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

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Content

Summary

Following the slowdown in the economies of the Central and Eastern European countries (CEE) in 2012, signs of a gradual recovery appeared in the first three quarters of 2013. Annual GDP growth, which amounted to 0.0% in 2012 Q4, accelerated to 1.3% in 2013 Q3.

The recovery was linked with an upturn in the euro area economies, in particular, a rise in the output of the industrial sector and, at the same time, growing demand of the main trading partner. This resulted in both an increase in the CEE industrial production and an acceleration of exports, which were the key driver of growth in 2013.

Exports growth stepped up, in particular, in Romania and Hungary, as a result of higher demand for cars produced in these countries. On the other hand, CEE leaders in previous years, i.e. Slovakia and the Baltic states, reported a slowdown in exports. In the case of the Baltic states, it was mainly attributable to lower demand from countries of the former Soviet Union, in Slovakia to a decline in automotive sector exports.

At the same time, following a period of a marked weakening in 2012, as of 2013 Q2 private consumption began to pick up gradually. This growth was visible almost in the entire region, except for Bulgaria. Higher consumption growth was preceded by rising consumer sentiment readings. The growing consumer confidence stemmed mainly from an upturn in real disposable income, arising from a decrease in inflation. In 2013 Q2 and Q3 the magnitude of decline in investment outlays also diminished, in particular, in terms of investment in machinery and equipment.

Domestic demand growth in 2013 was supported by a fiscal policy easing, as fiscal imbalance in most CEE countries had been reduced markedly over the previous years. At the end of 2013, only Poland, Slovenia and Croatia remained under the excessive deficit procedure. Further fiscal policy easing is also expected in the forthcoming years. CEE countries do not plan any further tax increases in 2014 and 2015 (excluding excise tax), only measures aimed at reducing the grey economy and tax evasion. In 2013 Croatia, Estonia, Latvia and Hungary reduced the rates of personal and corporate income taxes as well as social security contributions, or such reductions are planned for the coming years.

The ongoing private sector deleveraging was the factor which continued to hamper domestic demand growth in the CEE countries in 2013. The annual growth in household and corporate loans remained negative. In the majority of economies it had even declined as compared to the end of 2012. Weak lending in the CEE countries resulted from both supply- and demand-side factors. In 2013 the outflow of foreign capital from the banking sector in the region was still significant. In Croatia, Romania, Slovenia and Hungary, local banks' assets quality was deteriorating. In addition, the indebted households and enterprises in the CEE countries still showed limited interest in incurring new liabilities.

The abovementioned upturn in industry did not translate into an improvement in labour market conditions in CEE. Employment growth in the majority of the economies was almost negligible. Apart from the industrial sector and public administration, the number of the employed even dropped. Neither did the harmonised unemployment rate fall significantly (besides the Baltic states and Hungary), persisting at a relatively high level - definitely higher than before 2009.

Supply-side factors (decline in energy and food prices growth rate) as well as the continually weak

consumer demand in the CEE countries caused a marked drop in inflation in 2013. In November 2013, the weighted average of HICP index for the CEE region amounted to 0.7% y/y, i.e. an all-time low.

Starting from May 2013, energy prices in the region were falling in annual terms. It resulted from the slump in the prices of energy commodities, but also from administrative decisions leading to lower energy prices for private consumers. On the other hand, slower food prices growth stemmed from a decline in the prices of agricultural commodities, arising from their ample global supply. The rather poor consumer demand, sustained over 2013, helped keep core inflation low. Similar to headline inflation, core inflation also reached its historical lows at the end of 2013.

The marked drop in inflation in the CEE countries, accompanied by still minor improvement in domestic demand in 2013, provided grounds for further monetary policy easing in the countries following the direct inflation targeting strategy (i.e. the Czech Republic, Poland, Romania and Hungary). Whereas in Poland this process has stopped in mid-2013, in the remaining three economies, the monetary policy easing was continued into the second half of the year. The central banks of Hungary and Romania decided to further cut interest rate. On the other hand, the Czech National Bank, which had brought interest rates to "technical zero" in 2012, decided to apply foreign exchange interventions in order to weaken the koruna exchange rate. As a result, the koruna depreciated by 5% against the euro in November 2013.

The accommodative monetary policy, eased fiscal consolidation and improved sentiment among producers and consumers pave the way for continued economic growth, in particular, a rebound in domestic demand in 2014-2015. Yet, the most important growth driver in the region, at least in the first half of 2014, will still be exports resulting from the expected further recovery in the euro area.

The most recent growth forecasts for 2014-1015 suggest that GDP in the region will continue to expand slowly. The anticipated growth in exports will be accompanied by stronger consumption, investment, as well as imports. As a consequence, the structure of growth will change. Domestic demand should gradually replace foreign demand as the main growth factor in the CEE countries.

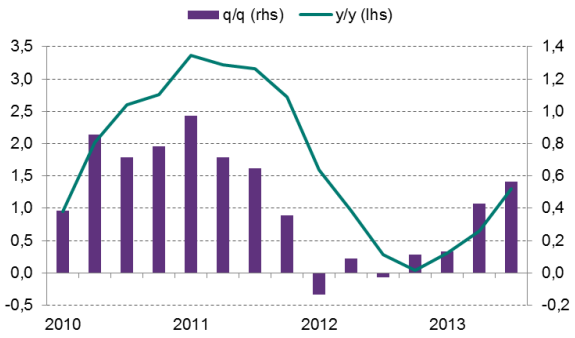
A key risk to further revival in the CEE countries seems to be a potential slowdown in the euro area, as it would indirectly inhibit the growth in the export-oriented sectors. The ongoing process of the private sector deleveraging emerges as another risk factor. An increase in global risk aversion and a retreat of foreign investors should also be considered as a threat for the CEE economies in the forthcoming years.

Countries of Central and Eastern Europe –macroeconomic outlook

Ongoing slow recovery in CEE countries in 2013

Following a period of economic slowdown in 2012, the annual GDP growth rate in the CEE countries has been gradually rising from the beginning of 2013. In 2012 Q4 it amounted to 0.0%, which was the lowest reading since 2009. Yet, in the following quarters the CEE economy returned on the upward path. In 2013 Q3, the annual GDP growth increased to 1.3% and in the first three quarters of 2013 it amounted to 0.7%.

Figure 1.1. GDP growth in the CEE (in %)



Source: Eurostat

However, not all of the CEE countries saw GDP growth in this period. In the first three quarters of 2013, similarly to 2012, the highest pace of growth was recorded in Latvia (5.0% y/y) and Lithuania (3.3% y/y). GDP growth accelerated markedly in Poland, Hungary (a clear rebound after the 2012 recession) and Romania, which in 2013 Q3 became the fastest-growing economy of the region (4.1% y/y). Nevertheless, it seems that the surprisingly robust GDP growth in Romania and Hungary may be unsustainable since it resulted from very good harvests. In Bulgaria, Estonia and Slovakia, the annual GDP growth decreased slightly in this period, remaining however in the positive territory. In the Czech Republic, Croatia and Slovenia, GDP continued to decline in 2013. Yet, the magnitude of recession deepened only in the Czech economy. The Czech Republic and Slovenia were the worst performing countries in the region in 2013 Q3 (-1.3% y/y).

CEE economies still dependent on the euro area recovery

Both the economic slowdown in the CEE in 2012 and its recovery in 2013 mainly stemmed from the performance of the euro area economy. The growing demand from the CEE main trading partner in 2013 boosted activity in the industrial sector and accelerated exports growth. However, improved situation in industry have not translated into any noticeable improvement in labour markets. Despite expanding foreign demand, the investment outlays also continued to decline.

Net exports still the main contributor to GDP growth

The rising demand from the euro area countries boosted exports growth in the CEE countries in the first three quarters of 2013. However, the situation in individual countries was highly diversified. Very high growth was recorded in Romania and Hungary, mainly on the back of higher exports of cars. Exports accelerated also in Poland, Slovenia and Croatia. In the remaining CEE countries annual exports growth rate declined. In the Baltic states it resulted from lower demand from the former Soviet Union countries, mainly Russia. Weakening of Slovakian exports stemmed from limited production capacity of the automotive industry which boosted exports in the previous years. Lower exports from

the Czech Republic were associated with the decline in exports of services.

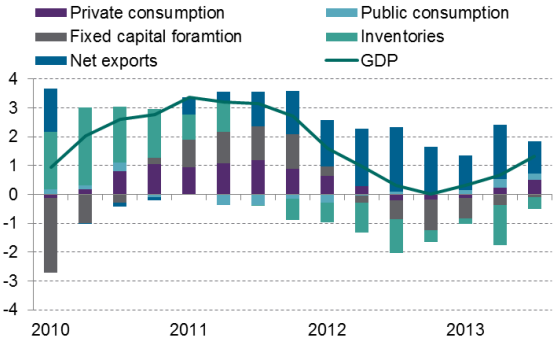
The shift in the exports geographical structure, toward the euro area, resulted in rising import intensity. Fast growing sales to the euro area countries, mainly within global supply chains, boosted imports. Imports were additionally increased by the revival in domestic demand in the first three quarters of 2013. As a consequence, imports increased more than exports in that period and the contribution of foreign trade to economic growth in the CEE region decreased. In 2013 Q3 it amounted to 1.1 pp, against almost 2 pp in 2012.

Nevertheless, net exports remained the most important contributor to GDP growth in the first three quarters of 2013. However, their contribution to the growth was not equal in all CEE countries. In the Baltic states the contribution of net exports was definitely lower than that of domestic demand. In the Czech Republic net exports had even negative impact on GDP in this period. The highest contribution of net exports to GDP growth was recorded in Romania, Slovenia and Slovakia.

Slow improvement in private consumption

In 2012 Q3 the annual growth of private consumption in the CEE dropped below zero for the first time and stayed in the negative territory until 2013 Q1. However, already in the subsequent two quarters, a marked acceleration in households spending growth could be noted. In Q3 it reached as much as 0.7% y/y. Higher consumption growth rate was observable in almost all CEE economies. It accelerated most in Lithuania, Croatia and Slovenia. Private consumption growth also improved in Poland, the Czech Republic, Romania, Hungary and Slovenia (although in the Czech Republic and Slovenia this meant a slower decline). It weakened markedly in Bulgaria, where it became negative in annual terms from the beginning of 2013. A decline was also recorded in Estonia and Latvia. Yet, despite a slight slowdown in Estonia and Latvia, consumption growth in the Baltic states was still the fastest in the region.

Figure 1.2. GDP and its components in the CEE region (y/y, pp).



Source: Eurostat

Besides the low base of the previous year, consumption growth was also supported by the sustained improvement in consumer sentiment which gradually started to translate into a rising spending propensity. Its growth was also driven by the easing of fiscal consolidation observed in most of the CEE countries, manifested, among others, in an increased consumption of the public sector. At the same time, the persisting stagnation in the labour market as well as the ongoing households deleveraging process, posed an impediment to a more robust private consumption growth.

Slower decline in fixed capital formation

Investment outlays growth (y/y) continued a downward trend in the first three quarters of 2013. However, the magnitude of the decline decreased, in particular, in 2013 Q2 and Q3. Like in 2012, investment in buildings and structures continued to decrease significantly, which confirmed the persistently poor condition of the construction sector. The magnitude of decline in investment in machinery and equipment was markedly reduced, which may be attributed to an upturn in the industrial sector.

Public investment, supported by the EU funds, demonstrated stable growth, similar to the previous years.

Among the CEE countries, the highest fixed investment growth was recorded in Estonia and Lithuania (at two-digit pace in 2013 Q3). A significant acceleration occurred also in Hungary, which was mainly associated with the rise in public investment. In contrast, investment outlays in the Czech Republic, Slovenia, Romania and Slovakia continued to decline significantly.

Private sector deleveraging continues to drag down domestic demand growth

The ongoing private sector deleveraging hampered bank lending growth in the CEE in 2013. The annual growth rate of lending to private non-financial sector remained negative from mid-2012 to October 2013. The highest growth in the outstanding loans value, similar to the previous years, was observed in Poland, the Czech Republic and Slovakia. In 2013 it amounted to 3-4% y/y. In Bulgaria, Estonia and Romania the stock of loans did not change significantly during 2013, whereas in the remaining countries it continued to decline. This trend was particularly visible in the crisis-hit Slovenia and Croatia, but also in Latvia and Lithuania, where, despite the continuously fast domestic demand growth, lending growth in the second half of 2013 not only remained negative, but the magnitude of decline even deepened.

The main reason behind poor lending performance is the persistently slow demand for new loans from households and enterprises. It is because the borrowers, in view of the still uncertain prospects for income growth, are more willing to repay the existing liabilities rather than take out new ones. Apart from the demand-side factors, the weakness of lending in the region was also caused by supply-side barriers. The optimistic news for 2012 Q2, showing the declining pace of deleveraging in the CEE banking sector toward the European banks, was not confirmed in the first half of 2013. According to the BIS data[1], the value of foreign claims on the European banking sector decreased again (excluding Estonia), which implies the continued outflow of foreign capital from the CEE banking sector. At the same time, domestic deposits, despite a relatively stable growth rate in the recent years (approximately 5% y/y since 2011), were still unable to fully replace the external financing.

Figure 1.3. Private sector loans in the CEE countries (average, y/y, in %)

Source: Central banks

Improvement in the euro area industry affected the recovery in the industrial sector of the CEE region

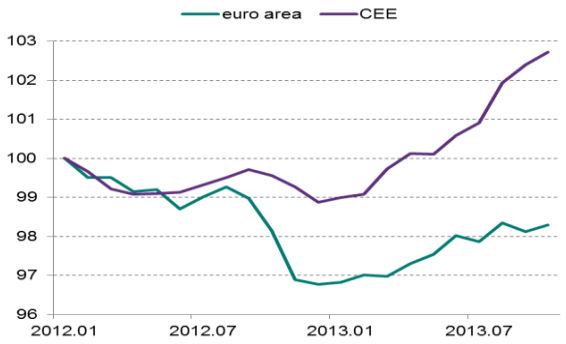
Accelerated GDP growth in the region was mainly attributable to an improvement in the industrial sector in 2013. Already at the beginning of the year, business sentiment and activity in the euro area industry picked up. This started to generate higher demand for goods manufactured in the CEE countries.

The upturn in the industry of the euro area was immediately reflected in stronger business sentiment and output growth in the CEE countries. Business confidence was rising markedly during

[1] Bank for International Settlements, Locational Banking Statistics.

2013. In November 2013, the European Commission indicators reached the highest level since the beginning of 2012. This growth occurred in all economies of the region, except Bulgaria. Improving sentiment was also reflected in the PMI in manufacturing readings. Following a period of slump in 2012, from mid-2013 these indices started to point out a significant growth in industrial activity in the largest economies of the region (Poland, the Czech Republic, Hungary)[2]. In Poland and the Czech Republic, the PMI readings of November 2013 reached their highest level since May 2011. In December 2013 the PMI readings in Poland, the Czech Republic and Hungary dropped significantly; however, these indices still signalled recovery in manufacturing.

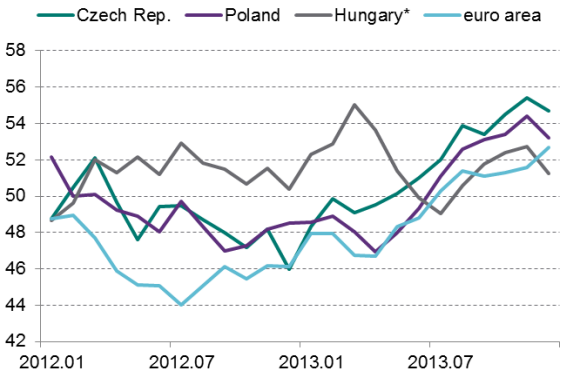
Figure 1.4. Industrial production in the CEE region and in the euro area (January 2012 = 100)



Source: Eurostat

The improvement in business sentiment in the CEE industry resulted mainly from the rapidly rising number of orders, in particular, foreign ones. New orders spurred industrial output growth, which, following a period of slump in 2012, increased across the region by almost 6% from January to October 2013. However, the region was not homogenous in this respect. Strong industrial output growth (of 5% or more) was recorded in Poland, the Czech Republic, Romania, Slovakia and Hungary. In Slovenia, the volume of production did not change significantly, whereas in Bulgaria, Croatia and the Baltic states, industrial production saw a decline.

Figure 1.5. PMI in manufacturing in the CEE tries and the euro area



*For Hungary, moving average for three months
Source: Markit

Higher volume of industrial production in the CEE stemmed mainly from a recovery in manufacturing, in particular, from the increased production of the automotive sector. It is also worth noting that robust production growth in the CEE countries was sustained in 2013 Q3 and Q4, amidst declines observed in this output in the euro area countries.

Signs of improvement in consumer confidence

The first sign, which may indicate an upturn in private consumption in the CEE, is the considerable improvement in consumer sentiment throughout 2013. From January to November 2013 consumer confidence increased markedly in the majority of the countries (except Bulgaria and Latvia), which was reflected in the European Commission indices. This improvement resulted mainly from a marked drop in inflation, which boosted households' disposable income. Yet, expectations concerning the future financial situation were still quite low, main-

[2] In all the three economies, the indices exceeded the threshold value of 50 points.

ly due to the persisting stagnation in the labour market.

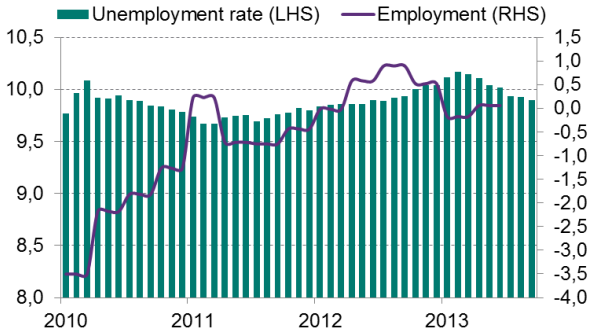
The improved sentiment slowly started to translate onto higher retail sales in the region. From January to October 2013, retail sales increased by more than 2%, following a decline of the similar magnitude in 2012. However, it is difficult to consider these data as a sign of a firm consumption recovery, in particular, in view of the fact that retail sales in the region dropped slightly again in September and October 2013.

The retail trade performance in individual countries was diversified. On the one hand, sales were on a steep upward trend in the Baltic states (similarly to 2012), Poland, Bulgaria and Romania. On the other, in the recession-hit countries (the Czech Republic, Slovenia) sales volume continued to decrease. Growth in retail trade turnover was mainly attributable to sales of durable goods and to a lesser extent to sales of food and fuel.

Very slow improvement in labour market conditions

In the first half of 2013, the labour markets of the CEE countries still failed to display signs of any tangible improvement. The harmonised unemployment rate still hovered at relatively high levels, only marginally different from the level observed at the end of 2012. It was observed to edge down only in the Baltic states (by 1.7 pp, on average, in the first three quarters of 2013) and Hungary (0.9 pp from January to October 2013). Lower unemployment rate in relation to December 2012 was also observed in Poland, the Czech Republic, Croatia, Lithuania and Slovakia but its decline in these countries did not exceed 0.5 pp. On the other hand, in Bulgaria, Romania and Slovenia, the unemployment rate in the analysed period continued to rise, with Slovenia reaching the peak of the past twenty years. In October 2013 the lowest unemployment rate was recorded in the Czech Republic (6.8%) and Romania (7.3%), whereas its highest level was noted in Bulgaria (13.2%), Slovakia (13.9%) and Croatia (17.6%).

Figure 1.6. Unemployment rate (in %) and employment growth (in %, y/y) in the CEE



Source: Eurostat

At the same time, the number of long-term unemployed still accounted for a high percentage of total unemployed. In most of the CEE economies, it ranged from 40 to 50% of all unemployed. However, in the countries with the highest unemployment rate, the number of persons who have been out of work for more than 12 months was definitely higher. In 2013 Q2, it amounted to 65% in Slovakia and exceeded 70% in Croatia. It means that these two countries still face serious structural problems in their labour markets.

The stagnation in the CEE labour markets in the first half of 2013 is confirmed by the data on the number of the employed. In the whole region, this figure increased by a mere 0.3% in 2012 Q4-2013 Q2 period. Among the eleven economies analysed, significant growth in employment (over 1%) was only recorded in Estonia, Lithuania and Romania. On the other hand, in Bulgaria, Poland, Slovenia and Latvia[3] employment dropped slightly. The

[3] The surprising decline in the number of employed in Latvia, despite one of the fastest GDP growth rates in the region in the last quarters is mainly explained with inaccuracy of the data arising, among others, from the changes introduced in connection with the national census conducted in 2012.

growth in employment did not contribute to the number of hours worked in all countries. It was particularly visible in the Czech Republic, where a growth in the number of part-time employees was observed as early as from the beginning of 2012.

Growth in the CEE industrial activity in the first quarters of 2013[4] caused employment in this sector to rise in the region as a whole. However, this did not concern every individual country. In Bulgaria, Slovenia, Lithuania and Slovakia the number of employed in industry decreased as compared to 2012 year-end. Apart from industry, employment growth was also recorded in public administration, telecommunications and IT, administration and supporting services as well as in the sector of scientific, professional and technical services. On the other hand, in agriculture, retail trade and catering as well as the financial sector the number of employed decreased. The labour market data confirmed the ongoing crisis in the construction. It was in this sector of the economy that the highest decline in employment was recorded in the first three quarters of 2013. Yet, in Latvia and Lithuania, sizeable growth was observed in the number of employed in construction during this period, which was another sign of the end of the construction crisis in the Baltic states.

The expected recovery in the CEE economies in the coming years should bring some improvement in the labour markets. However, it seems that employment growth and the decline in unemployment will still be relatively slow. A repetition of the 2011 situation, when GDP growth in the region stemmed mainly from increased labour productivity rather than from increased employment seems likely. Such a scenario is also indicated in forecasts by national and external institutions.

[4] The estimated data on employment originate from the national accounts.

Slower nominal wage and unit labour costs growth

The persistent stagnation in the labour market in the first half of 2013 also dragged on nominal wage growth in the CEE. This was a change as compared to 2012, when labour markets conditions were similar, or even worse, yet nominal wage growth remained stable and relatively high. In the entire region, the annual growth in average wages amounted to 3% in 2013 Q3, against 4-5% observed in the preceding two years. The highest decline in wage growth in the first three quarters of 2013 was observed in Bulgaria, the Czech Republic, Croatia and Slovenia (in the last two countries, it was negative). On the other hand, the Baltic states saw a steadily accelerating nominal wage growth.

The decline in nominal wage growth in the region was accompanied by an even higher drop in inflation. Consequently, real wages increased. It was one of the major factors boosting consumer sentiment in the analysed period. The decline in inflation and inflation expectations explains lower wage pressure. Besides the stagnation in the labour market, lower price growth was one of the major reasons of the slower nominal wage growth in 2013.

The drop in nominal wage growth, combined with rising labour productivity (GDP growth amidst a merely slight increase in employment), caused that the downward trend in unit labour costs (ULC) in the CEE. It was seen already in the second half of 2012 and continued in the first half of 2013. However, it was not the case for all of the economies. The steeply rising wages in the Baltic states, amidst weakening output growth, caused ULC in these economies to pick up substantially. This may mean that the export competitiveness of the Baltic states, regained at the expense of vast sacrifices, is once again at risk.

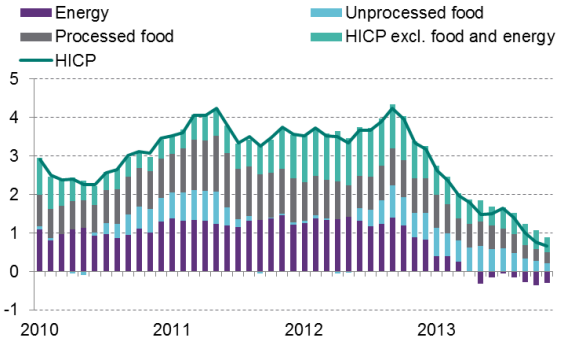
In 2014-2015 a rise in nominal wage growth is expected in the majority of the CEE countries, which will result from further economic recovery and

slowly improving labour markets conditions. Particularly high growth is anticipated in Hungary in connection with the announced wage rise in the public sector. The increased wage growth should not, however, produce any substantial change in the nominal ULC growth since labour productivity should rise at a similar pace.

Decline in inflation to all-time low stemming from slower energy and food price growth

Inflation in the CEE countries had started to fall considerably as early as in 2012 Q4 and the decline continued in 2013. Already in May and June 2013, the annual HICP growth rate throughout the region came down to 1.5% compared to 3.2% in December and 4.2% in September 2012, even those figures marking a historically low level. In July 2013, a slight increase (up to 1.7%) was noted, which stemmed from a rise in inflation in Poland and Croatia[5]. In the following months HICP growth returned to the downward path. In November 2013 it fell to 0.7% y/y, thus hitting an all-time low.

Figure 1.7. HICP inflation and its components in the CEE (in %, y/y)



Source: Eurostat

[5] In Poland it was mainly the result of a rise in food prices, mostly resulting from the change in GUS (Central Statistical Office) methodology and the growth in prices of municipal services associated with waste disposal. In Croatia the lower inflation was the effect of a low 2012 base.

The decline in HICP inflation from January to November 2013 was recorded in all CEE countries. It was the most pronounced in Hungary (by 4.7 pp), Bulgaria (3.8 pp), Croatia (3.7 pp) and Romania (3.3 pp). It is worth stressing that the decline in inflation was also observed in countries where higher indirect taxes rates were introduced (VAT and excise tax on alcohol and tobacco products), which usually generate strong inflationary effects. Such a situation took place, among others, in the Czech Republic, Poland, Hungary and the Baltic states. However, it did not translate into higher inflation (in connection with the waning base effect of even higher increases at the beginning of 2012) or the resulting inflation growth at the beginning of 2013 was only temporary and was levelled off in the following months.

The reasons for slower consumer price growth were similar in all countries. It was mainly due to supply factors, such as weaker energy and food prices growth (the former being negative since May 2013). The contribution of the decline in growth of both these price categories to the decrease in HICP inflation from January to November 2013 amounted to 1.1 pp each.

There were several reasons for the drop in energy prices in the region. On the one hand, it stemmed from lower global prices of energy commodities, which was mainly demonstrated in falling fuel prices. Administrative decisions imposing a reduction in energy prices for individual consumers also played a role. This referred to electricity (among others in Bulgaria, Croatia, Slovakia and Hungary) or gas prices (in Bulgaria and Poland). The magnitude of decline in food prices was smaller than that of energy prices[6]. It mainly referred to non-processed food. This situation resulted mainly from good harvest in agriculture, not only in the region, but also worldwide, consequently contributing to

[6] The comparable contribution to the total inflation decline stemmed from over two-fold share of food in inflation in the basket of consumer goods, in relation to energy, in the countries of the CEE.

lower food prices in the global markets. Processed food price growth also decreased, yet, the extent of this decline was lower than in the case of non-processed food.

The overall decline in inflation in the region also resulted in smaller differentials between the individual countries. In November 2013 the highest HICP level was recorded in Estonia (2.1%) and Romania (1.3%), whereas in Bulgaria and Latvia it was negative (at -1.0% and -0.3%, respectively).

Marked decline in core inflation

One of the factors contributing to the decline in inflation in the region was lower core inflation (i.e. HICP excluding energy and food prices). Core inflation decreased particularly in the first half of 2013, dropping from 1.6% in December 2012 to 0.9% in June 2013. In the following months of 2013, core inflation in the CEE remained stable, ranging from 0.9% to 1.0%. However, in November 2013 it declined again, to reach 0.7%. This was, like in the case of the headline HICP indicator, an all-time low.

The main reason for low core inflation was the persistently weak consumer demand (notwithstanding a slight rise in recent quarters), stemming from a continued stagnation in the labour markets. In addition, the fall observed in the prices of energy and agricultural commodities translated to the prices of other goods and services, which also slowed core inflation growth.

Apart from Latvia, the decline in core inflation was observed in the whole CEE region. Its growth in Latvia may be explained by a significant increase in households' disposable income, which helped keep up robust consumption growth and added to inflationary pressure.

Slow inflation growth expected in the coming years

Following its sharp decline in the CEE countries in 2013, inflation should gradually rise over the next two years. However, it will still remain relatively low. According to the European Commission's forecasts, inflation in 2014 should range from 0.5% in the Czech Republic[7] to 2.8% in Estonia. In 2015 its slow growth should continue; however, the level of 3% shall be slightly exceeded only in Estonia and Romania.

The impact of supply factors, namely, prices of energy and food, which lay behind significant declines in inflation in 2013, should be smaller. Although prices of energy commodities may decrease slightly in the coming years, considering the lower base of 2013, their impact on inflation decline will be more limited. Only in the Czech Republic and Hungary further weakening in energy price growth is expected, in connection with the announced reduction in regulated prices. A similar development is anticipated in the food markets (a minor increase in output and a decline in price growth). Yet, for reasons similar to those affecting energy prices, their contribution to the decline in inflation will be insignificant in the forthcoming years. Thus, the expected inflation growth will arise from higher core inflation. The reason is that in the two coming years, demand pressure is expected to grow on the back of the anticipated rise in households' disposable income, resulting in higher consumption.

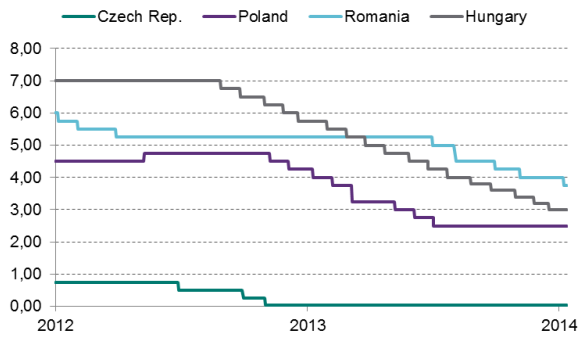
Monetary policy easing

A marked drop in inflation observed in 2013 provided grounds for further monetary policy easing in the CEE countries which follow the direct inflation targeting strategy (i.e. the Czech Republic, Poland, Romania and Hungary). As early as the beginning

[7] The forecast has not taken into consideration the foreign currency interventions of the CNB. According to the CNB forecast, the process of weakening of the koruna exchange rate may increase inflation by approximately 1 pp in 2014.

of 2013, inflation in the Czech Republic, Poland and Hungary fell below the inflation target; this applied also to Romania from September 2013. Further decline caused inflation in all four countries to drop even below the lower bound of deviations from the target. Consequently, in 2013, Narodowy Bank Polski (NBP) reduced the interest rate by a total of 175 bps (in six steps), down to 2.5%, the National Bank of Hungary (MNB) by 275 bps (in twelve steps[8]) - to 3.00%, and the National Bank of Romania (NBR) - by 125 bps, to 4.0% (in four steps). In January 2014 another interest rate cut was made by NBR, to 3.75%. NBR resumed the cycle of interest rate reductions in July 2013 However, in the previous period it had applied quantitative control measures by changing the ceiling on the value of Repo transactions with commercial banks. It seems that NBP has already completed the cycle of monetary policy easing, whereas MNB and NBR will continue to reduce their interest rates.

Figure 1.8. Main interest rates of central banks in the CEE (in %)



Source: Reuters

In November 2013 the Czech National Bank (CNB) also undertook measures aimed at easing its monetary policy. In this case, further reductions of interest rates were practically impossible (from November 2012 the main interest rate, i.e. the 2-week Repo rate, remained at the level of 0.05%), therefore the CNB Management Board decided to commence foreign exchange interventions in order to weaken the koruna exchange rate. The CNB Management Board informed that they would stabilise the EUR/CZK exchange rate at the level of 27 over a period of at least 18 months (in the previous months it ranged from 25.5 to 26 EUR/CZK). The interventions are to be asymmetric, i.e. CNB will only undertake interventions in order to weaken the koruna.

The accommodative policy of the central banks in the CEE countries was accompanied by a continued decline in short-term interbank interest rates. The magnitude of decline was even bigger than the scale of reductions in central banks' policy rates which resulted mainly from the sustained high liquidity of the banking sector. This situation was, on the one hand, attributable to the quantitative easing of the major central banks in the world and, on the other, to the continually low supply of loans for the private sector.

Slower pace of fiscal consolidation in 2013-2015

In 2013, the public finances in the region's countries were relatively sound. According to the EC autumn forecast (November 2013), only in Croatia, Slovenia and Poland, the headline deficit will exceed the reference value (3% of GDP). Nevertheless, the adopted budgetary targets in almost half of the CEE countries were not achieved, which resulted from, among others, weaker than expected economic conditions[9].

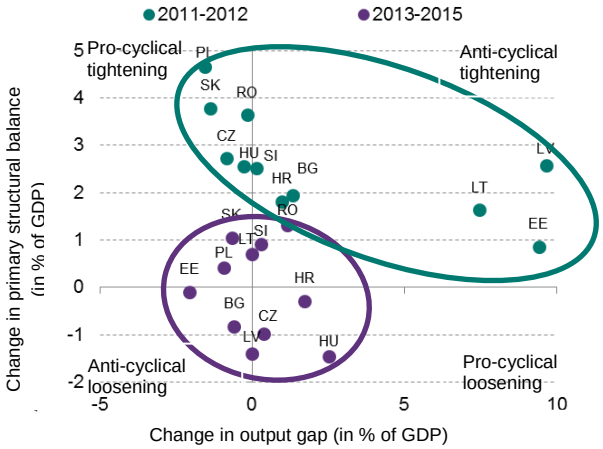
[8] MNB has been continuously reducing interest rates since August 2012. In August 2013 it decreased the scale of the reductions from 25 bps to 20 bps.

[9] It referred, in particular, to Slovenia (in the 2013 autumn fiscal notification the forecast of deficit was higher by 1.5 pp of GDP in relation to the 2013 spring notification), Poland (by 1.3 pp of GDP) as well as Bulgaria and Croatia (by 0.7 pp of GDP). In order to avoid the deterioration of the fiscal balance, Slovenia, Croatia and Hungary undertook additional consolidation measures in the course of 2013. The spending cuts in the first two countries (reduction in wages in public administration) were also accompanied by in-

In years 2013-2015 fiscal consolidation in the region[10] will be halted. According to the EC autumn forecast (November 2013), the average primary structural general government balance[11] will improve slightly, by approximately 0.1 pp of GDP, compared to 2.6 pp of GDP in years 2011-2012. In almost a half of the CEE countries fiscal policy will be loosened (see Figure 1.9), as growth is expected to remain sluggish (factor taken into consideration in the current EC stance to the states under the excessive deficit procedure, EDP), and headline deficit was significantly reduced in the previous years.

Further large fiscal adjustment amid the negative output gap (except for the Baltic states) would be a factor hindering the growth prospects. At the same time, no further major austerity measures need to be undertaken in the following years to keep the headline deficit below 3% of the GDP, as the general government balance in the CEE countries improved significantly (3.1% of GDP in 2013 against 6.6% of GDP in 2009). Nevertheless, the slower pace of fiscal consolidations means shelving achievement of the medium-term budgetary objective (MTO[12]), as well as public debt stabilisation.

Figure 1.9. Fiscal policy stance in the CEE countries in 2011-2012 and 2013-2015



Source: AMECO database, European Commission

The CEE countries do not foresee any further tax hikes in 2014 and 2015 (apart from those relating to excise duty), only measures aimed at combating the shadow economy and tax evasion. In 2013, in Croatia, Estonia, Latvia and Hungary, the rates of income taxes as well as social contributions were reduced, or such reductions were scheduled for the following years.[13]. The rate of contribution to funded pension scheme has been increased[14]. Some of

creases in taxes and fees. In Slovenia the rates of VAT, road tolls and PIT (the so-called crisis tax) were raised. New lottery taxes and taxes on food with high sugar content were introduced. In Croatia, higher excise tax on diesel fuel and heating oil has been in effect since August 2013. In Hungary, in mid-2013 several taxes were raised (financial transaction duty, levies on banks and enterprises operating within regulated sectors, telecom and mining tax). The upper limit of pension contribution payments was abolished.

[10] Such a trend is also observed in the countries of the euro area (EA). The improvement in the average primary structural fiscal balance (excluding Estonia, Latvia, Slovenia and Slovakia) in years 2013-2015 should reach approximately 0.2 pp of GDP, against ca. 2.3 pp of GDP in years 2011-2012 (excluding the EA states subject to EU-IMF assistance programmes - respectively: 0.5 and 2.2 pp of GDP).

[11] Nominal fiscal balance net of the impact of economic cycle, interest payments and one-off and temporary measures.

[12] Achieving MTO provides necessary room for manoeuvre allowing the automatic stabilisers to operate freely without exceeding the reference value of the headline deficit. It reinforces the stabilising function of fiscal policy and limits its pro-cyclical nature. See: *Public finances in EMU 2006*, European Economy, 3/2006, Directorate-General for Economic and Financial Affairs, European Commission.

[13] In Latvia the PIT rate was decreased by 1 pp in 2012 and 2013 (in 2009 it was raised by 3 pp), from 2013 the base VAT rate was also reduced (by 1 pp, in 2009 it was raised by 3 pp). In Hungary, from 2013, the super-gross tax rule (adding the social insurance contribution paid by employer to a taxable base in PIT) is no longer applicable. Estonia intends to reduce the PIT and CIT rates starting from 2015 (by 1 pp). In 2013 the unemployment insurance contribution rate was decreased to the level before the hike in 2010. From May 2012 the employers in Croatia pay lower health insurance contribution (by 2 pp). Reduction of CIT rate in 2014 (by 1 pp) is also planned in Slovakia, whereas in 2013 it was raised from 19 to 23%.

[14] In 2013 the rate of pension contribution transferred to the funded pillar of the pensions scheme in Lithuania and Latvia was increased, as well as in Poland (in 2012 the original rate was restored in Estonia). In the upcoming years, the rate increase is expected in Poland (2014 - from 2.8% to 2.92% of the salary, however, the initially planned its gradual increase to 3.5% has been abandoned), in Latvia (2014-

the spending cuts adopted in the previous years (e.g. the wage freeze in public administration and suspension of pension indexation[15]) have been or will be waived.

Over the horizon of the EC autumn forecast (November 2013), fiscal imbalance will be still excessive in Croatia (approx. 6% of GDP), Slovenia and Poland (approx. 4% of GDP[16]) – all being under the EDP. Taking into account the economic situation of these states, the EC recommended the Council an extension of the EDP deadline for Poland and Slovenia to 2015 (from 2012 and 2013, respectively) and proposed relatively long deadline (2016) while launching EDP against Croatia. Moreover, the EC has not urged any additional steps to be undertaken against the Czech Republic and Slovakia, despite the concerns over the sustainability of the excessive deficit correction in 2013 (in 2015 the deficit ratio is projected to reach3.5% and 3.8% GDP, respectively[17]), stemming from the expected loosening of fiscal policy (among others, as a result of wage increase in the public administration and PIT reform[18] in the Czech Republic, expiry of some temporary and one-off measures in Slovakia[19]).

Moderate public debt growth

The downscaling or discontinuation of consolidation efforts results in further growth of the general government debt in 2014-2015 in half of the CEE countries, despite the improvement in public finance and in macroeconomic conditions.

Over the horizon of the EC autumn forecast (November 2013), public debt-to-GDP ratio in Slovenia and Croatia will surge (by approx. 9-11 pp of GDP), markedly exceeding 60% of GDP[20]. This is related to, among others, persistent deep fiscal imbalance in both countries, and in the case of Slovenia, also to the bank support scheme. In September 2013 Croatia[21] became another country of the region (apart from Hungary), whose Treasury securities were

2015) and in Estonia (2014-2017, temporary compensation for the period of suspended transfers to pension funds).

[15] An unfreezing of wages in public administration in 2013 took place in Romania (as a result of Constitutional Court ruling), Czech Republic and Latvia; it is planned in Lithuania and Slovakia for 2014. In Hungary, a rise in teachers' salaries was scheduled for 2013 and 2014 (the election year). In 2013 pension indexation was resumed in Bulgaria, the Czech Republic and Romania.

[16] The figure for Poland according to ESA2010, i.e. transfer of assets from OPF having no impact on the general government balance. See: Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Poland {SWD(2013) 605 final}, European Commission, Brussels, 15 November 2013, COM (2013) 906 final.

[17] The Czech Ministry of Finance in November 2013 forecast that the general government deficit will remain at 2.9% of GDP in 2014-2015. The Government of Slovakia set the budgetary targets at the level of –2.6% in 2015 and –1.5% of GDP in 2016, under the multiannual fiscal framework for 2014-2016.

[18] It was adopted in 2011 and it will enter into force in 2015. The changes will cover tax bands, the tax base as well as allowances and exemptions, resulting in a drop in PIT revenue of 0.4% of GDP in 2015.

[19] In Slovakia one-off measures (inter alia shifting dividend payments from 2013, repayment of loans granted to public companies – initially authorities assumed, that these loans would not be paid back and therefore treated as budget expenditure) will improve the general government balance by approx. 1% of GDP in 2014.

[20] In Slovenia the public debt-to-GDP ratio is estimated by the EC at 63.2% of GDP in 2013 (against 54.4% of GDP in 2012) and 74.2% of GDP in 2015. Neither the autumn EC forecast, nor the draft 2014 budget plan of Slovenia, submitted to the EC in October 2013, considered the support to the banking system announced in December 2013. The Slovenian authorities estimated that following the planned capital injections in certain banks (Nova Ljubljanska Banka d.d., Nova KBM d.d., Abanka d.d., Factor banka d.d., Probanka d.d.) and purchase of non-performing loans portfolio in exchange for Treasury bonds, public debt would amount to approximately 76% of GDP in 2014. This level may both rise further (possible support to some banks in mid-2014, if they are not recapitalised by private owners or issuance of bonds) or decrease (planned privatisation of the government-owned banks). On the other hand, in Croatia the general government debt will increase from 59.6% of GDP in 2012 to 69.0% of GDP in 2015.

[21] In September 2013 the Fitch agency cut the rating of Croatia (long-term foreign currency debt) to "junk", justifying it with the country's poor growth prospects which hamper fiscal consolidation and adversely affect the public debt sustainability. Similar step had earlier been taken by Standard&Poor's (December 2012) and Moody's (February 2013).

given the 'junk' sovereign credit rating by three major rating agencies[22].

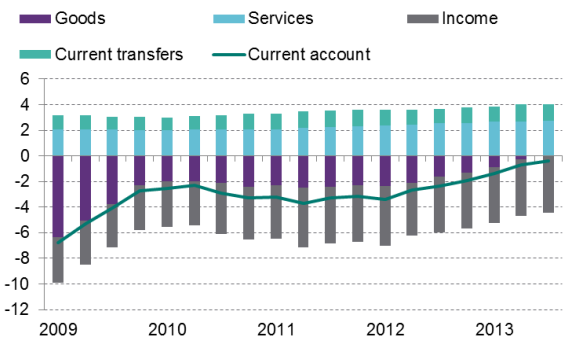
In other CEE countries increase in the general government debt is expected to be moderate (approx. 1.0- 4.7 pp of GDP). The fall in public debt-to-GDP ratio is anticipated in the Baltic states, Hungary (by approx. 0.3-1.3 pp of GDP, except for Latvia by 9.1 pp of GDP) and Poland (by 5.7 pp of GDP) which, due to funded pension scheme overhaul[23], will avoid breaching the debt reference value (60% of GDP).

Further narrowing of the current account deficit in the region

In 2013, the current account balance in the CEE continued to improve. According to the available data for Q2, it amounted to -0.7% (in relation to GDP)[24] against -2.1% in 2012 Q4. Moreover, the preliminary estimates for Q3 confirm the assumption that this tendency was also continued in the second half of 2013.

The improvement in the current account balance was recorded in all CEE countries. In the Czech Republic, Estonia, Poland and Romania, the deficit narrowed, whereas in the remaining countries, either a surplus emerged (Bulgaria, Lithuania), or the previously recorded positive balance has even increased (Croatia, Slovakia, Slovenia, Hungary).

Figure 1.10. The current account balance in the CEE (in % of GDP, 4-quarter moving average)



Source: Eurostat

The main source of a decrease in the current account deficit across the entire CEE was primarily the improved goods balance (lower deficit or higher surplus). This occurred amidst positive growth in exports of goods in the first half of 2013, with a simultaneous decline in imports in the majority of the CEE countries. Moreover, the surplus in services and current transfers increased slightly in 2013 across the entire region. On the other hand, the deficit in income stabilised at the 2012 level in most of the CEE countries. The Czech Republic and Lithuania, where the income deficit increased, made an exception.

In 2014, the reversal of trends observed in the CEE balance of payments is likely. It is expected that the current accounts deficits in some countries of the region, which have been decreasing up to date, will start rising again, whereas the surpluses recorded in the remaining countries should gradually shrink. On the one hand, it is assumed that along with economic growth in the CEE, domestic demand will start to recover. It should lead to growth in imports of goods and services. On the other, the anticipated improvement in the global economic situation should boost the growth in exports from the CEE

[22] Moody's, Standard&Poor's and Fitch.

[23] The Polish Ministry of Finance estimates that the asset transfer from pension funds (redemption of the Treasury bonds, consolidation of the infrastructural and municipal bonds within the general government) will translate into one-off public debt decrease by ca. 8 pp of GDP in 2014 (both in ESA'95 and ESA2010 terms). Taking into account the lower borrowing needs (among others, as a result of the so-called 'safety slider', lower interest payments), the general government debt at the end of 2014 would be lower by about 9.3 pp of GDP, in comparison to no-policy change scenario. See: Justification of the *Draft act on the amendment of certain acts, establishing rules for the pension payments financed from funds gathered in open pension funds*, Parliamentary paper no. 1946, p. 78.

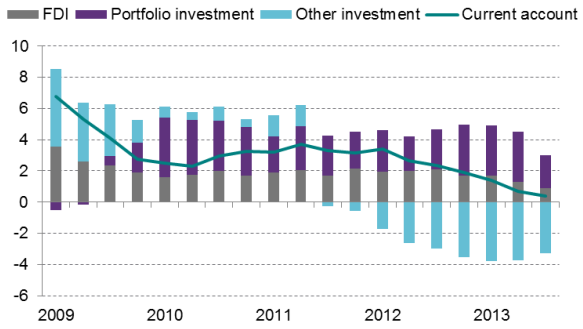
[24] In order to ensure the comparability of the data, the indicator for the quarterly series is calculated on the so-called liquid year principle, i.e. for the period covering the last four quarters, including the given quarter.

countries. Nevertheless, it is believed that the magnitude of this effect may be limited due to still uncertain growth prospects for the euro area economies, as the main trading partner of the countries in the region.

Lower foreign capital inflows with a shift in the composition

In 2013, the decline in the current account deficit was accompanied by lower net foreign capital inflows to the CEE. The value of investment made by non-residents in the analysed countries decreased (in relation to GDP) to 2.8% in 2013 Q2, from 3.4% in 2012 Q4. This trend was observed in the majority of the CEE countries, with some of them even registering a net outflow of capital (Lithuania, Slovenia and Hungary). On the other hand, in the case of Slovakia, foreign investment increased in the first half of 2013 as compared to 2012.

Figure 1.11. Foreign capital inflows to the CEE (in % of GDP, 4-quarter moving average)



Source: Eurostat

In 2013, the structure of inward investment to the CEE countries changed compared to 2012. The share of foreign direct investment (FDI) decreased, which should be associated both with the decline in capital flows worldwide and with the deteriorating investment climate in the CEE countries. This tendency was reflected in a fall in equity investment in the countries analysed. Moreover, in Slovenia the net outflow of FDI was even recorded.

On the other hand, the share of portfolio investment in the total inflow of foreign investment to the CEE countries in the first half of 2013 remained at about the 2012 level. However, preliminary data for 2013 Q3 suggest a decline in the amount of portfolio capital invested in the region in the second half of 2013. This may be associated with the sell-off of emerging markets bonds, which followed the FED announcement of the possible tapering of the quantitative easing (QE). It is worth adding, however, that the estimated scale of foreign capital outflow from the CEE in the second half of 2013 was markedly smaller than that observed from the developing countries of Asia and Latin America.

Other investment, mainly in the form of cross-border banking flows, still tended to go out of the CEE countries in the first half of 2013, although the pace of this process slowed down slightly compared to 2012. The decline in other foreign investment resulted from a withdrawal of non-residents' deposits from CEE located banks and from repayment of loans owed to foreign financial institutions. Although the net outflow of other investment was observed across the entire region, some states saw an inflow of this form of foreign capital (Bulgaria, Estonia).

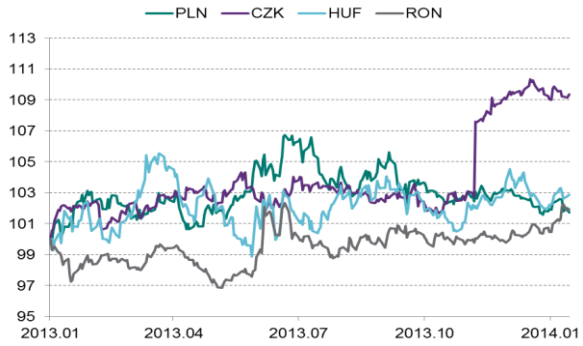
CEE financial markets more resistant to global turbulences than those of other developing countries

Similar to the previous years, financial markets of the CEE countries in 2013 was mainly shaped by the level of global risk aversion dependent on the policy of major central banks (primarily, the Fed, the ECB and the BoE). The first half of 2013 was a rather quiet period in the financial markets of the CEE countries. The exchange rates were relatively stable and the increased interest of foreign investors in CEE debt instruments resulted in a decline in

Treasury bond yields to record-low levels (among others, in the Czech Republic, yields on 10-year Treasury bonds dropped to 1.5%, in Poland to 3%, and in Hungary to 5%).

Heightened risk aversion in the global financial markets was observed in 2013 Q2, when the Fed announced the tapering of the quantitative easing (QE). This caused an instant response of foreign investors, who started to withdraw their capital from the emerging markets. However, unlike in the previous years, when increased global risk aversion also was observed (the bankruptcy of the Lehman Brothers bank in 2008, or the financial crisis in Greece in 2011), the financial markets of the CEE countries appeared to be more resistant to the change in investor sentiment than the emerging economies of Asia or Latin America. It concerned in particular the foreign currency market. While free floating currencies underwent a temporary depreciation in the second half of June 2013 (PLN, HUF and RON weakened against EUR by approximately 3%, and CZK by 2%). In the same period, the reaction of foreign currency markets in other developing countries was much more pronounced. In Asia and Latin America (among others, India, Indonesia, Brazil) the depreciation of national currencies against USD in mid-2013 reached as much as 30%.

Figure 1.12. Exchange rates of the CEE currencies against EUR (01.01.2013=100)



Source: Reuters

For the currencies of the CEE, 2013 Q3 was a period of a gradual recovery from losses incurred in mid-2013. Whereas the exchange rates of the Polish zloty and the Romanian leu remained relatively stable in 2013 Q4, the Czech koruna and the Hungarian forint started to depreciate. It applied mainly to the Czech koruna. Even after the CNB interventions, aimed at its weakening (by about 5% at the beginning of November 2013), it continued to depreciate against euro, on the back of poorer-than-expected economic data and the difficulties in establishment of the new government, held since December 2013.

In the CEE countries, increased global risk aversion was clearly observable in the trends of Treasury bond yields. In May to September 2013 period, the yields on 10-year Treasury bonds markedly increased. The highest growth was recorded in Hungary, Poland and the Czech Republic (over 100 bps), i.e. in the most liquid markets of the region. However, starting from September, bond yields stabilised, although at a definitely higher level than in 2013 Q2.

It seems that signs of QE tapering, which were received in mid-2013, may determine the CEE financial markets in the coming years in the most significant way. However, it seems that announcement on QE tapering in December 2013, so far, has not adversely affected CEE financial markets.

Further recovery expected in 2014-2015

In 2014-2015, sustained gradual GDP growth is expected in the CEE countries. It should still be dependent on rising external demand, however, domestic demand should also accelerate markedly.

While GDP growth should accelerate gradually in almost all CEE economies[25], marked differences between the individual countries will persist. Simi-

[25] Romania, where GDP growth is expected to stabilise at the level of 2013, may be an exception.

lar to recent years, the fastest GDP growth will be observed in the Baltic states (3-4% in 2014 and slightly above 4% in 2015). Much slower growth is anticipated in the Czech Republic, Croatia and, above all, in Slovenia, where recession is expected to continue into 2014.

It seems that external demand and exports will continue to act as the main driving factors of growth at the beginning of 2014. Increased exports will mainly result from growing demand of the euro area economies, related both to the anticipated growth of domestic demand and external demand of the euro area. Notwithstanding a significant rise in exports, the contribution of net exports to GDP growth will decrease as compared to the period of 2012-1013. This will be caused by faster growth of imports than exports. It will arise, on the one hand, from the increasing import intensity of exports and, on the other, from the expected growth of domestic demand in the CEE economies.

The increased domestic demand is to replace net exports in the forthcoming years as the main driving force of the economic growth.

Good industry performance, improving business sentiment, as well as the rising level of capacity utilisation in the economies, should boost private investment in the CEE countries already in 2014. In addition, permanent access to EU funds will pave the way to further steady growth of public investment. Apart from rising investment outlays, private consumption is also expected to grow. Although labour market conditions will not improve significantly, the anticipated low inflation and expected wage growth will lead to higher real disposable income of households. Another factor underlying the upswing in domestic demand is the slower pace of public finance consolidation, which had hampered output growth significantly in the previous years. The effects of monetary policy loosening will also play its role in the next two years.

On the other hand, the ongoing private sector deleveraging put constraints on domestic demand growth. In 2013 lending to the private sector expanded at a persistently sluggish pace. Private sector deleveraging in the CEE banking systems lost some momentum already at the end of 2012, as the accommodative monetary policy resulted in a visible decline in the costs of credit. However, bank credit conditions, which have been tightened in the recent years, combined with the persistently weak demand for credit, continue to hamper lending growth. In Croatia, Slovenia, Romania and Hungary, availability of new loans will be additionally limited due to poor financial standing of the banks and the continued deterioration in the quality of their assets.

It seems that the demand new loans should remain weak in the next few years. However, the marked improvement in business and households sentiment observed in 2013 may indicate that they may be more willing to use this form of funding in the nearest period.

The key risk to growth seems to be the sustainability of the euro area revival. Another potential threat is the withdrawal of major central banks (mainly the Fed) from the current liquidity supporting policies, which may cause increased global risk aversion and halt foreign capital inflow to the CEE region.

Latvia - a bumpy road to the euro

Following its accession to the European Union and to ERM II, in less than a decade, the Latvian economy experienced one of the strongest economic booms among the countries of the region, the deepest recession and the most radical and effective fiscal consolidation programme. In June 2013, both the European Central Bank and the European Commission assessed that Latvia has achieved a high degree of sustainable economic and legal convergence. Consequently on 1 January 2014 Latvia became the eighteenth member of the euro area.

1. Post-accession period

In May 2004 Latvia, together with other countries of the region, became a member state of the European Union. Less than a year later, Latvia joined ERM II, undertaking a unilateral commitment to narrow the fluctuation band from the standard +/- 15% required in ERM II to +/-1% around the central parity exchange rate[26].

Along with the EU integration, liberalisation of capital flows and marginalization of currency risk due to the membership in ERM II, capital inflow to Latvia increased tremendously. With financial markets in developed EU countries characterized by high liquidity in the banking sector and low rates of return on investment, Latvia became, similarly to other CEE countries, an attractive market for the western banking sector. In 2004-2007, Latvia witnessed the largest scale of capital inflows to the banking sector in the whole CEE region. The presence of foreign banks reduced the cost of credit significantly and increased its availability, especially in the case of euro denominated loans. This situation triggered an unstable credit boom, fuelled by foreign capital inflows to the Latvian banking sector. As a result, in 2004-2007 the Latvian economy, driven by consumption and investment, was growing at an average rate of nearly 10% y/y, while the unemployment rate dropped below 5%. Both demand- and supply-side factors observed in that period caused a steady rise in inflation, which exceeded 14% at the end of 2007.

2. The global financial crisis and its consequences

The global financial crisis materialised in Latvia mainly with foreign capital outflow, supressing the main economic growth driver from the previous years. Capital flew out mainly in form of "other investment" from the Latvian banking sector, dominated by international financial groups. At the same time, the inflow of direct investment was limited, mainly due to lower reinvestment profits by foreign owned companies. The resulting lack of foreign financing impaired lending which, coupled with poor consumer and business sentiment, depressed both consumption and investment spending. Although net exports cushioned the scale of GDP decline, growth of exports was limited by the fixed exchange rate of the Latvian lat within ERM II. Consequently, during the crisis Latvia experienced the deepest

[26] Prior to joining the ERM II and fixing the lat (LVL) against euro in 2005, the exchange rate of the Latvian lat in 1994-2004 was fixed against a SDR basket, consisting of the American dollar, German mark/euro, pound Sterling and Japanese yen.

GDP decline among the CEE countries. In 2008-2010 the Latvian economy was shrinking at an average yearly pace of 7.2%, while the unemployment increased to 14%.

Poor economic conditions, GDP decline and an expansionary stance of fiscal policy triggered a fast growth in the general government deficit as early as in 2008. In addition, the difficult situation of the banking sector forced Latvian authorities to apply for financial assistance of the European Union and the International Monetary Fund at the end of 2008, in order to stabilise the economy. As financial assistance amounting to EUR 7.5 billion (of which the Latvian authorities drew EUR 4.5 billion) was granted under the condition of fiscal consolidation, Latvia undertook drastic fiscal adjustment measures already in 2009, including both the income side (i.a. increase of indirect taxes, reduced contribution transfer to the pension fund) and the expenditure side (reduction in wages and social benefits as well as suspension of indexation of pensions and retirement benefits). The total scale of the measures taken in 2009-2011 amounted, according to the EC, to approximately 16% of GDP (including 9% in 2009) and was the highest both in the CEE region and in the whole European Union.

Due to a fast and effective consolidation of the public finance, Latvia succeeded in avoiding a devaluation of the lat, recommended by many economists as a less painful adjustment path. The decline in wages (not only in the public but also in private sector) resulted in a significant reduction in unit labour costs. At the same time, the so-called "internal devaluation" enabled Latvia to regain its price and cost competitiveness, lost in the preceding years. These adjustments helped in accelerating the GDP growth, partially compensating for the losses incurred in 2008-2010. In 2011, Latvia recorded a positive GDP growth rate (of 5.3%) for the first time after the crisis. In the following years, the country managed to maintain a high growth rate, which allowed an early repayment of the liabilities towards the IMF. Nevertheless, the economy still did not manage to make up for all the losses. GDP in 2013 Q3 was still almost 10% lower than at the beginning of 2009 and the unemployment rate still exceeded 11% at the end of 2013.

3. Accession to euro area

In the Convergence Reports, published in June 2013, the European Commission and the European Central Bank positively evaluated the stability of economic and legal convergence of the Latvian economy in the reference period from May 2012 to April 2013. The evaluation was based on criteria of prices stability, fiscal developments, exchange rate, long-term interest rates and legislation. In that period the Latvian economy was growing at a pace of 5% y/y, driven by a relatively robust households consumption (due to an improving situation in the labour market) and a positive contribution of the foreign trade balance. In spite of strong growth in domestic demand in that period, compared to other CEE economies, Latvia continued to face capital outflow from the banking sector and private sector deleveraging.

3.1. Price convergence criterion

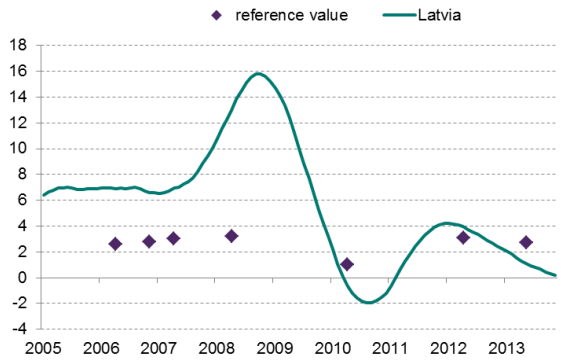
Over the reference period, the average twelve-month HICP inflation rate was 1.3%, i.e. significantly below the reference value of 2.7%. Inflation in Latvia decreased, among others, due to a VAT rate reduction and a moderate growth of administered prices. According to the European Commission forecasts, inflation should reach 0.3% at the end of 2013. In 2014 inflation is expected to accelerate to 2.1%, on the back of a sustained recovery of domestic demand and approaching energy market liberalisation.

It may be challenging to keep low inflation rates in the medium term. Considering the markedly lower GDP per capita and the level of prices in relation to the euro area, the convergence process itself will put upward pressure on prices. In addition, factors characteristic for the Latvian economy, i.e. important skill mismatches in the labour market, may create upward pressure on wages exceeding productivity growth. Latvia will also remain an attractive market for the western banking system. Even though the situation in the financial markets and the ongoing private sector deleveraging suggest, that the next credit boom and, as a consequence, a very strong growth in domestic demand and assets prices (mainly real estate) is quite unlikely in the nearest future.

3.2. Fiscal criterion

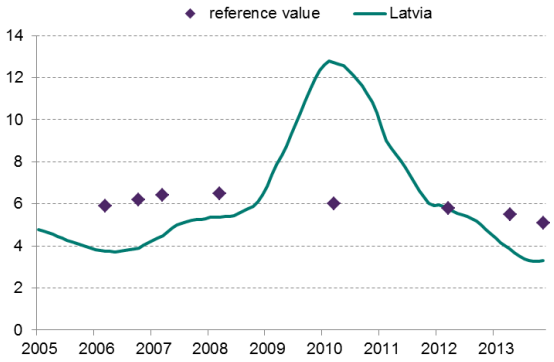
In June 2013, the Council abrogated the excessive deficit procedure against Latvia, which means that the country has fulfilled the fiscal criterion. The procedure was imposed in 2009, with the deadline to reduce the fiscal imbalance below the reference value (3% GDP) until the end of 2012. A complex package of fiscal adjustments, on an unprecedented scale, combined with a gradual improvement of the economic situation, enabled the country to reduce the general government debt from 9.8% in 2009 to 1.3% of GDP in 2012. Both the spring and the autumn EC (2013) forecasts indicate a sustainable and credible reduction of the fiscal imbalance in Latvia below 3% of GDP. In accordance with these forecasts, the general government deficit in the 2013-2015 will run at about 1% of GDP. Fiscal discipline will be supported by two fiscal rules adopted in 2013 (structural balance and expenditure rule). Despite the strong growth of public debt during the crisis (by 31.6 pp. of GDP in 2008-2012), its level is still kept markedly below the reference value of 60% of GDP (according to the EC, it amounted to 42.5% of GDP at the end of 2013, decreasing to 33.4% of GDP at the end of 2015).

Figure 2.1 Inflation criterion (12 month average HICP, in %)



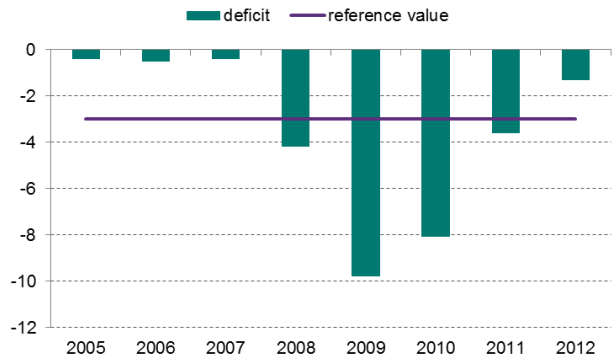
Source: Eurostat, European Commission, calculations of IE NBP

Figure 2.2 Criterion of long-term, interest rates (12 month average of 10-year Treasury bonds yields, in %)



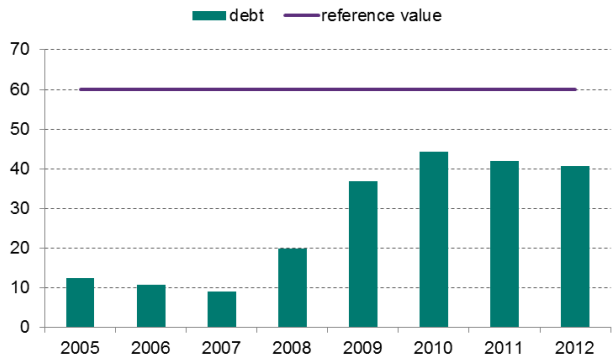
Source: Eurostat, European Commission, calculations of IE NBP

Figure 2.3 Criterion of general government deficit (general government balance, in % of GDP)



Source: Eurostat, European Commission, calculations of IE NBP

Figure 2.4 Criterion of public debt (in % of GDP)



Source: Eurostat, European Commission, calculations of IE NBP

3.3. The exchange rate criterion

Latvia joined ERM II in 2005 unilaterally undertaking to narrow the lat exchange rate fluctuation band to +/-1% around the central parity rate (against the standard +/- 15%). During the two years preceding the convergence assessment within the Convergence Report, the deviations of the lat rate did not exceed 1% from the central parity rate. A significant factor which dampened the pressure on lat depreciation in 2008-2009 was the financial assistance of EU and IMF, which increased the Latvian currency credibility under ERM II.

3.4. The long-term interest rate criterion

The improvement in the macroeconomic situation, public finance consolidation, higher credit ratings and better conditions in the financial markets all had a positive impact on average long-term interest

rate in the reference period. Over the reference period, it amounted to 3.8% on average, i.e. less than the 5.5% reference value for the interest rate criterion.

3.5. The legal criterion

After the publication of the Convergence Report in 2012, the Latvian government, in cooperation with Latvijas Banka, amended the Act on the Central Bank, bringing it in line with the requirements of the Treaty on the Functioning of the European Union and the ESBC/EBC Statute.

3.6. Decision of the Council of the European Union

Latvia met all convergence criteria in the reference period. However, both the EC and the ECB stress that the "the longer-term sustainability of Latvia's economic convergence is of concern "[27]. It is emphasised that so far the economic cycles observed in Latvia were characterised by a very high amplitude, and both inflation and the interest rates demonstrated high volatility. In this context, resigning from autonomous monetary and exchange rate policy requires a strong anti-cyclical policy framework, a flexible economy and a commitment to adjustment and reforms insuring macroeconomic stability and competitiveness of the economy. However, the financial crisis has shown that the authorities and the Latvian people were prepared to bear the burden of adjustments necessary to fulfil the convergence criteria. Owing to the above, pursuant to the decision of the Council of the European Union of 9 July 2013, Latvia was able to adopt the euro as of 1 January 2014.

4. Euro area - who is next?

The only country declaring the intention to join the euro area in the nearest future is Lithuania, which is within ERM II since 2004. Lithuania applied for membership in the euro area already in 2006. However it did not meet the price stability criterion at that time. The current estimates based on the European Commission forecasts indicate that Lithuania should meet the criteria of economic convergence during the 2014 ECB and EC convergence assessment. Considering the fulfilment of other requirements, it could enable Lithuania to adopt the euro as early as in 2015.

Among the remaining CEE economies, only Bulgaria meets the convergence criteria. However, despite meeting price, fiscal as well as long-term interest rate stability criteria and having the lev exchange rate fixed against euro, Bulgaria is postponing the adoption of the single currency by not joining formally the ERM II. Thus, Bulgaria, similarly to most of other non-euro area CEE countries, is not planning to join the EMU in the nearest future. Consequently, following the accession of Lithuania scheduled for 2015, no enlargement of the euro area should be expected before 2017 at earliest.

[27] Convergence Report, EBC, June 2013.

Foreign trade of the Central and Eastern European Countries

Summary and conclusions

In the past two decades, foreign trade turnover increased rapidly in the CEE-4 countries, which, in the case of those small, open economies played an important role as a factor stimulating economic growth. The rising volume of trade resulted from the simultaneous process of integration with the European economy and the increasing activity of international corporations in the CEE-4 region.

Under the influence of growing role of transnational corporations in exports (and also in imports) significant changes were observed in the commodity structure of foreign trade. This entailed a change to a model of exports based on comparative advantage in groups of highly labour- and raw material-intensive products. The structure of CEE-4 exports evolved towards that seen in the economies of Western Europe. As a result, the CEE-4 countries have become, to a large extent, producers of cheaper substitutes of products manufactured in the countries of Western Europe. Transnational corporations established their own supply networks in the region, which triggered changes in the geographical structure of trade increasing the role of intra-CEE trade. However, notwithstanding the growing role of corporations in the CEE-4 exports, the share of geographically distant markets has remained almost unchanged since the 1990s.

The expansion in the CEE foreign trade and the change in its commodity structure can be explained with growing involvement of transnational corporations. It results in a high share of enterprises from the CEE countries in the regionally and globally integrated supply networks. As a consequence, the role of states in the international distribution of labour has changed, resulting in specialisation in individual stages of production, rather than in production of specific goods. Such a change in the trade model is frequently associated with cross-border movement of goods before they take on their final form. This results, on the one hand, in a lower share of the domestic value added in exports and, on the other hand, in a higher share of added value generated by these economies in the exports of other countries, mainly Germany, which has become a *de facto* intermediary in the CEE-4 countries exports. The presence of global supply chains in the region has also enhanced the role of services in foreign trade. The analysis of the structure of value added in the CEE-4 exports shows that robust export growth in sectors dominated by transnational corporations has been significantly boosted by an increase in value added in services.

The development of increasingly extensive supply networks promotes the important role of not only the surrounding direct external environment of the CEE-4 (which is confirmed by the traditional foreign trade statistics), but also more distant markets, including the United States, for the CEE-4 economies. Value added is exported to such countries through the input in products originating from the countries of Western Europe, mainly from Germany. Therefore, demand for German products has an

essential impact on exports of products originating from the CEE-4, including mainly intermediate goods.

The analysis of exporting enterprises indicates that the CEE-4 exporters were present mainly in the EU markets. A limited number of companies, significantly lower than in the EU-15, exports to countries outside the EU. Exports are overwhelmingly the domain of large enterprises (employing over 250 people), most of which were owned by foreign corporations. This was particularly visible in exports to markets outside the EU. Smaller enterprises entered foreign markets much less frequently and, even if they decided to do so, their export activity was limited to EU member states. The highest number of exporters from the countries of the region targeted the German market, although mutual links between CEE-4 companies were also significant. Large enterprises, in particular those operating in industry, also accounted for the majority of the foreign trade turnover. Considering the fact that largest enterprises of the industrial sector, in particular, manufacturing, mostly represent companies with a dominating role of foreign capital, it may be assumed that intracompany trade constitutes the major part of their turnover. It is also worth noting that in the recent years the CEE-4 economies have demonstrated higher concentration of exports that the "old" EU member states, which was observable, in particular, in Slovakia and Hungary.

Motivation and data sources

The aim of the analysis provided below is to present the characteristics and changes in the structure of foreign trade of the largest economies of the Central and Eastern Europe (CEE-4), i.e. Poland, the Czech Republic, Hungary and Slovakia. It was also analysed how the growing role of global supply chains *(GSC)* affected the development of exports in these countries.

In the analysis the traditional data concerning exports and imports, derived from the Eurostat database, were used. This was compared to the data originating from international input-output balances from the OECD/WTO *Database on Trade in Value-Added*. The analysis of the commodity structure was performed on the basis of the trade data related to exports in the CEE-4 economies, from the *Comtrade* database at the 2nd and 3rd disaggregation level of SITC classification, version 3.

In the last part, characteristics of exporters in the analysed countries are provided, using the data concerning the number of enterprises and their turnover in foreign trade, derived from the *Comext* database on *International Trade in Goods Statistics by Enterprise Characteristics.*

Growing role of foreign trade and changes in its structure in the Central and Eastern Europe

The countries of Central and Eastern Europe are often referred to as small, open economies, due to the fact that foreign trade plays a key role in stimulating their growth. The above statement is confirmed by national accounts data implying that the main factor responsible for sustained high GDP growth in these countries in 2000-2012 was exports of goods and services, which was rising twice as fast as domestic demand in this period. The expansion in the foreign trade of the CEE-4 countries and, moreover, the change in the CEE-4 countries' role in the international labour distribution, results mainly from the growing presence of transnational corporations in the region. On the other hand, the integration with the European Union has contributed significantly to the increased interest of corporations in the CEE-4 countries.

The process of integration in the area of trade was initiated as early as 1992, when the trade components of the so-called European Treaties establishing the association of the CEE-4 countries with the European Communities entered into force. This was the starting point for a liberalisation of trade with the Community countries which led to the establishment of a free trade zone in 1999, i.e. four years prior to the EU accession, covering industrial products (trade in agricultural products was liberalised completely as of the day of the CEE-4 countries' accession to the EU, i.e. 1 May 2004). Thus, the most important changes in the structure of trade of the CEE-4 countries took place still before the formal accession to the EU.

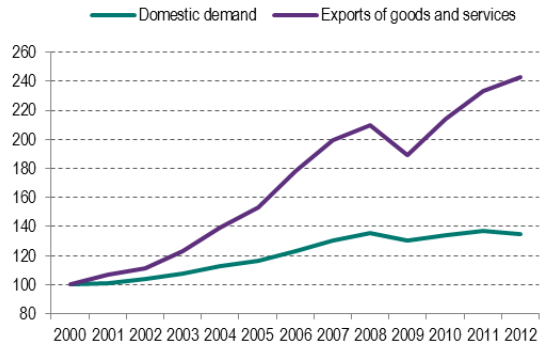
In the course of the trade integration process, major changes in the commodity structure of exports took place. A key role in shaping the new export structure was played by a massive shift of production processes to the CEE-4 countries, driven by lower production costs and close proximity of the largest European markets. Transnational corporations took advantage of these factors and gradually dominated the foreign trade in the CEE-4 countries. The expansion of transnational corporations supported by the use of the modern information and communication technology caused a sharp acceleration in the CEE-4 foreign trade and a rise in the region's share in global trade. As a result, the share of four CEE-4 countries in global exports, which had dropped to 1.0% in 1991, due to the shock associated with the transformation, started to grow steadily from 1994, reaching the 3.0% in 2009. In 2010-2012 exports growth was slower in the CEE-4 countries in comparison with global exports, mainly due to the prolonged crisis in the euro area. At that time, a slight decrease in the share of the CEE-4 countries in the global trade turnover was recorded.

Increased integration of the CEE-4 countries with the global economy

The above process of the CEE-4 countries expanding the scale of foreign trade in goods, observed over the past few years, resulted in a closer integration with the global economy. In 2000-2012, the degree of openness of the surveyed economies, measured by the share of exports of goods and services in

GDP (in current prices), rose from 27% to 47% in Poland, from 61% to 78% in the Czech Republic, from 70% to 97% in Slovakia and from 75% to 95% in Hungary[28].

Figure 3.1. Growth rate of exports of goods and services and domestic demand in the CEE-4 countries in 2000-2012 (2000=100)



Source: NBP Economic Institute, Eurostat

Figure 3.2. Increase in openness of the CEE-4 countries from 2000 (exports and imports of goods and services as % of GDP)

Source: NBP Economic Institute, Eurostat

Export growth in the CEE-4 countries was much stronger than in the other European Union member states. Consequently, in the past decade the share of these countries in the aggregated European Union exports has risen significantly, posting more than a double increase - from a little over 4% in 2000 to over 9% in 2012. The strongest growth in the share of exports in the European Union exports was observed in Poland and in the Czech Republic, with Slovakia and Hungary recording a definitely lower rise.

Significant changes in exports commodity structure - bringing it closer to the EU-15 exports structure

In 1995-2012 there was a very deep shift in the commodity structure of exports from the CEE-4 countries. The most spectacular changes were observed still back in the 1990s. In mid-1990s, most of the four countries' exports were primarily accounted for by industrial products classified by raw material (SITC 6) and the so-called other processed products (SITC 8). These groups comprised predominantly labour- and raw material-intensive goods (mainly textiles and clothing, metallurgical and wood products), in which the countries of the region demonstrated significant comparative advantage over their trading partners from Western Europe. In 1995 these products represented 45% of the CEE-4 export value. Moreover, the share of unprocessed goods was also relatively high (over 20%), comprising mainly agricultural products and fuels.

In 1995-2000 a marked increase in the share of machinery and transport equipment (SITC 7) occurred. An inflow of direct foreign investment, concentrated mainly in the machinery and automotive sectors,

[28] Lower trade openness of Poland as compared to other countries of the region may results, among others, from the larger size of the economy, which means that the domestic demand plays bigger role in the GDP dynamics trends.

associated with the expansion of transnational corporations, mainly from the countries of Western Europe, triggered a rise in the share of these products in the exports from the CEE-4 countries. It rose from 24% in 1995 to 45% in 2000. In this period the value of exports of machinery and transport equipment (expressed in USD) was rising at an annual pace of 24%, i.e. about ten times faster than in other product groups. Prior to EU accession and also after that (in 2001-2008), the steep upward trend in exports of machinery and transport equipment was maintained. However, in this period, the growth in exports of other goods also increased significantly (in 2001-2008 the value of exports, excluding machinery and vehicles, was rising by over 20% per year on average). As a result, the share of machinery and transport equipment in the CEE-4 exports was growing at a slower pace, reaching over 50% of the value of exports in 2008. Most probably, the acceleration of exports in other product groups resulted, to the largest extent, from closer links between the sectors within the international supply chains established in the region. The statistics related to value added in exports indicate the growth of the domestic value added in exports in this period, originating from other sectors of the manufacturing (which shows increased interdependence between domestic producers).

Following the crisis in 2009, the role of machinery and transport equipment in exports was reduced somewhat, on the back of weaker activity by transnational corporations, whereas the role of lower processed goods increased.

Table 3.1. Product structure of exports in the CEE- 4 according to SITC sections

	Poland		Czech Republic		Slovakia		Hungary		CEE-4	
	1995	2012	1995	2012	1995	2012	1995	2012	1995	2012
TOTAL (0-9)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Unprocessed products (0-4)	**22.7**	**19.2**	**15.2**	**11.1**	**15.2**	**13.8**	**28.5**	**14.6**	**20.3**	**15.0**
Agricultural products (0+1)	9.9	11.7	5.6	4.2	5.9	4.5	20.2	7.5	9.9	**7.5**
Raw materials (2+4)	4.6	2.5	5.3	3.1	5.0	3.4	5.2	3.1	5.0	**3.0**
Fuels (3)	8.2	5.0	4.3	3.8	4.2	5.9	3.1	3.9	5.4	**4.6**
Processed products (5-8)	**77.1**	**80.3**	**83.2**	**88.7**	**84.8**	**86.0**	**71.5**	**80.6**	**79.0**	**83.8**
Chemical products (5)	7.7	9.1	9.2	6.0	12.6	4.3	11.5	9.9	9.6	**7.6**
Machinery and transport equipment (7)	21.1	37.8	29.3	54.4	19.0	54.8	26.1	51.6	24.5	**48.2**
Other industrial products (6+8)	48.3	33.5	44.6	28.3	53.3	27.0	33.9	19.1	45.0	**28.1**
Unclassified goods (9)	**0.2**	**0.5**	**1.6**	**0.2**	**0.0**	**0.2**	**0.0**	**4.8**	**0.6**	**1.2**

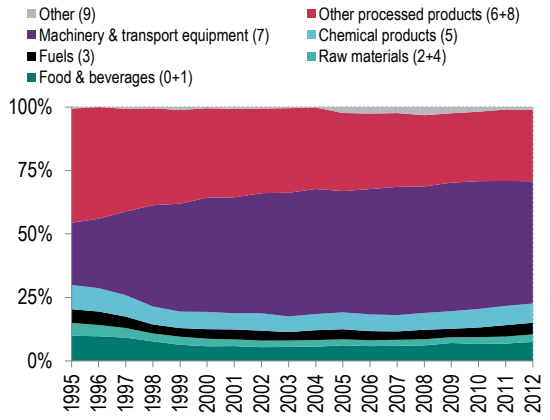
Source: NBP Economic Institute's calculations.

Despite the fact that after 2000 the share of machinery and transport equipment in the CEE-4 countries' exports remained relatively stable, the analysis of export structure by the main economic categories indicates further changes in the structure of exports inside this product group. The most important change was the increase in the exports of finished goods, including mainly investment and durable consumer goods. On the other hand, the share of exports of spare parts decreased, in particu-

lar, with respect to spare parts for investment goods. It was most probably associated with the rising role of the Asian developing countries as suppliers of spare parts for electronic equipment (which may imply an expansion of global supply chains). In general, in 2012 spare parts constituted over 40% of the value of exports of products classified as machinery and transport equipment (against 46% in 2000) in the CEE-4 countries. Due to the euro area crisis, the share of durable consumer goods declined (as a result of significant slowdown in the exports growth). Whereas as recently as 2009 they constituted 14% of the exports value of machinery and vehicles, their share dropped to less than 10% in 2012.

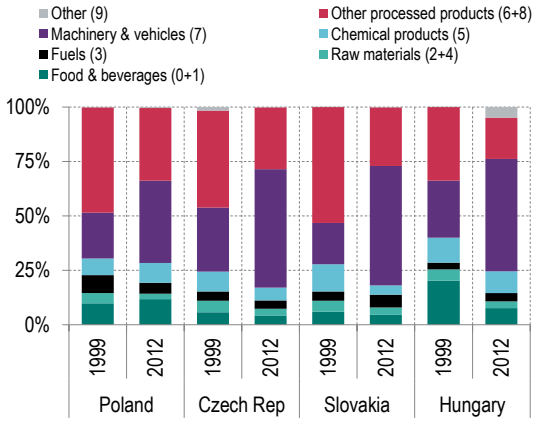
Deep changes in the structure of exports caused the structure of CEE-4 exports to become similar to the structure found in the countries of Western Europe. The diversity of products offered by the CEE-4 countries and the EU-15 is confirmed by differences in exports unit value. Transnational corporations shaped CEE-4 countries as producers of cheaper substitutes of products offered by the countries of Western Europe.

Figure 3.3. Product structure of exports in the CEE- 4 in 1995-2012 (according to SITC sections)



Source: Eurostat

Figure 3.4. Product structure of exports in the CEE-4 countries (according to SITC sections)



Source: Eurostat

From the beginning of the period under review, the structure of exports of individual countries was markedly diversified. In 1995, the highest share of machinery and transport equipment was characteristic for the exports of the Czech Republic, whereas the lowest was observed in the exports of Poland and Slovakia. Substantial changes in the structure of the Slovakian economy brought the share of machinery and transport equipment up to a level comparable to that observed in the Czech Republic. Slovakia demonstrated the highest growth in exports of machinery and transport equipment in the region. The weakest role of machinery and transport equipment is still observed in exports from Poland, which probably results from the relatively smaller significance of transnational corporations in this country. On the other hand, as compared to other CEE-4 countries, unprocessed products play a considerably more important role in the Polish exports, mainly due to the relatively high share of agricultural products. Among the products classified as machinery and vehicles, the exports of Hungary and the Czech Republic demonstrate the highest share of investment goods. On the other hand, con-

sumer goods play the major role in exports of Slovakia and Poland. The exports of Slovakia are also distinguished due to the highest share of personal cars.

Strong concentration of exports on the European Union countries

The CEE-4 exports are heavily concentrated on the European Union countries. The EU share in the exports of the region's countries belongs to the highest among those observed in the European economies. In 2012, the EU markets contributed to 84% of the exports value in Slovakia and 81% of the exports in the Czech Republic. The share of exports to the EU countries was slightly lower in Hungary and in Poland (76%). On the other hand, in the countries of Western Europe, exports inside the European Union constituted 61% of the total exports.

Similar to the Western European countries (EU-15), the role of the EU in the CEE-4 exports has been declining over the recent years. The share of the EU (treated as 27 countries) in the CEE-4 countries reached its highest level in 1999 (85% on average), i.e. upon achievement of full liberalisation of trade in industrial products. In the following years, the share of the EU in exports decreased gradually. However, this process was slower as compared to EU-15 countries. In 1999-2012 the share of exports to the EU decreased by 8% in the CEE-4 countries whereas in the EU-15 countries, it dropped by 11% (including 13% in Germany).

The high share of trade with the EU countries in the CEE-4 countries was maintained, to a great extent, due to increased turnover in trade with the new member states. The share of exports to the new member states in the CEE-4 countries increased from 15% in 1999 to 21% in 2012. The major driver was the trade among the CEE-4 countries within the global supply chains established by transnational corporations in the region. Relocation of production to the CEE-4 countries resulted in a progressive substitution of trade with the countries of Western Europe by trade between the analysed countries, in particular, in terms of intermediate goods. However, as the statistics of value added show, the accelerated growth in mutual trade among the CEE-4 countries was, to a large extent, driven by an increasing foreign value added, originating mainly from the EU countries.

Low share of non-European markets

Outside the EU, the most important partners of the CEE-4 countries are the countries of the former USSR, i.e. the countries mostly situated in close proximity of the region. In 2012 exports to the former USSR states played the biggest role in Poland (10% of the total value of exports), whereas in other countries their share ranged from 5% to 6%. In all CEE-4 countries the role of this group increased, with the Czech Republic and Hungary recording the strongest growth. The share of the former USSR countries in the CEE-4 exports is significantly higher than in EU-15, which implies a high degree of specialisation of CEE-4 exporters in the eastern markets.

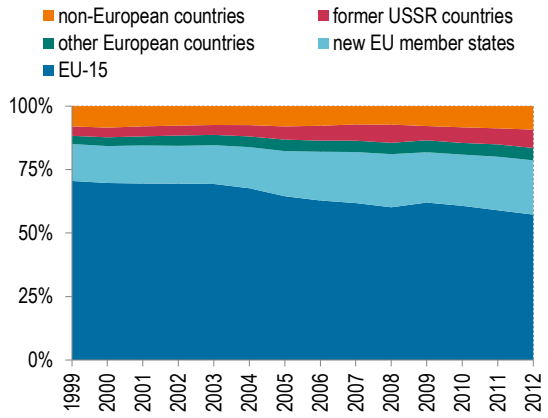
In total, the European countries and the countries of the former USSR accounted for 91% of exports' value of the CEE-4 countries in 2012. It confirms a high concentration of exports on the geographically

closest markets, with only 9% of exports destined for markets outside Europe (whereas the non-European markets contributed 29% to the exports of the EU-15 countries). The non-European markets play the most important role in the exports of Hungary (12%; up from 9% in 2000), and their lowest contribution is recorded in Slovakia (7% up from 5%). In 2000-2012 the share of the non-European countries in the Polish exports did not change (it remained at the level of 9%).

Thus, the significant changes in the structure of the global economy, consisting mainly in a marked growth of importance of the non-European developing economies, are not accordingly reflected in the structure of exports from the CEE-4 countries. In 2012, the developing countries of Asia accounted for less than 3% of CEE-4 exports (against 8% of exports from the EU-15 countries). Moreover, this shift was much smaller than one observed in the structure of exports of the Western European countries. Most probably, the presence of transnational corporations in the CEE-4 countries contributed to a preservation of the geographical structure of CEE-4 exports, which remained concentrated heavily in the local markets. It seems that the relocation of production from Western Europe to the CEE, apart from individual exceptions, referred mainly to products destined for the European markets (including also the countries of the former USSR). This enabled enterprises located in the Western Europe to adjust the structure of exports more firmly towards a higher share of geographically distant markets, characterised by robust demand growth.

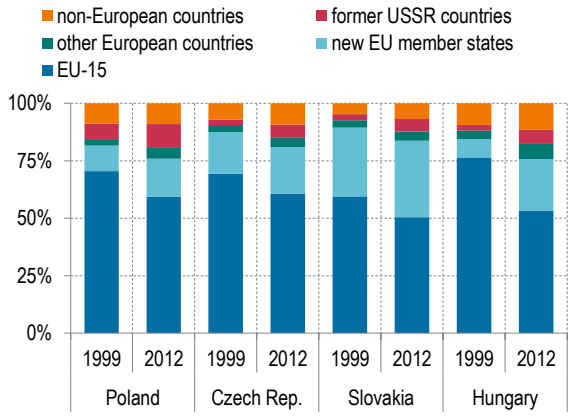
Limited presence of the CEE-4 exports in the distant markets may generally indicate a relatively low degree of qualitative diversity of products. This makes them relatively uncompetitive in the markets located in distant parts of the world.

Figure 3.5. Changes in the geographical structure of exports in the CEE-4 countries in 1999-2012



Source: Eurostat

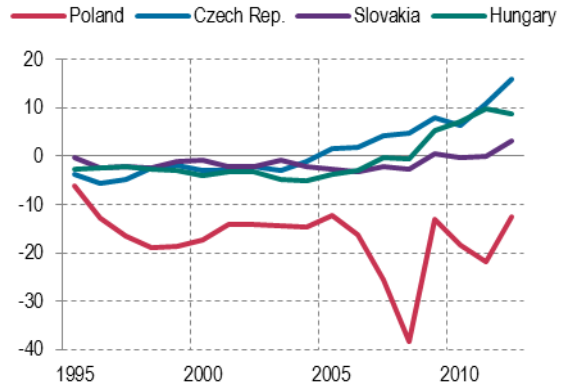
Figure 3.6. Geographical structure of exports in individual CEE-4 countries in 1999 and 2012



Source: Eurostat

Improvement in the trade balance and deterioration in the income balance

Figure 3.7. Trade balance of the CEE-4 countries (in billion USD)



Source: WTO

As a result of strong exports growth of products classified as machinery and transport equipment, total exports growth was higher than that of imports, resulting in improved trade balance in the individual countries. The Czech Republic saw a positive trade balance as far back as 2005. In Hungary, the surplus emerged in 2009 (the improvement in the trade balance at that time was also supported by weakening domestic demand). In 2012, also Slovakia recorded a relatively large surplus. In the whole period under review Poland run the trade deficit. Yet, in 2013 Q2 the value of exports was higher than the value of imports for the first time since the early 1990s. In the case of Poland, domestic demand had definitely stronger impact on the changes in the trade balance (which was, among others, reflected by the significant deepening of the deficit in 2007 and 2008).

On the other hand, the improvement in the trade balance as a result of the growing activity of transnational corporations caused a higher income deficit of the current account balance.

Exports de-specialisation in the CEE-4 countries

In 1995-2012 a decline was observed in the specialisation indices within the commodity structure of the CEE-4 exports. In order to perform a more in-depth analysis of this process, the RCA[29] (revealed comparative advantage) index was used, enabling an identification of product groups or geographical markets where the economy demonstrates comparative advantage. In the case of the CEE-4 economies, Hungary is the most explicit example of changes in comparative advantage. In the period from 1995 to 2012, comparative advantage in unprocessed products (food and agricultural products) was steadily decreasing in favour of specialisation in exports of processed goods. Among the CEE-4 economies, the structure of Polish exports is an exception, as the country's comparative advantage, in relation to the remaining countries of the region, is still higher for low-processed goods, i.e. furniture and parts of thereof (group 82) and wood and cork manufactures (group 63). De-specialisation is reflected in a narrowing comparative advantage of product groups with the highest RCA values. The average

[29] This index allows for identification of trends associated with the specialisation of exports of a given country in relation to the reference economy, e.g. the global economy. The construction of the measure is based on the ratio of the share of exports of the specific product group (geographical direction) of the economy under analysis to the corresponding group of the reference economy. When the RCA value exceeds 1 the economy has comparative advantage in the exports of the specific product group (geographical direction) over the reference economy.

RCA for three product groups with the highest comparative advantage in the CEE-4 exports decreased by 31%, from 5.59 in 1995 to 4.27 in 2012.

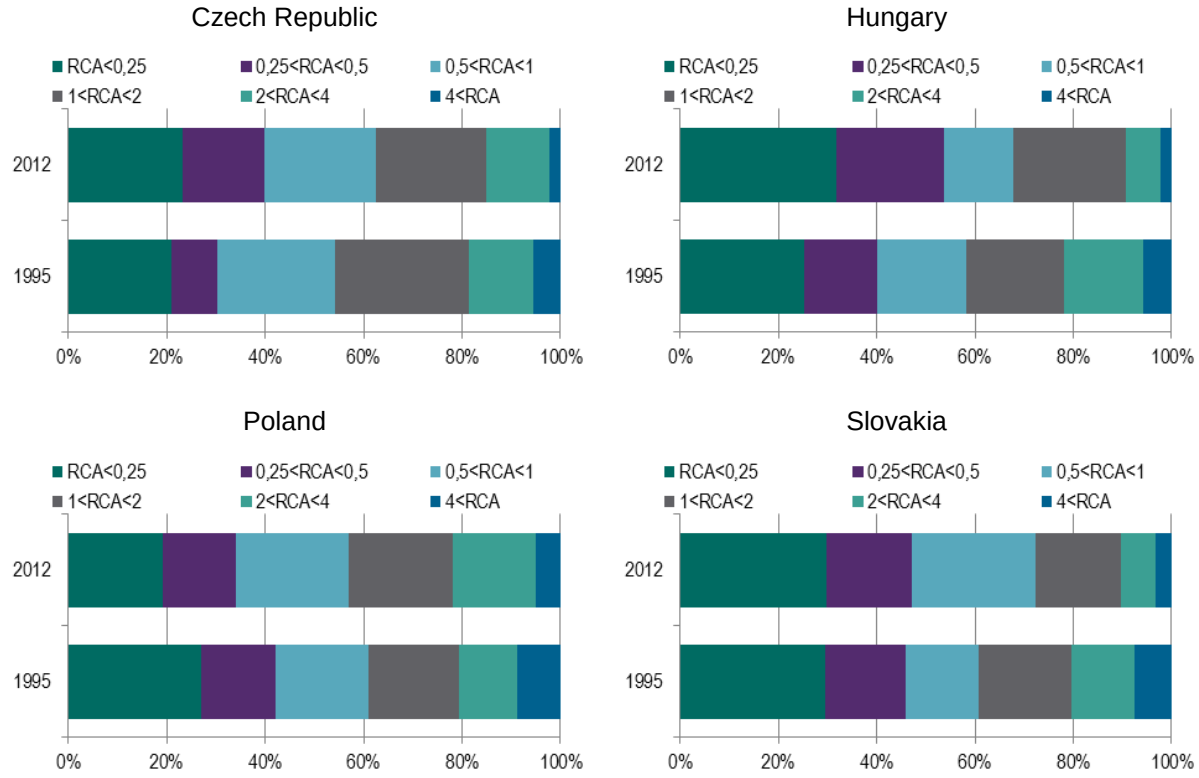
Table 3.2. Product groups with the highest RCA index in exports in 1995 and 2012 in CEE-4 economies

Product groups of the highest RCA in 1995	RCA (1995)	RCA (2012)	Product groups of the highest RCA in 2012	RCA (1995)	RCA (2012)
			Czech Republic		
32 Coal, coke and briquettes	6.75	0.85	**35 Electric current**	2.17	6.22
81 Prefabricated buildings	3.57	1.77	**75 Office machines and data processing equipment**	0.18	2.65
67 Iron and steel	2.87	1.21	**62 Rubber products**	1.83	2.57
			Hungary		
01 Meat and meat preparations	5.48	1.62	**35 Electric current**	-	4.18
00 Livestock	4.74	3.05	**71 Power-generating machinery and equipment**	0.35	3.70
04 Cereals and cereal preparations	4.06	1.90	**76 Telecommunications and sound-recording and reproducing equipment**	0.95	3.42
			Poland		
32 Coal, coke and briquettes	15.47	1.91	**82 Furniture, and parts thereof**	6.16	5.07
82 Furniture, and parts thereof	6.16	5.07	**12 Tobacco and tobacco products**	0.25	4.42
63 Cork and wood manufactures (excluding furniture)	4.36	3.79	**63 Cork and wood manufactures (excluding furniture)**	4.36	3.79
			Slovakia		
67 Iron and steel	5.72	1.93	**76 Telecommunications and sound-recording and reproducing equipment**	0.27	4.12
56 Fertilisers	4.01	0.94	**6 Sugar and honey**	0.78	3.25
62 Rubber products	3.83	2.69	**78 Road vehicles**	0.48	3.01

Source: Comtrade, NBP Economic Institute's calculations

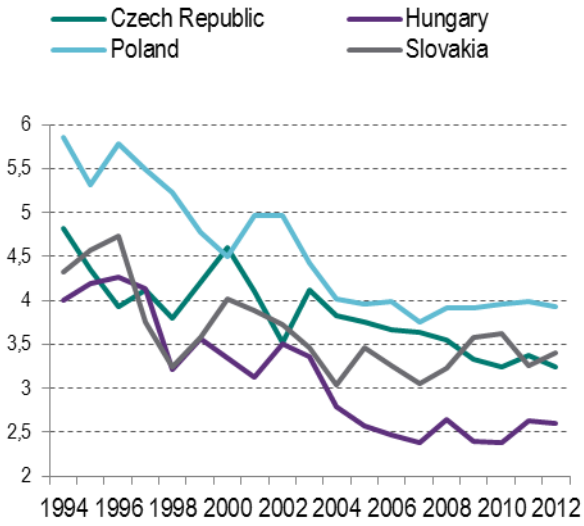
Declining comparative advantage is possibly also confirmed by an analysis of the structure of the product groups according to the RCA index. The most visible structural change between 1995 and 2012 is a decline in the share of product groups with a very high comparative advantage (i.e. groups with an RCA index exceeding 4) and in the case of Hungary and Slovakia, also the high comparative advantage (RCA index value between 2 and 4). This confirms a gradual de-specialisation of exports in the CEE-4 countries.

Figure 3.8. Structure of product groups against the value of the index of the revealed comparative advantage (RCA) in the CEE-4 countries in 1995 and 2012.



Source: Comtrade, NBP Economic Institute's calculations

Figure 3.9. Decline in specialisation of product groups in the CEE-4 countries (0.95 quintile of RCA for product groups)



Source: Comtrade, NBP Economic Institute's calculations

The process of de-specialisation in the product structure of the CEE-4 exports is also confirmed by 0.95 quintile of empirical RCA distribution for product groups of SITC classification at the 3rd level of disaggregation. It determines the value of the RCA index for which exactly 5% of all product groups demonstrate a higher level of this measure. Thus, high values of 0.95 quintile of RCA may confirm high specialisation of 5% of product groups showing the highest comparative advantage. In the CEE-4 countries, a marked downward trend is observed in this value, which decreased, on average, by 29% in 1995-2012. However, it is worth noting that the process of export de-specialisation occurred mainly in the pre-accession period, losing considerable momentum after 2004. In the CEE-4 explicit differences in the level of exports specialisation existed. In almost the entire period analysed, Poland demonstrated the highest specialisation, while the economy of Hungary showed the lowest specialisation, particularly after 2004.

Exports de-specialisation was accompanied by increased export concentration in the largest product groups

The indices measuring the degree of product group concentration in exports indicate its growth for all CEE-4 economies, exclude for Poland. The almost two-fold growth in the share of the five largest product groups in Slovakian exports was found most spectacular: from 23.1 % in 1995 to 40.8 % in 2012. In Hungary and the Czech Republic the share of exports of the five largest product groups in the aggregated value also increased markedly and exceeded 25% in 2012. Increasing export concentration is also indicated by changes in synthetic indices. Both the Gini coefficient[30] and the Herfindahl–Hirschman Index[31] for the CEE-4 economies, once again excluding Poland, increased in 1995-2012. However, it should be remembered that the aforementioned tendencies were noticeable not only in the commodity structure of the CEE-4, but also in the EU-25 exports.

[30] The Gini coefficient is used to measure inequalities in a distribution and assumes values from 0 to 1. When applied to exports structure, the value of this measure equal to 1 indicates exports is concentrated in one product group, whereas 0 reflect a situation when the share of all sectors is the same.

[31] Herfindahl–Hirschman Index (HH) in this case allows us, in this case, to measure the concentration of product groups. If the whole exports activity is concentrated in one product group, the HH index takes the value of 1. On the other hand, if the share of individual groups is relatively equal, the HH index is close to zero.

Table 3.3. Measures of concentration and similarities to the commodity structure of CEE economies in 1995 and 2012.

	Share of 5 largest product groups		Gini Coefficient		Herfindahl–Hirschman Index		Similarity to commodity structure of EU-25 exports	
	1995	2012	1995	2012	1995	2012	1995	2012
Czech Republic	14.2%	28.8%	0.60	0.72	0.011	0.026	0.34	0.38
Hungary	16.1%	28.0%	0.69	0.78	0.014	0.027	0.42	0.36
Poland	24.5%	18.6%	0.69	0.67	0.019	0.015	0.47	0.35
Slovakia	23.1%	40.8%	0.72	0.78	0.023	0.047	0.46	0.42
EU-25	16.0%	21.9%	0.58	0.62	0.012	0.015		

Source: NBP Economic Institute's calculations based on *Comtrade* data, at the third level of disaggregation of SITC classification ver. 3, and the share of 5 largest product groups was calculated on the basis of data at the second level of disaggregation of SITC classification ver. 3.

The CEE-4 exports commodity structure is approaching the EU exports structure

The analysis of the similarity coefficient[32] shows that the commodity structure of exports of individual CEE-4 economies, apart from the Czech Republic, has approached the structure found in the EU-25 countries. However, it should be stressed that the differences between Poland, the Czech Republic and Hungary in 2012 were insignificant.

Summing up, the comparison of the indicator of revealed comparative advantage confirms that the CEE-4 economies underwent a process of exports de-specialisation in 1995-2012. The changes in commodity structure of the CEE-4 exports were found more multidimensional. A broader analysis of the indices describing the commodity structure of exports in these economies warrants the conclusion that the CEE-4 countries concentrated their exports activities in the manner similar to the entire European Union.

[32] The similarity coefficient measures to what extent the structure (by product or country) of a specific economy is close to the structure of the reference economy. This coefficient takes the values from 0 to 1, where 0 means the trade structure of a given economy identical to the reference economy, while the values close to one indicate significant differences between structures of the analysed economies.

Participation of the Central and Eastern European countries in global supply chains

Global supply chains (GSC) have a significant impact on the growth and sectoral and geographical structure of trade in the CEE-4 countries. Associated with activities of transnational corporations, supply chains were created as a result of fragmentation of production processes and relocation of these fragments (mainly comprising manufacturing) to countries with lower labour costs. The relocation of production was fostered by favourable geographical location, rapid development of transportation and IT infrastructure and also by the integration with the European Union. The objective of global supply chains developing in such circumstances was to boost the competitiveness of products and to raise their diversity.

The distribution of production processes among subsidiaries of transnational corporations located in various countries resulted in a strong internationalisation of production, i.e. that the final product supplied to a consumer comprises parts produced and services provided in many countries. As a consequence, the role of states in international labour distribution has also changed substantially. At present, countries do not specialise in production of specific goods, but rather in individual stages of production. The fragmentation of production also results in an increased interdependence between individual economies. Consequently, demand growth in the euro area does not drive up imports of the euro area from the CEE-4 countries, but generates, among others, an increased turnover among these 4countries. Conversely, a decline in demand in the euro area dampens the Polish-Czech trade turnover.

A quantitative estimation of the magnitude of trade performed within the global supply chains is still a daunting task. The analyses of conventional foreign trade statistics indicate, first of all, a significant growth in trade of intermediate goods. The reason is that the functioning of the GSCs results in multiple border-crossing by intermediate goods in an increasingly refined form. In order to improve the accuracy of data through elimination of multiple calculations of intermediate goods, value added statistics are used. Such statistics, additionally including the origin of the value added, indicate that the increasing intensity of trade within the global supply chains is accompanied by a rising share of foreign value added in exports (increased import intensity of exports). Moreover, the increasing intensity of cooperation within the GSC is accompanied by a rising role of services, which is actually much higher than indicated by the conventional foreign trade statistics.

Falling share of domestic value added in exports

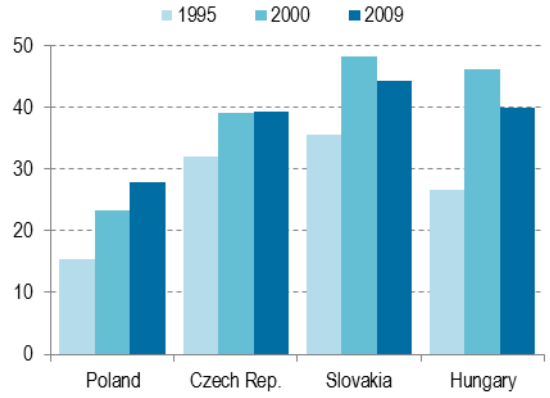
One of the symptoms of the growing role of GSC in foreign trade is a decrease in the share of domestic value added in exports. This is confirmed by the data of *Trade in Value Added* prepared jointly by OECD and WTO[33], which indicates that in all CEE-4 countries a marked decrease occurred in the share of domestic value added in exports in 1995-2009. Whereas the share of domestic value added in Po-

[33] The data was elaborated by OECD and WTO based on international input-output balances. These balances are available for 1995, 2000, 2005, 2008 and 2009. OECD/WTO *Database on Trade in Value-Added*.

land in 1995 reached 85% of the exports value, and in the remaining countries of the region, on average, 69%[34], in 2009 (the latest data available) this share decreased to 72% and 59%, respectively[35]. Thus, in all the four countries of the region it is currently slightly lower than the average in other European Union countries (73% in 2009).

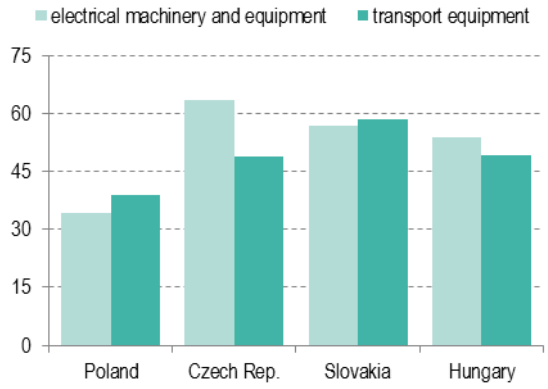
The decline in share of the domestic value added in exports means that the steep growth in the exports of the CEE-4 countries observed in the two previous decades was, to a large extent, associated with growth of foreign value added. The value of gross exports (i.e. the total of domestic and foreign value added) in Poland in 1995-2009 increased by 430%, whereas exports measured by the domestic value added (i.e. considering only the goods and services generated in the country) increased by 350% in the same period (in other CEE-4 countries gross exports increased by 370%, including the domestic value added - by 300%).

Figure 3.10. Share of foreign value added in exports of the CEE-4 countries (as % of gross exports)



Source: OECD/WTO, NBP Economic Institute calculations

Figure 3.11. Share of foreign value added in exports of sectors most strongly integrated within GSC in 2009 (as % of gross exports)



Source: OECD/WTO, NBP Economic Institute calculations

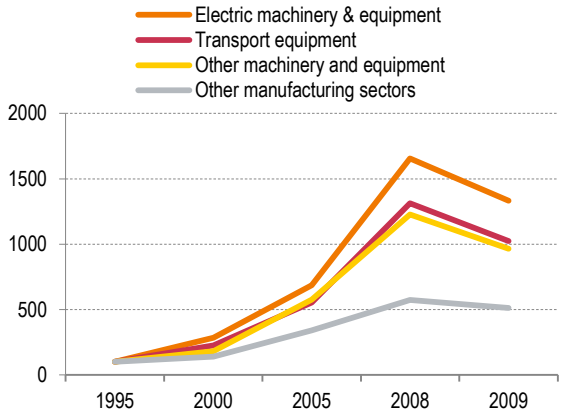
The growth in the role of foreign value added was not the same in all sectors of the CEE-4 economies. The sectors currently most internationalised include production of vehicles (NACE 34-35) and electrical machinery and equipment (NACE 30-33)[36]. In these sectors the strongest growth in foreign value added was recorded in 1995-2009. In Poland, foreign value added amounted to 39% of exported production of vehicles (against 20% in 1995) and in other CEE-4 countries – 51% (44%). Similar tendencies

[34] The differentiation of the share of domestic value added in exports is determined by, besides the intensity of trade within the global supply chains, the size of the country and raw material resources.
[35] The growth in the share of domestic value added in 2009 was affected by the consequences of the global financial crisis. In 2008 the share of domestic value added in exports had been even lower (in Poland - 69% and in other CEE countries - 56%).
[36] The relatively high level of foreign value added is also characteristic for exports of metal products (NACE 27-28), clothing and textiles (NACE 17-19) and chemical products (NACE 23-26). However, in the case of these sectors, the production in the CEE countries was traditionally based mostly on imported raw materials.

were observed in the production of electrical machinery and equipment - in Poland, foreign value added constituted 34% of exports (against 15% in 1995), and in other CEE-4 countries – 58% (41%).

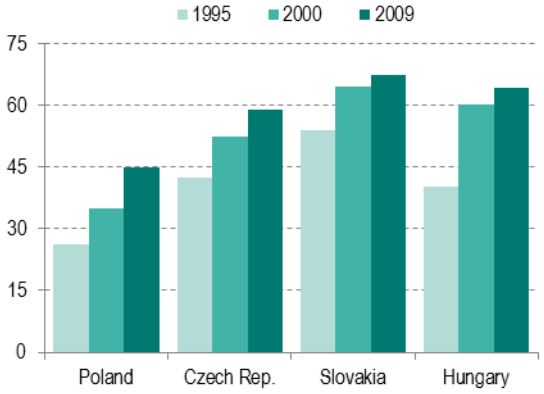
The analysis of trends in the exports of domestic and foreign value added in individual sectors indicates that the sectors having posted the highest foreign value added growth were also the ones with the steepest growth in domestic value added. Thus, in 1995-2009 domestic value added in exports of vehicles in Poland increased ten times and of electric machinery and equipment - thirteen times. In the remaining sectors of manufacturing, domestic value added in exports increased five-fold in this period. Similar trends were observed in other CEE-4 countries. The total domestic value added in exports of vehicles and electric machinery and equipment in three countries of the region increased eleven-fold, whereas in other sectors - only three-fold. Therefore, it can be stated that the participation in the GSCs has also contributed to acceleration in the pace of domestic value added growth.

Figure 3.12: Dynamics of domestic value added in manufacturing sectors (1995=100)



Source: OECD/WTO, NBP Economic Institute calculations

Figure 3.13: Share of intermediate goods imported used in exports (as % of imports of intermediate goods)



Source: OECD/WTO, NBP Economic Institute calculations

Growth in imports of intermediate goods used in export production

One of the most visible symptoms of participation in global supply chains is the rising imports of intermediate goods for export production. The growth in those imports observed by the traditional foreign trade statistics was strictly associated with exports. According to the OECD/WTO statistics, in 2009 45% of intermediate goods imported to Poland were used for export production (whereas in 1995 this ratio amounted to 26%)[37]. In other CEE-4 countries, the impact of imports of intermediate goods on imports trends is even greater. In 2009 in the Czech Republic, 59% of imports of intermediate goods

[37] The OECD/WTO statistics prepared on the basis of international input-output balances treat raw materials and fuels also as indirect goods. The share of indirect goods used in export production is higher in imports of processed products (parts according to conventional foreign trade statistics).

was associated with exports, in Hungary, the figure was 64% and in Slovakia - 67%. Thus, in all the countries of the region this share is clearly higher than the EU average.

Role of the CEE-4 countries as suppliers of parts to other countries

The OECD/WTO data concerning value added in trade indicate not only that the CEE-4 countries are importers of foreign value added used in their exports (the so-called *upstream links*), but that they also act as exporters of intermediate goods and services, which are intended for export production in third countries (the so-called *downstream links*). In 2009, 20% of the value of Polish exports was represented by intermediate goods used in third countries for further exports as final goods or sets of parts (whereas in 1995, these constituted 16% of exports). In other countries of the region, the share of intermediate goods used in exports of third countries in 2009 was similar. In Hungary it reached 16% (against 14% in 1995), in the Czech Republic - 22% (19%), and in Slovakia - 17% (in this case, a slight decrease from 20% in 1995 occurred).

Increased share of final goods in exports within GSC

Growth in exports of intermediate goods used in export production of third countries was slower than growth in foreign value added in the exports of the CEE-4 countries. This may indicate that in the analysed period, the structure of the CEE-4 exports within the global supply chains evolved towards a higher share of final goods. This trend is reflected in the traditional trade statistics. According to the classification by broad economic categories (BEC), in 2000 products associated with GSC constituted 48% of the total value of exports of the CEE-4 countries, including 22% parts and 26% final goods. In 2009 the share of parts decreased slightly (to 21%), whereas the share of final goods rose to 35%. Thus, the export growth in 2000-2009 mostly stemmed from increasing sale of final goods[38].

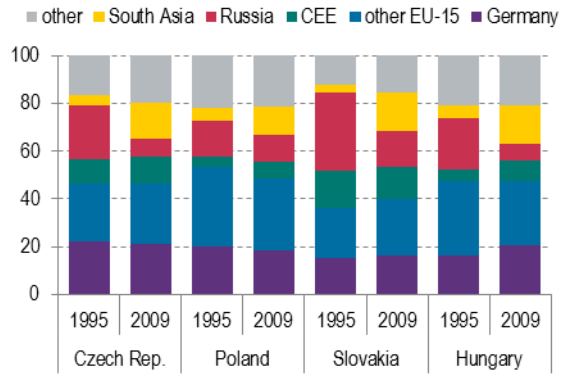
Regional nature of global supply chains

However, participation of the CEE-4 countries in global supply chains did not result in any major changes in the geographical structure of their foreign trade. Significant changes observed in the structure of the global economy (including considerably greater role of developing economies) were only to a limited extent reflected in the geographical structure of exports and imports within GSCs. The supply chains, in which enterprises from Poland, the Czech Republic, Slovakia and Hungary participate, focus heavily on links with other European countries. It means that the GSCs in the CEE-4 are mainly of a regional nature. In 2009, 71% of foreign value added used in the exports of Poland originated from the countries of Europe (against 77% in 1995). The lower share of Europe resulted mainly from the growth in the role of value added originating from the countries of the South Eastern Asia, from 7% in 1995 to 14% in 2009. On the other hand, in the exports of domestic value added from Po-

[38] In 2000-2009 the value of exports of final goods associated with GSC increased by 540% in Poland, whereas the value of exports of parts increased by 470%. In the remaining CEE countries the value of exports of final goods increased by 490%, and the value of exports of parts increased by 340%.

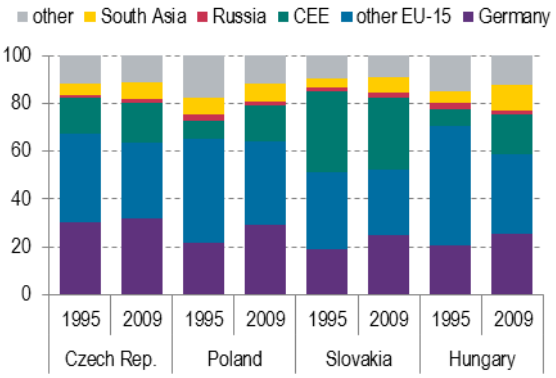
land, used by the export sector in other countries, in 1995-2009 a strong dominance of Europe was maintained (85%).

Figure 3.14: Foreign value added used in domestic export by main countries of origin (%)



Source: OECD/WTO, NBP Economic Institute calculations

Figure 3.15: Domestic value added used in exports of the destination countries (%)



Source: OECD/WTO, NBP Economic Institute calculations

In other countries of the region, the share of the European countries both as suppliers and consumers of the value added was similar. In comparison to other CEE-4 countries, supply chains, within which Hungarian enterprises, operate are slightly more of a global character. In 2009, 19% of foreign value added used in exports came from the countries of the South Eastern Asia and, at the same time, 14% of domestic value added originating from Hungary was used in export production in the Asian countries.

However, the varying intensity of trade within GSCs caused certain shifts in trade of the CEE-4 countries with other European countries. The OECD/WTO data indicate that mutual trade among the countries of the region demonstrates particular intensity of trading associated with global supply chains.

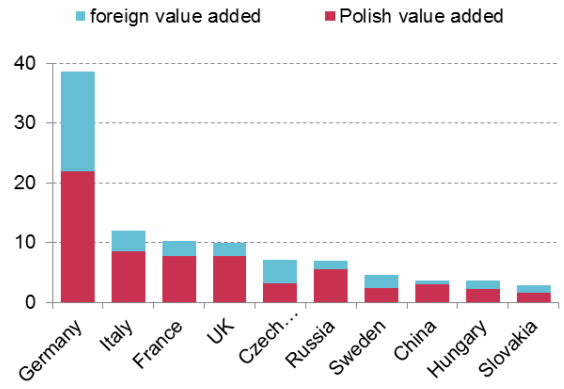
Internationalisation of bilateral turnover

Foreign value added constitutes the largest part of the mutual trade between the CEE-4 countries. It accounted for as much as 55% of the total value of Poland's exports to the Czech Republic in 2009. Foreign value added also plays a significant role in the Polish exports to Slovakia (46%) and Hungary (39%). A similar situation is observed in imports. The highest share of value added originating from third countries is recorded in the imports from Slovakia (56%), the Czech Republic (50%), and Hungary (49%). In total, in the Polish exports to the three other CEE-4 countries foreign value added consti-

tuted 49% in 2009 (whereas in 1995 it accounted for 38% of exports), and in imports - 51% (38%)[39]. Thus, it can be stated that the value of turnover with these countries registered by traditional foreign trade statistics is considerably overestimated, since exports of domestic value added to these countries (like imports) are only half that figure[40]. Thus, the growing role of trade with the CEE-4 countries observed in Poland in the previous decade resulted from inclusion of these countries in the global supply chains, rather than from the growing demand.

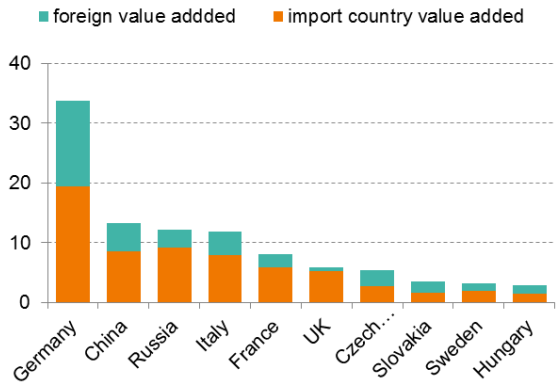
Foreign value added is also of major importance in the trade with Germany. In 2009, it constituted 43% of the Polish exports to and imports from this country[41]. At the same time, Germany, the main trading partner of Poland and other CEE-4 countries, accounts for the largest share of the imports of foreign value added from third countries used as input in the Polish exports (31%). Germany plays an even greater role as the destination for exports of the domestic value added used in foreign export production (36%). Such a high share of Germany reflects the potential impact of demand for the German products on exports of intermediate goods from Poland.

Figure 3.16: The Polish exports to selected countries in 2009 (in billion USD, according to the value of gross exports)



Source: OECD/WTO, NBP Economic Institute calculations

Figure 3.17: Imports to Poland from selected countries in 2009 (in billion USD, according to the value of gross imports)



Source: OECD/WTO, NBP Economic Institute calculations

The above results also point to Germany as the main intermediary in imports of foreign value added from third countries used in the exports of the CEE-4 countries and in the exports of the domestic value added from the CEE-4 countries used in the export production of third countries. It probably

[39] In the other countries the share of foreign value added in the exports to the CEE countries is even higher. In 2009 in the Czech Republic and in Hungary the foreign value added constituted 55% of exports to the three CEE countries, and it Slovakia, its share amounted to 61%. It is exports from Slovakia to the Czech Republic that are the most dominated by the foreign value added, which accounts for almost 2/3 of trade between these countries.

[40] On the other hand, a relatively low share of foreign value added is characteristic of the Polish exports to Great Britain and Russia (in 2009 foreign value added constituted approximately 20% of exports to these countries).

[41] However, foreign value added plays an even more important role in trade with Germany in the case of the Czech Republic (56% in exports and 55% in imports) and Slovakia (56% and 53%, respectively).

results from the fact that the German enterprises (more precisely, enterprises located in Germany) are the main organisers of the global supply chains in the region.

The OECD/WTO data also indicates a group of countries in the case of which the turnover seems to be underestimated in terms of traditional statistics, as compared to the real exports and imports of the value added. In exports, the share of the domestic value added originating from the CEE-4 in the final demand of these countries is higher than the value of gross exports, whereas in the case of imports, the value added originating from these countries is higher than the gross imports. Such situation refers mainly to turnover with geographically distant economies, where the trade of value added is mostly performed by means of intermediation of third countries (probably, mostly Germany). The value added is transferred by means of intermediation of third countries from the CEE-4 countries mainly to the USA and Japan (in the form of intermediate goods and services). On the other hand, the intermediation of third countries plays major role in the imports of the value added from the United States, Brazil and Saudi Arabia. Thus, the real role of the USA in the trade of Poland, similar to other CEE-4 countries, is bigger than indicated in the conventional foreign trade statistics.

Growing role of services in exports

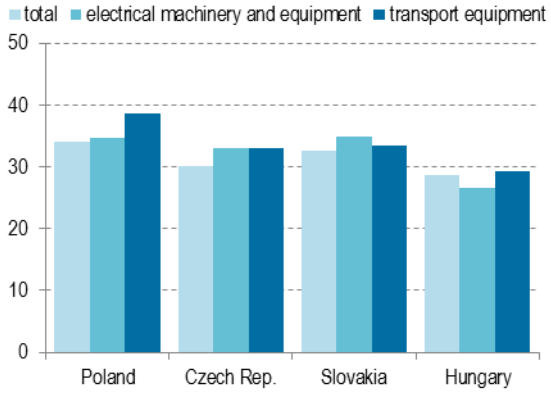
Organisation of production processes and trade within the global supply chains resulted in an increasing role of services in foreign trade. The analysis value added enables us to estimate the real role of services in the turnover by estimating of the role of services in creation of value added in production of goods (services associated with designing, transportation, logistics, etc.). In traditional statistics this part of value added is recognised as exports of goods, which results in an underestimation of the real role of services in the international trade.

According to traditional statistics (based on the balance of payments data) in 2009 the services constituted 17% of the value of exports in Poland (in 2012 this share reached a similar level)[42]. On the other hand, according to the OECD/WTO value added statistics, the role of services in the foreign trade of the CEE-4 countries has doubled. In 2009 the value of exports of services calculated according to this approach constituted 42% of the Polish exports, including 34% of exports of manufacturing sectors[43]. Whereas the role of services in exports in 1995-2009 remained relatively stable, a significant growth took place in the manufacturing sectors (from 26% in 1995). In this period, the highest growth of the role of services was noted in exports of transport means (to 39% in 2009) and electrical machines (to 35%), i.e. in sectors most intensively associated with activity within the global supply chains. In other countries of the region, services in food sector also have an important impact on the value of exports (26%).

[42] According to the balance of payments statistics, in 2009 services constituted 19% of exports in Hungary, 16% of exports in the Czech Republic and 10% of exports in Slovakia.

[43] In other CEE countries, the share of exports in services in 2009 was similar: in the Czech Republic and Hungary - 40% and in Slovakia - 38%. The role of services in manufacturing was even less diversified, reaching 33% in Slovakia, 30% in the Czech Republic and 29% in Hungary.

Figure 3.18: Share of value added of services in exports of manufacturing in 2009 (as % of manufacturing exports)



Source: OECD/WTO, NBP Economic Institute calculations

Figure 3.19: The Polish exports of services (in billion USD)

Source: OECD/WTO, NBP Economic Institute calculations

In the previous two decades, a very strong value added growth occurred in the services associated with manufacturing exports. As a result, at present, over 60% of the value added generated in services is exported via the manufacturing sectors (including 15% via transport equipment manufacturing). It is a significant increase on the 1995 figure, when 35% of the value added created in services was exported in this way (and only 4% as value added in transport equipment manufacturing). Thus, the participation in GSCs influenced the growth in trade of services.

In 1995-2009 foreign value added of services in the manufacturing exports gained significance considerably. Whereas in 1995 foreign services accounted for 6% of the Polish exports of processed goods, in 2009 their input was twice as high. Similar to the export of goods, the share of foreign value added in the exports of services is lower in Poland in comparison to other, CEE-4 economies. In 2009 foreign value added in services accounted for, on average, 17% of exports of other CEE-4 countries, against 12% in Poland.

Exporters - characteristics of the enterprises in the countries of Central and Eastern Europe

For a description of enterprises from the CEE-4 region acting as exporters, data from the Eurostat Comext base: *International Trade in Goods Statistics by Enterprise Characteristics* were used. The available data come from 2005-2010 and refer to four economies of the CEE-4, i.e. Poland, the Czech Republic, Hungary and Slovakia. As a reference group, nine economies of the EU-15 group were chosen (Austria, Denmark, Finland, France, Luxembourg, Germany, Portugal, Sweden, Italy[44]) hereinafter referred to as EU-9. The enterprises were divided, according to their size expressed by the number of persons employed, into: micro enterprises (0-9 persons employed), small enterprises (10-49 persons), medium enterprises (50-249 persons) and large enterprises (over 250 persons). In terms of their activity, enterprises were divided into those operating in industry and in other sectors of economy.

Number of exporters from the CEE-4 countries higher in the EU markets

In the CEE-4 countries a marked disproportion could be observed in the number of enterprises exporting to the European Union countries against the remaining economies[45]. In total, in the four analysed economies, less than 122 thousand out of over 3.4 million of all companies operating in these countries, i.e. 3.5% of all enterprises, were exporters to the EU countries. In the case of exports to non-EU countries, this number was almost three times lower. Only 44.5 thousand companies, i.e. 1.2% of all enterprises in the region, sold their products in these markets. The number of exporters, both to the EU countries and outside these markets, decreased as compared to 2006. In the case of exporters to the EU countries, their number dropped by 5%, and in the case of other countries - by 10%.

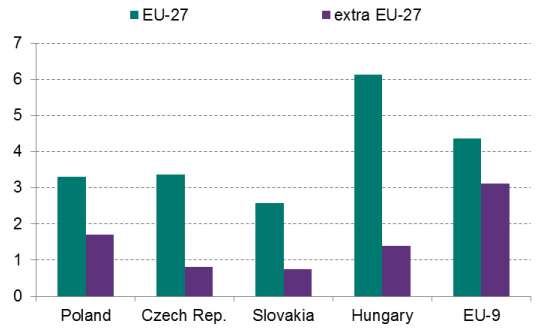
However, the statistics differed for individual economies. In 2010 the highest percentage of enterprises involved in foreign trade was observed in Hungary. It was pronounced, in particular, in intra-EU trade, where the percentage of exporters (6.1% of all companies) was twice as high as in other CEE-4 countries. This disparity was not observed in the case of enterprises trading with non-EU countries. The percentage of exporters to markets outside the EU was higher in Poland than in Hungary.

The share of exporters in the population of all enterprises in the CEE-4 countries was lower than in the EU-9 countries in 2010. In the case of exports to EU markets, the percentage of exporters in the EU-9 countries was only slightly higher (4.3% against 3.5% in CEE-4). However, a clear difference was noticeable in the number of companies exporting to the markets outside the UE. In the case of the EU-9 countries, it made as many as 3.1% of all companies, i.e. more than twice as much as in the CEE-4 countries. In contrast to the CEE-4 countries, the number of exporters in the EU-9 countries increased in 2006-2010. It was particularly visible in the case of exporters to the markets outside the EU, whose number increased by 12% in this period.

[44] The data in all periods analysed was available only for the aforementioned countries from the EU-15 group. For Germany only data for trade inside EU was available.

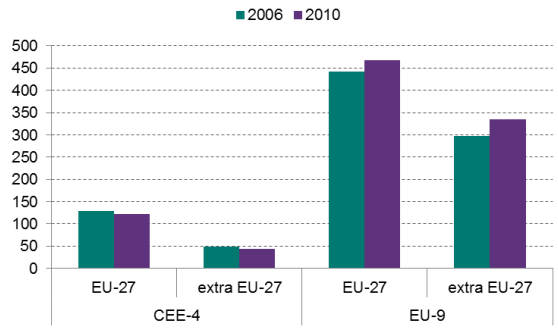
[45] In the Comext database*International Trade in Goods Statistics by Enterprise Characteristics* data concerning the total number of exporters is not available, only the number of companies exporting to the EU and non-EU countries is provided.

Figure 3.20. Percentage of exporters among enterprises of the CEE-4 and EU-9 in 2010 (in %)



Source: Eurostat

Figure 3.21. Number of exporters in the CEE-4 and EU-9 in 2006 and 2010 (in thousand)



Source: Eurostat

Percentage of exporters from the CEE-4 countries the highest among large enterprises

The presence of enterprises from the CEE-4 countries in foreign markets was strongly correlated with their size. The percentage of exporters among enterprises rose markedly with a growth in the number of employees in a company.

In the case of micro-enterprises, which represented the majority of companies in all four CEE-4 economies (about 95% of all enterprises), only a very limited number of those operated in foreign markets, or their trade was so small that they were not considered in the statistics trade statistics[46]. In 2010, 68.9 thousand, i.e. 2% of all micro-enterprises exported their goods to the EU countries. The relatively highest number of such companies was recorded in Hungary (about 4%), whereas the lowest in Slovakia (1.4%). These figures were definitely lower in the case of trade with the non-EU countries. Only 20 thousand, i.e. 0.6% of micro-enterprises, were exporters.

In the case of small enterprises, over a quarter of all companies were exporters to the EU countries and almost 10% to the countries outside the EU. In the group of medium enterprises, the number of exporters to the EU countries has exceeded 50% and amounted to 28% for those exporting to the non-EU countries. The percentage of exporters was definitely the highest in the case of large companies. About 70% of them included exporters to the EU markets and 53% of large enterprises exported to other markets.

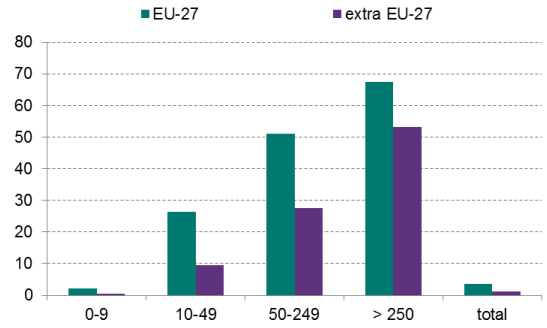
Compared to 2006, the number of exporters from the CEE-4 countries decreased in all groups of enterprises. The number of exporting micro-enterprises decreased by about 5% in the case of exports to the EU and by 15% for exports outside the EU. The relatively lowest decline occurred in the case of

[46] The threshold of annual foreign turnover above which companies are obliged to submit reports to the statistical offices, in the four countries analysed, in 2011 ranged from EUR 200 thousand in Slovakia to approximately EUR 400 thousand (HUF 100 million) in Hungary.

exporters representing medium or large enterprises. Both in the case of trade with the EU countries and with other countries, their number decreased by about 3%.

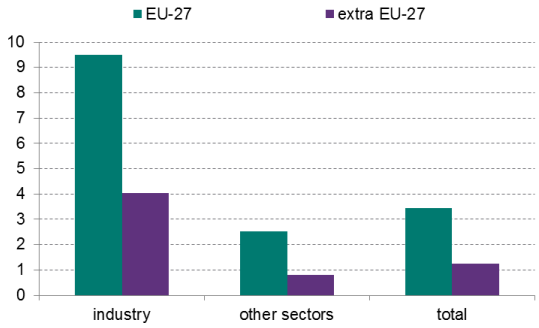
In 2010, the structure of exporters in terms of size of enterprise in the CEE-4 countries differed clearly from that in the EU-9 countries. The differences were particularly visible in the trade within the EU. Whereas the percentage of exporters among micro-enterprises was higher in the EU-9, in the case of small, medium and, in particular, large enterprises the CEE-4 countries demonstrated much higher share of exporters. With respect to trade with the non-EU countries, the structure of exporters was similar in both groups of the countries, with one exception: the EU-9 countries had significantly more exporters among micro-enterprises.

Figure 3.22. Percentage of exporters by the size of enterprise in the CEE-4 countries (in %)



Source: Eurostat

Figure 3.23. Percentage of exporters by the sector of activity in the CEE-4 countries (in %)



Source: Eurostat

Large companies are much more present on the non-EU markets - the effect of the global supply chains

It is worth noting that the size of enterprise determined not only the percentage of exporters, but also the number of enterprises which decided to enter the non-EU markets. However, in the case of large exporters, the number of companies exporting to the markets inside the EU was higher than the number of those exporting outside the EU, this difference was relatively small (about 20%). On the other hand, micro-enterprises were almost absent in the non-EU markets. The number of firms exporting to the EU countries among micro-enterprises was more than three times higher than the number of those exporting to other markets.

The reason why large exporters are much more present in the markets outside EU arises, to a large extent, from the fact that such firms in the CEE-4 are often subsidiaries of international corporations operating within global supply chains. Among the largest enterprises in the CEE-4 region, almost 60% represent companies with the dominating role of foreign capital, and in the case of export-oriented

manufacturing, companies with foreign capital accounted for almost ¾ of the largest companies.[47] This situation makes the size of their production, and also exports, dependant on the policy of these corporations, very often with the assumption of these exports being destined for distant foreign markets.

The highest number of exporters still present on the German market, yet links within the CEE-4 countries have also been very strong

Germany was invariably the most popular destination for exports of companies from the CEE-4 countries in the period 2006-2010, which seems to be confirmed by the foreign trade turnover statistics. In 2010 almost 20 thousand enterprises exported their products there, including over 12 thousand companies operating in industry. To a lesser extent, CEE-4 based companies were present on the markets of other big EU economies: France, Great Britain, Italy, the Netherlands or Austria. The number of exporters from the CEE-4 countries in these markets was over two-fold lower than in the case of Germany. Despite similar general tendency in the direction of exports in the analysed economies, explicit differences existed between CEE-4 countries. In Poland, a relatively significant part of exporters acted on the Eastern European markets, mainly in Russia. On the other hand, the Slovakian enterprises were present in the Asian countries relatively most frequently of among all companies in the region, e.g. in China and Japan.

The most noticeable changes in the direction of exports referred to the trade with the non-EU countries. Since 2006 the presence of the CEE-4 exporters on the distant markets of Asia (mainly China) or Latin America has been clearly increasing, whereas the number of firms exporting to the non-EU European countries, mainly to Russia, has been decreasing.

The fact of relatively strong relations of enterprises inside the CEE-4 region is also worth stressing. Besides Germany, and in the case of Poland also except Russia, all other CEE- countries were the markets most frequently chosen by exporters from the region. The most intensive cooperation was continued between companies from the Czech Republic and Slovakia (which is not surprising considering the historic relationships of these economies). Significant number of the Czech and Slovakian enterprises also traded with companies located in Poland. The poorest associations with other countries of the region were noticeable in the case of Hungarian companies. However, even in the case of Hungary, the number of exporters to Poland, the Czech Republic and Slovakia was higher than in the case of the majority of the European markets (among others, France, Italy or Great Britain) and clearly increasing since 2006.

[47] Based on *Deloitte CE Top 500, 2013*

Enterprises operating in industry most involved in foreign trade

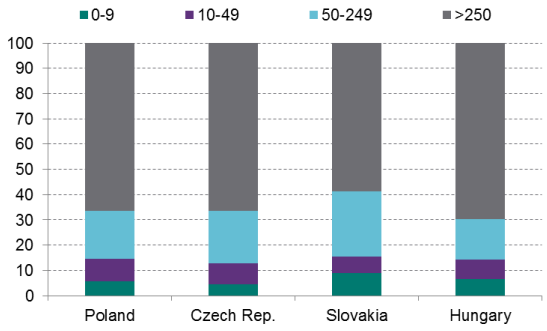
The percentage of exporters among enterprises in the CEE-4 countries depended not only on their size, but also on the type of their activities. In all four countries the percentage of exporters was explicitly higher among industrial enterprises than among companies operating in services or agriculture. Such situation occurred irrespective of the size of enterprises and referred to the number of enterprises exporting both to inside and outside the EU. 9.3% of industrial companies exported to the EU countries and 3.9% - outside the EU. This means that the percentage of exporters among enterprises operating in industry was almost four-fold higher than in other sectors of economy.

The percentage of exporters among industrial enterprises was, however, definitely lower than in the EU-9 countries, where it exceeded 16% in the exports within the EU and 12% in the case of firms exporting to countries outside the EU. This difference stemmed mainly from much higher involvement of micro-enterprises from Western Europe in exports, particularly to the non-EU markets.

Exports generated mainly by large enterprises, particularly from industry

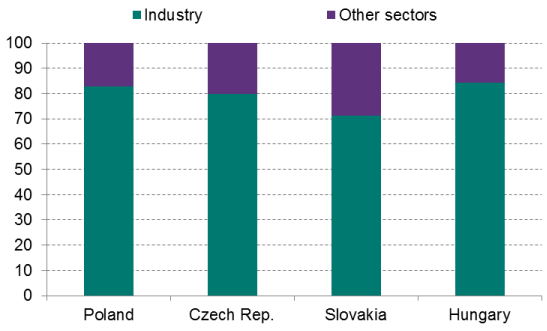
The leading role of the largest enterprises from the CEE-4 region in generating of turnover in foreign trade was mainly reflected in the value of their exports, as compared to other companies. Large exporters constituted less than 4% of all exporters in the analysed economies. However, their contribution to the total foreign sale in 2010 amounted to 66%. The dominating share of large enterprises in exports was noticeable in all countries of the region. In Poland, in the Czech Republic and in Hungary, it ranged from 66% to 70%. In Slovakia, it was slightly lower (59% of total exports). However, the lower share of large enterprises in the exports of Slovakia should be explained by the size of this economy. As the smallest of the CEE-4 countries, Slovakia also had a relatively lower number of large enterprises than other analysed countries of the region, both in absolute numbers and in relation to the number of all enterprises.

Figure 3.24. Structure of exports according to the size of enterprises (number of employees, in % of total exports)



Source: Eurostat

Figure 3.25. Structure of exports according to the sector of operations (in % of total exports)



Source: Eurostat

In the entire period 2005-2010, the contribution of large exporters to the total exports was definitely the highest among all groups of enterprises, although it has slightly decreased in favour of medium exporters. In 2005, exports of large companies constituted almost 70% of the total exports, against the aforementioned 66% in 2010. During the entire period of analysis, the share of the largest exporters in generating exports in the CEE-4 countries was markedly higher than in the EU-9 countries, where it was relatively stable in 2005-2010, amounting to 57-58% of the total exports. The basic difference in the EU-9 countries, in relation to the CEE-4 countries, is the significantly more intensive activity of small exporters, which was already noticeable in the case of the number of enterprises involved in exports. In 2010 micro and small enterprises contributed to almost ¼ of the total exports in the EU-9 countries, whereas in the CEE-4 countries this contribution amounted to 14%.

The value of exports generated by individual groups of enterprises (specified according to their size) differed explicitly, depending on the sector in which the companies operated. In the case of industry which generated 80% of exports and, consequently, exerted the highest impact on export structure, the dominating role of large enterprises in foreign trade was unquestionable. In total, in the economies of CEE-4, large enterprises contributed to almost 80% of exports of all enterprises operating in industry. This percentage did not change significantly in the period 2005-2010. Similar to the total number of exporters, it was slightly higher than in the EU-9 countries, where it reached about 70% in 2005-2010.

The fact that the relatively limited number of large enterprises representing the industrial sector was responsible for over 60% of the total exports in the CEE-4 countries, displays the leading role of international corporations in generating of the foreign trade in the region. This should be attributed to the fragmentation of production and trade within GSCs.

In the case of other sectors of the economy, the situation was definitely different. First of all, the value of exports of companies operating in other sectors was four times lower than in the industry alone. Secondly, the role of large enterprises in generating exports in the entire analysed period was definitely smaller, although it tended to grow slowly. In 2005, exports of large companies representing other sectors amounted to 15% of the total exports of this group of enterprises, increasing to 18% in 2010. In the group of the EU-9 countries, the share of the largest exporters representing other sectors in exports of all non-industrial enterprises in 2005-2010, was relatively stable, ranging from 24-25%.

In Slovakia and Hungary concentration of export [48] markedly higher than in Poland and the Czech Republic

The CEE-4 countries demonstrated various degrees of concentration of exports in the largest enterprises; however, two groups of countries with similar trends were noticeable. The first group includes Poland and the Czech Republic, as countries demonstrating relatively lower number of the largest companies in exports. The share of five biggest exporters in the total foreign sale in 2010 reached ap-

[48] Concentration of exports was presented as share of 5, 10, 20, 50, 100, 500 and 1000 largest exporters (arranged according to the value of exports in 2010) in the total exports of the specific country.

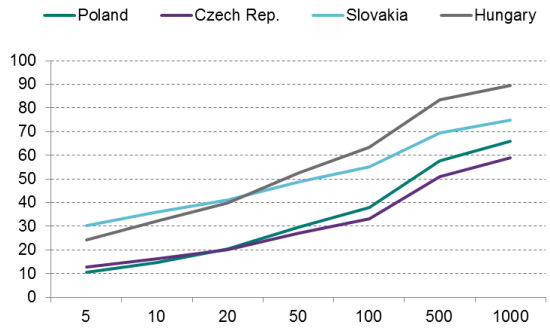
proximately 10% in Poland and 12% in the Czech Republic. On the other hand, 1000 biggest exporters contributed, respectively, to 66% and 59% of the total exports in these countries. Definitely higher concentration of exports was noticeable in Slovakia and Hungary. In Hungary the total value of exports of the five biggest exporters constituted one quarter of the total exports, whereas in Slovakia it exceeded 30%, which means that their share in the total foreign sale was three-fold higher than in Poland. In both these countries, 50 biggest exporters were responsible for approximately a half of the total exports, whereas in Poland and the Czech Republic this share was distributed among almost 500 biggest exporters.

Compared to 2005, the share of the biggest exporters in the total exports of the CEE-4 countries decreased. It was most visible in Slovakia where in 2005, five largest exporters contributed to almost a half of the total exports. In Poland and the Czech Republic the concentration of exports also decreased, however, the scale of this tendency was not so big. Only in Hungary, the share of the largest exporters in the total exports did not change significantly in the 2005-2010 period.

It is worth noticing that the level of concentration of exports observed in Poland and the Czech Republic was similar to that observed in the countries of the "old EU". In 2010, in the EU-9 countries, the five biggest exporters were responsible for 14% and a thousand - for 66% of the total exports. However, the process of de-concentration of exports seen in the CEE-4 countries did not occur in the group of EU-9 countries. In the case of these Western European economies, slightly increasing share of the biggest exporters in the total foreign sale in 2005-2010 period was noticeable.

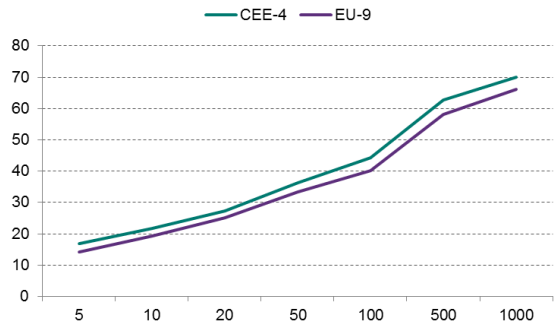
In all CEE-4 countries, similarly to EU-9 countries, the concentration of exports to the non-EU countries was higher than in the case of exports to the EU countries. It was most noticeable in the case of the smallest economy analysed, i.e. Slovakia. Whereas even in the case of exports to the EU countries, Slovakian exports concentrated mostly in the largest companies, in the case of sale outside the EU markets, their dominance was even more pronounced. The five biggest exporters accounted for almost a half of the total exports of Slovakia to the non-EU countries. On the one hand, it resulted from the significantly lower number of companies exporting their goods outside the EU borders, on the other, the largest Slovakian enterprises operating in the manufacturing clearly oriented their production towards the non-European markets.

Figure 3.26. Share of the biggest companies in the total exports in the CEE-4 countries (in %)



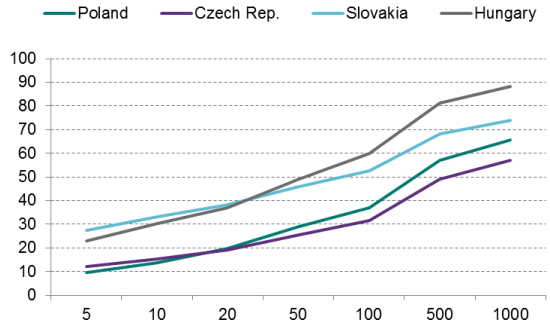
Source: Eurostat

Figure 3.27. Share of the biggest companies in the total exports in the CEE-4 countries, in relation to the EU-9 (in %)



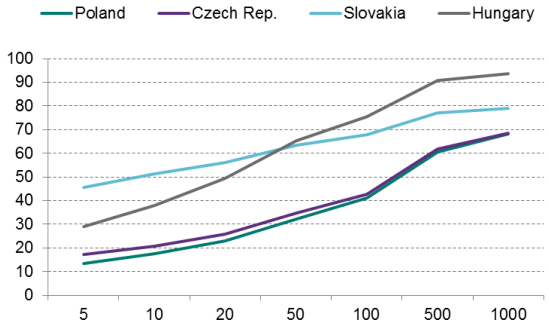
Source: Eurostat

Figure 3.28. Share of the biggest companies in the total exports - the EU countries (in %)



Source: Eurostat

Figure 3.29. Share of the biggest companies in the total exports - the non-EU countries (in %)



Source: Eurostat

The horizontal axis indicates number of the biggest exporters and the vertical axis indicates their aggregate share in total exports.

Statistical Annex

1 National accounts

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

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	1.8	0.8	0.7	0.6	0.4	0.2	0.7
Croatia	0.0	-2.0	-2.1	-2.0	-1.0	-0.8	-0.6
Czech Republic	1.8	-1.0	-1.2	-1.4	-2.4	-1.5	-1.3
Estonia	9.6	3.9	3.3	4.0	1.5	1.5	0.9
Lithuania	6.0	3.7	3.8	3.4	3.8	3.8	2.3
Latvia	5.3	5.2	4.9	5.6	6.7	4.5	4.1
Poland	4.5	1.9	1.6	0.8	0.8	1.2	1.7
Romania	2.2	0.7	-1.1	0.8	2.3	1.6	4.1
Slovakia	3.0	1.8	1.7	0.8	0.7	0.7	0.7
Slovenia	0.7	-2.5	-2.9	-3.2	-3.0	-1.8	-1.3
Hungary	1.6	-1.7	-1.7	-2.5	-0.3	0.5	1.6

Source: Eurostat, seasonally adjusted data, constant prices of 2005

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

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	1.5	2.6	2.3	0.6	-1.0	-0.5	-0.5
Croatia	0.2	-2.9	-3.3	-3.3	-1.8	-0.4	0.2
Czech Republic	0.5	-2.1	-2.1	-3.0	-1.3	-0.3	0.0
Estonia	3.8	4.9	6.7	4.1	4.3	5.9	3.5
Lithuania	4.8	3.9	4.2	4.5	2.6	5.4	5.8
Latvia	4.8	5.8	5.4	5.0	6.7	5.8	5.2
Poland	2.6	1.2	0.5	0.7	0.1	0.2	0.8
Romania	1.1	1.1	-0.2	0.8	0.2	0.1	1.2
Slovakia	-0.5	-0.2	-0.3	-0.6	-1.2	0.5	0.0
Slovenia	0.8	-4.8	-5.5	-5.5	-4.6	-3.5	-3.0
Hungary	0.4	-1.6	-3.4	-1.3	-1.0	-0.2	0.4

Source: Eurostat, seasonally adjusted data, constant prices of 2005

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

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	-6.5	0.8	-0.7	3.1	5.0	1.4	1.2
Croatia	-6.4	-4.6	-3.9	-5.0	-4.3	1.1	-1.8
Czech Republic	0.4	-4.5	-4.7	-7.4	-5.7	-6.1	-5.6
Estonia	37.6	10.9	12.8	1.8	-5.8	-0.4	9.6
Lithuania	20.7	-3.6	-6.0	-7.7	5.1	11.4	17.7
Latvia	27.9	8.7	1.5	7.1	-6.3	1.2	0.2
Poland	8.5	-1.7	-3.8	-4.9	-1.9	-1.9	0.1
Romania	7.3	4.9	4.5	0.7	-4.2	-2.9	-3.2
Slovakia	14.2	-10.5	-11.0	-13.7	-11.1	-4.8	-8.3
Slovenia	-5.5	-8.2	-6.8	-10.1	-4.7	-4.5	-4.6
Hungary	-5.9	-3.7	-3.5	-3.2	-1.0	3.2	5.0

Source: Eurostat, seasonally adjusted data, constant prices of 2005

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

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	12.3	-0.4	-0.6	-1.5	10.8	4.5	8.5
Croatia	2.0	0.4	-1.0	3.5	-3.4	1.0	-1.8
Czech Republic	9.5	4.5	4.6	2.9	-3.8	0.5	-0.2
Estonia	23.4	5.6	3.2	5.4	4.1	5.3	-1.2
Lithuania	14.1	11.8	13.7	19.0	18.4	16.3	5.2
Latvia	12.4	9.4	9.3	7.8	4.1	3.0	0.2
Poland	7.7	3.9	3.4	3.2	4.4	3.4	5.5
Romania	10.3	-3.0	-4.4	-3.8	7.4	13.0	19.4
Slovakia	12.2	9.9	13.0	9.6	4.0	4.6	2.7
Slovenia	7.0	0.6	1.2	0.8	3.1	1.1	3.7
Hungary	8.4	1.7	2.1	-1.1	2.6	3.4	5.9

Source: Eurostat, seasonally adjusted data, constant prices of 2005

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

	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	8.8	3.7	2.6	-0.4	5.6	2.0	7.4
Croatia	1.3	-2.1	-2.6	-1.8	-3.9	4.8	-3.3
Czech Republic	7.0	2.3	0.5	2.6	-3.0	-0.9	1.8
Estonia	28.4	8.8	7.6	11.7	3.5	8.3	0.9
Lithuania	13.7	6.1	9.1	12.4	13.0	16.9	9.3
Latvia	22.3	4.5	0.6	1.6	1.0	-3.5	-0.8
Poland	5.5	-0.7	-2.3	-1.5	3.0	-2.0	2.9
Romania	10.0	-0.9	-0.7	-3.8	-0.2	-1.0	4.2
Slovakia	9.7	3.3	7.1	4.6	2.5	1.9	-0.4
Slovenia	5.6	-4.7	-6.0	-5.9	-1.3	-1.4	1.6
Hungary	6.4	-0.1	-0.5	-0.8	1.3	5.4	5.8

Source: Eurostat, seasonally adjusted data, constant prices of 2005

2 Business cycle and economic activity indicators

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

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-0.8	-4.2	-3.3	-1.2	-2.3	0.2	2.0	
Croatia	0.3	-5.2	-1.5	-4.1	-3.6	-3.8	-3.3	-0.9
Czech Republic	-3.3	-1.8	-2.0	-2.3	4.1	2.2	5.8	
Estonia	3.1	5.9	5.2	7.7	1.0	-0.7	7.0	2.2
Lithuania	4.2	21.5	0.3	1.5	-1.5	0.5	-2.3	-1.9
Latvia	-0.4	0.9	-0.4	2.2	-2.6	0.7	1.3	0.5
Poland	-0.4	-0.9	4.6	2.7	2.7	5.0	3.8	4.4
Romania	11.5	0.5	8.0	5.9	6.2	7.9	9.9	
Slovakia	4.4	4.0	4.4	3.4	4.2	5.2	5.2	
Slovenia	-1.6	-1.0	-2.3	-0.9	-3.1	-0.2	-0.8	
Hungary	2.5	-2.0	1.7	3.2	0.8	2.9	6.0	

Source: Eurostat

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

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-1.1	-1.3	0.0	1.4	2.6	4.5	5.6	6.5
Croatia	1.2	2.9	4.0	-0.1	2.3	0.7	-0.7	
Czech Republic	-0.5	0.2	-2.4	-0.6	-1.3	-0.2	-0.6	
Estonia	3.0	4.9	0.6	1.3	2.8	-0.6	5.5	5.7
Lithuania	4.4	5.9	5.7	5.8	5.4	4.8	4.0	4.8
Latvia	4.0	6.5	3.6	4.3	3.2	3.1	4.4	6.1
Poland	2.7	3.8	5.0	5.2	6.6	6.9	5.3	7.3
Romania	0.7	-3.5	-1.3	-0.5	-0.2	-0.9	1.8	0.0
Slovakia	0.5	0.6	0.3	1.3	-0.2	-0.4	-0.2	1.2
Slovenia	-3.3	-1.4	-2.5	-6.0	-3.8	-4.4	-1.1	0.0
Hungary	3.1	2.2	0.6	2.0	1.7	1.4	2.7	4.0

Source: Eurostat

Table 8. Consumers' confidence indicator

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-40.3	-36.4	-37.0	-37.9	-37.2	-35.1	-38.1	-38.0
Croatia	-49.6	-48.5	-44.7	-40.5	-38.7	-40.9	-46.6	-45.6
Czech Republic	-22.2	-18.4	-16.9	-18.8	-16.5	-13.4	-13.6	-9.8
Estonia	-4.0	-4.9	-7.9	-8.6	-6.3	-6.9	-2.8	-1.5
Lithuania	-12.1	-10.0	-9.3	-11.3	-8.9	-10.1	-9.3	-10.2
Latvia	-9.6	-10.7	-9.6	-11.9	-15.9	-13.7	-14.5	-13.9
Poland	-26.9	-29.5	-26.1	-25.8	-24.4	-22.4	-24.2	-23.6
Romania	-37.9	-35.2	-34.4	-34.3	-36.1	-34.6	-36.2	-34.9
Slovakia	-30.9	-27.7	-28.2	-23.8	-24.8	-24.0	-20.1	-17.4
Slovenia	-26.7	-36.5	-37.4	-35.4	-31.5	-30.3	-34.7	-34.6
Hungary	-37.1	-32.0	-33.9	-32.2	-33.8	-28.2	-27.0	-22.4

Source: European Commission, CNB

Table 9. Business confidence indicator

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-9.6	-10.7	-10.7	-10.9	-9.7	-10.3	-11.2	-12.5
Croatia	8.0	8.0	8.0	12.0	12.0	12.0	10.0	10.0
Czech Republic	-11.1	-9.8	-10.2	-8.2	-7.7	-5.1	-0.9	3.5
Estonia	-4.7	-0.5	-2.9	-4.5	-1.6	0.9	1.0	-0.2
Lithuania	-6.6	-7.0	-2.5	-6.6	0.3	0.3	-6.3	-7.8
Latvia	-5.9	-3.9	-4.1	-3.6	-4.1	-4.0	-4.4	-2.4
Poland	-20.1	-17.3	-18.3	-17.8	-17.1	-15.9	-15.2	-15.5
Romania	-2.7	-3.8	-2.8	-4.0	-3.2	-1.9	-3.0	-3.6
Slovakia	0.5	-2.2	-8.8	-5.3	-6.6	-1.0	4.1	-1.8
Slovenia	-11.8	-7.3	-4.5	-6.9	-3.9	-4.0	-4.3	-0.6
Hungary	-15.5	-7.7	-3.9	-6.3	-5.4	-1.7	-1.3	2.3

Source: European Commission, OeKB

Table 10. PMI in manufacturing

	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013	12.2013
Czech Republic	50.1	51.0	52.0	53.9	53.4	54.5	55.4	54.7
Poland	48.0	49.3	51.1	52.6	53.1	53.4	54.4	53.2
Hungary	47.1	50.8	49.0	51.7	54.3	51.0	52.6	50.2

Source: Markit Economics

3 Prices

Table 11. HICP (in %, y/y)

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	0.9	1.0	1.2	0.0	-0.7	-1.3	-1.1	-1.0
Croatia	3.1	1.8	2.2	2.7	2.4	1.7	0.8	0.7
Czech Republic	1.7	1.2	1.6	1.4	1.2	1.0	0.8	1.0
Estonia	3.4	3.6	4.1	3.9	3.6	2.6	2.2	2.1
Lithuania	1.4	1.5	1.3	0.6	0.5	0.5	0.5	0.5
Latvia	-0.4	-0.2	0.2	0.5	-0.1	-0.4	0.0	-0.3
Poland	0.8	0.5	0.2	0.9	0.9	0.9	0.7	0.5
Romania	4.4	4.4	4.5	3.4	2.6	1.1	1.2	1.3
Slovakia	1.7	1.8	1.7	1.6	1.4	1.1	0.7	0.5
Slovenia	1.6	1.6	2.2	2.8	2.2	1.5	1.1	1.2
Hungary	1.8	1.8	2.0	1.7	1.6	1.6	1.1	0.4

Source: Eurostat

Table 12. HICP – food (including alcohol and tobacco) (in %, y/y)

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	3.4	3.1	3.7	2.1	1.0	0.1	0.4	0.2
Croatia	4.8	4.4	4.7	4.3	4.3	3.6	2.8	3.1
Czech Republic	4.8	5.7	4.8	5.7	5.0	3.5	2.6	2.4
Estonia	5.6	6.6	6.4	6.2	5.6	4.4	3.6	3.1
Lithuania	1.4	1.7	2.4	2.7	1.9	1.5	1.1	-0.7
Latvia	1.7	2.6	2.3	1.7	1.5	1.6	1.5	1.3
Poland	5.8	5.4	5.8	5.0	5.2	4.7	4.0	3.4
Romania	2.4	2.2	1.5	2.7	2.8	2.9	2.5	2.2
Slovakia	6.6	7.5	6.8	4.7	3.0	-0.5	0.2	-0.2
Slovenia	5.0	5.4	6.0	5.5	5.4	4.8	2.6	2.4
Hungary	3.7	3.8	4.0	3.9	3.8	3.3	2.1	1.4

Source: Eurostat

Table 13. HICP - energy (in %, y/y)

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-1.9	0.2	1.5	-3.3	-5.9	-7.0	-6.5	-5.0
Croatia	4.7	-4.2	-1.3	1.1	0.6	-1.8	-3.5	-1.4
Czech Republic	1.2	-0.4	0.7	0.7	-0.1	-0.7	-1.0	-0.2
Estonia	5.9	5.2	9.5	6.7	5.0	4.3	3.5	3.5
Lithuania	-0.4	-1.5	-1.5	-3.4	-3.2	-3.4	-2.4	-2.1
Latvia	-3.0	-2.6	-1.3	-2.0	-3.6	-4.8	-4.7	-3.3
Poland	-1.8	-3.0	-2.7	-1.8	-1.8	-2.0	-2.5	-2.3
Romania	4.8	3.3	4.9	4.9	3.1	1.5	1.3	2.5
Slovakia	-1.2	-1.1	-0.8	-0.5	-0.7	-1.1	-1.3	-1.2
Slovenia	1.0	0.9	2.9	4.3	0.7	-1.7	-1.8	0.3
Hungary	-6.7	-6.7	-5.8	-4.2	-5.2	-5.4	-7.2	-10.7

Source: Eurostat

Table 14. HICP – excluding energy, food, alcohol and tobacco (in %, y/y)

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	0.4	0.1	-0.1	-0.2	-0.2	-0.5	-0.4	-0.5
Croatia	1.1	0.8	0.7	1.0	1.0	1.1	0.4	-0.2
Czech Republic	0.4	0.1	0.2	0.3	0.3	0.1	0.3	0.4
Estonia	2.0	2.1	2.2	2.3	2.4	1.6	1.6	1.5
Lithuania	1.7	1.8	1.6	1.2	1.1	1.1	0.8	0.9
Latvia	-0.7	-0.5	-0.6	0.0	-0.2	-0.1	0.7	0.8
Poland	0.8	0.7	0.4	0.7	0.7	0.7	0.7	0.4
Romania	2.6	2.2	2.6	2.1	2.2	2.2	1.9	2.0
Slovakia	1.9	1.8	1.5	1.4	1.1	0.9	0.7	0.6
Slovenia	0.5	0.3	0.7	1.4	1.5	1.1	1.3	1.0
Hungary	2.5	2.6	2.5	1.9	1.9	2.2	2.2	2.3

Source: Eurostat

Table 15. PPI (in %, y/y)

	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-1.4	-0.7	0.0	-1.8	-2.9	-3.5	-3.9	-4.0
Croatia	0.6	0.3	0.7	1.1	0.6	0.6	0.0	0.6
Czech Republic	2.3	0.2	0.9	0.6	-0.6	-1.6	-3.0	-2.6
Estonia	11.3	6.7	14.2	8.4	9.7	10.8	10.9	8.7
Lithuania	-0.2	0.1	0.2	-1.3	-2.4	-2.4	-1.9	-1.6
Latvia	1.8	2.1	1.5	1.1	0.8	0.9	0.6	0.3
Poland	-2.1	-2.1	-1.3	-0.9	-1.4	-1.7	-1.7	-1.6
Romania	4.9	4.9	4.9	4.0	2.3	1.8	0.9	0.9
Slovakia	0.8	-0.4	-0.3	-0.6	-0.7	-0.8	-1.4	-2.0
Slovenia	0.6	0.1	0.1	0.1	0.2	0.1	-0.2	-0.4
Hungary	-0.6	-1.5	-0.3	-0.3	0.4	-0.2	-1.3	-2.0

Source: Eurostat

4 Balance of payments

Table 16. Current account balance (in % of GDP, 4-quarter moving average)

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Bulgaria	0.0	0.1	-1.0	-2.1	-2.2	-1.3	-0.9	1.3
Croatia	-1.0	-0.8	-1.0	-0.9	-0.5	0.1	0.7	0.8
Czech Republic	-3.2	-3.5	-4.1	-1.9	-2.5	-2.4	-2.6	-2.0
Estonia	1.9	1.8	1.8	0.7	-0.5	-1.8	-1.4	-0.8
Lithuania	-1.9	-3.7	-4.8	-2.3	-2.1	-0.2	1.1	0.9
Latvia	-2.0	-2.1	-3.1	-3.7	-2.7	-2.5	-2.1	-0.9
Poland	-5.3	-5.0	-5.3	-4.8	-4.4	-3.7	-3.1	-2.3
Romania	-4.3	-4.5	-4.8	-4.4	-4.5	-4.4	-3.4	-1.6
Slovakia	-4.2	-3.8	-2.9	-0.6	0.9	2.2	2.7	3.2
Slovenia	0.3	0.4	0.5	0.9	1.9	3.3	4.4	5.6
Hungary	0.5	0.5	0.2	0.6	1.0	1.0	1.9	2.0

Source: Eurostat, central banks, NBP IE calculations

Table 17. Foreign direct investment balance (in % of GDP, 4-quarter moving average)

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Bulgaria	2.4	3.6	5.5	6.2	6.8	3.9	3.3	2.7
Croatia	0.3	2.4	1.8	2.0	1.8	2.4	3.4	2.5
Czech Republic	0.9	1.4	2.6	3.2	5.7	6.4	6.8	5.8
Estonia	3.8	1.5	-0.2	0.5	5.3	6.8	6.3	3.5
Lithuania	4.3	3.6	3.2	3.1	0.8	1.1	1.0	1.2
Latvia	3.7	3.4	3.4	1.6	1.9	1.7	1.6	2.0
Poland	4.6	4.0	2.1	2.0	1.4	1.2	1.6	0.4
Romania	0.4	1.4	1.5	1.6	2.0	1.6	1.8	2.4
Slovakia	3.1	3.6	3.7	3.5	2.8	3.1	1.8	0.7
Slovenia	2.0	2.0	2.3	1.6	1.2	-0.1	-0.3	-2.2
Hungary	1.4	3.9	7.7	9.5	11.3	11.0	7.6	5.5

Source: Eurostat, central banks, NBP IE calculations

Table 18. Official reserve assets to foreign debt ratio (in %, end of quarter)

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Bulgaria	35.7	36.8	36.0	37.3	41.4	41.3	38.6	39.0
Croatia	24.3	24.4	24.6	24.9	24.9	25.1	25.1	26.0
Czech Republic	40.3	42.1	40.9	42.5	41.7	44.1	44.7	43.2
Estonia	1.0	1.1	1.4	1.3	1.4	1.4	1.5	1.2
Lithuania	22.6	26.0	23.8	22.1	24.9	26.2	22.6	23.4
Latvia	19.5	16.7	17.7	16.9	17.6	18.7	18.5	18.5
Poland	24.6	26.9	25.0	25.6	26.0	26.4	26.6	25.7
Romania	38.1	37.7	38.8	37.1	37.0	35.5	36.1	35.6
Slovakia	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Slovenia	1.8	1.8	1.7	1.8	1.9	1.8	1.6	1.6
Hungary	27.7	28.5	26.4	27.0	26.9	27.3	28.7	27.7

Source: Eurostat, central banks, NBP IE calculations

5. Financial markets and financial system

Table 19. Central banks' policy rates (end of period)

	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013	12.2013
Croatia	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Czech Republic	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Poland	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50
Romania	5.25	5.25	5.00	4.50	4.50	4.25	4.00	4.00
Hungary	4.50	4.25	4.00	3.80	3.60	3.40	3.20	3.00

Source: Central banks, EcoWin Financial

Table 20. 3m interbank rates (average)

	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013	12.2013
Bulgaria	1.2	1.2	1.2	1.1	1.0	1.0	1.0	1.0
Croatia	0.9	1.5	2.0	1.7	1.7	1.5	1.1	0.8
Czech Republic	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Estonia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Lithuania	0.7	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Latvia	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.3
Poland	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Romania	4.1	4.4	4.5	3.9	3.7	3.1	2.7	2.6
Slovakia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Slovenia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Hungary	4.5	4.4	4.1	3.9	3.7	3.5	3.3	3.1

Source: EcoWin Financial

Table 21. Exchange rates vis-à-vis EUR (average)

	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013	12.2013
Croatia	7.57	7.49	7.50	7.53	7.60	7.62	7.63	7.63
Czech Republic	25.87	25.74	25.92	25.79	25.76	25.65	26.91	27.48
Latvia	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Poland	4.18	4.28	4.27	4.23	4.23	4.18	4.19	4.17
Romania	4.33	4.48	4.42	4.43	4.46	4.44	4.44	4.46
Hungary	292.67	295.74	294.73	299.10	299.23	294.35	297.87	299.60

Source: Eurostat

Table 22. NEER (in %, y/y – growth means appreciation)

	04.2012	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	-2.1	-2.3	-1.1	0.3	0.9	0.2	0.3	0.7
Croatia	-2.3	-2.8	-1.2	0.0	0.6	-0.6	-1.2	0.2
Czech Republic	-2.8	-2.2	0.0	0.3	-0.8	-3.7	-3.7	-1.4
Estonia	-2.7	-2.6	-1.4	0.1	0.6	-0.2	0.2	0.5
Lithuania	-2.6	-2.6	-1.8	-0.3	0.6	0.2	0.3	0.4
Latvia	-0.9	-1.6	-1.4	-0.1	0.4	-0.3	0.1	0.0
Poland	3.6	4.8	8.3	6.3	1.2	-0.3	1.4	3.7
Romania	-7.3	-6.3	-5.0	-0.7	0.1	-0.3	0.5	3.0
Slovakia	-2.4	-2.7	-1.6	0.0	0.7	0.4	0.5	0.7
Slovenia	-1.7	-1.8	-0.9	0.3	0.7	0.2	0.3	0.6
Hungary	2.8	7.0	5.4	5.2	0.3	-3.3	-0.8	1.5

Source: BIS, NBP IE calculations

Table 23. REER (in %, y/y – growth means appreciation, CPI deflated)

	04.2012	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	0.3	0.7	2.1	2.9	3.7	3.0	3.0	3.4
Croatia	-1.2	0.2	2.2	2.1	2.1	-0.3	0.7	1.2
Czech Republic	-3.7	-1.4	1.5	0.9	0.3	-1.6	-0.2	-3.2
Estonia	0.2	0.5	1.7	2.9	3.9	2.7	2.9	3.3
Lithuania	0.3	0.4	1.5	2.7	3.6	2.6	2.7	2.9
Latvia	0.1	0.0	0.6	1.5	2.3	1.4	1.4	1.7
Poland	1.4	3.7	2.2	0.6	0.1	0.0	0.6	1.6
Romania	0.5	3.0	1.2	6.0	5.5	3.7	5.6	5.2
Slovakia	0.5	0.7	1.6	2.6	3.4	2.4	2.4	3.0
Slovenia	0.3	0.6	1.4	2.1	2.6	2.0	2.0	2.3
Hungary	-0.8	1.5	1.4	0.0	-3.5	-2.7	-1.7	-2.3

Source: BIS, NBP IE calculations

Table 24. Loans to private sector (in %, y/y)

	04.2012	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013	11.2013
Bulgaria	2.4	1.6	1.0	0.7	0.4	0.7	0.7	-0.6
Croatia	-2.8	-3.9	-4.1	-4.5	-3.4	-2.2	-3.5	-3.3
Czech Republic	2.8	2.0	2.3	2.1	2.7	2.9	3.0	4.3
Estonia	0.9	0.3	0.6	0.0	0.5	0.5	0.7	0.7
Lithuania	0.5	-1.1	-1.5	-2.1	-1.9	-1.6	-2.6	-1.8
Latvia	-7.9	-5.2	-6.3	-6.3	-6.5	-7.2	-7.9	-7.4
Poland	1.8	0.5	2.3	2.5	2.3	3.0	2.5	3.1
Romania	-2.1	-2.4	-1.2	-4.4	-2.7	-3.4	-4.2	-4.1
Slovakia	3.2	3.0	4.4	3.5	4.4	4.8	4.9	3.8
Slovenia	-7.1	-7.4	-7.1	-7.5	-7.3	-7.3	-8.5	-8.3
Hungary	-4.6	-7.9	-5.4	-3.2	-3.2	-1.6	-2.4	-1.0

Source: Central banks

6. Labour market

Table 25. Employment (in %, y/y)

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Bulgaria	-2.2	-1.4	-1.8	-1.2	-0.6	-0.9	0.0	0.8
Croatia	-1.1	-3.2	-5.0	-1.0	-0.8	-5.1	-3.3	-3.8
Czech Republic	-0.4	-0.7	0.0	0.2	0.5	0.4	0.8	1.0
Estonia	7.9	3.4	3.7	3.5	0.6	1.5	1.6	3.0
Lithuania	-0.5	-1.5	1.3	1.6	2.4	0.8	1.6	1.5
Latvia	-9.0	-8.0	1.1	0.8	2.1	1.3	3.4	2.5
Poland	0.1	0.2	0.2	0.2	0.2	0.2	-0.8	-0.6
Romania	-2.2	-0.2	-0.4	1.7	2.7	2.2	-0.1	0.1
Slovakia	-0.2	-1.2	1.2	0.6	0.6	0.1	0.2	-0.2
Slovenia	-1.8	-2.6	0.2	-1.5	-1.5	-0.9	-3.8	-1.7
Hungary	0.8	1.1	1.5	1.7	2.1	1.5	0.8	1.5

Source: Eurostat

Table 26. Unemployment rate (in %, of labour force)

	03.2013	04.2013	05.2013	06.2013	07.2013	08.2013	09.2013	10.2013
Bulgaria	13.0	13.0	12.9	12.9	13.0	13.1	13.1	13.2
Croatia	16.8	16.9	16.9	17	16.9	17	17.2	17.6
Czech Republic	7.3	7.1	7.1	6.8	6.9	6.9	6.9	6.8
Estonia	8.8	8.3	8.1	8.0	8.1	8.4	8.8	
Lithuania	12.4	12	11.8	11.9	11.5	11.6	11.4	11.1
Latvia	12.7	11.6	11.6	11.6	11.9	11.9	11.9	
Poland	10.6	10.6	10.5	10.4	10.3	10.2	10.2	10.2
Romania	7.2	7.4	7.3	7.5	7.3	7.3	7.3	7.3
Slovakia	14.1	14.1	14.2	14.2	14	14	13.9	13.9
Slovenia	10.8	10.8	10.7	10.5	10.3	10.3	10.2	10.1
Hungary	10.6	10.4	10.4	10.4	10.2	10.1	10.1	

Source: Eurostat

Table 27. Nominal wages (in %, y/y)

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Bulgaria	9.0	8.2	8.3	8.8	8.4	4.5	3.2	2.6
Croatia	1.8	1.1	3.5	0.9	1.9	4.0	-0.5	0.3
Czech Republic	2.4	3.3	2.2	1.7	3.5	-0.3	1.2	1.3
Estonia	6.1	5.9	4.3	6.5	6.7	8.0	7.8	8.3
Lithuania	4.1	4.0	2.6	5.1	4.0	4.5	6.0	5.8
Latvia	5.2	3.8	4.7	3.7	3.9	4.8	4.5	5.6
Poland	4.3	2.9	3.5	3.8	2.5	3.6	2.1	2.7
Romania	9.7	4.6	7.0	7.2	7.6	8.5	6.0	4.1
Slovakia	1.7	3.1	3.4	1.4	3.8	5.0	2.3	1.5
Slovenia	0.7	-0.6	3.9	-0.6	-1.6	-3.8	-5.9	-0.5
Hungary	7.4	2.2	4.9	5.3	4.6	5.2	3.5	2.8

Source: Eurostat

Table 28. ULC (in %, y/y)

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Bulgaria	2.8	5.9	5.0	6.3	7.3	6.9	4.2	3.9
Croatia	2.7	3.4	-2.5	4.7	2.1	-1.5	1.7	-3.6
Czech Republic	3.2	4.6	7.1	7.1	7.3	9.8	7.3	8.4
Estonia	3.8	3.5	4.4	4.9	4.2	4.3	7.9	9.8
Lithuania	-1.0	-1.6	1.5	3.6	2.8	1.3	2.2	1.7
Latvia	-0.8	2.5	-9.9	-10.9	-7.9	-9.9	2.6	2.7
Poland	1.3	-1.3	-3.3	1.9	-2.0	-2.6	-5.2	-7.7
Romania	5.1	9.0	7.8	8.5	11.5	10.0	9.0	6.3
Slovakia	1.7	-2.3	1.7	1.9	0.2	2.9	4.5	1.3
Slovenia	2.8	3.8	2.8	4.8	4.9	3.3	3.8	1.2
Hungary	4.9	7.4	5.0	8.3	9.4	8.9	6.2	4.4

Source: Eurostat, NBP IE calculations

7. Public finance

Table 29. General government balance (ESA'95) (in %, of GDP)

	2009	2010	2011	2012	2013p	2014p	2015p
Bulgaria	-4.3	-3.1	-2.0	-0.8	-2.0	-2.0	-1.8
Croatia	-5.3	-6.4	-7.8	-5.0	-5.4	-6.5	-6.2
Czech Republic	-5.8	-4.7	-3.2	-4.4	-2.9	-3.0	-3.5
Estonia	-2.0	0.2	1.1	-0.2	-0.4	-0.1	-0.1
Lithuania	-9.4	-7.2	-5.5	-3.2	-3.0	-2.5	-1.9
Latvia	-9.8	-8.1	-3.6	-1.3	-1.4	-1.0	-1.0
Poland	-7.5	-7.9	-5.0	-3.9	-4.8	4.6	-3.3
Romania	-9.0	-6.8	-5.6	-3.0	-2.5	-2.0	-1.8
Slovakia	-8.0	-7.7	-5.1	-4.5	-3.0	-3.2	-3.8
Slovenia	-6.3	-5.9	-6.3	-3.8	-5.8	-7.1	-3.8
Hungary	-4.6	-4.3	4.3	-2.0	-2.9	-3.0	-2.7

p – European Commission forecasts of November 2013

Source: Eurostat, European Commission

Table 30. Sovereign debt (ESA'95) (in %, of GDP)

	2009	2010	2011	2012	2013p	2014p	2015p
Bulgaria	14.6	16.2	16.3	18.5	19.4	22.6	24.1
Croatia	36.6	44.9	51.6	55.5	59.6	64.7	69.0
Czech Republic	34.6	38.4	41.4	46.2	49.0	50.6	52.3
Estonia	7.1	6.7	6.1	9.8	10.0	9.7	9.1
Lithuania	29.3	37.8	38.3	40.5	39.9	40.2	39.6
Latvia	36.9	44.4	41.9	40.6	42.5	39.3	33.4
Poland	50.9	54.9	56.2	55.6	58.2	51.0	52.5
Romania	23.6	30.5	34.7	37.9	38.5	39.1	39.5
Slovakia	35.6	41.0	43.4	52.4	54.3	57.2	58.1
Slovenia	35.2	38.7	47.1	54.4	63.2	70.1	74.2
Hungary	79.8	82.2	82.1	79.8	80.7	79.9	79.4

p – European Commission forecasts of November 2013

Source: Eurostat, European Commission

Table 31. Excessive deficit correction period (EDP)

	Year
Bulgaria	Not included by EDP
Czech Republic	2016
Estonia	2013
Lithuania	Not included by EDP
Latvia	Not included by EDP
Poland	Not included by EDP
Romania	2015
Slovakia	Not included by EDP
Slovenia	2013
Hungary	2015

Source: European Commission

8. Forecasts

Table 32. GDP growth forecasts (in %, y/y)

	2012	European Commission			IMF			Domestic sources		
		2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	0.8	0.5	1.5	1.8	0.5	1.6	2.5	-	-	-
Croatia	-2.0	-0.7	0.5	1.2	-0.6	1.5	2.0	-0.7	1.0	-
Czech Republic	-1.0	-1.0	1.8	2.2	-0.4	1.5	2.1	-0.9	1.5	3.0
Estonia	3.9	1.3	3.0	3.9	1.5	2.5	3.5	1.0	2.6	3.9
Lithuania	3.7	3.4	3.6	3.9	3.4	3.4	3.5	2.8	3.5	-
Latvia	5.2	4.0	4.1	4.2	4.0	4.2	4.2	4.1	5.0	-
Poland	1.9	1.3	2.5	2.9	1.3	2.4	2.7	1.3	2.9	3.3
Romania	0.7	2.2	2.1	2.4	2.0	2.2	2.5	2.2	2.2	2.5
Slovakia	2.0	0.9	2.1	2.9	0.8	2.3	2.8	0.9	2.2	3.1
Slovenia	-2.5	-2.7	-1.0	0.7	-2.6	-1.4	0.9	-2.6	-0.7	1.4
Hungary	-1.7	0.7	1.8	2.1	0.2	1.3	1.5	1.1	2.1	2.4

Table 33. Inflation forecasts (in %, y/y)

	2012	European Commission			IMF			Domestic sources		
		2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	2.4	0.5	1.4	2.1	1.4	1.5	2.3	-	-	-
Croatia	3.4	2.6	1.8	2.0	3.0	2.5	2.7	2.4	2.3	-
Czech Republic	3.5	1.4	0.5	1.6	1.8	1.8	2.0	1.4	0.6	2.0
Estonia	4.2	3.4	2.8	3.1	3.5	2.8	2.5	3.3	2.3	3.0
Lithuania	3.2	1.4	1.9	2.4	1.3	2.1	2.3	1.3	1.5	-
Latvia	2.3	0.3	2.1	2.1	0.7	2.1	2.3	0.9	2.0	-
Poland	3.7	1.0	2.0	2.2	1.4	2.0	2.1	1.0	1.7	1.9
Romania	3.3	3.3	2.5	3.4	4.5	2.8	2.9	4.1	2.4	2.8
Slovakia	3.7	1.7	1.6	1.9	1.7	2.0	2.1	1.5	1.3	1.8
Slovenia	2.8	2.1	1.9	1.5	2.3	1.8	2.1	2.2	1.7	1.5
Hungary	5.7	2.1	2.2	3.0	2.4	3.0	3.0	1.7	1.3	2.8

Table 34. Current account balance forecasts (in %, of GDP)

	2012	European Commission			IMF			Domestic sources		
		2013	2014	2015	2013	2014	2015	2013	2014	2015
Bulgaria	-1.3	0.3	0.0	-0.6	1.2	0.3	-1.5	-	-	-
Croatia	0.1	0.1	0.7	0.1	0.4	-0.7	-0.9	-0.1	-0.2	-
Czech Republic	-2.4	-1.6	-1.1	-1.0	-1.8	-1.5	-1.5	-1.2	-0.3	0.1
Estonia	-1.8	-2.1	-2.2	-2.2	-0.7	-0.2	0.3	-1.9	-1.9	-1.5
Lithuania	-0.2	-0.5	-0.8	-1.4	-0.3	-1.2	-1.7	-0.1	-0.6	-
Latvia	-2.5	-1.6	-2.0	-2.6	-1.1	-1.3	-1.6	-	-	-
Poland	-3.7	-1.5	-1.3	-1.4	-3.0	-3.2	-3.2	1.0.	0.5.	-0.4.
Romania	-4.4	-1.2	-1.5	-1.7	-2.0	-2.5	-2.8	-1.0	-1.3	-1.6
Slovakia	2.2	4.3	4.3	5.4	3.5	4.2	4.3	3.3	2.8	3.5
Slovenia	3.3	5.0	6.0	6.5	5.4	7.0	6.9	6.1	6.8	7.7
Hungary	1.0	3.0	2.7	1.8	2.2	2.0	1.3	2.8	2.8	3.2

* - balance on current and capital account

Sources for tables 32-34: European Commission (11.2013), IMF (10.2013), Narodowy Bank Polski (11.2013), Ceska Narodni Banka (11.2013), Narodna Banka Slovenska (12.2013), Magyar Nemzeti Bank (12.2013), Comisia Naţională de Prognoză (11.2013), Banka Slovenije (10.2013), EestiPank (12.2013), Latvijas Banka (10.2013), Lietuvos Bankas (11.2013), Ekonomski Institut, Zagreb (10.2013).

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