Poland, Romania and Slovakia. However, in these countries, investments also had a considerable positive impact on economic growth. On the other hand, investment expenditure in the remaining countries of the region (Czech Republic, Hungary, Slovenia) was decreasing, similarly to 2010, and in the case of Slovenia — at a two-digit rate.

**Slowdown in industry**

A strong increase in domestic demand, which took place in 2010 and persisted until mid-2011, involved stimulation of industrial activity. It contributed to continued rebuild of inventories in the region. An increase in inven-

tories was observed in all countries of the region except for Slovakia; in the majority of them, it was the main component of economic growth. Yet, Q3 saw a drop in inventories, accompanied by the observed slow-down in industry during this period.

In the first ten months of 2011, the growth rate of manufacturing which was the main driving force of recovery after the 2008–2009 crisis, gradually decreased. In January 2011, the annual growth in manufacturing output amounted to nearly 12% y/y and subsequently decreased to 4% y/y in October 2011. The anticipated deterioration in economic situation in the euro area and hence lower demand on the part of its member states suggests further decrease in manufacturing output. This is supported by industrial sentiment indices. Both PMI indices for the main economies of the region (Poland, the Czech Republic, Hungary) and business confidence indices released by the European Commission have been constantly decreasing since the beginning of 2011. The decline in business sentiment was primarily due to deteriorating perspective of economic growth in the region and falling number of orders, foreign ones in particular.

**Deteriorating outlook for growth as a result of the crisis in the euro area**

The debt crisis and the resulting economic slow-down in the euro area countries seem to be the main factor affecting economic developments in the CEE region during the coming quarters. Escalation of the crisis, observed in the second half of 2011, has led to a major revision of growth forecasts, also for the CEE countries. In November 2011, the European Commission revised downward its forecast for 2012 for all countries of the region as compared to the preceding forecasting round from May 2011. The forecast deteriorated to the largest extent for Slovenia, the Czech Republic, Hungary and, primarily, Slovakia — the countries most exposed to the euro area economy.

The euro area crisis is spreading to the countries of the region primarily due to lower demand of the main trading partners and the resulting fall in export. Crisis in the euro area will indirectly weaken the already slow recovery of domestic demand in the region, among others, through further reduction in lending by local branches of European banks and cessation of capital inflow from the countries of Western Europe. Additional factors curbing growth in domestic demand include continued fiscal consolidation and persisting stagnation in the labour market. Moreover, higher risk aversion caused by the debt crisis in the euro area, and, at the turn of 2011 and 2012, also the political and economic crisis in Hungary, have led to considerable depreciation of currencies (CZK, HUF, PLN, RON) and higher bond yields in the region. Not only will it cause higher costs of foreign debt service (in particular, in the case of the public sector), but also reduce the disposable income of majority of households and enterprises with foreign currency loans (in particular in Romania and Hungary).

As a result, GDP growth in the region may decline to 1.5% in 2012 as compared to the anticipated growth of 3% in 2011. The 2012 growth rate forecasts in the CEE region were considerably revised downward in the second half of 2011. In July, GDP in the region was still expected to increase in the following year faster than in 2011, i.e. by 3.6%. The 2012 growth rate in individual countries in the region will be varied, albeit to a lesser extent than in 2011. The fastest growth is once again anticipated in the Baltic states and in Poland (approx. 2.5% y/y), while in the Czech Republic and Slovenia, it should not exceed 0.5% y/y. In Hungary GDP is even expected to drop in 2012.

**Persisting high unemployment rate**

One of the factors behind weak private consumption in the region was lack of considerable improvement of the situation in the labour markets in the CEE countries. After a period of strong growth in the unemployment rate, observed at the end of 2008 and in 2009, for the subsequent 3 years, the rate remained at a high, almost unchanged level. Between January and October 2011, its slight decrease was recorded in the Czech Republic, Slovenia and Slovakia (0.1–0.5 pp.) and a slightly more pronounced fall was seen in Hungary (1.2 pp.). Since the beginning of 2011, the harmonised unemployment rate in the region declined considerably only in the Baltic states (by approx. 3 pp.); however, even in their case, it was still nearly three times higher than in early 2008. In Poland and Bulgaria, during the same period of 2011, the unemployment rate increased (by 0.3 and 0.8 pp., respectively). The lowest unemployment rate in the region was recorded in the Czech Republic (6.7% in October 2011); the highest, in spite of its considerable drop, in Lithuania (15% in September 2011).

**Jobless recovery**

In spite of the recovery in the economy in the first half of 2011, the number of employed in the region during this period remained practically unchanged. The number of full-time jobs in 2011 Q2, in year-on-year terms, was considerably higher only in the Baltic states, where economic growth was the highest. On the other hand, in Bulgaria, Romania and Slovenia, employment continued to fall. The persisting high activity in industry in the first half of 2011 boosted employment in this sector. On the other hand, employment in agriculture dropped considerably. The number of employed in services increased only in those countries which experienced the fastest recovery of domestic demand in the first half of 2011, i.e. the Baltic states and Poland, as well as the Czech Republic.

**Stagnation in the labour market, also in the coming years**

According to the European Commission forecasts, stagnation in CEE labour markets, observed in 2011, will also persist in 2012 and 2013. According the EC forecast, the unemployment rate in the countries of the region will continue to decrease at a very slow pace, also in the Baltic states, where the anticipated decrease will be slower than the hitherto observed one. In the Czech Republic, Slovenia and Hungary, the unemployment rate is even expected to rise during the following two years. Moreover, the European Commission does not expect any acceleration in employment growth in the region, which, on the one hand, is supposed to result from deteriorated situation in the industry, and, on the other — an attempt to increase efficiency in the public sector through employment reduction (for this reason, the Czech Republic is expected to see lower employment in 2012).

**Growing labour costs in spite of stagnation in the market**

Despite persistently high level of unemployment in 2011, in particular in Q3, the wage growth stabilised, and even increased in the majority of countries in the region (in particular, in Lithuania and Latvia) as compared to the end of 2010. Only in Poland and Estonia, the annual wage growth rate declined as compared to 2010.

Higher wage growth, accompanied by stabilisation of the growth rate of employment has led to increased growth in unit labour costs (ULC) in the region. Higher ULC growth was only partially set off by the increased rate of economic growth. Only in Poland and Estonia, where the growth rate of wages declined in 2011, the economic growth resulted, to a large extent, from improved labour efficiency, which means that ULC growth decelerated in these countries during this period.

Forecasts for 2012 suggest continuing, albeit slower than in 2011, wage growth, which will be the main driving force behind further increase in unit labour costs.

**Inflation under the influence of external factors**

The level of inflation in individual CEE economies in 2011, similarly to the previous years, was diversified. The lowest average inflation between January and November 2011 was observed in the Czech Republic and Slovenia (2.1%), while the highest — in Romania (6.1%). The average for the entire region was 3.9%. In spite of diversified level, changes in the inflation path in individual CEE countries were similar, which was determined by the development of prices of food and energy commodities in the global market in 2011.

Rising food prices, in particular of non-processed food, as well as persisting high growth of energy prices have elevated inflation in the region in the first half of 2011. In January 2011, it amounted to 3.7% (weighted average for the CEE countries), while in May 2011 — to as much as 4.5%. In the subsequent four months (June-September), inflation in the region fell to 3.4% due to a considerable decrease in food price growth. Additionally, July 2011 saw a sharp decrease in inflation in Romania (by more than 3 pp.), which exerted downward pressure on consumption price growth in the region. October and November 2011 saw yet another rise in inflation (to 3.9%). This time, apart from increased dynamics of food prices, also energy prices contributed to higher HICP growth . Increased inflation during these months was observed in particular in floating exchange rate regime countries (Czech Republic, Poland, Hungary, Romania) and was driven by the depreciation of currencies of these countries seen since September 2011. Weakened domestic currencies additionally contributed to the increase in energy prices, in particular fuels, in the region.

**Core inflation on the rise**

In spite of persisting stagnation of consumer demand, rise in core inflation (HICP excluding energy and food prices) could be observed practically since the beginning of 2011 in nearly the entire region (except for Romania). In early 2011, it amounted to 1.2% y/y (weighted average for the CEE countries) to increase to 2.3% y/y in November — the highest level since December 2009. The driving force behind the rise in core inflation should not be sought in increased inflationary pressure since the situation in the labour market did not improve considerably during this period and household consumption expenditure did not expand. Therefore, it seems that this increase resulted primarily from high energy and food prices being passed through into higher prices of other categories of consumer goods. Growth rate of indirect taxes (primarily VAT) also contributed to higher core inflation.

**Lower impact of global factors on inflation in the coming years**

In the years 2012–2013, contribution of energy and food prices to inflation in the CEE countries should decline. They should stabilise a result of stabilisation of prices in the global commodity markets. In early 2012 core inflation is expected continue on an upward trend as a result of high energy and food prices being passed through into rising prices in other categories. Additionally, in some countries of the region (among others, in the Czech Republic, Poland and Hungary), another hikes in indirect taxes rates (VAT, tobacco, alcohol and fuel excise duty) planned for early 2012 would also affect both underlying and core inflation.

**Further reduction of external imbalances**

In 2011, the current account deficit in the CEE region will continue to decrease. In Q3, it amounted to 1.2% of GDP (4q moving average) as compared to 1.6% of GDP in 2010. This decrease resulted primarily from the improved foreign trade balance. Considerably faster increase in exports as compared to imports during this period (ex-

cept for Poland and the Baltic states) resulted in a marked reduction of deficit in the trade in goods. A slight increase was also observed in the surplus in the services and current transfers accounts. The narrowing in external imbalances in the region would have been even more pronounced had it not been for the increased transfer of foreign investment earnings, which has led to growing deficit in the income account.

The deceleration of foreign trade turnover anticipated in 2012, should have similar effect on both exports and imports. It means that no significant impact on the balance of foreign trade in the region should take place. The current account balance should also remain largely unchanged during the next two years. On the one hand, inflow of funds from the European Union is expected to fall. On the other, outflow of income, direct investments earnings in particular, should diminish as a result of the forecasted lower profitability of CEE enterprises.

**Continued strong inflow of portfolio investments**

The inflow of foreign capital to CEE economies in 2011 Q3 decreased only slightly as compared to 2010. It resulted from a slow-down in portfolio investments inflow, which were the main source of financing of the current account deficit in 2010 and in the first three quarters of 2011. This was primarily related with increased investment of foreign investors in Treasury bonds. High inflow of portfolio investments, however, poses a threat to the stability of financial markets in the region, in particular amidst the financial crisis observed in the second half of 2011 in the euro area. This capital, unlike direct investments, can be very quickly withdrawn, which would cause sharp depreciation of the region's currencies and a drop in prices of financial assets.

The inflow of direct foreign investments stabilised in this period, while the inflow of other investments continued on a downward trend. This concerned both lower inflow of loans to the banking sector and withdrawal of non-residents' bank deposits from the CEE countries. It resulted from deteriorating liquidity of banks from the euro area, which are the dominating force in the banking sector in the Central and Eastern Europe. Lower inflow of other investments to the banking sector may contribute to further weakening of lending activity in the region. Apart from Poland and the Czech Republic, whose lending activity is predominantly financed from domestic deposits, foreign capital in the preceding years was the main source for loans extended in the CEE countries.

**Continuously high level of foreign debt**

In spite of considerable decrease in the inflow of foreign loans to the CEE countries during the last two years, high level of liabilities towards foreign creditors persists. In the first half of 2011, similarly to 2010, foreign debt calculated as a percentage of the current GDP not only did not decrease, but even slowly increased as a result of changes in the structure of inflow of foreign capital (smaller inflow of direct investments, increased interest in debt assets, Treasury bonds in particular,). In 2011 Q2, foreign debt amounted on average to 78% of GDP as compared to 77% in 2010 Q4 and 75% in 2009 Q4. Foreign debt to GDP ratio decreased considerably only in Bulgaria, Estonia and Latvia.

At the same time, in the first half of 2011, the debt growth rate exceeded the increase in official reserve assets. As a result official reserves to foreign debt ratio decreased. This concerned countries with both fixed and floating exchange rate regimes. In 2011 Q2 the average for the region (excluding the euro area countries), was 27.5% as compared to 28% at the end of 2010.

**Debt crisis in the euro area and political and economic turmoil in Hungary caused depreciation of the currencies in the region…**

Increased tension in financial markets, driven by further intensification of the debt crisis in peripheral countries of the euro area had significant effect on the CEE exchange rates. Since mid-2011, the Hungarian forint and the Polish zloty depreciated rapidly, not only against the US dollar, but also against the euro. In July, August and September 2011, the exchange rate of the Czech koruna in relation to the euro was relatively stable, which indicated that the Czech Republic may have become a "safe haven" of the Central and Eastern Europe. In the two following months of 2011, as information about possible bankruptcy of not only Greece, but also Italy was accompanied by deteriorating outlook for economic growth in the Czech Republic, the exchange rate of the koruna also began to depreciate quickly. Between May 2011 and January 2012, the EUR/CZK exchange rate depreciated by 7.2%. The zloty depreciated far more considerably during this period (13% in relation to EUR) and so did the forint (nearly 19% in relation to EUR). Sharp depreciation of both currencies was observed at the turn of 2011 and 2012 as a result of turmoil in the Hungarian economy. The act limiting the independence of the central bank, unsuccessful negotiations concerning financial assistance from the EU and the IMF, as well as the Hungarian debt's downgrading to junk status by all three main rating agencies have led to increased investor aversion to the region, which had negative effect on the exchange rate of not only the forint, but also other currencies, in particular, the zloty. The exchange rate of the Romanian leu was relatively more stable; it depreciated against the euro by 7% between May 2011 and January 2012. This was not driven as much by the good condition of the Romanian economy (in the first half of 2011, Romanian GDP posted the lowest growth in the region) as by the small size and limited liquidity of the country's financial markets.

**… and destabilisation in the financial asset markets**

The increased risk aversion and withdrawal of investors from the CEE countries could also be observed in both

bond and equity markets. Reduced interest of foreign investors in Treasury bonds of the CEE countries, similarly to 2008, had the most effect on Hungary and Slovenia, which were struggling with serious domestic issues. However, the rise in yield was also recorded in other countries of the region. From October 2011 until January 2012, the highest growth in yield was noted for Slovenian (growth of 300 bp.), Hungarian (growth of 200 bp., to more than 10% in the first half of January 2012 in the case of 10-year bonds), as well as Czech (70 bp.), Latvian (60 bp.) and Lithuanian bonds (30 bp.). In the remaining countries, the yield was relatively stable during this period.

Clear drops in the stock market indices in the CEE countries could already be observed earlier. From the beginning of May until the end of 2011, their values declined by an average of approximately 25%. The most considerable drops in indices were noted in Hungary, where BUX fell by more than 30% during this period.

**Fiscal consolidation proceeding steadily**

According to the autumn fiscal notification (October 2011) and European Commission's economic forecast (November 2011), in the majority of countries of the region, the general government balance in 2011 will be consistent with or better than the forecasts presented in the Stability/Convergence Programmes updates. This is corroborated by the current estimates of deficit outturns, prepared after the end of the budgetary year. This situation stems from the better than expected economic situation, but in certain countries (Hungary, the Czech Republic, Latvia) also from additional measures implemented to curb expenditure. Only in Slovenia the fiscal imbalance in 2011 will be probably slightly deeper than previously assumed (by approx. 0.2 pp. of GDP).

In 2012, the planned magnitude of deficit reduction[1] will be significant in Romania (by 2.8 pp. of GDP), Poland (by 2.7 pp. of GDP) and Lithuania (by 2.3 pp.), which is expected to allow fiscal imbalances in these countries to be brought below the reference value, within deadlines set under excessive deficit procedure (EDP). Consolidation measures this year involve, i.a., maintaining expenditure freezes on wages in public administration and social transfers. In 2012 public finances in Hungary and Estonia are to deteriorate as compared with 2011 (the general government balance will change from surpluses of 3.6% of GDP and 0.2% of GDP respectively, to deficits of 2.5% of GDP and 2.1% of GDP). In Hungary, fiscal improvement in 2011 was temporary and resulted from one-off revenues (approx. 9¾% of GDP) related to the transfer of assets of individuals returning from the private pension funds into the state PAYG pension. In Estonia, budgetary surplus in 2011 resulted from postponement of investments[2], consolidation measures adopted in the previous years[3], which expire in the current year, as well as one-off receipts from carbon emission allowances sale[4].

**The anticipated economic slowdown may undermine the fiscal consolidation process**

Fiscal adjustment in 2012 and the subsequent years, in the CEE-countries will be threatened by the anticipated weakening of economic growth. During legislative works on budgetary acts for 2012, the GDP growth forecasts were revised downwards for Poland, Lithuania, Bulgaria and Hungary. On the other hand, in the Czech Republic, Latvia and Slovakia, the optimistic macroeconomic forecasts remained[5], which may cause tensions in budget execution. Additionally, uncertainty about the shape of fiscal policy in Slovakia (early elections will be held in March 2012), Slovenia (formation of a new government) and the Czech Republic (the package of consolidation measures adopted in November 2011 being challenged by the Constitutional Court) refers to uncertain political situation.

Within the time horizon of the EC Autumn forecast, only in Hungary will the level of public debt (considerably) exceed the reference value of 60% of GDP. Among CEE countries the general government debt will decrease only in Estonia (from 6.7% in 2010 to 6.1% of GDP in 2013). In certain countries (Slovenia, Lithuania), the increase in public debt will be affected by support to the banking system. In early 2012, Hungary's debt was downgraded to junk status, which was driven by deteriorating economic situation and government's unorthodox policy, both undermining the investor confidence and impeding the agreement on financial assistance from the International Monetary Fund and the European Union.

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[1]Estimates for 2012 from the adopted budget acts compared to deficit estimates for 2011 presented in the autumn fiscal notification (October 2011).

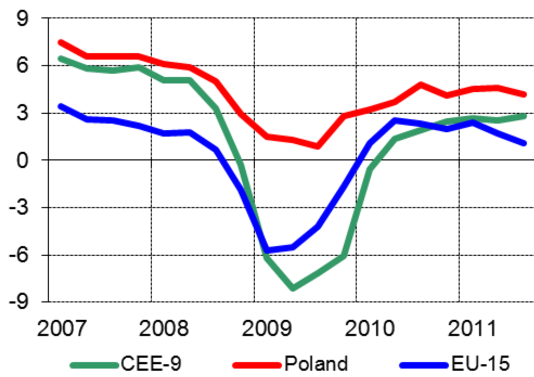
[2]2012 will see, among others, a considerable increase in environmental investments (approx. 1.1% of GDP), in the amount of revenues from sale of carbon emission permits in the previous years. The plans also include increased expenditure on national defense (approx. 0.3% of GDP) and road maintenance (approx. 0.06% of GDP).

[3]In 2012, contributions transferred to pension funds will be restored to their full amount, thus resuming the level before mid-2009. Moreover, among others, old-age and disability pensions will be indexed once again.

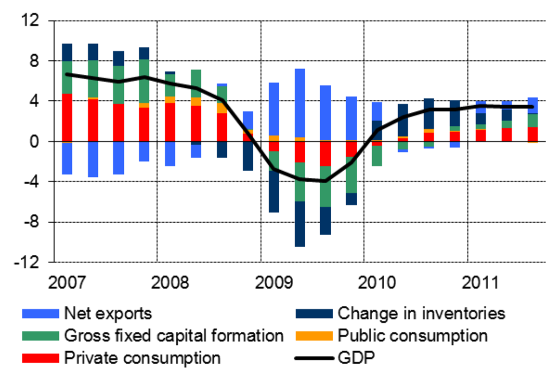
[4]Approx. 1.2% of GDP as compared to approx. 0.3% of GDP planned in 2012.

[5]As compared to the forecasts of international organizations and national economic experts.

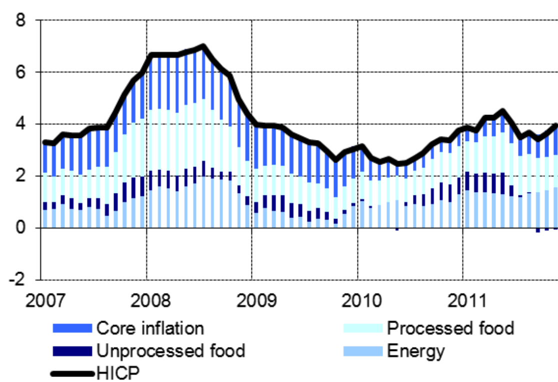
GDP growth rate (in %, y/y)



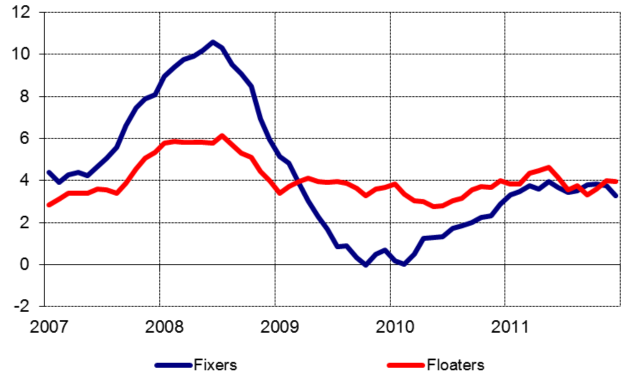

Contribution to GDP growth (in pp., y/y)



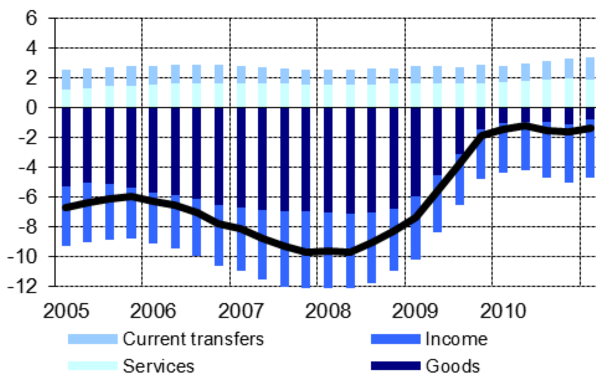

HICP and its components (in %, y/y)



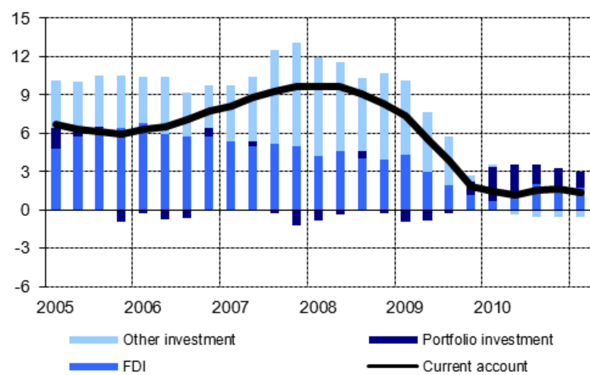

Inflacja HICP (%, r/r)



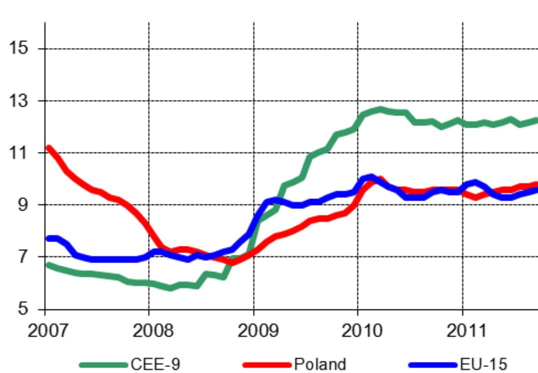

Current account and its components (in % of GDP, 4-quarter moving average)



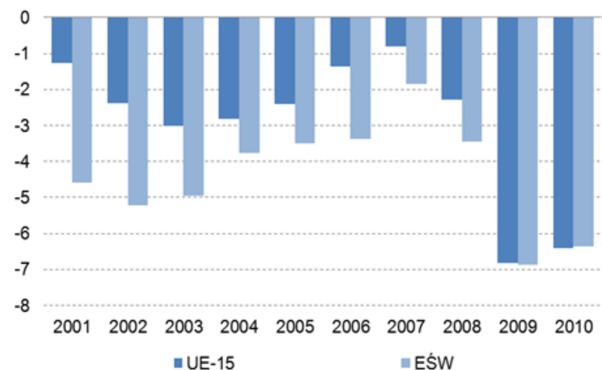

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (in %)




General government balance (in % of GDP)




Source: Eurostat, CSOs

# BULGARIA

During the first three quarters of 2011, the Bulgarian economy grew at a rate slightly exceeding 2% y/y. Similarly to 2010, the main factor contributing positively to economic growth were net exports, despite a marked decrease in exports growth rate in Q3. In contrast, a rising positive contribution of private consumption to growth could be observed in the last quarters of the analysed period. On the other hand, public consumption had no significant impact on GDP growth, whereas fixed capital formation continued to hinder economic growth. In 2012, the Bulgarian economy is expected to grow at a pace similar to H2 2011. However, its structure is expected to change. Growth is expected to be more domestic demand driven, while lower export growth will be a drag to economic growth. Contrary to most of countries of the region, fiscal policy should not constitute a significant obstacle to growth. A budget deficit below 3% of GDP and a public debt below 20% of GDP suggest that there is no need for aggressive fiscal tightening. Additionally, a growing absorption of EU funds will allow to increase investment in public infrastructure[6]. Nevertheless, a considerable risk for economic forecasts stems from a high exposure of the Bulgarian economy to the Greek debt crisis.

Bulgaria's economic ties with the Greek economy are the strongest in the region. This is primarily due to their widespread financial and trade connections. So far, the Greek crisis became visible mainly in the outflow of capital from the Bulgarian economy. Whereas until 2008 Bulgarian banks would mainly borrow funds abroad and disburse them to Bulgarian entrepreneurs and households in the form of loans, currently — most of the banks use deposits to repay their liabilities to reduce foreign debt. This process will most likely intensify as a result of the decision by the European Council[7] to tighten capital requirements, which will force large euro area banks to raise more capital. Since the share of these banks in the Bulgarian banking sector exceeds 50%[8], this may translate into further outflow of capital from Bulgaria. Additionally, should the crisis in Greece escalate, outflows of capital from Bulgaria may further increase, not only due to an eventual outflow of capital (including speculative capital) from the emerging markets, but also as a result of potential bankruptcies of some of Greek banks, whose share in the Bulgarian market amounts to approx. 30%.

Apart from further decreases in foreign deposits, a deteriorating situation in Greece may also reduce inflows of foreign direct investments (FDI). This is suggested by the structure of investments, of which nearly 10% come from Greece (and 70% from the euro area); the majority being located in sectors prone to further stagnation, such as real estate, financial intermediation and, to a lesser extent, manufacturing. The currency board makes it practically impossible to counteract this phenomenon. A similar situation could be observed in the case of international intra-company loans, as early 2011 was characterised by a high level of repayment of this type of loans.

A potential escalation of the Greek crisis may also affect Bulgarian exports. In 2008, Greece was the most important exports market (accounting for approximately 10% of foreign sales of Bulgarian enterprises) for Bulgaria. In comparison to other exports markets, sales to Greece declined more in 2009 and the 2010 recovery was relatively slower. Nevertheless in 2011, despite a considerable decrease in the Greek import demand[9], Bulgarian exporters increased sales to Greece — which resulted in a larger share of Bulgarian products on the Greek market. Growing exports to Greece in 2011 was concerned to a large extend in intermediate goods, which may suggest that Greek enterprises, striving to cut production costs, replaced more expensive intermediate goods from Western Europe with cheaper ones from Bulgaria. Paradoxically, Bulgarian exporters also benefited from strikes of Greek workers, which, among others, considerably boosted exports of electricity from Bulgaria. It appears that a stabilisation of the situation in Greece should support a further increase in Bulgarian exports, which compete on this market mainly through lower prices. On the other hand, one should bear in mind that a strong decline in exports can also take place, which would indirectly increase the already high percentage of non-performing loans[10] and destabilise the financial system.

Due to a significantly impeded access of enterprises to lending and falling export orders for the Bulgarian export sector, the condition of the labour market is likely to deteriorate further in the coming quarters. At the end of 2011, Bulgaria was the only country in the region where the unemployment rate was still growing. This results partially from a delayed reaction to the first wave of the crisis in 2008 and 2009, which was due to a relatively rigid labour market. Moreover, a growing discrepancy between the unemployment rate according to Eurostat and the unemployment rate provided by the labour offices may point to a rise in the scale of the discouraged worker effect[11] in the Bulgarian labour market.

[6]The significant difference between contracted and disbursed EU funds — 59% as compared to 14% — suggests that transfers may considerably increase next year.

[7]During the meeting of the European Council held on 26 October 2010, an agreement was reached in the scope of recapitalisation of banks in the EU as one of the elements of the anti-crisis package for the euro area.

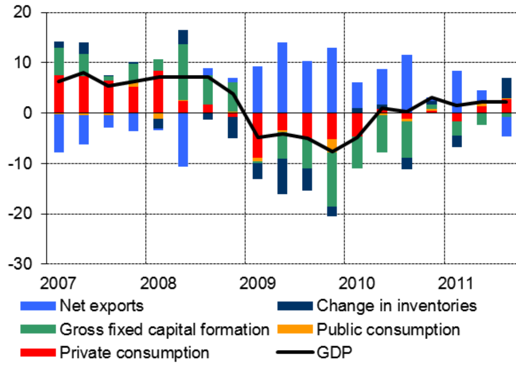
[8]This concerns primarily Greek banks (approx. 30% of the market), UniCredit Bulbank (approx. 16% of the market) and Raiffeisen Bulgaria (approx. 7% of the market).

[9]During the first three quarters of 2011, the value of Greek imports decreased by approximately 20%.

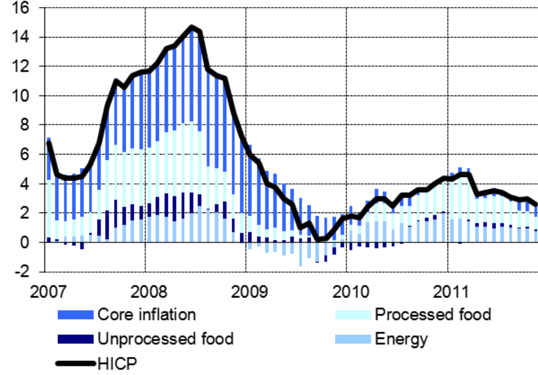
[10]In Bulgaria, the 13.5% level of non-performing loans in the first half of this year was the highest in the region. A high percentage was also registered during this period in Romania (13.4%) and in Hungary (10.5%). In Slovenia (3.9%) and Slovakia (5.8%), the share of non-performing loans was the lowest.

[11]WIIW. *Current Analyses and Forecasts-Economic Prospects for Central, East and Southeast Europe*, 07.2011.

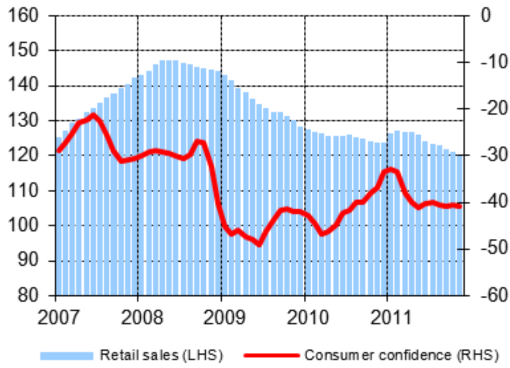
Contribution to GDP growth (in pp., y/y)



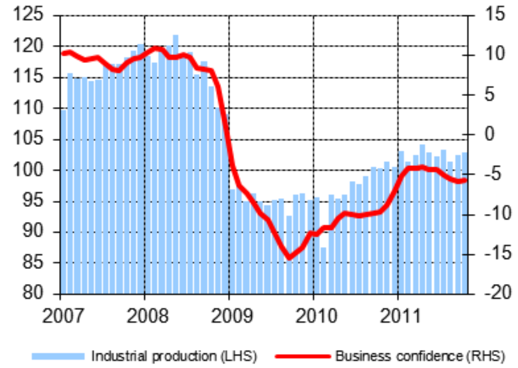

HICP and its components (in %, y/y)



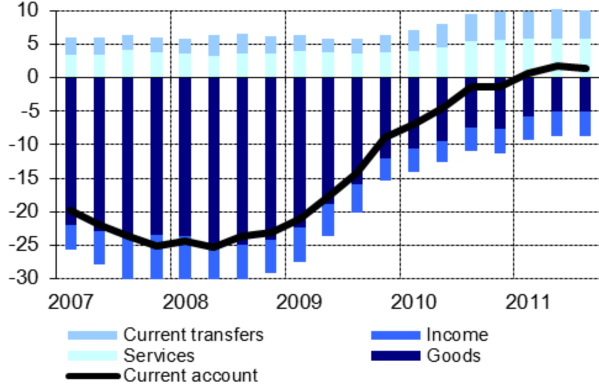

Retail sales (in %, y/y) and consumer sentiment index



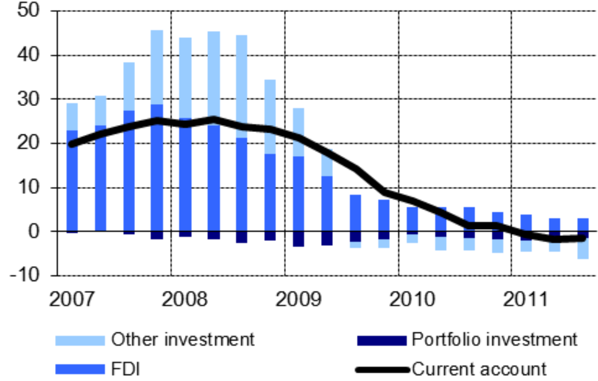

Industrial production (in %, y/y) and business sentiment index



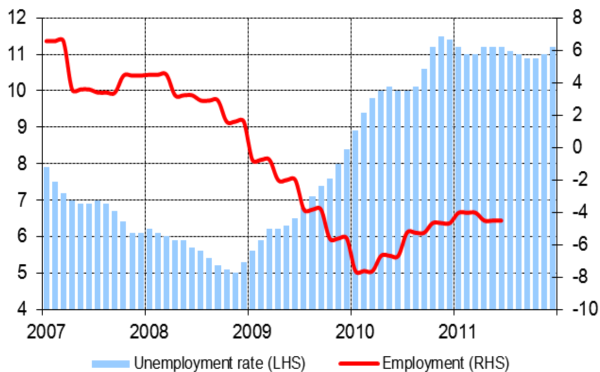

Current account and its components (in % of GDP, 4-quarter moving average)



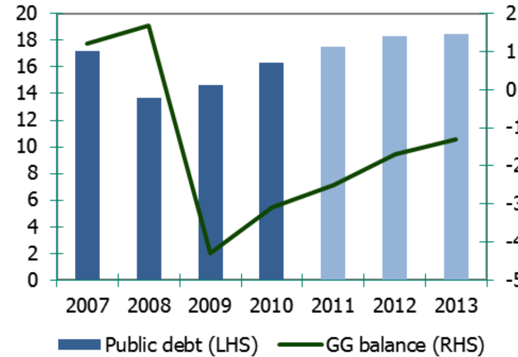

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (%) and employment growth rate (in %, y/y)




General government debt and deficit (in % of GDP)




Source: Eurostat, CSOs

# CZECH REPUBLIC

Information about deteriorating debt crisis in the euro area peripheral countries has fuelled global risk aversion in 2011, which remained at a high level until early 2012. Similarly to the events observed three years before, it was particularly noticeable in the financial markets of the CEE countries. Markets in the Czech Republic exhibited the least vicious response. From May 2011 until early January 2012, the Czech koruna depreciated against the euro by "only" 7%, while the Polish zloty and the Hungarian forint depreciated much more considerably during this period (by 15% and 19%, respectively). At the same time, the increase in the country's risk reflected by changes in CDS pricing, was also the lowest in the region. During the analysed period, CDS rates for 5-year Czech Treasury bonds increased by less than 70 bp., while the region's average was three times higher (up to more than 460 bp. in Hungary).

More importantly, positive assessment of investors was observed when macroeconomic data indicated that the situation in the Czech Republic was worse than in many other countries in the region. The annual economic growth rate in the first half of 2011 amounted to 2.6% as compared to 3.4% for the entire CEE region. Both private and public consumption continued to stagnate due to slow improvement in the labour market and continued tightening of fiscal policy. At the same time, forecasts of the Czech National Bank anticipate further economic slow-down. In 2011, the annual GDP growth rate is to amount to 2.0%, and in 2012 — only 1.2%[12], which will also be one of the lowest figures in the region. On the other hand, the level of inflation, both in 2011 and in 2012, is to oscillate around the inflation target (2.0%).

The reaction to turmoil in the global financial markets driven by the euro area crisis, which was milder than in other countries of the region, seems to confirm the fact that the Czech Republic is better perceived by foreign investors than other countries. There may be several factor behind it.

First of all, the Czech Republic, with its GDP per capita PPP in 2010 amounting to more than EUR 20 thousand (82.4% of UE-27 average — more than Portugal), belonged to the most developed countries of the region, along with Slovenia. For this reason, large international organisations (such as the IMF or the EBRD) ceased to include the Czech Republic into the group of developing countries and classified it as a developed country. Additionally, due to relatively small debt of the general government sector (38% of GDP in 2010), investors as well as rating agencies, assess the risk of the country's bankruptcy as low. CDS ratings for 5-year bonds are definitely the lowest in the region.[13] Long-term rating of general government sector debt is also the highest in the region, according to all three main rating agencies (A1 Moodys, AA- S&P, A+ Fitch for debt in foreign currency). Additionally, S&P agency upgraded the rating of the Czech Republic by two notches in August 2011, which was justified, among others, by stable political and economic situation and progress in reform implementation. In spite of the fact that the general government sector deficit in the Czech Republic in 2010 (4.7% of GDP) considerably exceeded the reference value of the Maastricht criterion, agencies and investors seem to appreciate the scope and effectiveness of the Czech fiscal consolidation.

An additional factor proving to the stability of Czech economy are low interest rates. Since May 2010, the level of the main interest rate of the Czech National Bank (2W Repo Rate) has been at its record low of 0.75%, i.e. lower than the ECB rate[14]. In the preceding years, its level was also considerably lower than in other CEE countries (since 2002, it has not exceeded 3.75%). At the same time, the inflation level (except for 2008, when inflation rose temporarily as a result of higher tax rates and regulated prices) was among the lowest in the region.

Low domestic interest rates protected Czech economy from the threat faced by other countries in the region, i.e. high share of foreign currency loans in local banks portfolios. In mid-2011, they constituted only 13% of all loans to the private sector[15]. Thus, even strong depreciation of the koruna should not threaten the stability of the banking system or increase the burden of households and enterprises.

The Czech Republic also posted the lowest current account deficit in the preceding years. Since 2004, it has not exceeded 4% of GDP, while in other CEE countries (Baltic states, Bulgaria), it often exceeded 20% of GDP. Additionally, the Czech Republic recorded a constant surplus in foreign trade during this period. In the case of the Czech Republic, the current account deficit was fully covered by the inflow of direct foreign investments, thanks to which foreign debt, as a percentage of the GDP, did not increase in the preceding years and was definitely the lowest among the countries in the region (41% of GDP in mid-2011). The relatively low level of external imbalances and low reliance on the foreign capital inflow, in particular short-term capital, were other

[12]Consensual forecasts released in December 2011 expect GDP growth in the Czech Republic in 2012 to amount to the mere of 0.3%.

[13]In early 2012, they amounted to 145 bp. as compared to 280 bp. for Slovakia, which is a euro area member, 260 bp. for Poland or 700 bp. for Hungary.

[14]Until November 2011, this level was twice lower than the ECB reference rate.

[15]In Poland, it amounted to 30%, while in Romania and Hungary, it exceeded 60%. These countries, similarly to the Czech Republic, follow the floating exchange rate regime and hence are exposed to fluctuations in the exchange rates.

reasons positively distinguishing this country against other economies of Central and Eastern Europe[16].

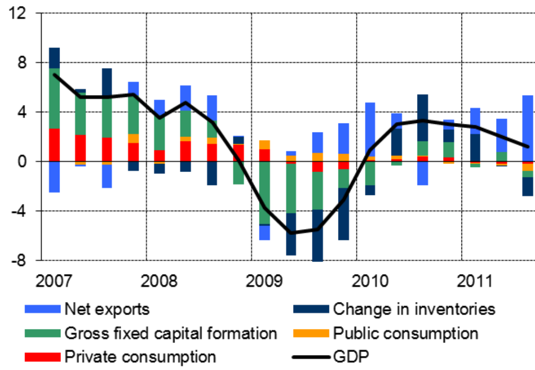
Relative stability of Czech financial assets against the background of the region resulted not only from the abovementioned underlying reasons, but also from small, as compared to Poland, depth and liquidity of Czech financial markets[17]. This relatively low liquidity prevented sudden outflows of capital, which supported the stability of the exchange rate.

Doubts regarding exceptional stability of Czech financial markets occurred in November 2011, when the rate of depreciation of the Czech koruna caught up with other currencies of the region. The koruna depreciated against the euro by 5.5%, i.e. to an extent comparable to the zloty and the forint, and definitely stronger than the Romanian leu during this period. The yield on Czech Treasury bonds also increased considerably (by 130 bp. — even slightly more than the yield on Hungarian bonds in November 2011. However, in December, the yields returned to low levels). Nevertheless, already at the turn of December 2011 and January 2012, when financial markets of the CEE countries once more experienced the turmoil fuelled by the situation in Hungary (implementation of the act limiting independence of the Central Bank, cessation of negotiations with the EU and the IMF concerning financial assistance, downgrading the rating of Treasury bonds to junk status), depreciation of the koruna was considerably less intense than in the case of the forint, the zloty or the leu.

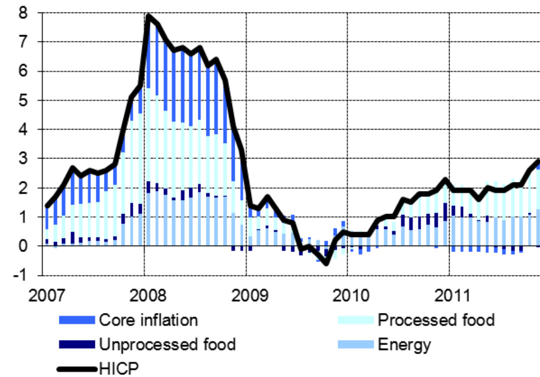
Withdrawal of investors from the Czech Republic, observed in November 2011, resulted from the situation in the Czech economy (apart from increasing risk aversion, which has already affected nearly all European Union Member States). Data concerning GDP in 2011 Q3, presented at that time, indicate stagnation (without changes in quarter-on-quarter terms and a slow-down to 1.8% in year-on-year terms) while the latest forecasts of the CNB and external centres suggest further slow-down of economic growth in the coming quarters. Investors also began to pay attention to strong ties between the Czech Republic and the euro area economy, in particular Germany. The Czech Republic, along with Hungary, is one of the CEE economies most exposed to the euro area. It concerns strong trade ad financial links, as well as inflow of capital. In the case of anticipated considerable slowdown in the euro area economy, and in Germany in particular, which was still continued on a rapid growth path in the first half of 2011, the Czech Republic will be particularly exposed to the consequences of the euro area crisis. It appears that the factors which hitherto determined the strong position of the Czech economy and its image, in the face of debt crisis in the euro area may prove to be the factors likely to undermine its investment credibility. However, it seems that in spite of these factors, the Czech Republic will remain the most stable financial market in the region, as suggested by lower volatility of the exchange rate of the Czech koruna (as compared to other currencies in the region) observed since the beginning of 2012.

[17]A similar situation is observed in Romania, where the exchange rate of the leu exhibited lower volatility than the exchange of the Polish zloty during the last period.

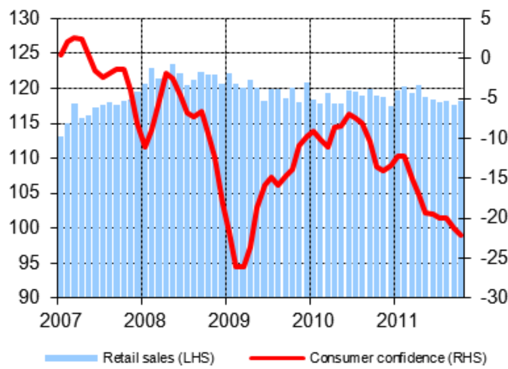
Contribution to GDP growth (in pp., y/y)



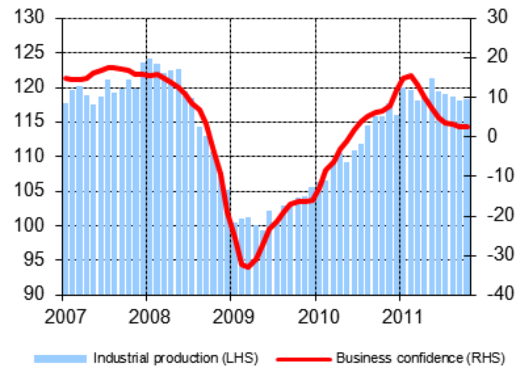

HICP and its components (in %, y/y)




Retail sales (in %, y/y) and consumer sentiment index

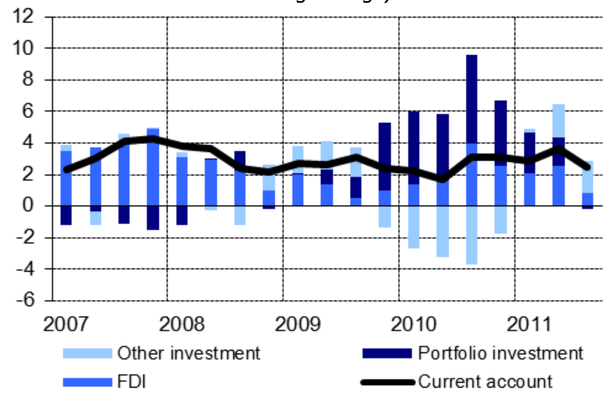



Industrial production (in %, y/y) and business sentiment index

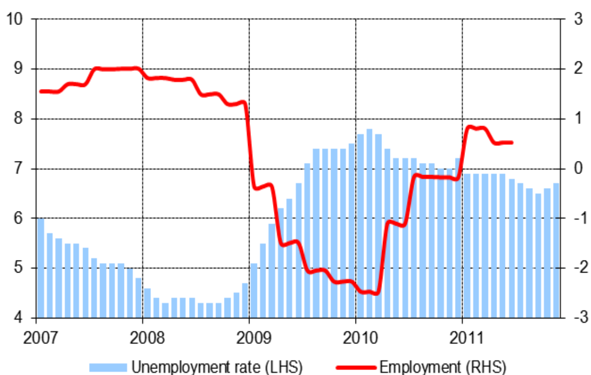



Current account and its components (in % of GDP, 4-quarter moving average)

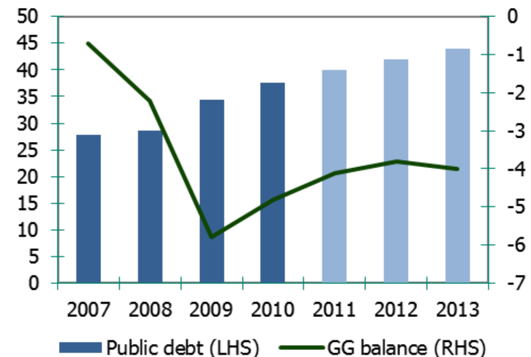
Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (%) and employment growth rate (in %, y/y)




General government debt and deficit (in % of GDP)




Source: Eurostat, CSOs

In 2011, the Baltic states were the fastest-developing economies in the Central and Eastern Europe. High growth registered in 2011 also considerably exceeded the early 2011 expectations. Growth was stimulated, unlike in the majority of countries in the region, by domestic demand. This situation was due to at least several factors: rise in public expenditure, relatively high household consumption growth and a considerable increase in fixed capital formation. However, it is worth noting that this growth took place after a period of sharp GDP declines in years 2008–2010. In spite of high growth observed in the preceding quarters, GDP in 2011 Q3 in the Baltic states was more than 10% lower than at the end of 2007.

Economic growth in the Baltic states was positively affected by public expenditure (except for Lithuania), whereas the remaining countries of the region in 2011 largely observed public expenditure drop due to the ongoing fiscal consolidation. In the Baltic states, strong consolidation took place primarily in the years 2009–2010.

The Baltic states also experienced the highest rise in household expenditure in the region. On the one hand, this resulted from reduced scale of measures leading to budget balancing, in particular putting an end to employment and wage cuts in the public sector[18]. On the other hand, the increase in private consumption was stimulated by gradual improvement in the labour market (although the unemployment rate remained the highest in the region), rising wage growth in the private sector and growing transfers from abroad. Consumption, unlike in the pre- crisis period, was increasing amidst stagnation in the credit market. Moreover, the example of Latvia indicates certain changes in the loan structure. Further decrease in the volume of loans granted in EUR in the first half of 2011 was accompanied by interruption in the downward trend in lending in the domestic currency. The savings rate remained at a relatively high level in all Baltic states[19].

The positive effect of rising consumption on GDP growth was slightly impeded by higher imports (clearly exceeding the ones in other countries of the region). On the other hand, the negative effect of high import growth on GDP mitigated the high increase in exports. High export growth, well in excess of the growth rate observed before the crisis, was supported not only by good economic climate in Russia and the EU (including among the main trading partners — Sweden, Finland, Germany), but also by internal devaluation. Falling unit labour costs improved competitiveness of exports in all three countries[20].

The main source of economic growth in 2011 was investment expenditure. On the one hand, it was the effect of postponed investments (fixed capital formation in the Baltic states has been sharply decreasing since 2008, i.e. earlier than in other countries of the region), on the other, from continued stabilisation in the real estate market[21]. The increase in investments was observed amidst stagnation in the credit market. In Lithuania and Latvia investment expenditure were financed by enterprises' own resources, while in Estonia (where enterprises with foreign capital play a more important role) — an increase in inter-company loans was recorded. As a result, Estonia experienced an increase in the share of foreign loans in the total debt of industrial enterprises.

A sharp increase in domestic demand in 2011 was the main growth factor in the Baltic states; however, in the preceding years, it was the breakdown in consumption and investments that led to the most severe crisis in the region. The currently observed recovery helped to compensate for only part of drops from the preceding years. The level of domestic demand in 2011 Q3 was more than 20% lower than in 2007 Q4.

In 2012, due to the debt crisis in the euro area, economic growth in the Baltic states is expected to slow down. However, GDP growth will remain higher than in the remaining countries of the region[22]. Smaller downward revision of growth forecasts results, to a large extent, from the fact that hitherto observed recovery in these economies was based primarily on domestic demand and, to a lesser extent, on exports (whereas in the majority of the Central European countries, the situation was the opposite). Moreover, actions taken in response to the crisis in the years 2008–2009 significantly strengthened the foundations of Baltic economies.

Thanks to internal devaluation and fiscal consolidation, the Baltic states managed to maintain their fixed exchange rate regime, increase stability of their economies and investors confidence. In the case of Estonia, the

[18]According to estimates of the European Federation of Public Service Unions, wages in the public sector decreased in 2009 by an average of approx. 25% in Latvia, 18% in Lithuania and 16% in Estonia.

[19]As a result of the crisis, the savings rate of households in Estonia increased from 0.8% in 2007 to 9.6% in 2010. In Latvia, during the same period, it increased from -5% to 4.2%, while in Lithuania from -5.2% to 7.9%. Moreover, in 2011, it remained at a relatively high level (according to the EC's expectations, it will be 7.7% for Estonia and 2.2% for Latvia).

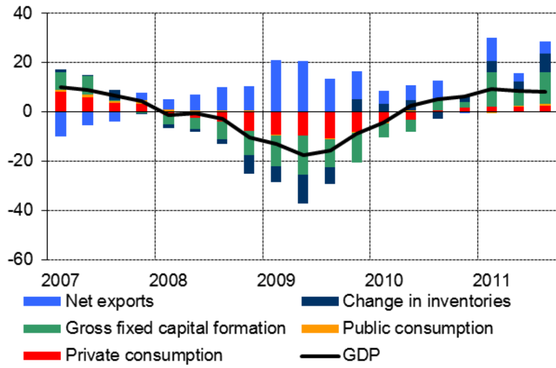
[20]In 2010, real unit labour costs decreased by 9.1% in Lithuania, 8.2% in Latvia and 6.6% in Estonia, which partially compensated for their excessive growth before the crisis. In 2011, they were anticipated to drop further by approx. 1.8–1.9% in Latvia and Estonia and by 3.3% in Lithuania.

[21]As a result of the crisis in 2009, the Baltic states recorded a 30–45% y/y drop in the construction sector. . Both the number of new constructions and the prices of residential real estate decreased by as much as 50–60% as compared to the 2007 maximum levels).

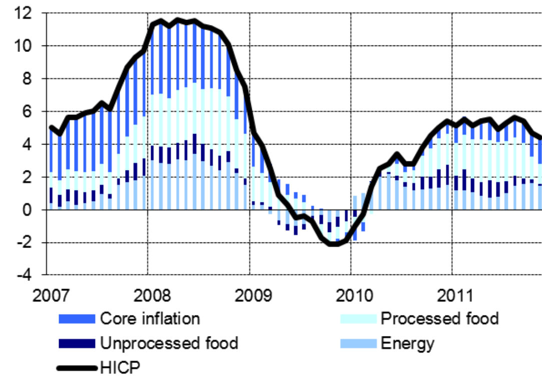
[22] In spite of a relatively high anticipated economic growth in 2012, the level of GDP will remain lower than before the crisis as a result of which the Baltic states lost approx. 1/5 of GDP in years 2008–2009.

country's entry into the euro area and credit rating upgrade in August 2011 by S&P agency additionally improved its image and increased its attractiveness for direct investments. Improved confidence of markets in the Baltic states may also translate into better opportunities of obtaining cheaper financing in the case of future economic shocks.

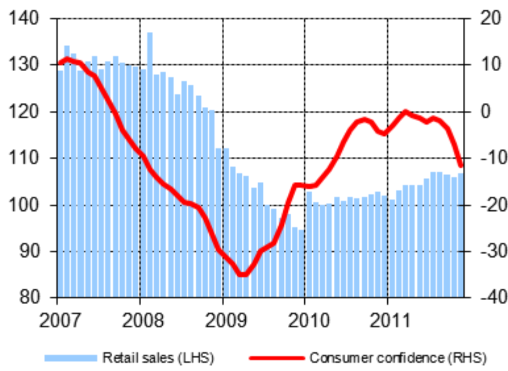
Contribution to GDP growth (in pp., y/y)



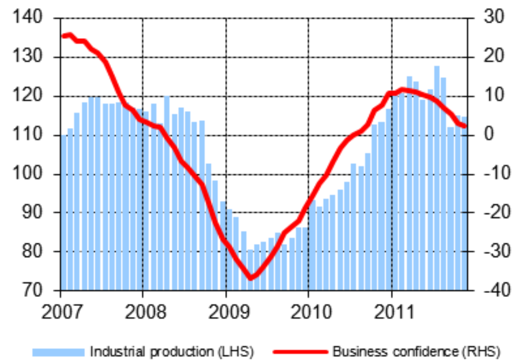

HICP and its components (in %, y/y)



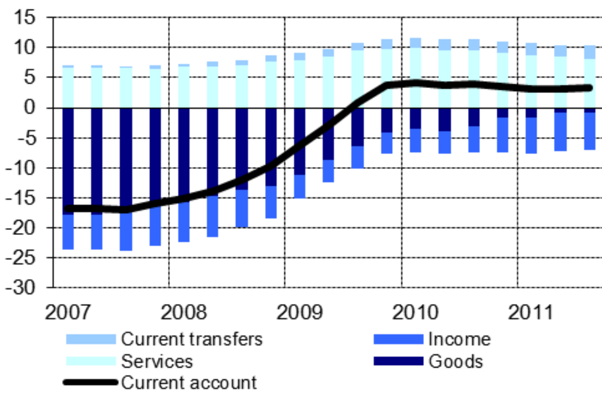

Retail sales (in %, y/y) and consumer sentiment index



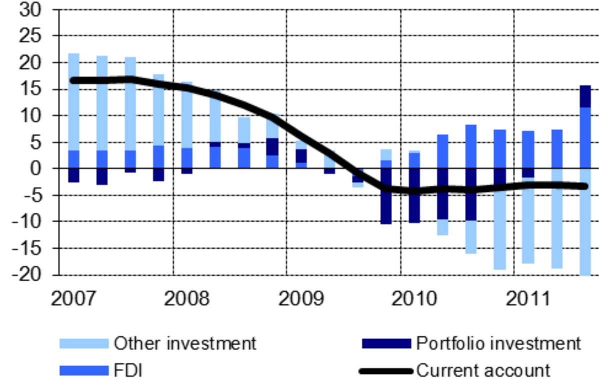

Industrial production (in %, y/y) and business sentiment index



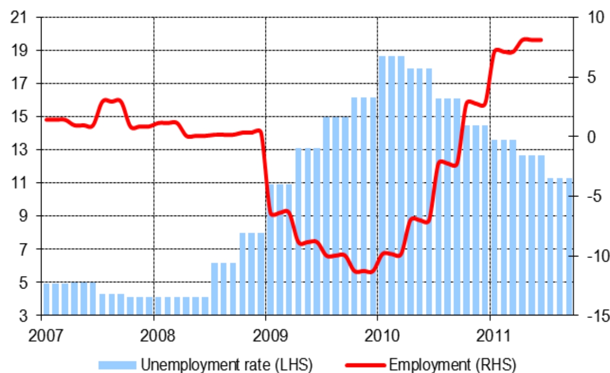

Current account and its components (in % of GDP, 4-quarter moving average)



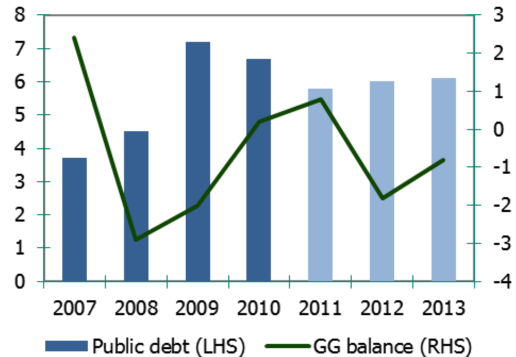

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Stopa bezrobocia (%) i dynamika zatrudnienia(%. r/r)

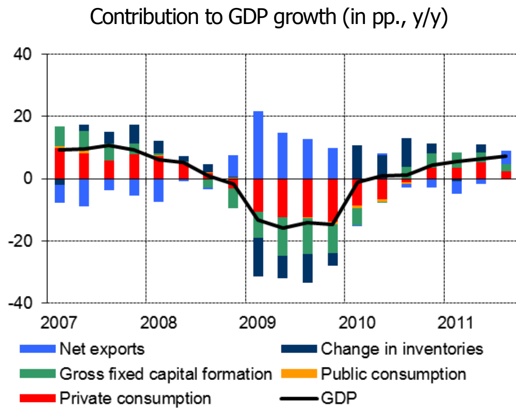



General government debt and deficit (in % of GDP)

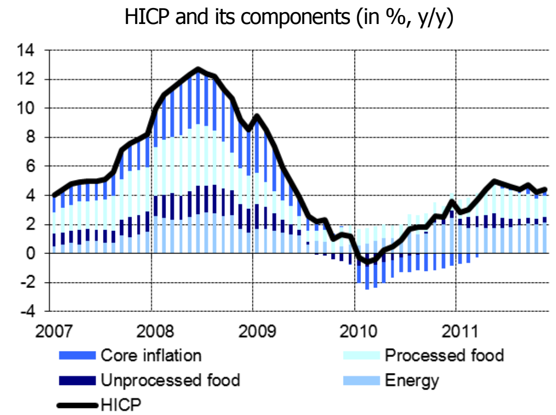



Source: Eurostat, CSOs

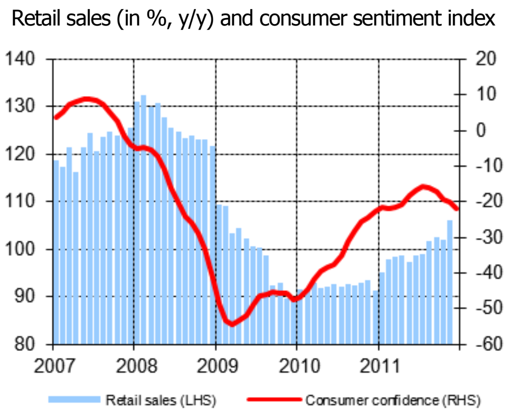
Contribution to GDP growth (in pp., y/y)



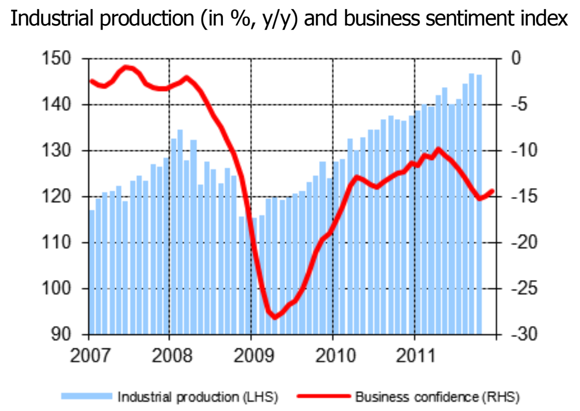

HICP and its components (in %, y/y)



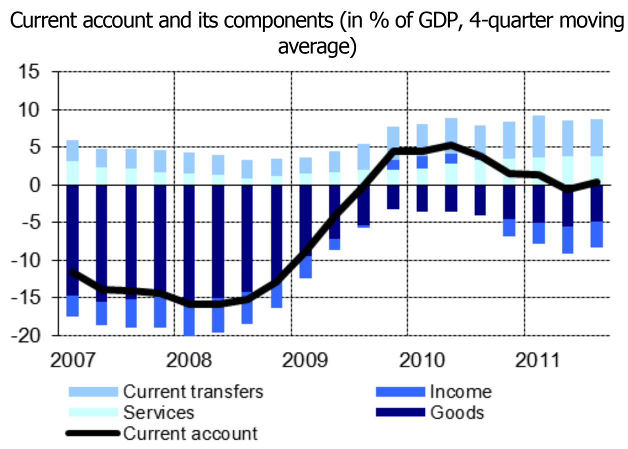

Retail sales (in %, y/y) and consumer sentiment index



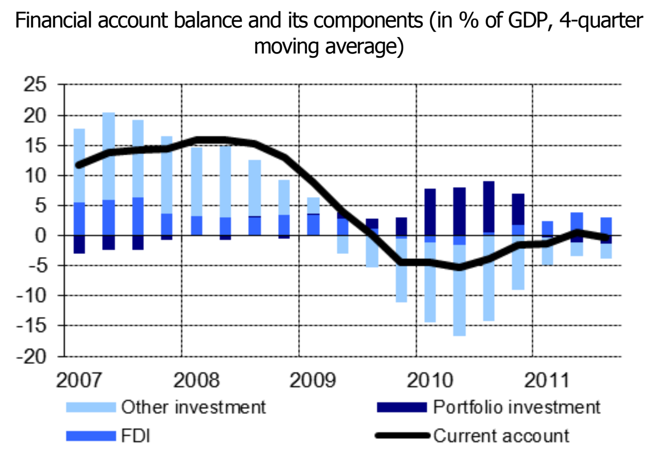

Industrial production (in %, y/y) and business sentiment index




Current account and its components (in % of GDP, 4-quarter moving average)

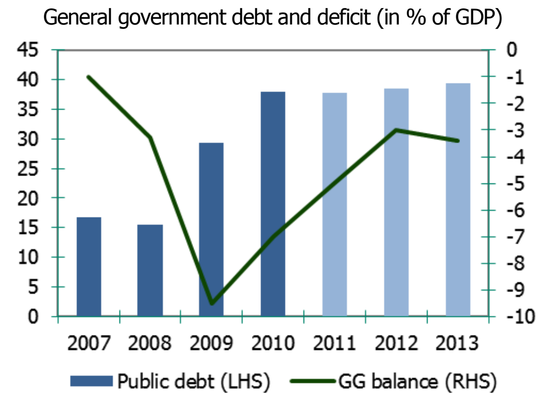



Financial account balance and its components (in % of GDP, 4-quarter moving average)



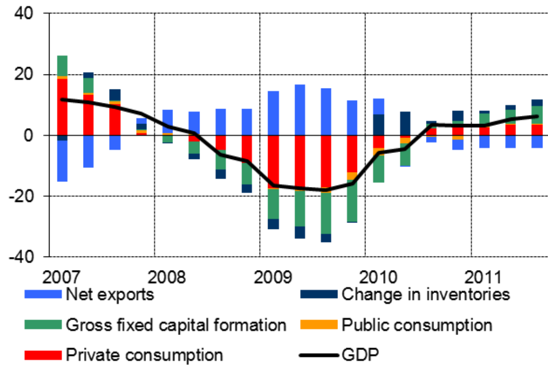

Unemployment rate (%) and employment growth rate (in %, y/y)

General government debt and deficit (in % of GDP)

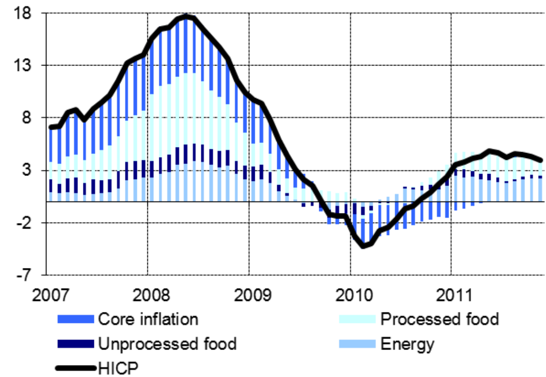



Source: Eurostat, CSOs

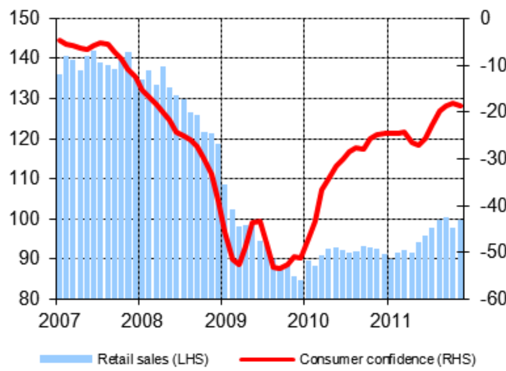
Contribution to GDP growth (in pp., y/y)



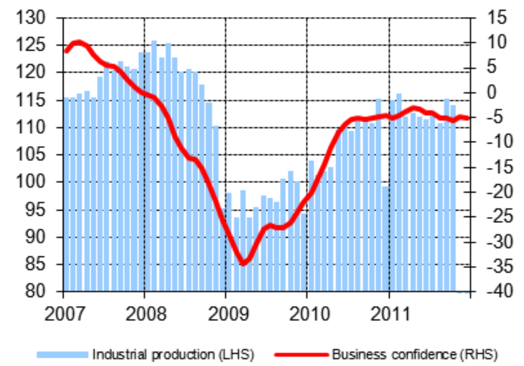

HICP and its components (in %, y/y)



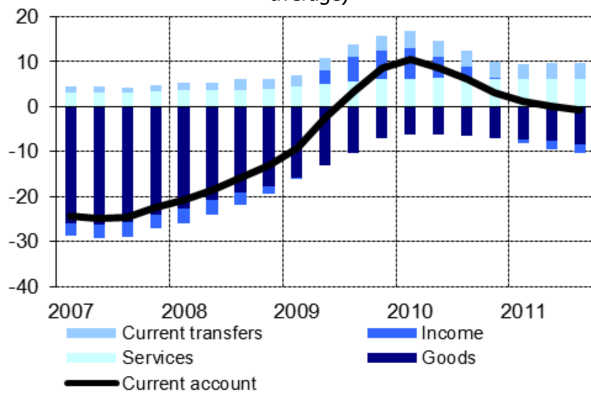

Retail sales (in %, y/y) and consumer sentiment index



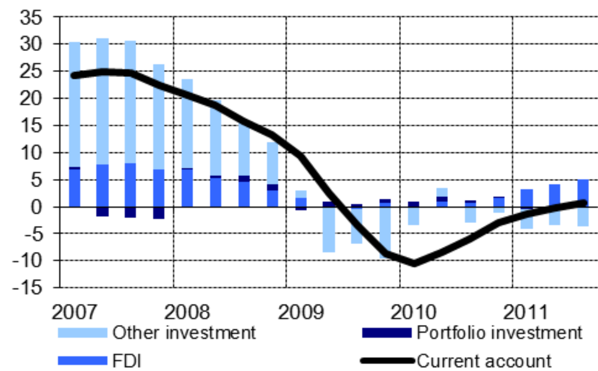

Industrial production (in %, y/y) and business sentiment index



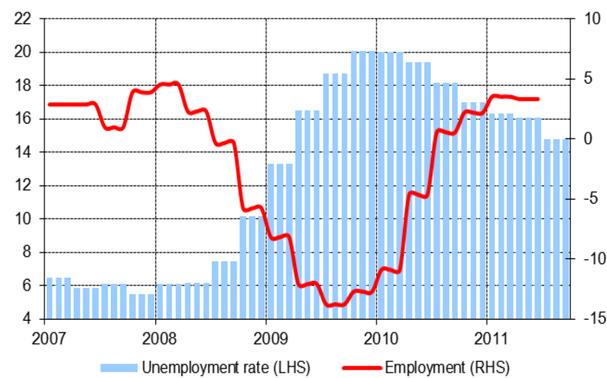

Current account and its components (in % of GDP, 4-quarter moving average)



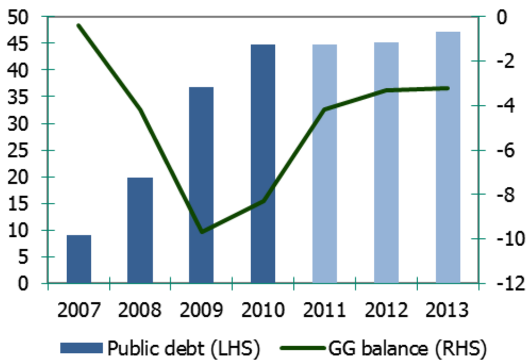

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (%) and employment growth rate (in %, y/y)




General government debt and deficit (in % of GDP)




Source: Eurostat, CSOs

# ROMANIA

Economic recovery after the crisis in the second half of 2008 and 2009 was very slow in Romania. For the major part of 2010, Romanian economy recorded GDP declines in annual terms, while in other countries of the region, this trend was reversed already in 2010 Q2. In the first half of 2011, GDP in Romania increased in annual terms by a mere 1.5%, which was also the poorest result among the CEE countries. The situation changed in 2011 Q3, when GDP in Romania posted the highest increase in the region in quarter-on-quarter terms (1.9% q/q) and its annual growth accelerated considerably (to 4.5% y/y). Such high growth was most likely a one-off phenomenon and was driven by exceptionally good harvests and low base effect.

Low rate of economic growth, in particular, in the first half of 2011, resulted primarily from persistently weak domestic demand, especially consumption demand. Apart from the effects of fiscal tightening observed in Romania in 2010, another important factor limiting growth of consumption and investments was cessation of lending activity.

The outbreak of the crisis in the second half of 2008 caused very sharp deceleration of growth in lending activity in Romania. It was particularly visible in the case of household loans, which have been decreasing since the beginning of 2009. In 2010 and the first half of 2011, lending activity growth in Romania remained at a very low level. Mid-2010 saw a slight revival in corporate lending leading to recovery of investment activity in Romania. The household loan market in 2010 and first half of 2011 remained in stagnation. Annual growth in household loans hovered around zero, and in the case of consumption loans, it was clearly negative, which seems to be, similarly to other countries in the region, one of the key factors curbing the increase in expenditure of Romanian consumers in 2011.

Fast increase in the value of granted loans was one of the main driving forces of domestic demand, and hence of economic growth in Romania before the outbreak of the global financial crisis. In the first half of 2008, the annual credit to private sector growth rate reached 70%. In the case of loans for households it even exceeded 85% y/y. Foreign currency loans grew at a higher rate. For the entire private sector, their growth rate exceeded 90% y/y, and for the household sector, their value increased approximately 1.5 times during the year.

Similarly to other CEE countries, foreign currency loans were very popular in Romania, which was due to lower costs and high availability of FX loans, in particular after Romanian's accession to the EU in 2007. In mid-2011, FX loans accounted for 63% of all loans (similarly to Hungary). The share of foreign currency loans was particularly high in the case of loans for house purchase (95%). However, also in the case of corporate lending, the share of FX loans exceeded 60%. The most popular lending currency was by far the euro (more than a half of all loans to the private sector).

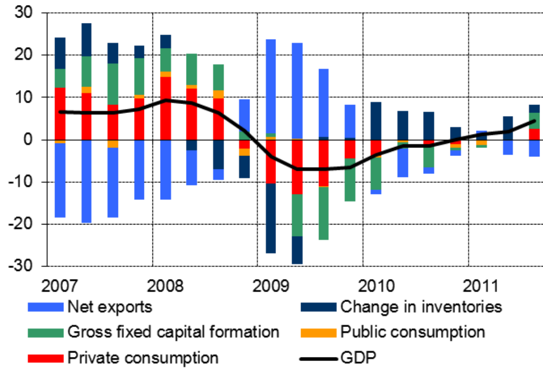
Similarly to Hungary, and to a lesser extent, also Poland, a large percentage of debt in foreign currencies in Romania is a serious threat to future economic growth and stability of the financial system. One of the main risk factors is the floating exchange rate regime in these countries[23]. Depreciation of the Romanian leu in 2011 Q3 was lower than that of the Polish zloty or the Hungarian forint[24]. However, in the case of poor condition of households and enterprises, this depreciation affected their ability to repay liabilities in foreign currencies. The financial crisis in 2008 caused continuous deterioration of the credit portfolio of Romanian banks. The share of non-performing loans (NPL) between 2008 Q3 and 2011 Q2 doubled (amounting to, 6.4% and 13.3%, respectively).

Similarly to the majority of the new EU Member States, the banking sector in Romania is dominated by foreign capital. According to the data of the National Bank of Romania (NBR), in mid-2011, over 85% of the banking sector was controlled by foreign owned banks. Unlike in other CEE countries (except for Bulgaria), a large share in this market is held by Greek banks (16% of assets in the sector, including 6% of Greek's largest bank — Alpha Bank). The persisting poor condition of the banking sector in Romania as well as the risk of its further deterioration due to a possible spread of the euro area crisis, require capital injections to Romanian banks by their foreign parent entities, which is the subject of appeals of representatives of the Romanian financial supervision and the NBR. Up to now, liquidity of the banking system appears relatively high. In mid-2011, the regulatory capital ratio for the Romanian banking sector exceeded 14% and was far above the required 8%. This, however, may change dramatically in the case of a mass outflow of foreign capital.

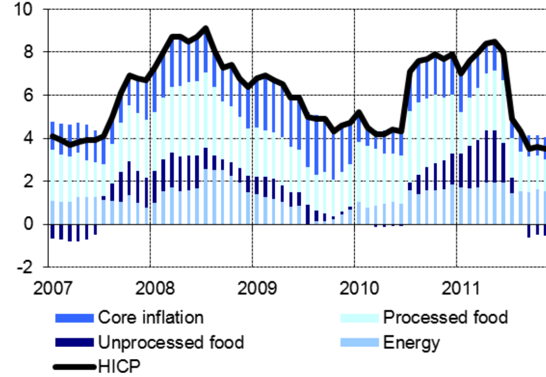
[23]Floating exchange rate is also used in the Czech Republic; however, due to lower popularity of foreign currency loans in this country (13% of all the loans to the private sector), as well as relatively more stable exchange rate of the koruna against the euro, this problem is observed on a much smaller scale.

[24]From early May 2011 until early January 2012, the EUR/RON exchange rate depreciated by a mere 7%, while the EUR/PLN by 14% and EUR/HUF by 19%.

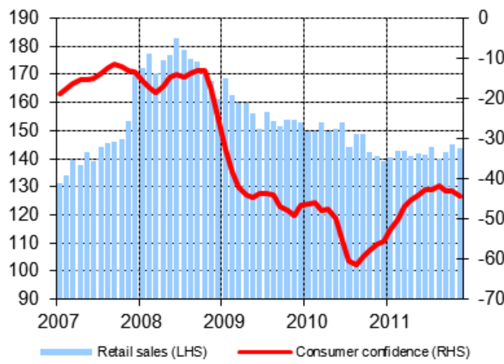
Contribution to GDP growth (in pp., y/y)



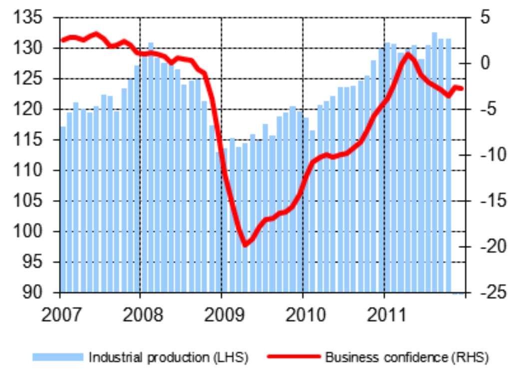

HICP and its components (in %, y/y)



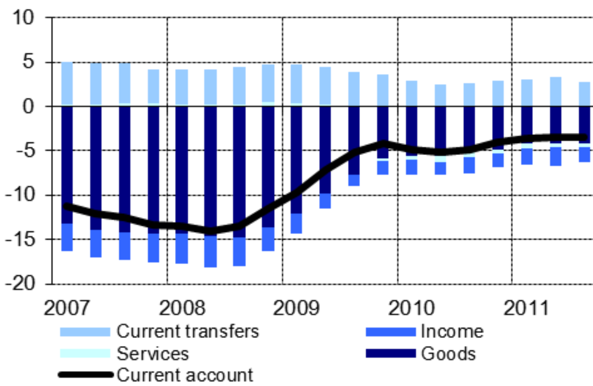

Retail sales (in %, y/y) and consumer sentiment index



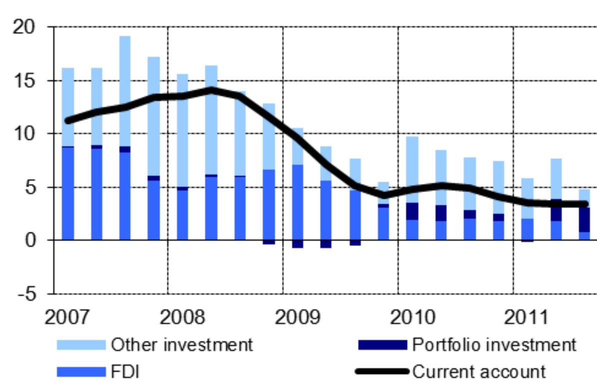

Industrial production (in %, y/y) and business sentiment index



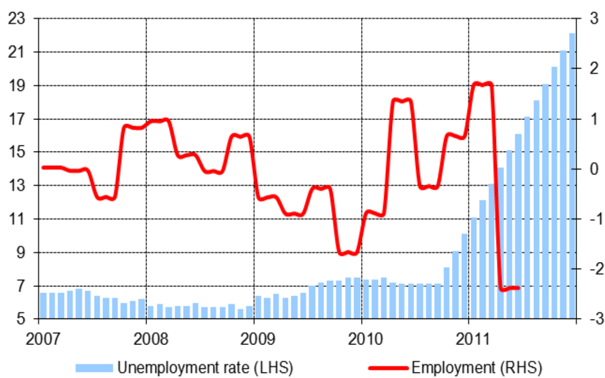

Current account and its components (in % of GDP, 4-quarter moving average)



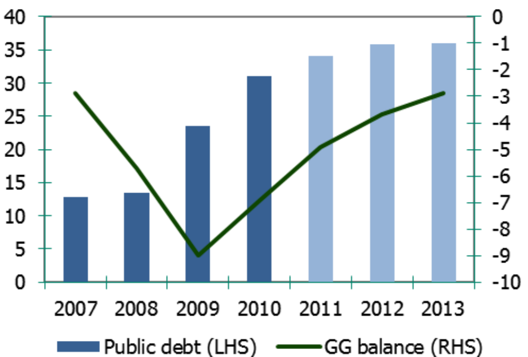

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (%) and employment growth rate (in %, y/y)




General government debt and deficit (in % of GDP)




Source: Eurostat, CSOs

# SLOVAKIA

Among countries of the Central and Eastern Europe, Slovakia was the one to experience the sharpest slowdown in economic growth in 2011. While in 2010, this country recorded the highest GDP growth (4.2%) in the region, during the first three quarters of the preceding year, the economic growth rate decreased to 3.3%. Moreover, the data published at the end of 2011 and the beginning of 2012 indicate that the scale of downward revision in growth throughout 2011 may be even larger. The 2011 growth fully resulted from increasing foreign demand for Slovakian products, whereas domestic demand followed a downward trend.

As economic growth relies solely on exports, as a result of the downward revision in macroeconomic forecasts for the euro area, the expectations about the Slovakian economy are adjusted downwards considerably as well [25]. This is true especially since this economy is one of the most open ones in the region and Slovakia's trade links with the euro area are considered very strong (primarily as a part of regionally integrated production networks). However, the adverse effect of the crisis in the euro area may be partially mitigated by certain reorientation of the exports structure towards countries with high demand growth, observed after the first wave of the crisis, as well as increase in foreign direct investment, which should boost export as early as in 2012.

The relatively sharp decline in domestic demand observed in Slovakia in 2011[26] (it was only sharper in Hungary) resulted from actions aimed at reducing the budget deficit and a strong decline in consumer and business sentiment.

In spite of slower growth in economic activity observed in the preceding year, the Slovakian government achieved the objective of narrowing the general government deficit to 4.9% of GDP[27] (from 8.1% in 2010). However, this resulted in lower consumption and investment expenditure. Household expenditure was negatively affected by increased indirect tax rates, on the one hand, and wage cuts and employment reductions in the public sector, on the other. There were also substantial cuts in public investment.

Decline in household expenditure, however, proved even deeper than it could result from fiscal consolidation itself. This decrease took place in spite of a certain improvement in the labour market and continued upward trend in wage growth (although it was less pronounced as compared to 2010). Higher income accompanied by lower expenditure (especially in 2011 Q3) caused a rise in savings rate to the highest level since the establishment of the Slovakian state[28]. It appears that lower consumption expenditure observed in particular in 2011 Q3 (and probably continued in Q4, as suggested by relatively sharp drops in retail sales) was largely driven by negative effects of the second wave of recession expected by households. This is suggested by sharply deteriorating consumer sentiment in the second half of the preceding year. In particular, deterioration concerned expectations about the future financial situation of households, which were even more pessimistic in December last year than during the first phase of recession in the European economy (2008–2009).

In turn, deteriorating sentiment in industry was reflected in a sharp decline in inventories. 2011 Q3 was the fourth consecutive quarter of inventory decline. Since the beginning of 2011, this led to the strongest decline in GDP growth in the region — by 2.5 pp. The decrease in inventories points to growing entrepreneurs' expectations of falling export orders and production growth.

In the first half of 2011, Slovakian exporters performed quite well, especially in comparison with other CEE countries. Demand for Slovakian goods increased during this period by 15.5%, i.e. only slightly less than throughout 2010. Such a robust performance was primarily due to increased sales of automotive industry products (passenger vehicles and spare parts), which dominated the exports. This allowed to compensate for lower exports in the electronics sector. High growth in the number foreign orders, including from the euro area, considerably boosted industrial output (by 12.4% y/y). On the other hand, in 2011 Q3, marked slowdown in the euro area led to a decrease in both production and exports growth (both categories recorded a decrease in quarter-on-quarter terms). However, the positive effect of net exports on GDP did not diminish[29], which resulted from a simultaneous decrease in imports growth (primarily imports of intermediate goods driven by shrinking inventories).

In 2011 Q3, the annual export growth remained relatively high, which was related to shifts in the structure of Slovakian exports, in particular, in the automotive sector. During this period, China was the key buyer of cars manufactured in Slovakia (accounting for more than 19% of

[25] Among all CEE countries, the downward revision in economic growth forecast made in November 2011 by the European Commission was the strongest for Slovakia. While in April 2011, the EC still anticipated that GDP in Slovakia would increase in 2012 by 4.4%, the EC Autumn forecast indicated a decline in GDP growth to merely 1.1%. Such a major adjustment resulted primarily from weakened export growth (from 8.2% to 2.4%). Národná banka Slovenska, on the other hand, expected in December 2011 that GDP would increase in 2012 by 2.3%, and exports by 4.0%.

[26] In the first three quarters of 2011, domestic demand in Slovakia decreased by 2.2% as compared to the preceding year.

[27] The Slovakian Ministry of Finance estimates that the budget deficit was even slightly lower.

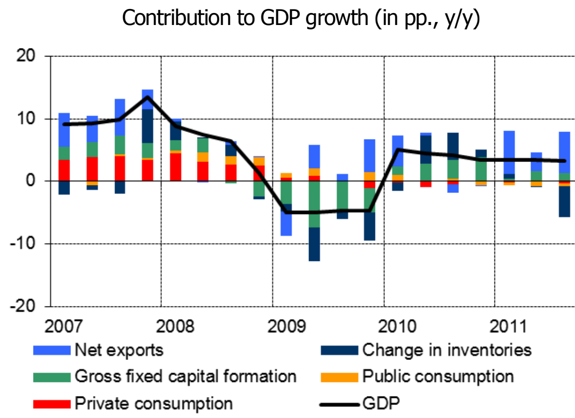
[28] NBS Monthly Bulletin, November/December 2011, Národná banka Slovenska.

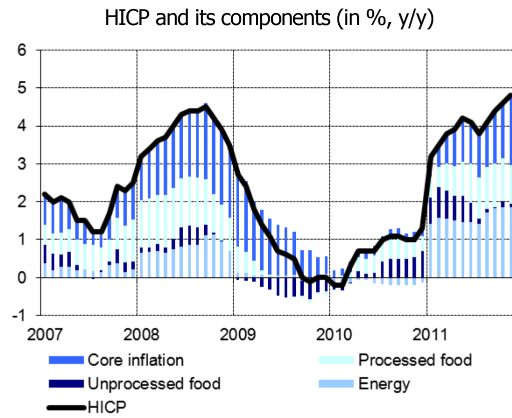
[29] Contribution of net exports to GDP in Slovakia in 2011 (Q1–Q3) was the highest in the region (5.5 pp.).

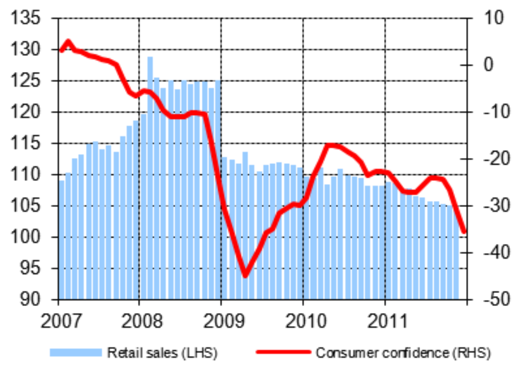
the value of car exports)[30]. Large expansion in automotive exports may have persisted also in 2011 Q4. It is estimated that throughout 2011, automotive industry production achieved unprecedented level of approx. 650 thousand passenger cars (¼ more than in 2010), which was primarily due to increased production of the Bratislava branch of Volkswagen, which has operated on a continuous basis since July 2011 in order to execute the orders. At the same time, the company announced its launch of a new production line in 2012. The relatively optimistic outlook for exports is also suggested by continuing upward trend in foreign orders for the industry, whose portfolio saw considerable increase in the importance of countries from outside the euro area (partially compensating for falling orders from the euro area).

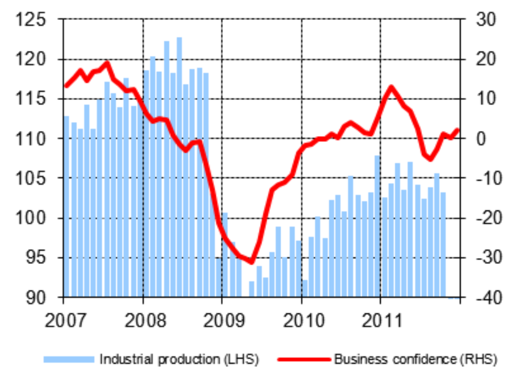
The greatest threat to economic growth in 2012 is falling demand in the main export markets. However, the risk of decline in export growth related with the euro area crisis is somewhat mitigated by the observed reduction in the share of the euro area in Slovakian exports (between 2011 Q1 and Q3, it decreased to 47.1% and was the lowest among Central European countries[31]). Domestic demand, however, will still be too weak to mitigate the adverse effect of exports on GDP growth. In 2012, household consumption will probably remain weak. Yet, the effect of further narrowing of the budget deficit should be minimal, among others, as the objective to reduce the general government deficit for the current year has been lowered[32]. However, as the prospects for Slovakian exporters deteriorate, one should rather expect a certain deterioration in the situation in the labour market and possible wage cuts.

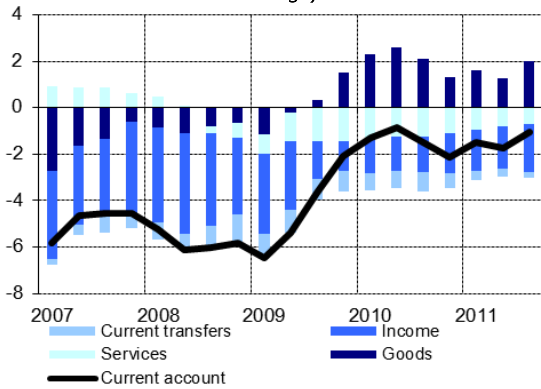
[30]In 2011 Q3, the value of car exports to China increased more than three times as compared to the preceding year.
[31]In 2011 Q1–Q3, the share of the euro area in Czech exports amounted to 66.0%, in Hungarian export — 55.6%, and in Polish export — 54.3%.
[32]The parliament approved the budget act, assuming reduction of the general government deficit to the level of 4.6% of GDP, although according to the earlier plan, it was to be reduced to 3.8% in 2012 (and to 2.9% in 2013). This change resulted from in the downward revision in growth forecasts to 1.7%. However, due to change of the government (parliamentary elections will take place on 10 March 2012), there is certain uncertainty about the implementation of fiscal consolidation plans.

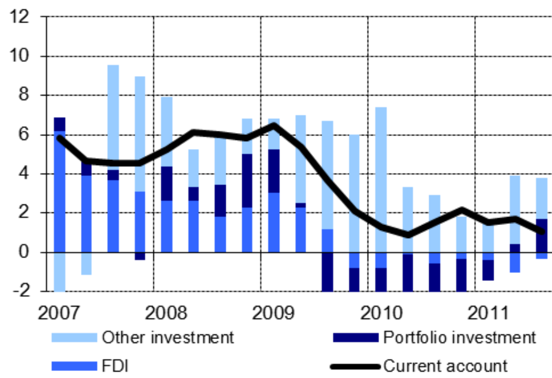


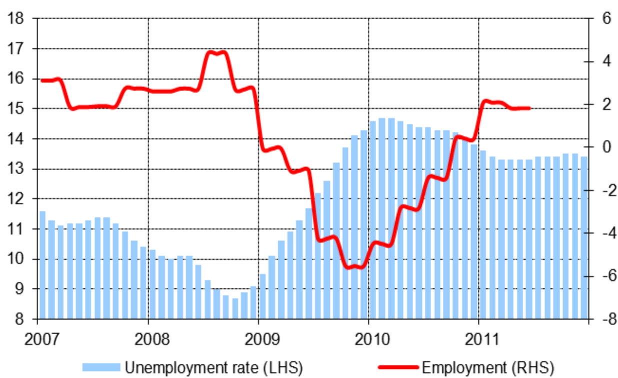



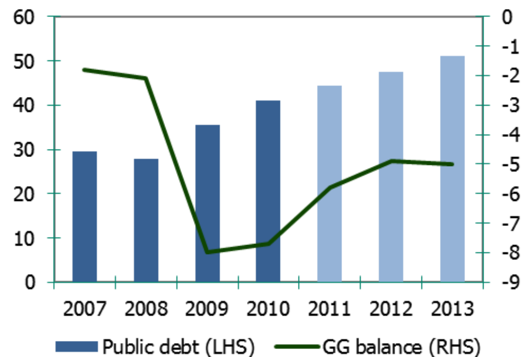




Source: Eurostat, CSOs

# SLOVENIA

In 2011, Slovenia was the slowest growing economy in the Central and Eastern Europe. During the first three quarters of the preceding year, GDP expanded by less than 1% y/y. In quarter-on-quarter terms, the Slovenian economy was on the verge of technical recession. GDP growth is still negatively affected by decreasing (for the twelve subsequent quarters) investment expenditure, which had negative effect on domestic demand. Slovenian economy continues to struggle with the effects of the crisis in the real estate market.

Slow growth of household consumption (amidst increasing number of the unemployed and cuts in real wages) was caused primarily by withdrawal of funds from different forms of investment. The only remaining factor of economic growth was external demand. Growth in Slovenian exports was generally below the average for the remaining countries in the region. Exports were negatively affected by persisting low demand in the former Yugoslavian states, which are important export markets for Slovenia, as well as falling car sales to the euro area.

According to the 2012 forecasts, economic growth will be similar to 2011. The structure of demand is likely to change. Domestic demand is expected to increase slightly (after three years of declines), primarily thanks to a slowdown in the downward trend in investments. A slight increase is expected in household expenditure (in spite of anticipated reduction in employment and lower real wages), along with public expenditure. On the other hand, positive effect of net exports on GDP growth will probably diminish as a result of sharper decline in the growth of exports as compared to that of imports.

During the last months of 2011, revision in macroeconomic forecasts for Slovenia was relatively small as compared to the majority of other countries of the Central and Eastern Europe. It results primarily from elimination of the impact of fiscal consolidation on economic growth, which was taken into account in the first half of 2011.

According to the EC's Autumn 2011 forecast , the general government deficit in Slovenia in 2012 will continue to considerably exceed the reference value (5.3%). The EC assumes that freezes on social transfers and wages in the public sector will be put to an end. In the end, they were maintained as the new Slovenian parliament urgently and unanimously adopted regulation in this regard towards the end of December 2011. Contrary to the original plan (rejected in September 2011 and subsequently in November 2011), freezes will not be applicable throughout 2012, but only for the first six months. As a result, positive contribution of this measure to the general government balance in Slovenia in 2012 will be merely 0.2% of GDP (as compared to 1.0% of GDP, had they applied during the entire year). In 2013, i.e. they year in which Slovenia is required to bring its general government deficit below 3% of GDP, the deficit is to amount to 5.7% of GDP. If the EC's forecast comes true, in 2013, Slovenia would have the highest fiscal deficit among the countries of the Central and Eastern Europe.

The form fiscal adjustment in Slovenia in 2012 and the coming years is uncertain. After the rejection of the government's draft pension scheme reform in June 2011 (see the box), assuming, among others, gradual rise in the retirement age and change in the pension benefit indexation, the government coalition collapsed. In September 2011, the Slovenian parliment passed a vote of no confidence for the minority government of B. Pahor, as a result of which Slovenia held early parliamentary elections at the beginning of December 2011. The election results further complicated the already difficult situation in the Slovenian political scene[33].

Public finance in 2012 and in the coming years will be negatively affected not only by deteriorating outlook for economic growth but also by the need to provide further government support to the financial system[34] (poor capital indices, deteriorating quality of the credit portfolio). This issue was raised by Moody's, which downgraded Slovenia's creditworthiness in December 2011 for the second time during three months[35]. At the same time, it warned of a possible further downgrades due to Slovenia's uncertain political situation. This decision led to a considerable increase in the Slovenian bonds yields, which at the end of 2011 were among the highest in the region (along with Hungarian and Romanian bonds).

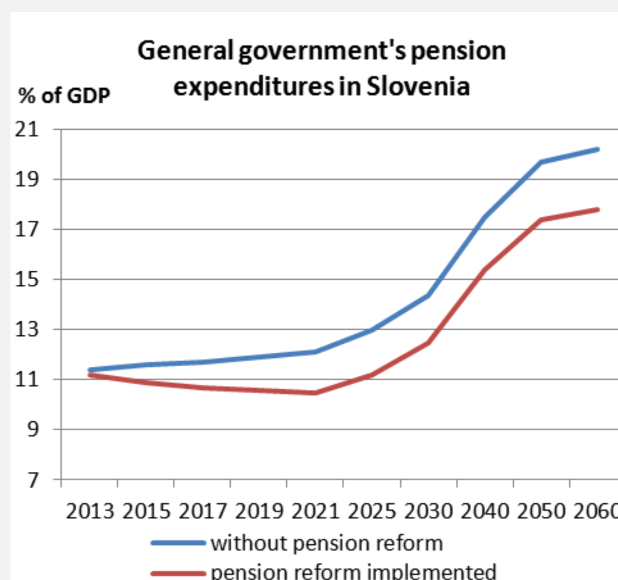
[33]A new government failed to be formed within a month of the announcement of the election results. Most likely, the winning party — Positive Slovenia (28.5% of votes in the elections and 28 seats in the 90-member National Assembly) will not join the governing coalition. It is currently anticipated that the government will be formed by several smaller political parties.

[34]At the end of March 2011, the government of Slovenia recapitalized Nova Ljubljanska Banka (acquisition of the new issue of shares) in the amount of approx. EUR 0.25 billion (0.7% of GDP). Guarantees granted to the banking sector according to the autumn fiscal notification (October 2011) amount, in total, to approx. EUR 2.2 billion (i.e. approx. 6.1% of GDP). Moody's estimates that in the coming years, the scale of government support to the Slovenia's financial system by the government may range between 2% and 8% of GDP.

[35]In September, Slovenia's creditworthiness was also downgraded by Fitch, and in October 2011 by Standard&Poor's.

**The pension scheme reform attempt in Slovenia**

At the end of December 2010, the Slovenian parliament adopted a pension scheme reform, aimed at improving the situation of social insurance funds in the long-term perspective (see the chart). It assumed primarily parametrical changes, such as:




Source: *National Reform Programme 2011-2012*, Government of the Republic of Slovenia, April 2011.

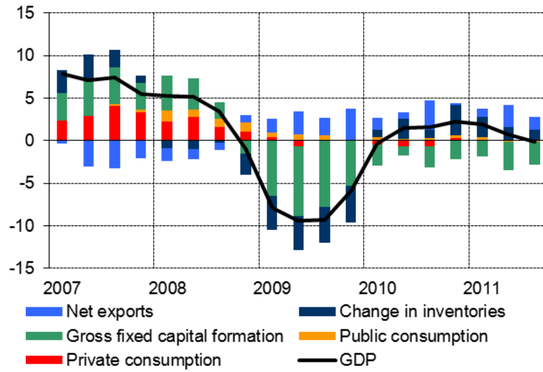
- gradual rise in retirement age to 65 and equalisation of retirement age of men and women, with the possibility of earlier retirement in the case of long social insurance record. Currently, retirement age in Slovenia is 61 for women and 63 for men. The transitional period was to end in 2020 for men and five years later for women;
- extension of the social insurance record, taken into account in the benefit calculation formula (from 18 to 30 years);
- modification of old age and disability benefits indexation formula. In the years 2013–2015, the indexation rate was to be based in 60% on the average wage growth in the domestic economy and in 40% on the consumer price index (CPI). After this period, the proportions were to amount to 70% and 30%, respectively. Currently, indexation of benefits depends on wage growth.

The reform of the pension system was intended to motivate persons eligible for old-age pension benefits to continue employment (among others, to introduce incentives to combine the receipt of benefits with paid employment) and employers to hire persons aged above 60 (cuts in the employer's contribution by 30%).

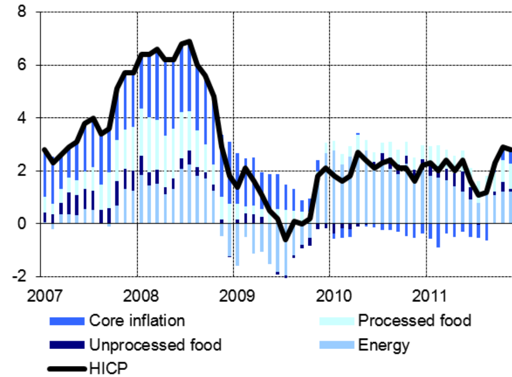
The Slovenian Constitutional Court ruled, upon motion of the labour unions, that the pension reform should be adopted in a referendum. At the beginning of June 2011, voters rejected the proposed changes. According to the Slovenian law, another legislative initiative cannot be put forward for a year. In view of the IMF[36], the rejected pension reform was insufficient to safeguard long-term stability of public finance. The amount of budget subsidy allocated to the social insurance fund would remain high. The changes proposed by this institution concerned, among others, further reduction of the replacement rate[37], linking retirement age with life expectancy and larger reduction of early pension benefits for each month missing to achieve retirement age. Moreover, the Slovenian Fiscal Council[38] indicated that the reform failed to involve elimination of costly retirement privileges of certain professional groups (e.g. uniformed services, civil servants).

[36] *Republic of Slovenia: 2011 Article IV Consultation—Staff Report*, IMF Country Report No. 11/121, IMF, May 2011.
[37] The amount of received old-age benefits in relation to the last wage.
[38] *Annual Report of the Fiscal Council 2011, Fiscal Policy Assessment For Slovenia 2010-2012,* Republic of Slovenia, Government of the Republic of Slovenia, Fiscal Council, April 2011.

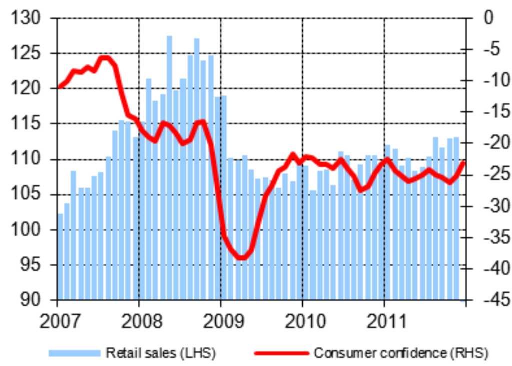
Contribution to GDP growth (in pp., y/y)



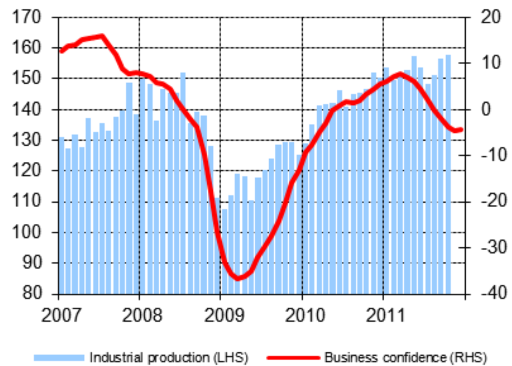

HICP and its components (in %, y/y)



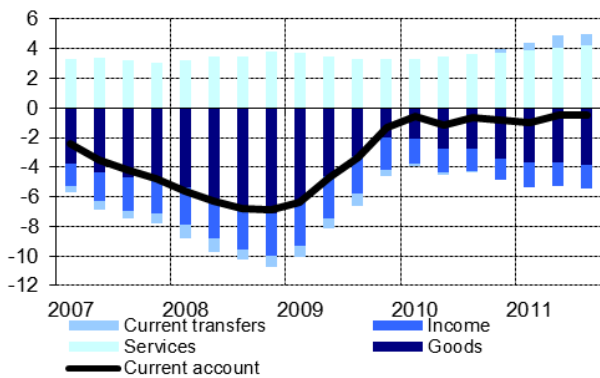

Retail sales (in %, y/y) and consumer sentiment index



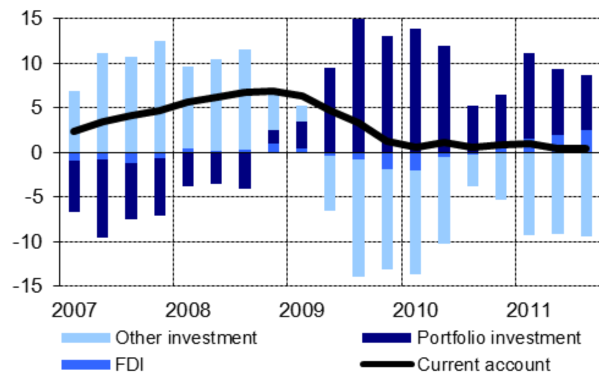

Industrial production (in %, y/y) and business sentiment index



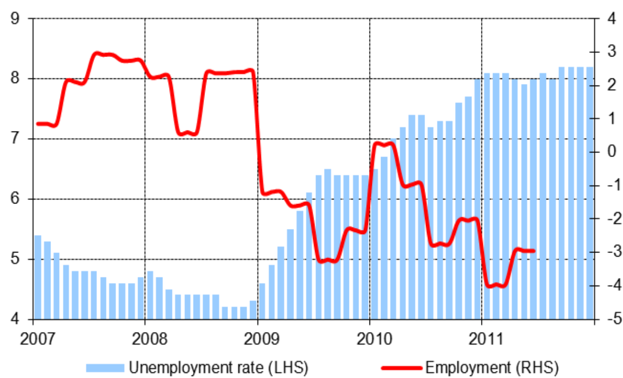

Current account and its components (in % of GDP, 4-quarter moving average)



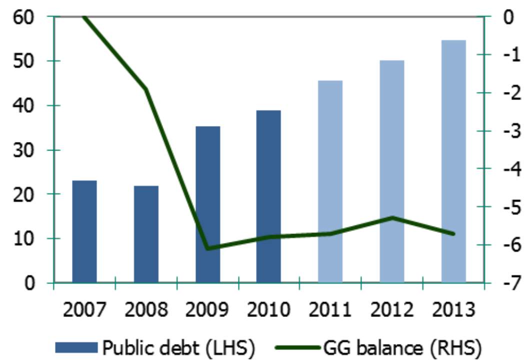

Financial account balance and its components (in % of GDP, 4-quarter moving average)




Unemployment rate (%) and employment growth rate (in %, y/y)




General government debt and deficit (in % of GDP)




Source: Eurostat, CSOs

# HUNGARY

In 2011, the Hungarian economy was one of the slowest-developing in the region. Growth relied mainly on external demand (in spite of a slowdown in exports growth as compared to 2010), whereas domestic demand continued to decrease. Moreover, households' debt repayment and restrictive bank lending policy may continue to considerably impede recovery in Hungary. The majority of external forecasts released in December 2011 indicates that in 2012 Hungary will enter recession and will be the only country in the Central and Eastern Europe to experience negative economic growth (according to the market consensus, Hungarian GDP will drop by 0.3% y/y as compared to the anticipated growth of 1.5% y/y in 2011). Net exports are expected to remain the main factor stimulating Hungarian economic activity, although its positive impact will decrease due to a weakening demand in its major trading partners. Another urgent issue in 2012 in Hungary will be the repayment of the portion of the country's foreign debt coming due in this period, in particular in the situation when the possible support of the IMF and the EC remains uncertain.

In spite of a quite considerable rise in real disposable income in the first three quarters of 2011, resulting from rising nominal wage growth and reduction in personal tax rates at the beginning of 2012, consumption expenditure in Hungary decreased during this period. This may suggest that households, anticipating likely wage cuts connected with uncertain outlook for growth in the Hungarian economy, limit their consumption[39].

Another factor curbing private consumption growth in Hungary is an ongoing deleveraging in the households sector. Before the outbreak of the global financial crisis, consumers were willing to take foreign currency loans (mainly in the Swiss francs and the euro), which resulted primarily from lower interests charged on those loans that on loans in domestic currency and a relatively stable exchange rate of the forint against the above mentioned currencies[40]. However, the turmoil in the international financial markets and increased global risk aversion were accompanied by a marked depreciation of exchange rates of emerging economies' currencies, including the forint. As time passed, the scale of depreciation of the Hungarian currency decreased slightly, although remained elevated. In 2011, the forint once again started to depreciate sharply against other currencies, which was reflectein higher costs of servicing foreign currency loans. In order to mitigate the adverse effect of depreciation of the forint on domestic private consumption growth, the Hungarian government implemented a number of regulations aimed at protecting households with foreign currency debt. One of the adopted solutions was the act enabling borrowers to make a one-off early repayment of the foreign currency loan at an exchange rate lower than the market exchange rate, adopted by the parliament in September 2011. The scale of the impact of the implemented legal solutions on private consumption growth in Hungary in 2012 will depend on the percentage of consumers to benefit from them. One should bear in mind, however, that even in the case of high interest of households in early repayment of their foreign currency loans, the resulting positive effect on private consumption growth in 2012 may be weakened or even cancelled out by later recovery of reduced savings of these consumers.

Another barrier to consumption growth in Hungary will be a relatively high inflation, which in 2012 will probably remain at an elevated level due to depreciating exchange rate of the forint and increase in indirect taxes. Adverse situation in the labour market may have similar effects. Since the beginning of 2010, there has been a slight increase in the activity rate[41], primarily as a result of the government's measures (including increased retirement age, stricter criteria for granting disability benefits). Still, so far there are no results in the form of, among others, increased employment in the Hungarian economy. During the first three quarters of 2011, employment remained at a relatively low level (on average below 1% y/y). Moreover, the hitherto observed employment growth in Hungary concerned primarily the public sector, while in the private sector, labour demand grew at a lower rate due to uncertain outlook for growth in the Hungarian economy and receding number of export orders.

As a consequence of growing labour supply and decreasing demand for new workers in the private sector, the unemployment rate in Hungary during the first three quarters of 2011 remained at the level of 10%. Moreover, due to the anticipated slow growth of the Hungarian economy, the percentage of the unemployed may be expected to remain at a high level for the next several years[42]. The relatively fast increase in nominal wages observed in the first three quarters of 2011, in particular in the manufacturing sector, may be difficult to maintain in the future due to the abovementioned factors affecting the situation in the Hungarian labour market.

[39] Prudence in consumption expenditure increase is also reflected by the Hungarian consumer confidence indices, which have been continuously revised downwards since the beginning of 2011. Domestic household sentiment surveys as of November 2011 show that the abovementioned entities expect their financial situation to deteriorate and unemployment to increase during the next 12 months, which is reflected in lower declared propensity to purchase consumer durable goods in the nearest future.

[40] Share of foreign currency loans in total household loans in Hungary amounts to approx. 65% and ranks among the highest in the CEE countries.

[41] According to the data of the Hungarian statistical office (KSH), in 2011 Q3, the economically active population constituted 63.2% of the total Hungarian population aged 15–64, while in 2010 Q1, this percentage amounted to 61.9%.

[42] According to the forecasts of the European Commission as of November 2011 the unemployment rate in Hungary will amount to approximately 11% in the years 2012–2013.

Apart from a continuously deteriorating consumer demand, absence of visible improvement in the labour market and slowdown in global economic activity, further reduction in investment activity of Hungarian enterprises will also be driven by more expensive bank loans, which is related, among others, to lower supply of capital in the international financial markets. For banks operating in Hungary, which strongly rely on the inflow of foreign funds, given insufficient funds from deposits in the private sector, this means higher costs of financing of their lending activity[43]. Moreover, availability of banking loans in Hungary is limited due to persistently stringent lending criteria (such as the maximum loan amount, higher collateral requirements etc.).

The available data show that in the first half of 2011, domestic companies once again decreased fixed capital formation (-5.8% y/y), and the scale of the decline deepened as compared to the second half of 2010 (-5.3% y/y). Moreover, credit growth to the enterprise sector in Hungary will remain negative, which may suggest that companies are not planning larger investments in modernisation and/or expansion of their production systems in the nearest future.

In 2012, apart from the anticipated negative GDP growth, Hungary may also experience difficulties in obtaining funds for the country's foreign debt service These difficulties result, on the one hand, from persistently high costs of debt financing in the foreign markets, as a result of increased risk aversion among investors due to the persisting debt and banking crisis in Western Europe and unstable political and economic situation in Hungary. On the other, the possibility of obtaining financial assistance from the International Monetary Fund (IMF) and the European Commission (EC) has become problematic lately. However, in November 2011, the Hungarian government once again asked these institutions for assistance in the form of credit line, which was to provide a "safety cushion" in the period of uncertainty. Nevertheless, the government's measures, interpreted as aimed to limit independence of the central bank[44], may delay or even block the decision of the IMF and the EC to grant such a loan.

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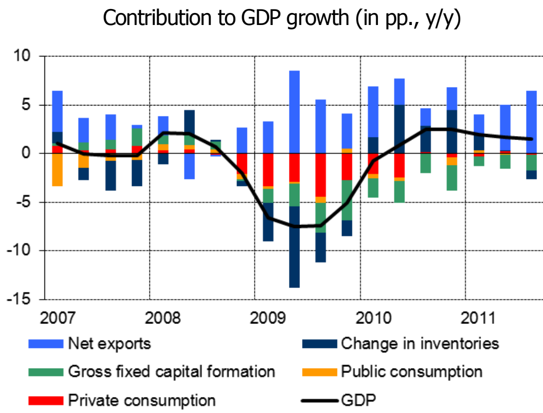
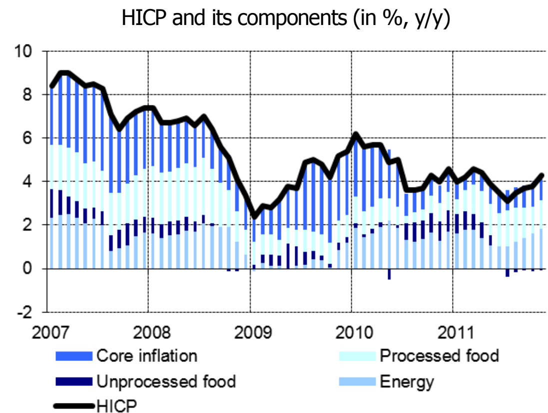
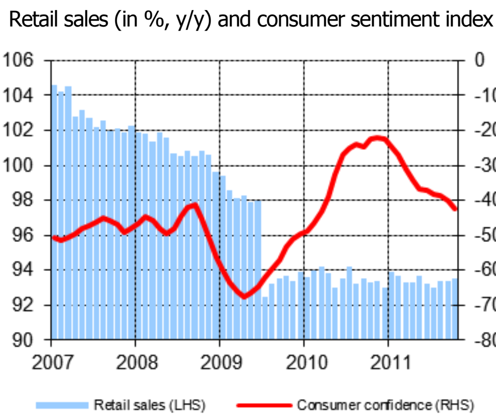
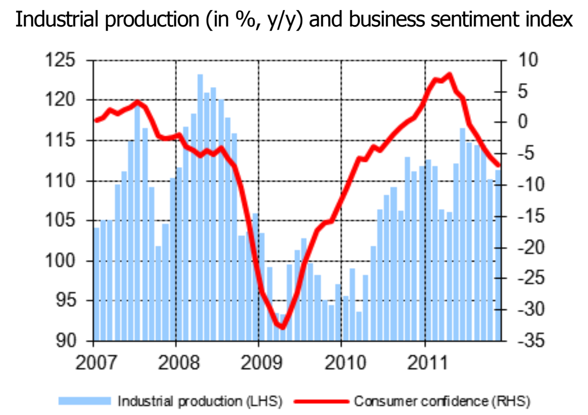
[43] Even if one takes into account the fact that the majority of these banks are members of multinational capital groups and may apply for loans from their parent companies from Western Europe, it seems more probable that amidst current uncertainty in the financial markets and the persisting debt crisis in the euro area, the cost of raising capital within the group will also be higher.

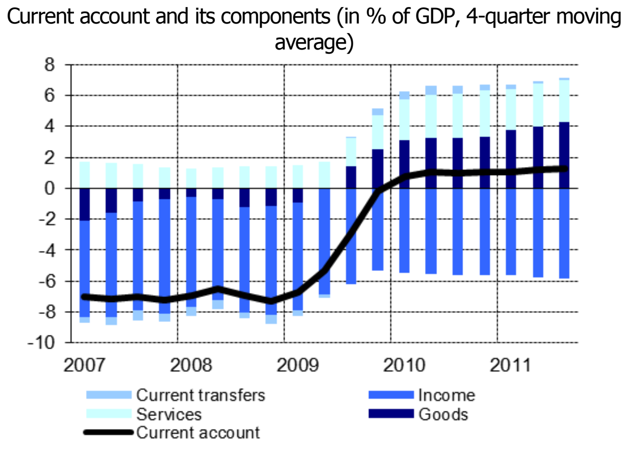
[44] It deals with the act adopted in October 2011, allowing early repayment of foreign currency housing loans at a lower rate than the market rate and the act adopted in January 2012, introducing changes in the structure of the National Bank of Hungary, limiting its independence (e.g. extended composition of the Management Board to include one more Deputy President and depriving the President of the right to appoint their substitutes in favor of the Prime Minister, extended composition of the Hungarian Monetary Policy Council from 7 to 9 members).

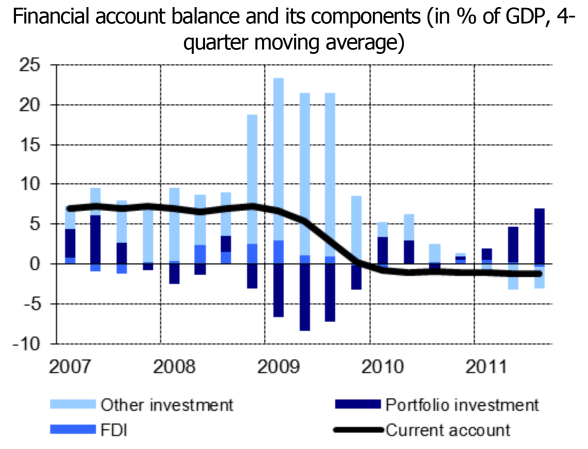


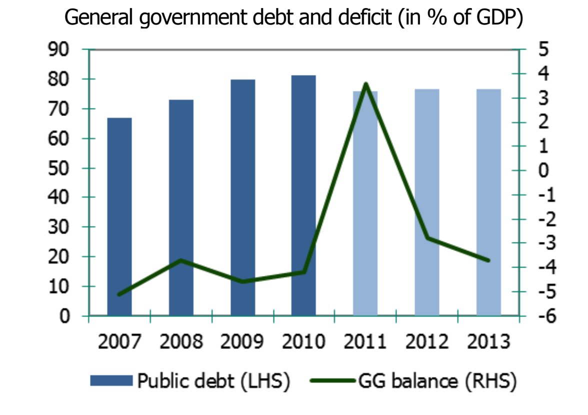






Source: Eurostat, CSOs

**Annex 1**

## Euro area crisis and the region of Central and Eastern Europe

The region of the Central and Eastern Europe is not homogeneous. CEE countries differ with respect to the sizes of their economies (Poland's GDP is 20 times higher than that of Estonia), the level of economic development (GDP per capita in Slovenia is twice as high as in Bulgaria, according to the purchasing power parity, and four times higher in nominal terms). The countries of the region also differ in respect of exchange rate regimes or the degree of integration with the euro area. Nevertheless, due to geographic location, common past of centrally planned economies, which affected civilizational gap in relation to the Western Europe, as well as similar path to economic and political transformation over the last twenty years, these economies share a number of features in spite of the diversity.

This concerns primarily relations with the main countries of the euro area[45]. First of all, the euro area, and Germany in particular, is the main trading partner of the CEE region. Additionally, the growth model observed in the past few years in the CEE countries was based on the inflow of foreign capital, both in the form of foreign investments (direct and portfolio investments) and foreign loans. Most of this capital came from European investors and lenders. Its major part was aimed at the financial sector, especially the banking sector, which is the reason why large banks from euro area countries are currently the largest entities in the banking sector in the Central and Eastern Europe. Growing ties with the euro area in the past allowed those countries to grow rapidly and thus catch up with the West European states. However, in the face of economic and financial crisis observed in 2011 in the euro area countries, strong dependency on these economies poses a major threat to the development of the countries in this region.

### *Foreign trade*

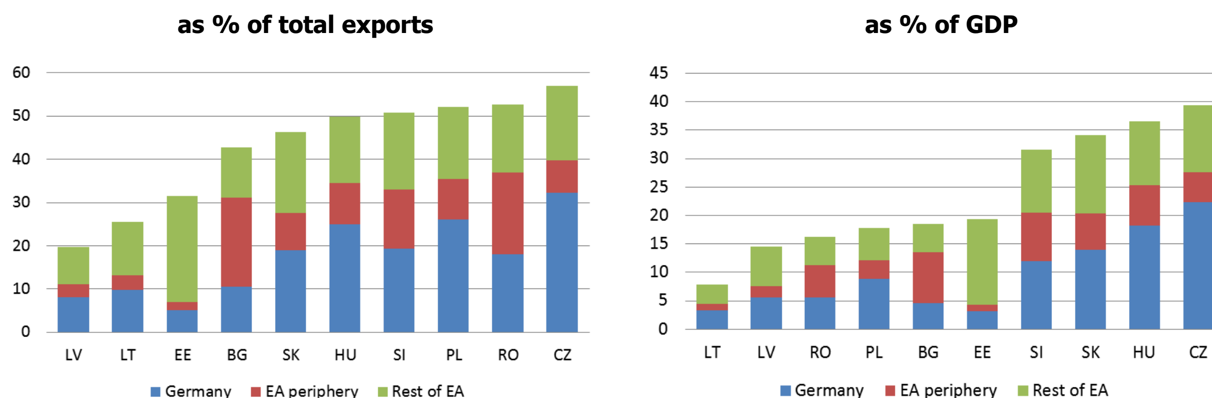
Fast-developing foreign trade was one of the main driving forces of economic growth in the CEE countries in the past few years. External demand was exceptionally important for the region. CEE countries are small, open economies, where exports range from 40% of GDP (Poland, Latvia) to 80% of GDP (Czech Republic, Slovakia, Hungary).

Geographic location as well as increasing capital ties in the past twenty years resulted in the euro area becoming the natural largest trading partner for the CEE countries. Except for the Baltic states, which have closer links to Scandinavian countries (mainly Sweden) and Russia than to the euro area, in other countries of the region, exports to the euro area ranged from 45% to almost 60% of total exports in 2010. However, these figures do not provide a full description of the role of the euro area countries in the CEE countries' foreign trade. Within two decades of transformations, the CEE economies were included in the international trade and production network. The leading role in this network is played by corporations, usually from the West European countries. The current intra-company trade not only stimulated trade turnover between the CEE countries and the euro area, but also boosted trade inside the region.

Taking into account the openness of individual CEE economies, reliance on the euro area demand seems to be the strongest in Slovakia, Slovenia, the Czech Republic and Hungary, where these exports accounted for 30–40% of GDP in the preceding years. On the other hand, in Poland or Romania, in spite of the fact that more than a half of their exports were aimed at the euro area, smaller trade openness caused these countries to be relatively immune to direct effects of decreased euro area.

[45] In this study, the euro area does not include new European Union Member States, i.e. Slovenia, Slovakia, Estonia, Cyprus and Malta.

**CEE exports to the euro area countries in 2010**




*EA periphery includes Greece, Italy, Portugal, Spain
Source: Eurostat, NBP IE calculations

Trade with the largest economy of the euro area, i.e. Germany, is of particular importance to the CEE region. Exports to Germany account for approximately half of the euro area exports from this group of countries. Additionally, German companies were the main market maker for intra-company trade in the region. Surprisingly fast economic growth of German economy in 2010 and the first half of 2011, in spite of the persisting slow-down in the remaining euro area countries, was one of the main factors stimulating the recovery in the CEE economies after the 2009 crisis. Increased German demand fuelled by economic recovery outside the euro area, which boosted German exports and indirectly also exports from the CEE countries. In the second half of 2011, German economy experienced a marked slow-down, whereas forecasts suggest further deceleration of growth in Germany and , consequently, in the entire euro area. This means the end of the pro-growth stimulus observed during previous quarters.

At the same time, a large part of exports from the CEE countries was addressed to deeply indebted countries in the south of the euro area (peripheral states)[46] (approx. 10% of total exports, and in the case of Bulgaria, Romania and Slovenia — nearly 20%). These were primarily exports Italy, which was one of the main trading partners of the region. In the case of Bulgaria and Romania, an important role was also played by trade with the crisis-ridden Greece. Economic growth forecasts in the second half of 2011 suggest further decrease in GDP in the EA peripheral states in 2012. Economic slowdown in 2012 will therefore affect both the "core" countries of the euro area and the peripheral states, which, given the dominant share of these economies in creating exports from the CEE region, will have both direct and indirect impact on the slow-down in economic growth in this region.

### *Inflow of capital*

One of common features of the CEE economies is their growth model, which was based on the inflow of foreign capital, in particular from developed countries. As in the case of foreign trade, euro area economies played the dominant role also in the inflow of foreign capital. It concerned both direct investments, portfolio investments and foreign loans.

Due to structural changes, observed during the economic transformation, the inflow of foreign direct investments (FDI) played a crucial role. During the past twenty years, the FDI inflow to the CEE countries amounted to more than 50% of their total GDP (as at the end of 2009). More than 70% of FDI inflow are investments originating from the euro area countries. Once again, the Baltic states are less dependent on euro area capital inflows (approx. 35% of FDI inflow came from the euro area — for the major part, from Scandinavian countries). In other countries of the region, the inflow of investments from the euro area countries ranged from 65% to almost 90%.

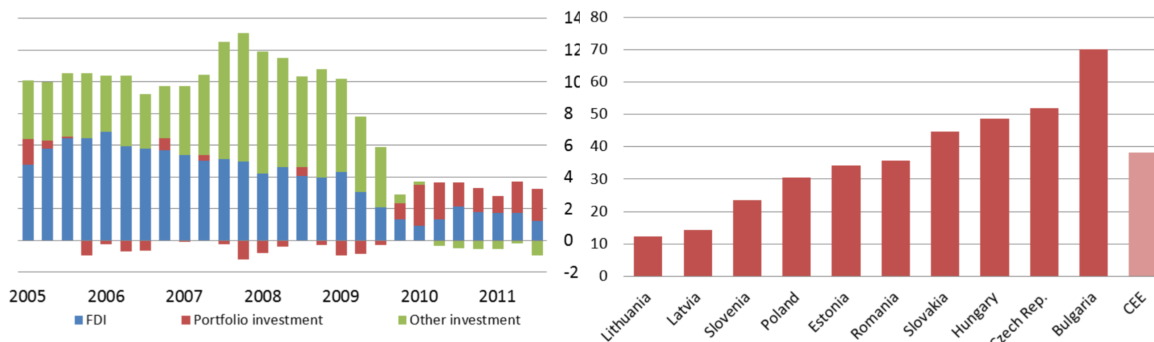
Foreign direct investments were largely addressed to non-tradable sectors (construction, services), i.e. sectors focused on the domestic market. On the one hand, they were yet another factor supporting

[46]Greece, Spain, Portugal and Italy.

growth of domestic demand in the CEE countries before the outbreak of the financial crisis. On the other, they have led to overheating of these economies, appreciation of domestic currencies and considerable growth in labour costs. As a result, the CEE region's response to the global financial crisis was stronger than in other regions of the world.

**Net foreign Capital inflow into CEE economies, in % of GDP, 4-quarter moving average**

**Euro area FDI stock at the end of 2009 as % of GDP**




Source: Eurostat, NBP IE calculations

The outbreak of the financial crisis in 2009 caused a considerable decline in foreign capital inflow. It concerned not only the FDI inflow (a decrease from nearly 5% of GDP in mid-2008 to less than 1% of GDP in early 2010), but primarily a sudden stop in other investments, i.e. primarily trade loans and loans to the banking sector. In the years 2004–2008, the inflow of foreign loans was the dominant item in the financial account, in particular in the Baltic states, Bulgaria and Romania. 2010 saw the beginning of the outflow of this type of foreign capital from the CEE countries. Similarly to direct investments, the inflow of foreign loans primarily stimulated domestic demand.

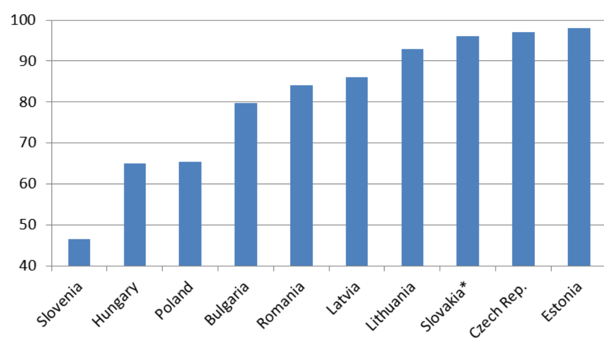
High level of risk aversion and liquidity problems faced by financial institutions struggling with the euro area debt crisis will be factors curbing fast growth in the inflow of foreign investments. This means that CEE economies have lost another stimulus likely to boost their domestic demand.

At the same time, since the outbreak of the financial crisis, the inflow of portfolio investments has increased, in particular to the Treasury bonds. A large share of portfolio investments in the structure of foreign capital inflow poses a risk to the stability of CEE capital markets, especially during the period of elevated risk aversion. In the case of further deterioration of the debt crisis in the euro area, there is a possibility of sudden outflow of these investments from the region, which may lead to destabilisation of financial markets on a similar or even larger scale than the one observed in the second half of 2008.

### *Banking sector*

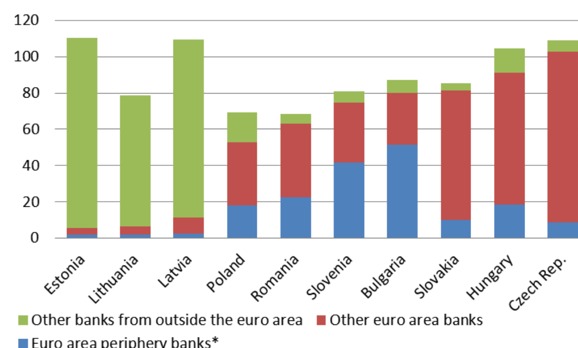
Liberalisation of financial markets and European integration process have led to a rapid expansion of foreign financial institutions to the CEE markets. Due to geographic proximity, as well as strong economic ties, they were dominated by European entities, especially from the euro area countries. Before accession to the European Union, in all countries except for Slovenia, the banking sector was already dominated by foreign owned banks. In the coming years, the share of foreign banks in the banking sector continued to increase. At the end of 2010, the share of foreign capital in the banking sector in Estonia, the Czech Republic, Lithuania and Slovakia exceeded 90% of the value of assets of the entire sector. For the major part, it was capital from European countries, in particular countries of the euro area. Only in the Baltic states euro area originating bank did not play such an important role (in this case, the banking sector was dominated by Scandinavian, especially Swedish banks).

**Share of foreign owned banks in the banking sector assets**




Source: FitchRatings

**Foreign claims in % of GDP, Q2 2011**




Source: BIS, Eurostat, NBP IE calculations

Foreign financial institutions significantly boosted the lending activity in the CEE countries. Credit to the private sector in the years 2004–2008 expanded at a rate of approx. 30% y/y. At the same time rapid increase in the value of extended loans was not accompanied by equally fast increase in domestic deposits in the region. Lending activity in the CEE countries was therefore financed to a large extent by the inflow of loans from parent central banks, mainly European banks, to their branches and subsidiaries in the region's countries. In 2011 Q2, foreign claims amounted to approx. 70% of GDP in Poland and Romania for more than 100% of GDP in the Czech Republic, Estonia, Latvia and Hungary. Apart from the Baltic states, the majority of these loans came from euro area owned banks, mainly from Austria, Italy, Germany, France and the Benelux countries. In the case of Bulgaria and, to a lesser extent, Romania, the exposure of Greek was also significant.

There are several channels through which the euro area debt crisis can spread to the banking sector of the CEE countries and thereafter to the real economy. The first one is asset quality deterioration. In spite of a relatively high exposure of banks from the peripheral states to the region (in particular Italian banks and in Bulgaria and Romania also Greek banks), the assets of Central European branches and subsidiaries of these banks contain very few Treasury and corporate bonds from these countries[47]. Therefore, the impact of debt restructuring in the peripheral states of the euro area is limited. On the other hand, the turmoil in the European financial markets has led to considerable depreciation of the currencies of the region (CZK, HUF, PLN, RON) in the second half of 2011, which increased the costs of servicing foreign currency loans. Taking into account the large share of this type of loans in banks' portfolios, especially in Hungary and Romania, exchange rate depreciation will further increase the number of non-performing loans and hence indirectly deteriorate the quality of banks' assets.

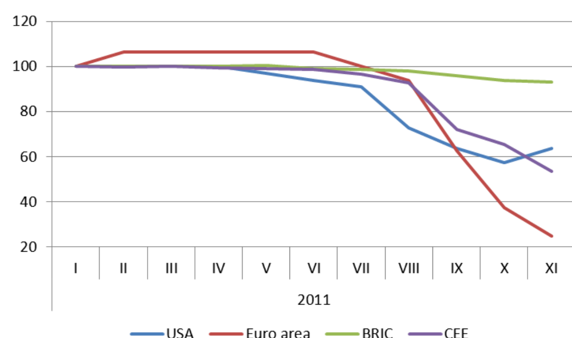
Another channel is the external funding to the banking sector. As has been mentioned above, lending activity in the CEE countries was not fully financed by domestic deposits. Only in the Czech Republic the value of deposits exceeded the value of loans. In other countries, the proportions were opposite. In the Baltic states, the value of loans granted to the private sector was twice as high as the value of domestic deposits. For this reason, in preceding years, the inflow of loans from parent banks provided material support for lending activity in the region, which in turn was one of the main stimuli for domestic demand fast growth. The deteriorating financial situation of European banks, as well as the EU's proposal to increase the regulatory capital ratio from 8% to 9%[48], will cause a decrease in the inflow of foreign financing from headquarters to branches and subsidiaries in the CEE countries (in the second half of 2011, it was already observed in the case of Greek and German banks[49]). It will therefore directly influence further deceleration of lending activity in the region, which has been stagnating since 2009. Indirectly, it will translate into lack of pro-growth stimulus for consumption and investment.

[47]See *Eurozone Crisis: Funding Risks for Emerging Europe*, Special Report, FitchRatings, November 2011
[48]To meet the new solvency requirements, the largest banks of the euro area must considerably increase their equity. Among others, Unicredit should increase its equity by EUR 7.5 billion, while Erste by EUR 750 million.
[49]In November 2011, Comerzbank announced temporary suspension of lending outside the German and Polish markets.

### *Euro area exposure and the expected economic growth*

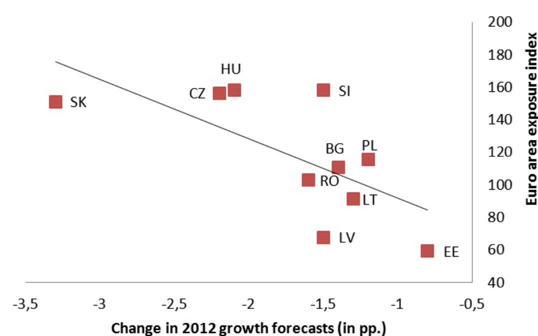
The negative impact of CEE countries exposure to the euro area caused deterioration of forecasts in the preceding months. GDP growth rate for the euro area in 2012 considerably adjusted in the second half of 2011 (consensual forecasts revised downward the anticipated economic growth from 1.7% in June to 0.4% in November 2011), involved marked adjustment of forecasts for the CEE countries. In June, the 2012 forecast for the region as a whole was still 3.6%, while in November, it decreased to less than 2%. In the case of the CEE countries, the downward revision of forecasts was much considerable than in emerging countries in other regions of the world. In the corresponding period, expectations about economic growth in 2012 in the BRIC countries (Brazil, Russia, India and China) were only slightly adjusted downwards.

**Change in GDP growth rate forecasts for 2012**




Source: Consensus Economics

**Euro area exposure and the change in 2012 growth forecasts**




Source: European Commission, Eurostat, Fitch rating

The importance of the euro area exposure is also reflected in the downward revision of forecasts for individual countries in the region. Forecasts concerning countries which have relatively weak ties with the core of the euro area (EA-12)[50], i.e. the Baltic states and Poland were revised downwards to the slightest extent. On the other hand, in the Czech Republic, Hungary and especially Slovakia, GDP growth in 2012 is expected to be well below the May and June 2011 forecasts[51] . At the same time, trade, financial and capital links between these countries and the euro area are the strongest in the CEE region.

[50]The strength of ties between individual CEE economies and the euro area (EA-12) was measured using the value of index which was the sum of the share of exports to the euro area in a particular country's GDP, the status of trans-border loans and direct investments from the euro area as percentage of GDP.

[51]The differences in forecast GDP growth in 2012, published by the European Commission in May and November 2011 vary between 0.8 pp. in Estonia and 3.3 pp. in Slovakia.

## Statistical annex

### 1. National accounts

**Table 1. Gross domestic product** (in %, y/y)

| | 2009 | 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|
| Poland | 1,7 | 3,8 | 4,8 | 4,1 | 4,5 | 4,6 | 4,2 |
| Czech Rep. | -4,1 | 2,3 | 3,3 | 3,0 | 2,8 | 2,0 | 1,2 |
| Slovakia | -4,7 | 4,0 | 4,1 | 3,4 | 3,4 | 3,4 | 3,2 |
| Slovenia | -8,2 | 1,0 | 1,6 | 2,2 | 1,9 | 0,7 | -0,1 |
| Hungary | -6,3 | 1,2 | 2,5 | 2,5 | 1,9 | 1,7 | 1,5 |
| Estonia | -14,1 | 3,1 | 5,1 | 6,2 | 9,5 | 8,4 | 8,3 |
| Lithuania | -14,8 | -0,3 | 1,2 | 4,4 | 5,4 | 6,5 | 7,3 |
| Latvia | -18,0 | 1,3 | 3,3 | 3,1 | 3,1 | 5,3 | 6,1 |
| Bulgaria | -5,0 | 0,2 | 0,0 | 3,7 | 3,3 | 2,0 | 1,6 |
| Romania | -7,1 | -1,3 | -1,5 | 0,0 | 1,3 | 1,9 | 4,4 |

Source: Eurostat

**Table 2. Private consumption** (in %, y/y)

| | 2009 | 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|
| Poland | 2,3 | 3,2 | 3,7 | 3,5 | 3,4 | 3,7 | 3,0 |
| Czech Rep. | -0,2 | 0,2 | 0,8 | 0,7 | -0,2 | -0,3 | -0,4 |
| Slovakia | -0,7 | -0,3 | -1,0 | 0,2 | -0,3 | 0,0 | -0,7 |
| Slovenia | -1,4 | 0,7 | -1,2 | 0,5 | 0,2 | 0,2 | 0,1 |
| Hungary | -7,5 | -2,1 | 0,3 | -0,7 | -0,6 | 0,5 | -0,2 |
| Estonia | -18,5 | -1,9 | 1,2 | 3,3 | 3,4 | 4,0 | 4,6 |
| Lithuania | -16,8 | -0,1 | -1,8 | 5,3 | 5,4 | 8,2 | 5,4 |
| Latvia | -24,0 | -4,5 | 3,5 | 5,1 | 3,6 | 5,0 | 5,4 |
| Bulgaria | -6,3 | -1,2 | -0,7 | 1,0 | 1,3 | 1,2 | 1,9 |
| Romania | -10,5 | -1,7 | -1,6 | -1,4 | -0,1 | -0,2 | 2,9 |

Source: Eurostat

**Table 3. Gross fixed capital formation** (in %, y/y)

| | 2009 | 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|
| Poland | -0,3 | -2,0 | 0,9 | 2,3 | 6,3 | 6,3 | 8,1 |
| Czech Rep. | -9,2 | -3,1 | 4,1 | 4,1 | -1,3 | 3,1 | -1,9 |
| Slovakia | -10,5 | 3,6 | 15,0 | 16,2 | 1,7 | 6,9 | 6,0 |
| Slovenia | -21,6 | -7,1 | -9,7 | -8,8 | -8,5 | -14,2 | -12,3 |
| Hungary | -6,5 | -5,6 | -8,5 | -9,0 | -6,1 | -7,3 | -7,8 |
| Estonia | -34,4 | -9,2 | -10,0 | 9,0 | 20,8 | 15,1 | 33,8 |
| Lithuania | -39,1 | -19,5 | 20,0 | 21,9 | 41,5 | 17,6 | 10,0 |
| Latvia | -37,3 | 0,0 | 6,2 | 5,2 | 29,4 | 24,8 | 22,2 |
| Bulgaria | -26,9 | -16,5 | -21,3 | -0,9 | 1,6 | 8,4 | -2,8 |
| Romania | -25,3 | -13,1 | -15,6 | -2,6 | -4,2 | -0,4 | 13,3 |

Source: Eurostat

**Table 4. Exports of goods and services** (in %, y/y)

| | 2009 | 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|
| Poland | -9,1 | 10,2 | 10,5 | 9,9 | 9,2 | 4,5 | 8,0 |
| Czech Rep. | -10,8 | 18,0 | 16,7 | 15,3 | 18,5 | 13,2 | 8,8 |
| Slovakia | -16,5 | 16,4 | 17,0 | 14,7 | 18,0 | 13,1 | 5,6 |
| Slovenia | -15,6 | 7,7 | 11,3 | 8,3 | 9,8 | 8,5 | 6,8 |
| Hungary | -9,1 | 14,1 | 14,3 | 12,8 | 14,2 | 8,8 | 7,7 |
| Estonia | -11,2 | 21,7 | 27,2 | 38,6 | 35,7 | 32,4 | 25,2 |
| Lithuania | -14,3 | 10,3 | 17,1 | 24,4 | 21,5 | 18,3 | 11,7 |
| Latvia | -15,5 | 17,4 | 14,6 | 13,8 | 15,3 | 14,7 | 11,7 |
| Bulgaria | -9,8 | 16,2 | 27,7 | 15,2 | 21,6 | 12,2 | 2,0 |
| Romania | -5,5 | 13,1 | 12,6 | 18,4 | 23,5 | 6,3 | 8,8 |

Source: Eurostat

**Table 5. Imports of goods and services** (in %, y/y)

| | 2009 | 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|
| Poland | -14,3 | 10,7 | 12,5 | 13,4 | 8,5 | 4,5 | 5,8 |
| Czech Rep. | -10,6 | 18,0 | 20,3 | 15,1 | 17,9 | 11,3 | 3,1 |
| Slovakia | -17,6 | 14,9 | 19,9 | 15,5 | 11,4 | 10,8 | -1,8 |
| Slovenia | -17,9 | 6,7 | 5,9 | 7,9 | 8,4 | 4,8 | 4,9 |
| Hungary | -15,4 | 12,0 | 13,9 | 11,6 | 14,0 | 6,0 | 3,3 |
| Estonia | -26,8 | 21,0 | 28,0 | 31,5 | 37,1 | 31,0 | 30,5 |
| Lithuania | -29,4 | 8,6 | 17,5 | 27,3 | 25,6 | 19,2 | 8,9 |
| Latvia | -35,5 | 17,9 | 16,6 | 20,1 | 22,0 | 22,0 | 17,9 |
| Bulgaria | -22,3 | 4,5 | 5,3 | 10,7 | 10,0 | 7,5 | 8,1 |
| Romania | -20,6 | 11,6 | 9,6 | 14,2 | 15,0 | 7,0 | 10,3 |

Source: Eurostat

## 2. Business cycle and economic activity indicators

**Table 6. Industrial production** (in %, y/y)

| | 2009 | 2010 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -3,5 | 10,7 | 8,2 | 4,2 | 4,8 | 5,6 | 6,7 | 7,0 |
| Czech Rep. | -12,8 | 9,8 | 11,0 | 7,7 | 6,4 | 3,7 | 2,0 | 2,1 |
| Slovakia | -13,1 | 18,9 | 10,5 | 5,0 | 5,3 | 4,4 | 7,4 | 7,7 |
| Slovenia | -17,1 | 6,4 | 4,7 | 1,3 | 1,5 | -1,4 | 2,7 | 1,2 |
| Hungary | -17,3 | 6,5 | 10,0 | 9,5 | 5,9 | 4,9 | 7,8 | -2,3 |
| Estonia | -25,6 | 20,0 | 24,0 | 24,3 | 24,4 | 22,5 | 6,3 | 2,3 |
| Lithuania | -14,4 | 13,9 | 12,1 | 12,7 | 8,2 | 6,6 | 9,4 | 5,0 |
| Latvia | -15,7 | 10,2 | 2,3 | 1,0 | 2,7 | -0,4 | 3,0 | 3,1 |
| Bulgaria | -18,2 | 2,0 | 7,2 | 4,0 | 5,8 | 2,3 | 1,8 | 2,5 |
| Romania | -5,7 | 5,6 | 6,8 | 3,7 | 5,6 | 6,9 | 5,6 | 4,8 |

Source: Eurostat

**Table 7. Retail trade turnover** (in %, y/y)

| | 2009 | 2010 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 3,0 | 6,2 | -1,5 | -2,8 | -2,0 | -0,9 | -0,9 | -0,5 |
| Czech Rep. | -1,5 | -1,1 | -1,1 | -1,3 | -0,6 | -1,9 | -0,7 | |
| Slovakia | -10,2 | -2,2 | -4,3 | -3,9 | -3,7 | -3,7 | -2,9 | |
| Slovenia | -10,3 | -0,3 | -2,1 | -0,1 | 5,7 | 2,2 | 2,2 | 2,3 |
| Hungary | -5,1 | -2,3 | -0,3 | -1,3 | 0,2 | -0,1 | 0,2 | |
| Estonia | -18,3 | -0,5 | 4,5 | 5,3 | 5,5 | 4,8 | 3,7 | 3,8 |
| Lithuania | -21,3 | -6,7 | 6,6 | 7,4 | 9,7 | 10,9 | 9,6 | 13,4 |
| Latvia | -27,2 | -2,2 | 4,0 | 6,5 | 8,3 | 7,9 | 5,3 | 7,8 |
| Bulgaria | -8,6 | -7,0 | -1,3 | -2,1 | -1,9 | -2,2 | -2,5 | -2,7 |
| Romania | -10,0 | -5,8 | -7,5 | -0,1 | -5,8 | -4,3 | 2,0 | |

Source: Eurostat

**Table 8. DG ECFIN consumers confidence indicator**

| | 2009 | 2010 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -26,2 | -18,8 | -22,9 | -21,4 | -25,1 | -23,0 | -23,1 | -23,4 |
| Czech Rep. | -16,6 | -10,5 | -20,2 | -19,4 | -20,4 | -23,8 | -22,3 | -30,0 |
| Slovakia | -35,4 | -20,4 | -25,7 | -23,3 | -23,5 | -26,5 | -29,6 | -36,4 |
| Slovenia | -29,6 | -24,1 | -23,6 | -23,9 | -27,4 | -25,1 | -26,2 | -24,4 |
| Hungary | -59,3 | -29,4 | -38,8 | -39,6 | -37,5 | -43,6 | -46,1 | -47,2 |
| Estonia | -26,3 | -6,7 | -2,1 | 0,4 | -3,6 | -7,2 | -10,2 | -17,1 |
| Lithuania | -49,1 | -32,4 | -16,0 | -15,3 | -17,1 | -19,3 | -21,1 | -19,3 |
| Latvia | -50,1 | -29,7 | -21,2 | -20,9 | -17,6 | -17,1 | -19,6 | -19,6 |
| Bulgaria | -44,6 | -40,6 | -40,1 | -40,0 | -41,5 | -41,3 | -39,1 | -42,0 |
| Romania | -44,8 | -54,6 | -40,7 | -44,8 | -40,0 | -43,9 | -45,7 | -43,4 |

Source: European Commission

**Table 9. DG ECFIN business confidence indicator**

| | 2009 | 2010 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -24,1 | -13,0 | -11,2 | -12,3 | -12,7 | -14,0 | -15,7 | -15,9 |
| Czech Rep. | -22,8 | 3,5 | 3,7 | 3,2 | 3,5 | 2,9 | 1,1 | 4,2 |
| Slovakia | -17,9 | 1,9 | 7,2 | -9,5 | -9,8 | 3,6 | -1,6 | 1,8 |
| Slovenia | -25,6 | 0,0 | 5,2 | 1,5 | -0,3 | -2,1 | -3,1 | -6,2 |
| Hungary | -23,3 | -1,9 | 0,4 | 1,8 | -3,0 | -5,0 | -4,2 | -7,3 |
| Estonia | -28,0 | 0,5 | 9,0 | 10,6 | 6,1 | 4,7 | 5,3 | -0,6 |
| Lithuania | -33,5 | -13,1 | 0,1 | 3,6 | 5,3 | -4,8 | -10,9 | -16,7 |
| Latvia | -27,9 | -7,5 | -3,8 | -5,2 | -3,4 | -6,8 | -4,8 | -4,9 |
| Bulgaria | -10,8 | -9,1 | -5,0 | -4,2 | -5,8 | -6,3 | -5,3 | -5,4 |
| Romania | -13,9 | -8,3 | -1,8 | -2,0 | -2,4 | -3,1 | -3,2 | -4,5 |

Source: European Commission

**Table 10. PMI manufacturing**

| | 2010 | 2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 | 12.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 53,5 | 52,3 | 52,9 | 51,8 | 50,2 | 51,7 | 49,5 | 48,8 |
| Czech Rep. | 56,8 | 54,9 | 53,4 | 53,4 | 53,3 | 51,7 | 48,6 | 49,2 |
| Hungary | 52,8 | 52,1 | 51,9 | 49,9 | 50,6 | 48,1 | 47,8 | 48,5 |

Source: EcoWin Economic

## 3. Prices

**Table 11. CPI** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 4,5 | 5,0 | 4,2 | 4,1 | 4,3 | 3,9 | 4,3 | 4,8 |
| Czech Rep. | 1,6 | 2,0 | 1,8 | 1,7 | 1,7 | 1,8 | 2,3 | 2,5 |
| Slovakia | 3,7 | 4,0 | 3,9 | 3,7 | 4,0 | 4,3 | 4,4 | 4,6 |
| Slovenia | 1,7 | 2,2 | 1,3 | 0,9 | 0,9 | 2,1 | 2,7 | 2,7 |
| Hungary | 4,7 | 3,9 | 3,5 | 3,1 | 3,6 | 3,6 | 3,9 | 4,3 |
| Estonia | 14,0 | 12,8 | 13,0 | 12,4 | 13,1 | 8,1 | 7,2 | 5,6 |
| Lithuania | 4,4 | 5,0 | 4,8 | 4,6 | 4,4 | 4,5 | 4,2 | 4,4 |
| Latvia | 4,5 | 5,0 | 4,8 | 4,3 | 4,7 | 4,6 | 4,4 | 4,2 |
| Bulgaria | 4,6 | 4,8 | 4,8 | 4,4 | 4,1 | 3,3 | 3,5 | 3,1 |
| Romania | 8,3 | 8,4 | 7,9 | 4,8 | 4,3 | 3,5 | 3,6 | 3,4 |

Source: CSOs

**Table 12. PPI** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 9,4 | 7,8 | 6,9 | 7,0 | 7,0 | 7,3 | 7,4 | |
| Czech Rep. | 10,7 | 10,0 | 10,1 | 8,4 | 6,6 | 6,6 | 6,5 | |
| Slovakia | 6,3 | 6,1 | 5,4 | 5,3 | 5,6 | 5,5 | 5,5 | 5,5 |
| Slovenia | 6,0 | 5,9 | 5,8 | 5,5 | 4,3 | 3,9 | 3,6 | 3,1 |
| Hungary | 9,8 | 9,7 | 9,0 | 11,1 | 11,3 | 11,6 | 11,6 | 10,8 |
| Estonia | 9,4 | 9,7 | 9,0 | 8,9 | 9,4 | 9,3 | 9,8 | 9,1 |
| Lithuania | 8,8 | 7,8 | 8,3 | 8,6 | 7,8 | 7,2 | 7,6 | |
| Latvia | 3,1 | 3,2 | 2,5 | 2,0 | 1,9 | 2,6 | 3,0 | 3,2 |
| Bulgaria | 5,0 | 3,6 | 3,7 | 3,7 | 3,8 | 3,6 | 3,1 | 2,9 |
| Romania | 6,4 | 3,2 | 1,5 | 3,4 | 3,4 | 5,9 | 7,5 | |

Source: CSOs

**Table 13. HICP** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 4,1 | 4,3 | 3,7 | 3,6 | 4,0 | 3,5 | 3,8 | 4,4 |
| Czech Rep. | 1,6 | 2,0 | 1,9 | 1,9 | 2,1 | 2,1 | 2,6 | 2,9 |
| Slovakia | 3,9 | 4,2 | 4,1 | 3,8 | 4,1 | 4,4 | 4,6 | 4,8 |
| Slovenia | 2,0 | 2,4 | 1,6 | 1,1 | 1,2 | 2,3 | 2,9 | 2,8 |
| Hungary | 4,4 | 3,9 | 3,5 | 3,1 | 3,5 | 3,7 | 3,8 | 4,3 |
| Estonia | 5,4 | 5,5 | 4,9 | 5,3 | 5,6 | 5,4 | 4,7 | 4,4 |
| Lithuania | 4,4 | 5,0 | 4,8 | 4,6 | 4,4 | 4,7 | 4,2 | 4,4 |
| Latvia | 4,3 | 4,8 | 4,7 | 4,2 | 4,6 | 4,5 | 4,3 | 4,0 |
| Bulgaria | 3,3 | 3,4 | 3,5 | 3,4 | 3,1 | 2,9 | 3,0 | 2,6 |
| Romania | 8,4 | 8,5 | 8,0 | 4,9 | 4,3 | 3,5 | 3,6 | 3,5 |

Source: Eurostat

**Table 14. HICP – unprocessed food** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 6,0 | 7,2 | 1,9 | 0,2 | 0,2 | -2,2 | -1,8 | 0,3 |
| Czech Rep. | 0,5 | 3,1 | -0,7 | -1,4 | -2,3 | -2,1 | 0,9 | -0,1 |
| Slovakia | 7,9 | 8,3 | 6,2 | 1,7 | 1,1 | 0,3 | 1,7 | 1,3 |
| Slovenia | 6,4 | 10,5 | 6,1 | -0,4 | 0,3 | 1,7 | 5,1 | 1,1 |
| Hungary | 9,5 | 6,1 | -0,7 | -5,1 | -2,3 | -1,2 | -1,7 | -0,8 |
| Estonia | 8,3 | 10,3 | 8,7 | 7,2 | 5,9 | 3,1 | 2,1 | 0,9 |
| Lithuania | 8,0 | 9,0 | 6,3 | 4,8 | 3,9 | 3,3 | 2,8 | 2,9 |
| Latvia | 5,7 | 6,2 | 4,2 | 1,5 | 2,0 | 2,2 | 2,6 | 2,7 |
| Bulgaria | 2,4 | 3,0 | 3,9 | 2,3 | 2,2 | 0,6 | 1,5 | 1,0 |
| Romania | 14,8 | 14,8 | 11,2 | 4,3 | 0,2 | -3,7 | -3,0 | -3,3 |

Source: Eurostat

**Table 15. HICP – processed food (including alcohol and tobbaco)** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 6,4 | 6,6 | 6,8 | 7,1 | 7,1 | 6,2 | 6,0 | 5,7 |
| Czech Rep. | 4,6 | 6,2 | 6,5 | 6,4 | 6,7 | 6,6 | 7,2 | 7,1 |
| Slovakia | 5,0 | 5,8 | 6,6 | 6,9 | 7,1 | 7,4 | 7,3 | 6,4 |
| Slovenia | 4,4 | 5,0 | 4,8 | 5,2 | 4,7 | 4,7 | 5,3 | 6,3 |
| Hungary | 6,6 | 6,5 | 7,0 | 7,5 | 7,2 | 6,4 | 5,6 | 6,0 |
| Estonia | 12,4 | 11,7 | 11,4 | 11,6 | 11,2 | 10,2 | 6,7 | 5,7 |
| Lithuania | 7,5 | 8,3 | 8,8 | 8,6 | 7,7 | 7,2 | 6,1 | 6,5 |
| Latvia | 9,4 | 10,7 | 11,6 | 10,8 | 10,1 | 9,7 | 8,1 | 7,0 |
| Bulgaria | 7,3 | 7,4 | 8,0 | 8,0 | 7,0 | 5,2 | 4,5 | 3,9 |
| Romania | 9,6 | 10,2 | 10,5 | 6,8 | 6,6 | 6,1 | 5,7 | 5,4 |

Source: Eurostat

**Table 16. HICP - energy** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 9,1 | 8,6 | 7,8 | 8,1 | 9,4 | 9,3 | 10,1 | 11,4 |
| Czech Rep. | 6,1 | 5,8 | 6,9 | 6,4 | 7,2 | 7,2 | 7,7 | 9,0 |
| Slovakia | 9,8 | 9,5 | 9,5 | 9,2 | 11,1 | 11,9 | 12,1 | 12,0 |
| Slovenia | 10,0 | 8,6 | 6,5 | 5,6 | 7,5 | 7,7 | 8,5 | 8,6 |
| Hungary | 9,1 | 7,0 | 6,7 | 6,6 | 7,9 | 9,2 | 10,5 | 11,7 |
| Estonia | 6,0 | 5,1 | 5,8 | 7,3 | 10,3 | 11,3 | 11,5 | 10,6 |
| Lithuania | 11,3 | 11,3 | 11,2 | 11,8 | 12,6 | 13,5 | 13,2 | 14,0 |
| Latvia | 13,5 | 13,0 | 12,1 | 11,7 | 12,4 | 13,8 | 14,5 | 14,1 |
| Bulgaria | 9,1 | 9,0 | 8,2 | 9,1 | 8,4 | 7,8 | 8,0 | 6,6 |
| Romania | 11,0 | 10,9 | 11,0 | 8,1 | 8,5 | 8,3 | 9,0 | 8,5 |

Source: Eurostat

**Table 17. HICP – excluding food, alcohol and tobacco** (in %, y/y)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 1,8 | 2,0 | 1,9 | 1,9 | 2,1 | 2,1 | 2,3 | 3,0 |
| Czech Rep. | -0,3 | -0,4 | -0,3 | -0,3 | -0,2 | -0,1 | 0,2 | 0,4 |
| Slovakia | 1,6 | 1,9 | 1,9 | 2,0 | 1,9 | 2,2 | 2,4 | 3,0 |
| Slovenia | -0,8 | -0,5 | -0,8 | -0,8 | -1,0 | 0,5 | 0,8 | 0,8 |
| Hungary | 1,6 | 1,7 | 1,9 | 1,7 | 1,7 | 1,8 | 2,0 | 2,2 |
| Estonia | 2,2 | 2,6 | 1,8 | 2,1 | 2,3 | 2,5 | 2,7 | 3,1 |
| Lithuania | 0,1 | 0,7 | 0,9 | 0,6 | 0,6 | 1,2 | 0,9 | 1,0 |
| Latvia | -0,3 | 0,0 | 0,0 | 0,2 | 0,6 | 0,2 | 0,2 | 0,2 |
| Bulgaria | 0,7 | 0,8 | 0,9 | 0,7 | 0,7 | 1,2 | 1,5 | 1,3 |
| Romania | 3,8 | 3,7 | 3,7 | 2,4 | 2,6 | 2,5 | 2,5 | 2,7 |

Source: Eurostat

## 4. Balance of payments

**Table 18. Current account balance** (in % of GDP, 4q moving average)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -3,9 | -3,9 | -3,7 | -4,3 | -4,6 | -4,8 | -4,9 | -5,0 |
| Czech Rep. | -2,4 | -2,2 | -1,7 | -3,1 | -3,1 | -2,8 | -3,7 | -2,5 |
| Slovakia | -2,1 | -1,3 | -0,9 | -1,5 | -2,1 | -1,5 | -1,7 | -1,0 |
| Slovenia | -1,3 | -0,6 | -1,1 | -0,6 | -0,8 | -1,0 | -0,4 | -0,4 |
| Hungary | -0,2 | 0,8 | 1,0 | 1,0 | 1,1 | 1,0 | 1,2 | 1,3 |
| Estonia | 3,7 | 4,2 | 3,8 | 3,9 | 3,6 | 3,1 | 3,1 | 3,2 |
| Lithuania | 4,4 | 4,4 | 5,3 | 3,9 | 1,5 | 1,4 | -0,6 | 0,4 |
| Latvia | 8,6 | 10,6 | 8,5 | 6,0 | 3,0 | 1,3 | 0,2 | -0,7 |
| Bulgaria | -8,9 | -6,9 | -4,5 | -1,4 | -1,3 | 0,7 | 1,8 | 1,4 |
| Romania | -4,2 | -4,9 | -5,1 | -4,9 | -4,1 | -3,6 | -3,4 | -3,5 |

Source: Eurostat, central banks, NBP IE calculations

**Table 19. Poland: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -4495 | -2397 | -2614 | -5187 | -6297 | -3134 | -3354 | -4736 |
| Goods | -1632 | -1455 | -1622 | -2475 | -3347 | -1893 | -3139 | -2713 |
| Services | 1052 | 535 | 848 | 357 | 601 | 953 | 1533 | 1019 |
| Income | -3369 | -2741 | -3129 | -3459 | -3457 | -2915 | -4127 | -3719 |
| Current transfers | -546 | 1264 | 1289 | 390 | -94 | 721 | 2379 | 677 |
| Capital account | 1729 | 1265 | 1060 | 1282 | 2838 | 1659 | 1404 | 1448 |
| Financial account | 6824 | 9298 | 4571 | 11657 | 2975 | 11568 | 4660 | 274 |
| FDI | 1413 | 3159 | -19 | -427 | -115 | 1846 | -637 | 2556 |
| Portfolio investment | 2973 | 6691 | 3348 | 7074 | 2117 | 1678 | 4101 | 4623 |
| Other investment | 2509 | -356 | 1307 | 4904 | 1233 | 8106 | 405 | -6758 |

Source: Eurostat, central banks, NBP IE calculations

**Table 20. Czech Republic: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -571 | 539 | -1078 | -3494 | -633 | 876 | -2408 | -1729 |
| Goods | 705 | 1200 | 893 | -181 | 179 | 1399 | 1096 | 810 |
| Services | 746 | 709 | 969 | 613 | 682 | 561 | 867 | 679 |
| Income | -1884 | -1483 | -3194 | -3832 | -1579 | -1224 | -4577 | -3118 |
| Current transfers | -138 | 113 | 254 | -93 | 84 | 140 | 207 | -100 |
| Capital account | 961 | 84 | 378 | 584 | 242 | 23 | -2 | 116 |
| Financial account | 2367 | -737 | 909 | 6148 | 1046 | -602 | 3676 | 151 |
| FDI | 1129 | 1183 | 761 | 2818 | -939 | 545 | 1472 | 218 |
| Portfolio investment | 2375 | 527 | 2254 | 3117 | 341 | -1833 | 1208 | -78 |
| Other investment | -1196 | -2421 | -2133 | 243 | 1733 | 559 | 791 | 116 |

Source: Eurostat, central banks, NBP IE calculations

**Table 21. Slovakia: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -63 | -120 | -94 | -704 | -496 | 1707 | -256 | -245 |
| Goods | 570 | 235 | 592 | -38 | 80 | -433 | 375 | 473 |
| Services | -213 | -167 | -260 | -188 | -124 | 666 | -165 | -135 |
| Income | -154 | -237 | -354 | -243 | -304 | 874 | -398 | -425 |
| Current transfers | -266 | 49 | -72 | -235 | -148 | 600 | -68 | -158 |
| Capital account | 282 | 215 | 177 | 479 | 345 | -340 | 663 | -154 |
| Financial account | 82 | -213 | -891 | 445 | 334 | 626 | 853 | 874 |
| FDI | -487 | 235 | 252 | -357 | -346 | 396 | -161 | 85 |
| Portfolio investment | 154 | -972 | -963 | -344 | 983 | 940 | 11 | 500 |
| Other investment | 415 | 524 | -181 | 1146 | -303 | -710 | 1002 | 290 |

Source: Eurostat, central banks, NBP IE calculations

**Table 22. Slovenia: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -10 | -4 | -119 | -84 | -91 | -54 | 69 | -85 |
| Goods | -287 | -190 | -273 | -234 | -508 | -307 | -264 | -294 |
| Services | 303 | 291 | 356 | 346 | 315 | 353 | 442 | 401 |
| Income | -107 | -51 | -158 | -202 | -95 | -147 | -140 | -188 |
| Current transfers | 81 | -53 | -43 | 6 | 196 | 47 | 32 | -4 |
| Capital account | -42 | 46 | 3 | 16 | -56 | -7 | -6 | -7 |
| Financial account | 121 | -65 | 251 | 174 | -50 | 94 | -284 | -110 |
| FDI | -86 | -132 | 75 | 57 | 335 | 74 | 252 | 218 |
| Portfolio investment | 310 | 1106 | 508 | -54 | 388 | 2591 | -314 | -419 |
| Other investment | -120 | -1077 | -216 | 167 | -746 | -2500 | -218 | 71 |

Source: Eurostat, central banks, NBP IE calculations

**Table 23. Hungary: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | 66 | 257 | 371 | 260 | 176 | 217 | 530 | 381 |
| Goods | 769 | 865 | 914 | 562 | 889 | 1340 | 1217 | 918 |
| Services | 439 | 695 | 746 | 899 | 568 | 345 | 982 | 892 |
| Income | -1269 | -1332 | -1488 | -1342 | -1306 | -1393 | -1714 | -1581 |
| Current transfers | 127 | 29 | 199 | 142 | 25 | -76 | 45 | 152 |
| Capital account | 189 | 501 | 526 | 508 | 201 | 484 | 329 | 715 |
| Financial account | 48 | 2691 | 241 | -1647 | 106 | 2215 | 659 | 950 |
| FDI | 656 | -281 | -348 | 125 | 934 | -259 | -623 | -463 |
| Portfolio investment | -1826 | 2633 | -873 | -964 | -261 | 3524 | 2119 | 1759 |
| Other investment | 1218 | 339 | 1462 | -808 | -568 | -1050 | -837 | -345 |

Source: Eurostat, central banks, NBP IE calculations

**Table 24. Estonia: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | 209 | 6 | 74 | 264 | 169 | -53 | 89 | 301 |
| Goods | -155 | -131 | -128 | -23 | 31 | -113 | -27 | -34 |
| Services | 321 | 235 | 347 | 444 | 287 | 209 | 338 | 423 |
| Income | -92 | -110 | -204 | -196 | -296 | -201 | -283 | -179 |
| Current transfers | 135 | 11 | 59 | 39 | 147 | 52 | 61 | 91 |
| Capital account | 237 | 67 | 76 | 93 | 283 | 143 | 105 | 155 |
| Financial account | -113 | -174 | 53 | -841 | -685 | -109 | -139 | -327 |
| FDI | 503 | 200 | 305 | 152 | 405 | 195 | 374 | 846 |
| Portfolio investment | -903 | 31 | -289 | -224 | 41 | 211 | -33 | 416 |
| Other investment | 321 | -408 | 23 | -785 | -1130 | -484 | -465 | -1600 |

Source: Eurostat, central banks, NBP IE calculations

**Table 25. Lithuania: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | 841 | -48 | 342 | -92 | 208 | -61 | -215 | 175 |
| Goods | -134 | -298 | -268 | -401 | -305 | -420 | -467 | -252 |
| Services | 174 | 191 | 243 | 299 | 243 | 250 | 315 | 339 |
| Income | 475 | -104 | -94 | -230 | -197 | -279 | -344 | -226 |
| Current transfers | 325 | 164 | 461 | 240 | 468 | 388 | 281 | 314 |
| Capital account | 206 | 179 | 202 | 87 | 271 | 184 | 84 | 316 |
| Financial account | -1105 | -146 | -533 | -3 | -469 | -129 | 168 | -513 |
| FDI | -161 | -19 | -99 | 448 | 178 | 166 | 330 | 199 |
| Portfolio investment | 642 | 1328 | 70 | 216 | -217 | -174 | -131 | 125 |
| Other investment | -1559 | -1340 | -646 | -299 | -183 | -147 | -56 | -370 |

Source: Eurostat, central banks, NBP IE calculations

**Table 26. Latvia: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | 486 | 348 | 243 | -16 | -39 | 47 | 45 | -195 |
| Goods | -212 | -278 | -271 | -380 | -341 | -340 | -364 | -561 |
| Services | 277 | 258 | 292 | 282 | 267 | 269 | 332 | 323 |
| Income | 253 | 208 | 61 | -44 | -167 | -18 | -121 | -82 |
| Current transfers | 169 | 160 | 161 | 126 | 202 | 136 | 198 | 124 |
| Capital account | 103 | 137 | 62 | 96 | 55 | 5 | 20 | 320 |
| Financial account | -563 | -491 | -270 | -189 | -29 | -125 | -11 | 8 |
| FDI | 27 | -79 | 84 | 104 | 160 | 246 | 247 | 343 |
| Portfolio investment | 61 | 90 | 37 | -106 | -185 | -504 | 219 | -229 |
| Other investment | -458 | 223 | -496 | 190 | -116 | -247 | -354 | 18 |

Source: Eurostat, central banks, NBP IE calculations

**Table 27. Bulgaria: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -902 | -578 | -346 | 1319 | -871 | 147 | 80 | 1170 |
| Goods | -905 | -645 | -877 | -202 | -1040 | -11 | -636 | -237 |
| Services | -10 | 29 | 401 | 1476 | 110 | 147 | 492 | 1514 |
| Income | -199 | -348 | -317 | -364 | -247 | -328 | -448 | -447 |
| Current transfers | 211 | 386 | 448 | 409 | 305 | 340 | 671 | 340 |
| Capital account | 97 | 62 | -90 | 178 | 140 | 16 | 0 | 0 |
| Financial account | 499 | 185 | 470 | -739 | 293 | -78 | -294 | -1167 |
| FDI | 1055 | 68 | 403 | 422 | 693 | -120 | 192 | 363 |
| Portfolio investment | -5 | -144 | -318 | -50 | -150 | -189 | -16 | -234 |
| Other investment | -121 | -517 | 6 | -378 | -185 | -424 | -372 | -798 |

Source: Eurostat, central banks, NBP IE calculations

**Table 28. Romania: balance of payments** (EUR mn)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Current account | -1722 | -1235 | -2191 | -827 | -698 | -705 | -2076 | -1014 |
| Goods | -1907 | -1299 | -1853 | -1218 | -1552 | -556 | -2016 | -1221 |
| Services | -158 | -254 | -214 | -79 | -3 | -288 | -173 | -230 |
| Income | -479 | -115 | -730 | -812 | -261 | -612 | -829 | -395 |
| Current transfers | 351 | 63 | 30 | 64 | 91 | 102 | 0 | 0 |
| Capital account | 822 | 434 | 605 | 1284 | 1119 | 751 | 942 | 831 |
| Financial account | 1159 | 1381 | 3072 | 226 | 890 | 1485 | 2397 | 126 |
| FDI | 79 | 281 | 1012 | 1158 | -215 | 546 | 724 | -101 |
| Portfolio investment | 268 | 1367 | -187 | -567 | 240 | 434 | 2636 | -303 |
| Other investment | 607 | 2896 | 876 | 1660 | 521 | 1643 | 938 | -905 |

Source: Eurostat, central banks, NBP IE calculations

**Table 29. Official reserve assets to foreign debt ratio** (in %, end of period)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2011 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 29,1 | 31,4 | 33,6 | 29,7 | 30,1 | 29,4 | 29,6 | 31,6 |
| Czech Rep. | 46,6 | 46,8 | 46,0 | 45,8 | 44,5 | 41,9 | 40,9 | 40,0 |
| Slovakia | 2,8 | 2,9 | 3,3 | 3,1 | 3,3 | 3,1 | 3,1 | 3,5 |
| Slovenia | 1,9 | 1,8 | 2,0 | 1,8 | 2,0 | 1,8 | 1,8 | 1,8 |
| Hungary | 22,4 | 23,8 | 24,8 | 24,3 | 24,5 | 25,5 | 26,2 | 27,9 |
| Estonia | 15,6 | 15,0 | 15,8 | 12,9 | 11,1 | 0,0 | 0,0 | 0,0 |
| Lithuania | 19,7 | 19,5 | 19,2 | 20,8 | 20,7 | 20,6 | 19,5 | 21,5 |
| Latvia | 16,4 | 19,1 | 19,3 | 21,1 | 19,4 | 18,3 | 18,8 | 19,4 |
| Bulgaria | 34,2 | 32,7 | 32,5 | 34,8 | 35,0 | 33,7 | 33,8 | 36,0 |
| Romania | 38,0 | 39,9 | 39,4 | 39,3 | 38,9 | 38,2 | 38,6 | 38,4 |

Source: Eurostat,  central banks, NBP IE calculations

## 5. Interest and exchange rates

**Table 30. Central banks' policy rates** (end of period)

| | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 | 12.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 4,25 | 4,50 | 4,50 | 4,50 | 4,50 | 4,50 | 4,50 | 4,50 |
| Czech Rep. | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 | 0,75 |
| Hungary | 6,00 | 6,00 | 6,00 | 6,00 | 6,00 | 6,00 | 6,50 | 7,00 |
| Romania | 6,25 | 6,25 | 6,25 | 6,25 | 6,25 | 6,25 | 6,00 | 6,00 |
| Euro area | 1,25 | 1,25 | 1,50 | 1,50 | 1,50 | 1,50 | 1,25 | 1,00 |

Source: Central banks, EcoWin Financial

**Table 31. 3m interbank rates** (average)

| | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 | 12.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 4,4 | 4,6 | 4,7 | 4,7 | 4,7 | 4,8 | 4,9 | 5,0 |
| Czech Rep. | 1,2 | 1,2 | 1,2 | 1,2 | 1,2 | 1,2 | 1,1 | 1,2 |
| Slovakia | 1,4 | 1,5 | 1,6 | 1,5 | 1,6 | 1,6 | 1,5 | 1,4 |
| Slovenia | 1,4 | 1,5 | 1,6 | 1,6 | 1,5 | 1,6 | 1,5 | 1,4 |
| Hungary | 6,1 | 6,1 | 6,1 | 6,1 | 6,1 | 6,1 | 6,4 | 7,1 |
| Estonia | 1,4 | 1,5 | 1,6 | 1,5 | 1,6 | 1,6 | 1,5 | 1,4 |
| Lithuania | 1,7 | 1,7 | 1,8 | 1,9 | 1,8 | 1,9 | 1,9 | 1,8 |
| Latvia | 0,8 | 0,7 | 0,8 | 0,8 | 0,9 | 1,0 | 1,3 | 1,9 |
| Bulgaria | 3,8 | 3,7 | 3,7 | 3,7 | 3,7 | 3,7 | 3,6 | 3,6 |
| Romania | 5,5 | 5,5 | 5,4 | 5,8 | 6,0 | 6,2 | 6,3 | 6,3 |

Source: EcoWin Financial

**Table 32. Exchange rates vis-a-vis EUR** (average)

| | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 | 12.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 3,94 | 3,96 | 3,99 | 4,12 | 4,33 | 4,35 | 4,43 | 4,47 |
| Czech Rep. | 24,36 | 24,25 | 24,30 | 24,22 | 24,53 | 24,80 | 25,47 | 25,50 |
| Hungary | 266,91 | 266,47 | 267,47 | 271,94 | 284,74 | 296,74 | 308,62 | 304,71 |
| Lithuania | 3,45 | 3,45 | 3,45 | 3,45 | 3,45 | 3,45 | 3,45 | 3,45 |
| Latvia | 0,71 | 0,71 | 0,71 | 0,71 | 0,71 | 0,71 | 0,70 | 0,70 |
| Bulgaria | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 | 1,96 |
| Romania | 4,11 | 4,19 | 4,24 | 4,25 | 4,28 | 4,32 | 4,36 | 4,32 |

Source: Eurostat

**Table 33. Exchange rates vis-a-vis EUR** (in %, y/y – fall means appreciation)

| | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 | 12.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -3,0 | -3,4 | -2,1 | 3,5 | 9,8 | 10,2 | 12,2 | 12,1 |
| Czech Rep. | -4,9 | -5,8 | -3,8 | -2,2 | -0,4 | 1,2 | 3,5 | 1,5 |
| Hungary | -3,5 | -5,3 | -5,6 | -3,2 | 1,1 | 8,4 | 12,0 | 9,9 |
| Lithuania | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Latvia | 0,3 | 0,1 | 0,0 | 0,1 | 0,0 | -0,5 | -1,1 | -1,7 |
| Bulgaria | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Romania | -1,6 | -1,2 | -0,4 | 0,3 | 0,5 | 1,1 | 1,5 | 0,8 |

Source: Eurostat, NBP IE calculations

**Table 34. NEER** (in %, y/y – growth means appreciation)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -1,9 | 4,6 | 6,0 | 3,3 | -1,8 | -8,1 | -9,6 | -11,0 |
| Czech Rep. | 4,8 | 6,9 | 8,8 | 5,3 | 3,8 | 1,6 | -1,3 | -3,0 |
| Slovakia | 0,4 | 0,9 | 1,4 | 0,3 | 1,1 | 1,1 | 0,5 | 1,0 |
| Slovenia | 0,5 | 1,2 | 1,8 | 0,9 | 1,3 | 1,1 | 0,3 | 0,6 |
| Hungary | 0,6 | 5,3 | 8,1 | 7,2 | 5,0 | 0,1 | -7,8 | -10,7 |
| Estonia | 0,1 | 0,9 | 1,8 | 0,7 | 1,4 | 1,2 | -0,1 | -0,1 |
| Lithuania | 0,7 | 1,0 | 1,7 | 0,7 | 1,7 | 1,9 | 0,8 | 1,0 |
| Latvia | 0,2 | 0,5 | 1,2 | 0,4 | 1,1 | 1,4 | 1,0 | 1,8 |
| Bulgaria | 1,0 | 2,0 | 2,9 | 1,9 | 2,7 | 2,4 | 1,5 | 1,7 |
| Romania | 1,5 | 3,2 | 3,4 | 2,0 | 1,9 | 1,7 | 0,1 | 0,5 |

Source: BIS, NBP IE calculations

**Table 35. REER** (in %, y/y – growth means appreciation)

| | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 | 11.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -0,8 | 6,0 | 6,6 | 3,9 | -0,8 | -7,8 | -9,2 | -9,9 |
| Czech Rep. | 2,9 | 5,4 | 7,1 | 3,6 | 2,2 | -0,1 | -2,5 | -3,8 |
| Slovakia | 0,8 | 1,5 | 2,0 | 0,7 | 1,7 | 2,1 | 1,6 | 2,3 |
| Slovenia | -1,0 | 0,1 | -0,2 | -1,4 | -1,1 | -0,1 | -0,3 | -0,1 |
| Hungary | 1,9 | 5,8 | 8,1 | 7,0 | 5,3 | 0,2 | -7,5 | -9,9 |
| Estonia | 1,7 | 2,3 | 2,8 | 2,0 | 3,0 | 2,5 | 0,6 | 0,5 |
| Lithuania | 1,2 | 2,1 | 2,6 | 1,5 | 2,4 | 2,6 | 1,2 | 1,6 |
| Latvia | 0,8 | 1,5 | 2,1 | 0,9 | 2,1 | 2,3 | 1,7 | 2,3 |
| Bulgaria | 1,9 | 2,9 | 3,9 | 2,7 | 3,2 | 2,0 | 1,2 | 1,1 |
| Romania | 6,4 | 8,1 | 7,9 | 3,4 | 2,7 | 1,6 | 0,1 | 0,3 |

Source: BIS, NBP IE calculations

## 6. Labour market

**Table 36. Employment** (in %, y/y)

| | III 2009 | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2010 |
|---|---|---|---|---|---|---|---|---|
| Poland | 0,2 | -0,6 | -0,8 | 0,9 | 1,1 | 1,1 | 1,9 | 1,0 |
| Czech Rep. | -2,0 | -2,3 | -2,5 | -1,1 | -0,2 | -0,2 | 0,8 | 0,5 |
| Slovakia | -4,2 | -5,5 | -4,5 | -2,8 | -1,4 | 0,4 | 2,1 | 1,8 |
| Slovenia | -3,2 | -2,3 | 0,2 | -1,0 | -2,7 | -2,0 | -4,0 | -3,0 |
| Hungary | -3,5 | -2,6 | -1,3 | -0,5 | 1,0 | 0,6 | 0,4 | 0,8 |
| Estonia | -10,0 | -11,3 | -9,8 | -7,0 | -2,2 | 2,8 | 7,1 | 8,1 |
| Lithuania | -7,4 | -8,3 | -7,4 | -6,6 | -4,7 | -0,8 | 0,8 | 3,7 |
| Latvia | -13,7 | -12,7 | -10,9 | -4,6 | 0,6 | 2,2 | 3,5 | 3,3 |
| Bulgaria | -3,8 | -5,6 | -7,6 | -6,7 | -5,3 | -4,7 | -4,0 | -4,5 |
| Romania | -0,4 | -1,7 | -0,9 | 1,3 | -0,3 | 0,7 | 1,7 | -2,4 |

Source: Eurostat

**Table 37. Unemployment rate** (in % of labour force)

| | 03.2011 | 04.2011 | 05.2011 | 06.2011 | 07.2011 | 08.2011 | 09.2011 | 10.2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | 9,4 | 9,5 | 9,6 | 9,6 | 9,7 | 9,7 | 9,8 | 9,9 |
| Czech Rep. | 6,9 | 6,9 | 6,9 | 6,8 | 6,8 | 6,7 | 6,6 | 6,7 |
| Slovakia | 13,3 | 13,3 | 13,2 | 13,3 | 13,3 | 13,4 | 13,5 | 13,6 |
| Slovenia | 8,1 | 8 | 7,9 | 7,9 | 7,9 | 7,8 | 7,9 | 7,9 |
| Hungary | 10,8 | 10,9 | 10,9 | 10,8 | 10,6 | 10,3 | 9,9 | 9,8 |
| Estonia | 13,6 | 12,7 | 12,7 | 12,7 | 11,3 | 11,3 | 11,3 | |
| Lithuania | 16,5 | 15,5 | 15,5 | 15,5 | 15 | 15 | 15 | |
| Latvia | 16,3 | 16,2 | 16,2 | 16,2 | 14,4 | 14,4 | 14,4 | |
| Bulgaria | 11,1 | 11,2 | 11,3 | 11,4 | 11,5 | 11,7 | 11,9 | 12,1 |
| Romania | 6,9 | 7,5 | 7,3 | 7,3 | 7,5 | 7,5 | 7,7 | 7,3 |

Source: Eurostat

**Table 38. Nominal wages** (in %, y/y)

| | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2010 | III 2011 |
|---|---|---|---|---|---|---|---|---|
| Poland | -6,1 | 16,5 | 14,2 | 7,3 | 8,8 | 4,9 | 6,0 | 2,4 |
| Czech Rep. | 2,8 | 4,5 | 5,3 | 8,0 | 7,5 | 8,5 | 8,6 | 7,0 |
| Slovakia | 0,7 | 0,0 | -0,2 | 4,0 | 3,9 | 2,6 | 3,8 | 5,2 |
| Slovenia | -1,1 | 3,7 | -0,5 | -1,1 | 2,7 | 2,5 | 2,9 | 2,5 |
| Hungary | -5,5 | 13,1 | 4,5 | -2,2 | -4,0 | 0,1 | 7,9 | 8,0 |
| Estonia | -7,6 | -4,8 | -2,4 | -0,1 | 1,3 | -0,5 | -3,6 | -1,6 |
| Lithuania | -11,1 | -9,4 | -6,1 | -2,3 | 1,4 | 0,9 | 2,6 | 3,8 |
| Latvia | -12,8 | -9,2 | -7,6 | -2,7 | 1,2 | 4,1 | 4,7 | 5,7 |
| Bulgaria | 9,4 | 10,3 | 10,8 | 11,6 | 9,4 | 7,1 | 9,8 | 7,3 |
| Romania | -8,9 | 8,5 | 3,0 | -1,8 | -1,8 | -4,7 | 3,5 | 9,8 |

Source: Eurostat

**Table 39. ULC** (in %, y/y)

| | III 2009 | IV 2009 | I 2010 | II 2010 | III 2010 | IV 2010 | I 2011 | II 2010 |
|---|---|---|---|---|---|---|---|---|
| Poland | -17,9 | -9,6 | 12,4 | 11,4 | 3,6 | 5,9 | 0,4 | 1,4 |
| Czech Rep. | 3,7 | 5,0 | 3,7 | 2,6 | 5,5 | 5,8 | 5,7 | 6,6 |
| Slovakia | 3,7 | -0,1 | -9,4 | -7,5 | -1,5 | 0,9 | -0,8 | 0,4 |
| Slovenia | 10,6 | 0,7 | 0,2 | -4,5 | -4,9 | -1,7 | 0,6 | 2,2 |
| Hungary | -7,9 | -2,9 | 12,7 | 3,1 | -3,6 | -5,9 | -1,8 | 6,2 |
| Estonia | 3,1 | -10,0 | -10,1 | -10,6 | -8,5 | -2,8 | -10,0 | -12,0 |
| Lithuania | 4,1 | -5,2 | -10,7 | -9,7 | -11,1 | -3,1 | 1,0 | -0,6 |
| Latvia | -9,0 | -10,5 | -20,7 | -13,3 | -2,8 | -1,1 | -4,5 | -3,9 |
| Bulgaria | 13,2 | 12,6 | 4,5 | 4,3 | 6,2 | 1,1 | 3,8 | 7,8 |
| Romania | -7,9 | -10,1 | 2,5 | -3,8 | -7,4 | -8,1 | -6,0 | 1,6 |

Source: Eurostat, NBP IE calculations

## 7. Public finance

**Table 42. General government balance (ESA'95)** (in % of GDP)

| | 2007 | 2008 | 2009 | 2010 | 2011p | 2012p | 2013p |
|---|---|---|---|---|---|---|---|
| Poland | -1,9 | -3,7 | -7,3 | -7,8 | -5,6 | -4,0 | -3,1 |
| Czech Rep. | -0,7 | -2,2 | -5,8 | -4,8 | -4,1 | -3,8 | -4,0 |
| Slovakia | -1,8 | -2,1 | -8,0 | -7,7 | -5,8 | -4,9 | -5,0 |
| Slovenia | 0,0 | -1,9 | -6,1 | -5,8 | -5,7 | -5,3 | -5,7 |
| Hungary | -5,1 | -3,7 | -4,6 | -4,2 | 3,6 | -2,8 | -3,7 |
| Estonia | 2,4 | -2,9 | -2,0 | 0,2 | 0,8 | -1,8 | -0,8 |
| Lithuania | -1,0 | -3,3 | -9,5 | -7,0 | -5,0 | -3,0 | -3,4 |
| Latvia | -0,4 | -4,2 | -9,7 | -8,3 | -4,2 | -3,3 | -3,2 |
| Bulgaria | 1,2 | 1,7 | -4,3 | -3,1 | -2,5 | -1,7 | -1,3 |
| Romania | -2,9 | -5,7 | -9,0 | -6,9 | -4,9 | -3,7 | -2,9 |

p – Jesienna prognoza Komisji Europejskiej z listopada 2011 r.
Source: Eurostat (jesienna notyfikacja fiskalna z października 2011 r.), European Commission

**Table 43. Public debt (ESA'95)** (in % of GDP)

| | 2007 | 2008 | 2009 | 2010 | 2011p | 2012p | 2013p |
|---|---|---|---|---|---|---|---|
| Poland | 45,0 | 47,1 | 50,9 | 54,9 | 56,7 | 57,1 | 57,5 |
| Czech Rep. | 27,9 | 28,7 | 34,4 | 37,6 | 39,9 | 41,9 | 44,0 |
| Slovakia | 29,6 | 27,8 | 35,5 | 41,0 | 44,5 | 47,5 | 51,1 |
| Slovenia | 23,1 | 21,9 | 35,3 | 38,8 | 45,5 | 50,1 | 54,6 |
| Hungary | 67,0 | 72,9 | 79,7 | 81,3 | 75,9 | 76,5 | 76,7 |
| Estonia | 3,7 | 4,5 | 7,2 | 6,7 | 5,8 | 6,0 | 6,1 |
| Lithuania | 16,8 | 15,5 | 29,4 | 38,0 | 37,7 | 38,5 | 39,4 |
| Latvia | 9,0 | 19,8 | 36,7 | 44,7 | 44,8 | 45,1 | 47,1 |
| Bulgaria | 17,2 | 13,7 | 14,6 | 16,3 | 17,5 | 18,3 | 18,5 |
| Romania | 12,8 | 13,4 | 23,6 | 31,0 | 34,0 | 35,8 | 35,9 |

p – Jesienna prognoza Komisji Europejskiej z listopada 2011 r.
Source: Eurostat (jesienna notyfikacja fiskalna z października 2011 r.), European Commission

**Table 44. Excessive deficit correction period (EDP)**

| | Rok |
|---|---|
| Poland | 2012 |
| Czech Rep. | 2013 |
| Slovakia | 2013 |
| Slovenia | 2013 |
| Hungary | 2011 |
| Estonia | Not included in EDP |
| Lithuania | 2012 |
| Latvia | 2012 |
| Bulgaria | 2011 |
| Romania | 2012 |

Source: European Commission

## 8. Forecasts

**Table 45. Forecasts of economic growth rate** (in %, y/y)

| | 2010 | European Commission | | | IMF | | | Consensus forecast | | Domestic sources | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 | 2011 | 2012 | 2011 | 2012 | 2013 |
| Poland | 3.8 | 4.0 | 2.5 | 2.8 | 3.8 | 3.0 | 3.4 | 4.1 | 2.4 | 4.1 | 3.1 | 2.8 |
| Czech Republic | 2.7 | 1.8 | 0.7 | 1.7 | 2.0 | 1.8 | 2.5 | 1.8 | 0.3 | 2.0 | 1.2 | 2.7 |
| Slovakia | 4.2 | 2.9 | 1.1 | 2.9 | 3.3 | 3.3 | 4.3 | 3.1 | 1.2 | 3.1 | 2.3 | 3.5 |
| Slovenia | 1.4 | 1.1 | 1.0 | 1.5 | 1.9 | 2.0 | 2.4 | 0.8 | 0.3 | 1.3 | 1.7 | 2.5 |
| Hungary | 1.3 | 1.4 | 0.5 | 1.4 | 1.8 | 1.7 | 2.9 | 1.5 | -0.3 | 1.4 | 0.1 | 1.6 |
| Estonia | 2.3 | 8.0 | 3.2 | 4.0 | 6.5 | 4.0 | 4.2 | 7.7 | 2.5 | 7.9 | 1.9 | 3.6 |
| Lithuania | 1.4 | 6.1 | 3.4 | 3.8 | 6.0 | 3.4 | 3.6 | 6.1 | 2.6 | 6.2 | 3.5 | |
| Latvia | -0.3 | 4.5 | 2.5 | 4.0 | 4.0 | 3.0 | 4.0 | 4.8 | 2.0 | 4.9 | 2.5 | |
| Bulgaria | 0.2 | 2.2 | 2.3 | 3.0 | 2.5 | 3.0 | 3.7 | 2.0 | 1.8 | | | |
| Romania | -1.9 | 1.7 | 2.1 | 3.4 | 1.5 | 3.5 | 3.8 | 2.1 | 1.4 | 1.5 | 2.1 | 3.5 |

**Table 46. Inflation forecasts** (in %, y/y)

| | 2010 | European Commission | | | IMF | | | Consensus forecast | | Domestic sources | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 | 2011 | 2012 | 2011 | 2012 | 2013 |
| Poland | 2.6 | 3.7 | 2.7 | 2.9 | 4.0 | 2.8 | 2.5 | 4.2 | 3.1 | 4.0 | 3.1 | 2.8 |
| Czech Republic | 1.5 | 1.8 | 2.7 | 1.6 | 1.8 | 2.0 | 2.0 | 2.3 | 2.4 | 1.8 | 2.7 | 1.6 |
| Slovakia | 0.7 | 4.0 | 1.7 | 2.1 | 3.6 | 1.8 | 2.9 | 3.9 | 2.5 | 4.0 | 2.7 | 1.9 |
| Slovenia | 1.8 | 1.9 | 1.3 | 1.2 | 1.8 | 2.1 | 2.3 | 2.0 | 2.0 | 2.0 | 1.6 | 1.6 |
| Hungary | 4.9 | 4.0 | 4.5 | 4.1 | 3.7 | 3.0 | 3.0 | 3.9 | 4.8 | 3.9 | 5.0 | 2.6 |
| Estonia | 2.9 | 5.2 | 3.3 | 2.8 | 5.1 | 3.5 | 2.5 | 5.0 | 3.0 | 5.1 | 2.8 | 2.9 |
| Lithuania | 1.2 | 4.0 | 2.7 | 2.8 | 4.2 | 2.6 | 2.5 | 4.1 | 2.7 | 4.2 | 1.3 | |
| Latvia | -1.2 | 4.2 | 2.4 | 2.0 | 4.2 | 2.3 | 2.2 | 4.4 | 2.4 | 4.7 | 2.8 | |
| Bulgaria | 3.0 | 3.6 | 3.1 | 3.0 | 3.8 | 2.9 | 2.9 | 4.1 | 3.0 | | | |
| Romania | 6.1 | 5.9 | 3.4 | 3.4 | 6.4 | 4.3 | 3.2 | 5.7 | 3.4 | 5.7 | 2.8 | 2.9 |

**Table 47. Forecasts of current account balance** (in % of GDP)

| | 2010 | European Commission | | | IMF | | | Domestic sources | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Poland | -4.6 | -5.0 | -4.3 | -4.8 | -4.8 | -5.1 | -5.2 | -2.2 | -1.3 | -1.7 |
| Czech Republic | -4.4 | -3.6 | -3.2 | -3.5 | -3.3 | -3.4 | -2.4 | -3.2 | -3.6 | -2.8 |
| Slovakia | -3.5 | -0.7 | -1.2 | -1.9 | -1.3 | -1.1 | -0.7 | -1.0 | -0.4 | -0.3 |
| Slovenia | -0.8 | 0.1 | 0.3 | 0.5 | -1.7 | -2.1 | -2.2 | -0.5 | 0.4 | 0.8 |
| Hungary | 1.0 | 1.7 | 3.2 | 3.8 | 2.0 | 1.5 | 1.3 | 2.1 | 3.8 | 4.5 |
| Estonia | 3.8 | 3.1 | 1.5 | 0.7 | 2.4 | 2.3 | 0.7 | 2.7 | 2.0 | 0.9 |
| Lithuania | 1.1 | -1.7 | -1.9 | -2.3 | -1.9 | -2.7 | -3.6 | -1.3 | -2.0 | |
| Latvia | 3.0 | -0.4 | -1.1 | -2.0 | 1.0 | -0.5 | -1.3 | | | |
| Bulgaria | -1.0 | 1.6 | 1.4 | 0.9 | 1.6 | 0.6 | -1.5 | | | |
| Romania | -4.2 | -4.1 | -5.0 | -5.3 | -4.5 | -4.6 | -4.6 | -4.7 | -4.5 | -4.5 |

Sources for tables 45-47: European Commission, IMF, National Bank of Poland (11.2011), Ceska Narodni Banka (12.2011), Narodna Banka Slovenska (12.2011), Magyar Nemzeti Bank (12.2011), Banca Nationala a Romaniei (11.2011), Comisia Naţională de Prognoză (12.2011), Banka Slovenije (10.2011), EestiPank (01.2012), Latvijas Banka (10.2011), Lietuvos Bankas (11.2011)