National Bank of Poland

Economic Institute
Bureau of World Economy

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

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

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General information on the CEE countries in 2011

	Area (km^2)	Population		GDP in EUR million	GDP per capita (EUR)	
		thousand of inhabitants	inhabitants per 1 km^2		current prices	PPP adjusted
Bulgaria	110,879	7,505	67.7	38,483	4,800*	10,700*
Czech Republic	78,867	10,533	133.6	154,913	14,700	20,000
Estonia	45,227	1,340	29.6	15,973	11,900	16,800
Lithuania	65,300	3,245	49.7	30,705	9,500	15,500
Latvia	64,559	2,230	34.5	20,050	9,700	14,600
Poland	312,685	38,200	122.2	370,014	9,300*	15,300*
Romania	238,391	21,414	89.8	136,480	5,800*	11,400*
Slovakia	49,035	5,435	110.8	69,058	12,700	18,400
Slovenia	20,273	2,050	101.1	35,639	17,400	21,000
Hungary	93,028	9,986	107.3	100,513	10,100	16,500

*2010
Source: Eurostat.

Gross domestic product growth rate (seasonally adjusted constant prices)

	2011			2012	2011			2012
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	q/q				y/y			
Bulgaria	0.3	0.1	0.1	0.0	2.1	1.4	0.9	0.5
Czech Republic	0.3	0.0	-0.2	-0.8	2.1	1.3	0.6	-0.7
Estonia	1.8	1.4	0.1	0.3	8.1	8.1	5.1	3.7
Lithuania	1.5	1.2	0.8	0.8	6.5	6.7	5.2	4.4
Latvia	1.9	1.4	1.0	1.1	5.2	5.8	5.7	5.6
Poland	1.1	0.9	1.0	0.8	4.5	4.0	4.2	3.8
Romania	0.2	1.0	-0.2	-0.1	1.4	3.2	2.1	0.8
Slovakia	0.8	0.7	0.8	0.7	3.4	3.2	3.3	3.2
Slovenia	-0.1	-0.3	-0.6	0.2	0.6	-0.2	-1.5	-0.8
Hungary	-0.2	0.0	0.0	-1.2	1.7	1.4	1.2	-1.4

Source: Eurostat.

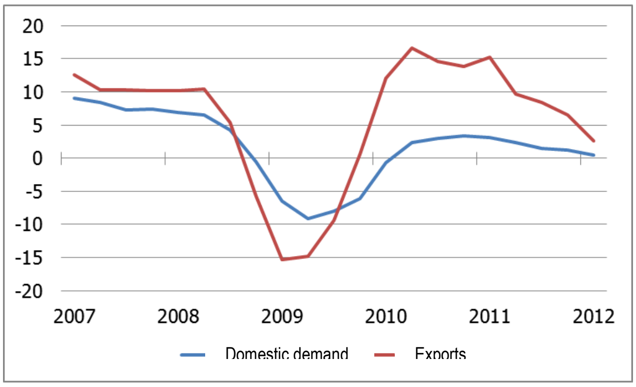
Summary

Since mid-2011, the external environment for the Central and Eastern European economies (CEE) has deteriorated. Euro area crisis has affected both the real economy (the annual GDP growth in the euro area in 2012 Q1 dropped to -0.1%) and the financial sector, especially banks. Both these factors contributed strongly to weaker economic growth indicators in the CEE countries over the recent quarters.

Economic growth in the CEE region, after a period of recovery following the first stage of recession, started to slow down in the second half of 2011. In the first half of 2011 the annual GDP growth rate in the region amounted to 3.4%. In 2012 Q1 it had already declined to 1.9%

The observed economic slowdown is the result of both weakening external demand and persistently low level of domestic demand.

Domestic demand growth and exports growth in the CEE countries (in %, y/y)

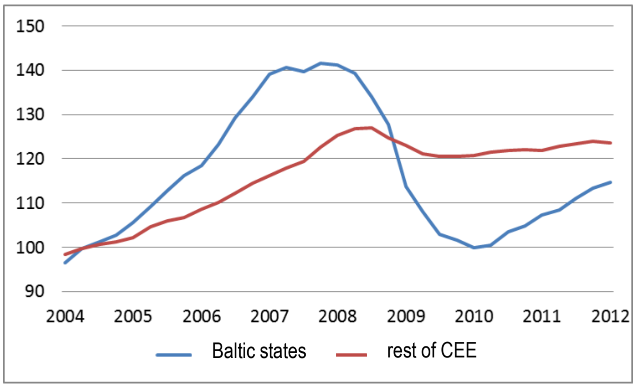


Source: Eurostat

Exports, the driving force of GDP growth in the two previous years, noticeably decelerated in 2012 Q1. It resulted in lower net exports contribution to economic growth. Lower external demand was noted in all countries of the region, however, the most significant drop in exports was recorded in Bulgaria, which was the result of the proximity and close trade linkages with peripheral states of the euro area (esp. Greece). Exports in the Czech Republic and Slovakia showed a relatively slower response to the weaker euro area demand. Both these economies are highly integrated into global value chains production process. New advanced products included in their export offer and geographic reorientation of sales markets (from the euro area countries to emerging markets) allowed the economies to mitigate the effects of weakening demand in Western European countries.

Similarly to 2011, in 2012 Q1 the level of domestic demand differed considerably across the CEE region. The highest growth was observed in the Baltic states (8.2% in 2011 as compared to 1.6% in other CEE countries). However, it should be noted that in spite of a rapid growth in the recent quarters, domestic demand in the Baltic states in 2012 Q1 was still approx. 20% lower than in 2008.

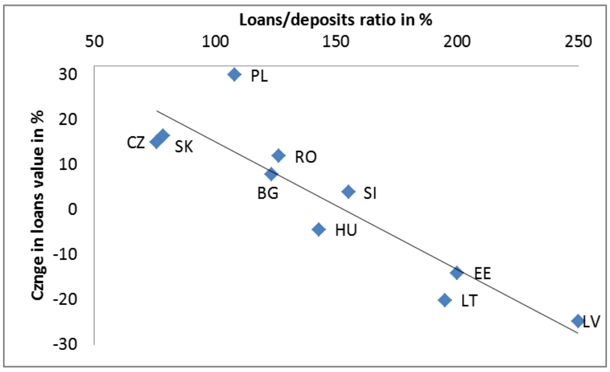
Domestic demand in the Baltic states and other CEE countries (2004=100)



Source: Eurostat

The substantial difference in the consumption and investments growth rates between Estonia, Lithuania and Latvia and other CEE countries seems even more surprising, given that the deleveraging process in these states seemed to be most intensified. It resulted from a specific character of banks operating in those countries. Until 2008, domestic lending in the Baltic states had been very dependent on foreign financing. After its sudden stop and capital outflow from the banking sector, domestic lending also stopped.

Change in loans value and loans to deposits ratio in 2008

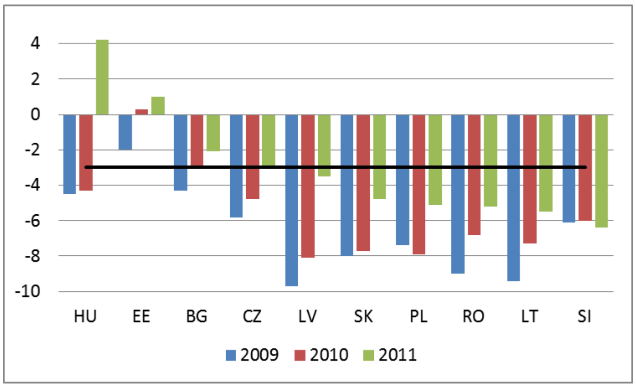


Source: central banks, BIS

Banking sector deleveraging was also noted in other countries of the region. However, only in Slovenia and Hungary, as in the Baltic states, it led to a decrease in the nominal value of total loans.

One of the reasons for a fast growth rate of domestic demand in the Baltic states was the fact that the most stringent public finance consolidation measures were taken in the years 2009-2010. Subsequent quarters saw some fiscal loosening. In turn, most of the other CEE countries are currently implementing consolidation measures (which explains a strong decline in the domestic demand in the Czech Republic and Hungary in 2011 and 2012 Q1) or have not embarked on the implementation of such decisive measures yet (Slovenia).

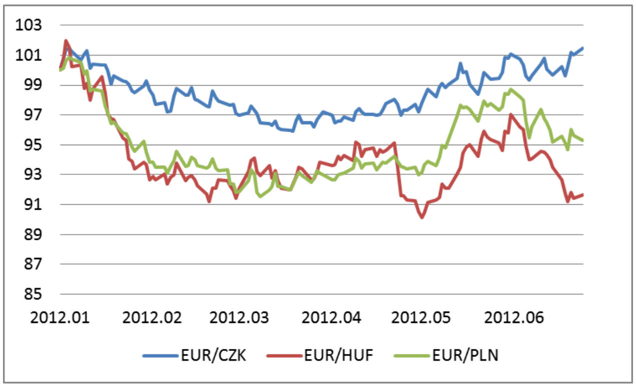
Public debt in CEE countries (in % of GDP)



Source: Eurostat

The euro area crisis continued to undermine stability in the global financial markets. The turmoil in the European financial markets in May 2012, caused by dissolution of the Greek Parliament and the announcement of new elections confirmed high sensitivity of financial asset prices in the CEE countries to changes in global risk aversion. As in the second half of 2011, the prices of Czech assets, still considered by investors as a "safe haven", showed the lowest volatility. In turn, Hungarian assets suffered the most, also due to domestic economic and political problems.

Exchange rates of selected CEE currencies against the euro



Source: Reuters

Forecasted recession in the euro area will probably be followed by a noticeable slowdown in the CEE region's economies in 2012. The weakening external demand will lead to further decline in export growth, which was the main factor supporting recovery from the crisis in 2010-2011. The ongoing fiscal consolidation in most countries, anticipated stagnation in the labour market and further reduction in foreign financing for the banking sector should, on the other hand, significantly harm the domestic demand recovery.

COUNTRIES OF CENTRAL AND EASTERN EUROPE

Slackening economic growth in the CEE economies in the face of decreasing external demand

Economic recovery observed in the CEE economies in 2010 and the first half of 2011 started to slow down gradually already in the second half of 2011. Real GDP growth in the region, amounting to 3.5% in 2011 Q2, was on a steady downward trend over the subsequent quarters, and went down to 1.9% in 2012 Q1. During this period, the structure of economic growth also changed. In the second half of 2011, the cycle of inventories reversed. A rise in inventories observed in the previous quarters, resulting from fast increase in industrial output, was one of the driving forces behind the recovery of economic growth after the first wave of the crisis. Subsequent quarters of 2011 saw a significant drop in inventories, which also continued throughout 2012 Q1. However, weakening economic growth in the second half of 2011 was cushioned by growing contribution of net exports. This resulted from rapidly declining imports, while exports growth was falling at a much slower rate. However, already in 2012 Q1, the exports of the CEE countries rapidly responded to the decline in the external demand. The slowdown in exports led to a substantial reduction in net exports contribution to GDP growth.

Rapidly growing exports in the CEE countries, including exports to the euro area countries – the region's main trading partner – were the common factor boosting the recovery after the first stage of the global crisis. Already in 2011 Q1, the annual exports growth in the CEE region exceeded 15% y/y an average. It slowed down to 2.6% y/y a year later. The decline in exports growth rate[1] in the past few quarters was noted in all countries of the region. In Bulgaria and Romania it even dropped to negative values. The lower growth in exports was mainly the result of a recession in the euro area and thus limited demand from the main recipient of goods and services provided by the CEE countries. This concerns primarily Germany. Germany is not only the main importer of the CEEs goods and services. German companies are also the biggest centres of international production chains that CEE countries are part of. Exports to the euro area peripheral countries declined even more. It was reflected in exports decline in Bulgaria and Romania – the CEE countries having the closest trade relations with Southern Europe.

In 2012 Q1, contrary to two preceding quarters, the decline in exports growth was accompanied by a decrease in net exports' contribution to GDP growth. In the second half of 2011, exports was falling at a much slower pace than imports which led to a considerable increase in net exports' contribution to GDP growth. In 2012 Q1, the scale of decline in imports halted noticeably which, combined with further slowdown in exports growth, resulted in distinctly smaller contribution of foreign trade to economic growth rate (decrease from 1.7 pp. in 2011 Q1 to 0.4 pp. in 2012 Q1). In 2012 Q1, the Baltic states, Bulgaria, Poland and Romania posted a negative contribution of net exports to GDP growth.

Diversified domestic demand growth

Both in terms of rate and structure of economic growth, the CEE countries could still be divided into two groups. Despite a clear slowdown observed since 2011 Q2, the annual GDP growth in the Baltic states, Poland and Slovakia continued to be significantly higher than in the other countries of the region. In 2012 Q1, it ranged from 3.2% y/y in Slovakia to 5.5% in Latvia. At the same time, all these countries (except for Estonia in 2011 Q4) recorded continued GDP growth in quarter-on-quarter terms. Positive GDP growth was recorded by Bulgaria and Romania, however in 2012 Q1 it did not exceed 1% y/y, which means stagnation when analysed in quarter-on-quarter terms. In turn, at the beginning of 2012, the Czech Republic, Slovenia and Hungary experienced a decline in GDP on annual basis. However in Slovenia, the decline slowed down unexpectedly.

Differences in GDP growth rate across the region resulted primarily from differences in domestic demand growth. This concerned mainly the persistently high rate of its growth in the Baltic states as compared to other countries in the region. Such differences could be observed both in consumption (private and public) and investments.

In 2012 Q1, the growth rate of private consumption in the Baltic states remained at the level comparable to that recorded in 2011 (5.1% y/y in 2012 Q1 against 5.2% y/y in 2011). Growth slowed down slightly in Estonia and Lithuania, while Latvia continued to observe rising household consumption expenditures. In the remaining countries of the CEE region, private consumption was growing at a considerably slower pace (0.9% y/y) and, additionally, its growth decelerated noticeably compared with 2011 (1.5%). An increase in household consumption could be observed in 2012 Q1 in Poland, Bulgaria, Romania and, unexpectedly, in Slovenia. In the Czech Republic, Slovakia and Hungary private consumption was on the decline as in 2011.

Even more considerable disproportion, albeit decreasing over the recent quarters, was observed in fixed capital formation. In 2012 Q1, its annual growth exceeded 17% in the Baltic states (which was constituted a considerable drop in comparison with 23% recorded in 2011), while in the remaining part of the region investments grew at 4% y/y. Over the recent quarters, a relatively high growth rate of fixed investments was observed in Poland and Romania (7.6% and 11.9%, respectively). Considerably

[1] According to national accounts.

lower, albeit still positive, in the Czech Republic and Slovakia. On the other hand, in Bulgaria, Slovenia and Hungary gross fixed capital formation fell. However, it is worth noting that unlike in the Baltic states, in some of the remaining CEE countries, investment growth increased in 2012 Q1 as compared to the second half of 2011 (e.g. in Bulgaria, the Czech Republic and Romania).

Deteriorating indicators of current economic conditions

The 2012 retail sales data continue to suggest weak consumption in the majority of countries in the region. The volume of retail trade in the period from January to April 2012 virtually did not change. In the Baltic states, retail sales volume even decreased slowly which may suggest a decline in household expenditures' contribution to economic growth in these countries in the upcoming quarters. Similar conclusions may be drawn from the analysis of the consumer sentiment indicators published by the European Commission. Since mid-2011, most countries noted a slight decline in consumer confidence indicators, driven by the continuing stagnation in the labour markets, ongoing fiscal consolidation or declining supply of consumer loans.

The weakening of external demand and exports observed in the CEE countries since the second half of 2011 caused an apparent slowdown of activity in the industrial sector which was the driving force behind economic recovery in the region after the first wave of the crisis. The industrial output annual growth rate, that assumed double-digit values at the beginning of 2011 (for Estonia its growth rate exceeded 30% y/y), declined to 5% in mid-2011 and remained at this level until the end of the year. In 2012, most countries recorded a further decline in industrial output growth. In Bulgaria, Estonia and Latvia industrial production ever decreased. However, not all countries of the region noted a downturn in manufacturing. Industrial output growth increased in Slovakia (as a result of shift in product and geographical structure of exports) and in the crisis-hit Slovenia and Hungary. In the case of two latter countries it resulted from the low base effect.

The expected further slowdown in the euro area economies in the coming quarters of 2012 suggests a further downturn in industrial production in the CEE region. It is indicated also by the industry sentiment index. Indices published by the European Commission in the first five months of 2012 continued a downward trend. PMI indices for Poland and the Czech Republic fell below the threshold level of 50 points[2]. The anticipated recession among the main trading partners and thus a smaller number of foreign orders were perceived by entrepreneurs as the main threat to the production volume in the subsequent months of 2012.

[2] By contrast, Hungary saw an increase in the PMI index, however in the first half of 2012, it was characterized by very high volatility which might suggest its downward revision in the subsequent months.

Expected further economic slowdown

The banking crisis and recession in the euro area are expected to be the main factors affecting economic developments in the CEE region during the upcoming quarters. Escalation of the crisis, observed in the second half of 2011, led to a major revision of growth forecasts also for the CEE countries. In April 2012, the European Commission revised its 2012 and 2013 forecasts downwards for most countries of the region (except for Poland and Slovakia) as compared to the preceding forecast of November 2011.

Downward revisions of forecasts concerned both the expected growth rate of exports, resulting from slower global economic growth rate than expected in the second half of 2011, especially in the euro area, and weaker domestic demand.

Apart from its direct impact on the CEE economies, the crisis in the euro area will also affect the region through other, indirect transmission channels. They include further slowdown of bank lending activity or limited capital inflow from Western European countries. Additional factors decelerating growth in domestic demand will be continued fiscal consolidation process and persisting stagnation in the labour market. Additionally, prolonged euro area crisis may further boost risk aversion (a reaction similar to that observed in May 2012), which would result in the depreciation of local currencies and an increase in bond yields. Not only would it cause higher costs of foreign debt service (particularly in the public sector), but would also reduce disposable income of a major part of households and enterprises repaying FX loans (in particular in Romania and Hungary).

The European Commission anticipates that the GDP growth rate in the region may decline to 1.4% in 2012 (1.8% according to the forecast published in November 2011) as compared with an increase of 3.1% in 2011. In 2013, in turn, GDP in the region is expected to go up to 2.3%, mainly due to higher domestic demand.

In 2012, the fastest economic growth is expected in Poland, Lithuania and Latvia. These are the only countries in the region for which the European Commission forecasts GDP growth rate to exceed 2% y/y. In turn, Slovenia and Hungary are expected to record a decline in GDP in 2012. In 2013, the acceleration of GDP growth rate is to be observed in all CEE countries except for Poland, however only in the Baltic states it is expected to exceed 3% y/y.

Stagnation in the labour market

One of the factors behind weak private consumption in the region was the absence of considerable improvement in the labour markets in the CEE countries. After a period of strong growth in unemployment rate, observed at the end of 2008 and in 2009, in the following years, the rate remained at an elevated level. The strongest decline in unemployment rate was observed in the Baltic states. Between the beginning of 2011 and April 2012, the harmonised unemployment rate in these countries decreased on average by 2.5 pp., however it was still twice as high as in 2007. A fall in unemployment rate in that period could also be observed in the Czech Republic and Hungary, however its scale was significantly lower (fall by 0.4 pp. and 0.5 pp., respectively). In other CEE countries, the percentage of the unemployed continued to increase, especially in Bulgaria – by 1.5 pp.

Despite the largest decline, the Baltic states, alongside with Slovakia experienced the highest unemployment rate in the region. It reached 15.2% in Latvia in 2012 Q1. In turn, the lowest unemployment rate in April 2012 was recorded in the Czech Republic (6.6%) and Romania (7.4%).

The annual employment growth rate in the CEE countries slightly accelerated in 2012 Q1, reaching 0.7% (as compared to 0.3% in 2011). The number of the employed in the region's economies was still over 3% lower than in the second half of 2008. As in the case of unemployment rate, the largest improvement in the situation in the labour market could be observed in the Baltic states, especially in Estonia, where the number of jobs increased in 2012 Q by 3.4% y/y. At the opposite end were Bulgaria, Slovenia and Hungary with a decreasing number of jobs in 2012 Q1 (in year-on-year terms).

Reduced activity in industry caused a slower increase in employment in this sector. In 2012 Q1, it rose by 0.5% y/y across the region, with declines in Bulgaria, the Czech Republic and Hungary. The number of the employed also increased in some service sectors, including financial intermediation, real estate sector and, in the Baltic states, also in IT and telecommunications services. In turn, employment in agriculture and public administration declined in that period.

European Commission forecasts indicate that stagnation in the labour markets in the CEE member states will persist in subsequent quarters of 2012 and in 2013. According to the spring 2012 forecast, the number of the employed in region will continue to increase at a very slow pace, especially in 2012. A slight decline in unemployment is also forecast. In the Baltic states, where until now the labour market improved at the fastest pace, employment growth and decline in unemployment will be much slower than in 2011. The worst situation is forecasted for Bulgaria and Slovenia, where unemployment is expected to edge up and employment rate is expected to drop both in 2012 and in 2013. The lack of improvement in the labour market is likely to result from deteriorated situation in the industry and an attempt to increase the efficiency in the public sector through employment cuts (for this reason, employment the Czech Republic is anticipated to decline in 2012).

Slower labour costs growth

In spite of persistently high level of unemployment, annual growth rate of nominal wages in the second half of 2011 in the CEE countries increased. It was particularly visible in the case of the Baltic states, but also in Romania and Hungary. In the case of these countries (except for Hungary) this rise can be attributed to the growth in wages in the public sector which were severely cut in the previous quarters. However, in 2012 Q1, wage growth declined in most countries. Only in the Baltic states, the persisting good situation in industry and services caused further, albeit slower than in the previous quarters, rise in wage growth.

Rising wage growth in the second half of 2011 boosted unit labour costs (ULC) in some of the CEE countries (Bulgaria, the Czech Republic, Romania, Slovenia, Hungary). However, it is worth noting that these were the slowest-developing countries in that period, thus the rise in labour productivity was slower than the rise in nominal wages. In other countries, in the second half of 2011, the ULC growth rate declined.

In 2012 Q1, a serious economic downturn in the Czech Republic and Hungary further pushed up unit labour costs in these countries, while in other economies of the region, its growth rate decreased.

European Commission forecasts indicate a further rise in nominal wages in the CEE economies in 2012 and 2013. Its scale is to be similar to that observed in 2011. Combined with the expected economic slowdown and lower growth rate of labour productivity, this will boost unit labour costs in this and the following year.

Slow decline in inflation amidst stabilisation of core inflation

Since the beginning of 2012, a slow decline in inflation has been observed. Although in January and February 2012, there was an increase in inflation in the region, it resulted mainly from a higher growth rate of consumer prices in the Czech Republic and Hungary. Both these countries introduced new VAT rates at the beginning of 2012[3], which led to an increase in inflation in these countries by 1.1 pp. and translated into a 0.2 pp. increase in inflation in the entire CEE region. Depreciation of currencies in the region (i.e. in Poland, the Czech Republic, Romania and Hungary) in 2011 Q3 and Q4 also contributed to a rise in inflation at the beginning of 2012. It was another inflation driving factor observed amidst the already rising prices of energy commodities and food. However, in the subsequent months of 2012, both in the Czech Republic, Hungary and in other countries in the region, HICP growth was decreasing. In January 2012 it amounted to 3.9% on average. In February it increased to 4.0% while in May 2012 it dropped to 3.3%. The decline in HICP rate in the period between February and May 2012 was mainly due to supply factors, i.e. the decreasing growth rate of energy and food prices. In 2012 the level of inflation differed across in the CEE economies similarly to the previous years. The lowest average inflation between January and May 2012 was observed in Bulgaria (1.9%) and in Romania (2.4%) which, in mid-

[3] In Hungary, the main VAT rate increased from 25% to 27% – the highest level in the EU, while in the Czech Republic the reference rate was increased from 10% to 14%. In both countries, it was the effect of the pursued fiscal consolidation.

2011, experienced the highest inflation in the region. In turn, the highest level of inflation in that period was observed in Hungary (5.6%) which was connected, among others, with the aforementioned changes in taxation.

After a period of growth of core inflation (HICP excluding energy and food prices) in 2011, between January and May 2012, it has stabilised in the CEE countries, albeit at a high level. During the first five months of 2012, core inflation in the CEE countries (weighted average for the region) ranged from 2.4% to 2.6% which was still the highest level observed since 2009 Q4.

The reasons for high level of core inflation should not be sought in increased inflationary pressure since the situation in the labour market did not improve considerably during this period and household consumption expenditures increased at a very slow pace. The increase in core inflation resulted primarily from the impact of high energy and food prices on other categories of consumer prices and changes in rates of indirect taxes (primarily VAT).

Further decline in price growth expected

The decline in inflation observed in the first half of 2012 is expected to continue in the subsequent months. According to the European Commission forecasts, HICP growth in 2012 and 2013 is to decline gradually in nearly all countries of the region (except for Bulgaria and Romania, where a slight increase is expected in 2013).

The main factor that is expected to contribute to the decrease in inflation is mainly the decreasing prices of energy commodities, especially crude oil, which could be observed already in 2012 Q2. Additionally, the EC expects a decline in agricultural commodities prices worldwide, which should be reflected in a slower growth of food prices. A further increase in core inflation is not expected either due to the persistently low inflationary pressure. At the same time, there are factors that may affect the growth of inflation in the coming months. These include further increases in indirect taxes and administered prices and the possibility of currency depreciation in the region's major economies as a result of an escalation of the euro area crisis.

Decline in fiscal imbalance in 2011

In 2011, the deficit in the general government sector, due to the undertaken consolidation measures, was reduced in all CEE countries, except for Slovenia. The decline was the strongest in the case of Hungary (by 8.5 pp. of GDP), Latvia (by 4.7 pp.), Slovakia (by 2.9 pp.) and Poland (by 2.7 pp.). Hungary constitutes a special case in this group with a budget surplus (4.6% of GDP) resulting from nationalisation of the capital pension system (transfer of assets amounting to 10% of GDP). In 2011, the increase in the budget deficit in Slovenia (from 6.0% to 6.4% of GDP) was primarily driven by a one-off financial assistance for the financial sector and state-owned enterprises (by a total of approx. 1.3% of GDP).

Continuation of fiscal consolidation process

In 2012 and 2013, CEE countries are expected to continue adjustment measures in order to reduce the public finance imbalance below the reference value (3% of GDP), within the deadline resulting from the excessive deficit procedure (EDP). According to the EC spring forecast, in 2012 and 2013, the fiscal imbalance will be reduced to the greatest extent by Romania (by 3.0% of GDP) followed by Poland and Slovenia (by 2.6% of GDP). Only in Estonia and Hungary, the general government balance will deteriorate as compared to 2011, whereas in Slovakia it will remain at a level close to 5% of GDP. In Poland, the Czech Republic, Hungary and Slovakia, the consolidation will be based primarily on changes on the income side, while in Bulgaria and Slovenia — on the expenditure side. Freezing or lowering of expenditure on wages and social benefits in the public administration, introduced in previous years in the countries of the region, are to be maintained (except for Estonia).

The achievement of budgetary targets is threatened by their reliance on macroeconomic scenarios which may be too optimistic from the present perspective. As a consequence, reducing the deficit below 3% of GDP in the period resulting from the EDP will require additional adjustment measures in Lithuania, Slovakia and Slovenia. In the current year, the EDP for Bulgaria will be brought to an end, whereas the deadline for adjustment of excessive budget deficit by Hungary was again prolonged for a year, i.e. until 2012. This country was facing a threat of freezing, since 2013, some funds from the Cohesion Fund in case it failed to present additional adjustment measures. Eventually, in July 2012, the EU Council decided to lift this decision.

According to the EC forecast of April 2012, the growth rate of the public debt in the CEE countries except for Estonia, will decline in 2012-2013. Only in Poland and Hungary the level of general government liabilities will fall within the time horizon of the forecast. Only in Hungary it will remain well above the reference value (78.5% of GDP in 2012, 78.0% in 2013). Hungary will remain the only country in the region with "junk" rating of its treasury bonds. Hungarian authorities are planning to commence negotiations this summer with the International Monetary Fund and the European Commission on the aid program. In some countries, an increase in government debt may result from a possible further support provided to state-owned enterprises and the banking system (Slovenia, Lithuania).

Further reduction of external imbalances

In 2011, the current account deficit in the CEE region continued to decrease. In Q4, it amounted to 1.5% of GDP (4q moving average) as compared to 1.9% of GDP in 2010. The decrease was primarily the effect of improved trade balance. Despite a marked decline in exports growth in 2011, imports to the CEE countries slowed even faster. Only in Poland, Lithuania and Latvia, a strong domestic demand, and thus imports, led to a slight increase in the foreign trade deficit. The reduction in external imbalances in the region would have been even higher had it not been for the increased transfer of profits on foreign investments, which led to increased income deficit. At the same time, the surpluses on service and current transfers accounts remained unchanged.

The expected further slowdown in foreign trade in the CEE countries in the years 2012-2013 will affect exports to a greater extent than imports which will lead to a deterioration of trade balance in most of these countries. Slight improvement is expected only in the economies that struggle with domestic demand crisis (the Czech Republic, Hungary, Slovenia). In the coming years, the impact of the widening trade gap on the current account balance for the entire region should be compensated by a decrease of the income deficit, resulting mainly from lower transfers of profits of companies with foreign capital to their home countries.

Stable inflow of foreign investment

Despite an increase in risk aversion and weaker foreign investors' sentiment toward the CEE region in the second half of 2011, the inflow of foreign capital did not decline as compared to 2010 and amounted to 1.8% of GDP.

In 2011, there was a stable inflow of foreign direct investment to the region's countries that did not change as compared to the previous year. In Poland, Slovakia and the Baltic states it even increased. Rising inflow of foreign portfolio investment continued, however, the direction of inflow changed. In 2010, investments were mainly directed to Treasury bonds markets in Poland and the Czech Republic, while in 2011 the inflow of capital to these markets was smaller and investors seemed more interested in debt instrument markets in the Baltic states and Hungary.

The balance on other investment account in the region continued to decrease. This was strictly connected with the deleveraging of the banking sector. In 2011, especially in its second half, a decline in liabilities of banks from the CEE countries to foreign banks was observed, as a result of repayment of previously taken loans and withdrawal of deposits from local banks by non-residents. This process was particularly evident in the Baltic states, Slovenia and Hungary, whereas Poland, the Czech Republic and Slovakia still recorded a slow net inflow of the other investment.

Persistently high volatility in financial markets

The ongoing financial crisis in the euro area peripheral countries and the resulting turmoil in European financial markets were the main factors determining currency exchange rates and financial asset prices in the CEE markets in 2012 Q1.

After the period of sharp depreciation of the region's currencies in the second half of 2011[4], currencies appreciated in the first months of 2012. It resulted from the stabilisation in the European financial markets due to granting of international financial aid to Greece, the introduction of measures increasing the liquidity of the European financial system (LTRO) and resumed negotiations between the IMF and the Hungarian government on granting a second aid package. From January until early May 2012, the Czech koruna strengthened by 3.5% against the euro, the Polish zloty by 7.5% and the Hungarian forint by nearly 12%, which however wasn't enough to make up for the losses these currencies suffered in the previous six months. Only the Romanian leu continued to weaken against the common European currency.

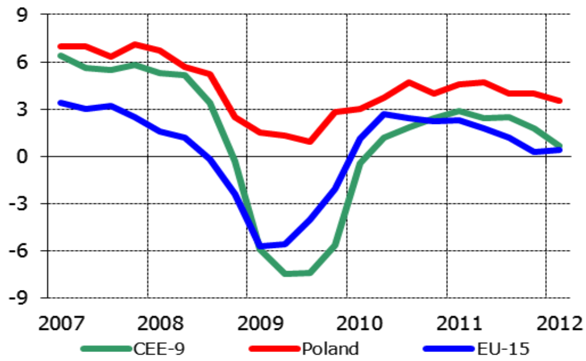
In May 2012, as the Greek parliament was dissolved and new elections were announces, which brought the continuation of reforms in Greece into question, the risk aversion in global, and especially European financial markets rose again. As previously observed in such cases, the CEE currencies suffered the most, especially the Hungarian forint and the Polish zloty which depreciated in May 2012 by 7% and 6%, respectively. Along with the stabilisation of the political situation, the level of risk aversion started to decline and in June, the liquid CEE currencies started to appreciate again.

In the first half of 2012, reactions to changes in risk aversion were also noted in capital markets. Prices of Hungarian assets displayed particularly high volatility. Between January and April 2012, the yields on 10Y Hungarian treasury bonds fell by over 200 bps. In May, the yields increased by nearly 100 bps to –return to their late – April level as soon as in mid-June 2012. The yields on Czech and Polish bonds were also subject to similar fluctuations, however their scale was several times smaller.

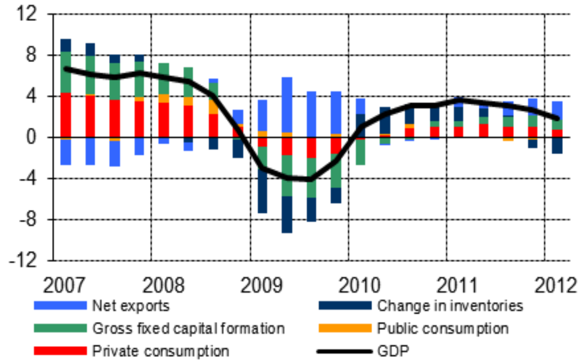
A high volatility was also observed in the stock markets. In 2012 Q1, stock exchange indices in the region's countries exhibited a slow upward trend. In May, the indices fell (a drop by 4.5% in the Czech Republic, 7% in Poland and 9% in Hungary), to make up for most of the losses in mid-June 2012.

[4] Between May 2011 and January 2012, the EUR/CZK exchange rate depreciated by 7.2%. The zloty depreciated far more during this period (13% in relation to EUR) and so did the forint (nearly 19% in relation to EUR).

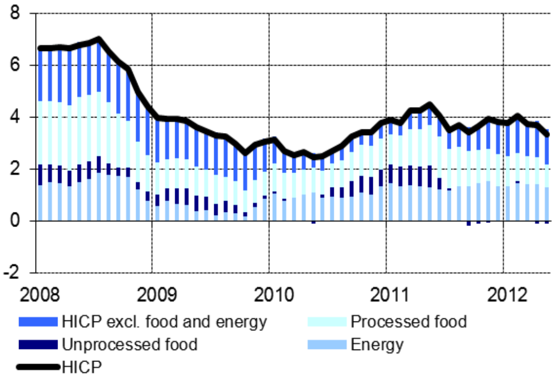
GDP growth rate (in %, y/y)



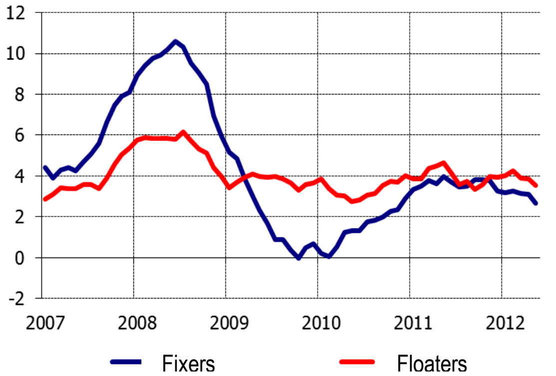
GDP and its components (in pp., y/y)



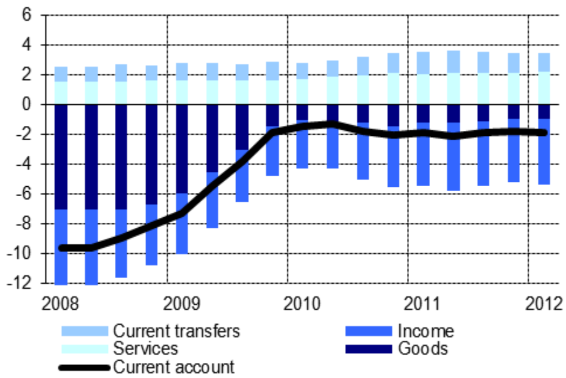
HICP and its components (in pp., y/y)



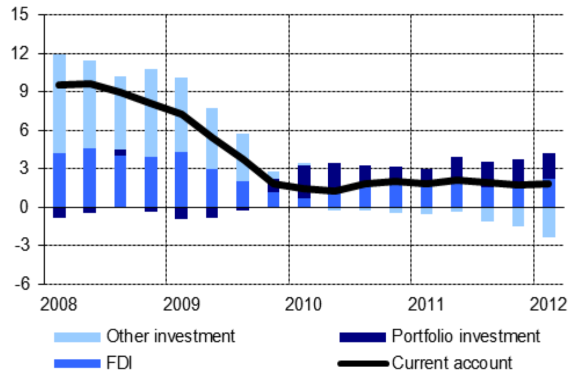
HICP in different exchange rate regime countries (in %, y/y)



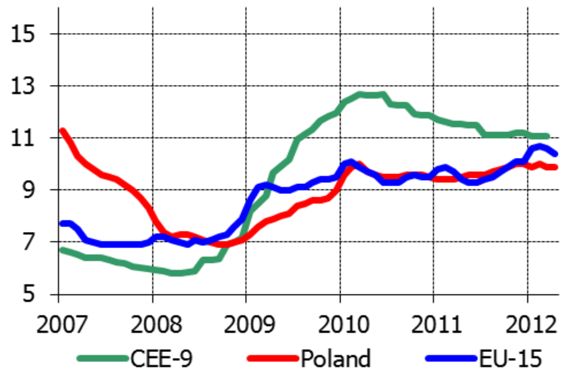
Current account balance (in % of GDP, 4q moving average)



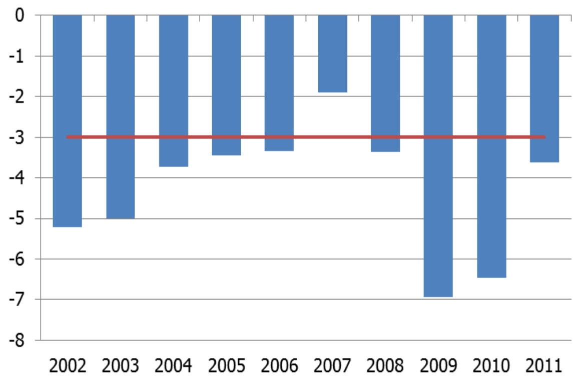
Foreign capital inflow (net, in % of GDP, 4q moving average)



Unemployment rate (in %)



General government balance (in % of GDP)



Source: Eurostat, national statistical offices.

BULGARIA

The signs of a slowdown in economic activity in Bulgaria that appeared in the second half of 2011, seem to be confirmed by the 2012 Q1 data, when the annual GDP growth slowed down to 0.5% from the 2.4% in the first half of 2011. The slowdown was mainly determined by a decline in export growth – the main growth driver in recent years. Investments continued to exhibit negative growth and only the contribution of private consumption to GDP growth increased in the second half of 2011 and 2012 Q1.

The main factor behind the GDP growth rate reduction in Bulgaria was external demand. Data for Q1 2012 indicate a reversal of the positive exports growth rate (-0.1% y/y as compared to 17.6% in the first half of 2011) coupled with a much smaller scale of slowdown in imports. A decline in exports in annual terms was observed both in the trade with EU and non-EU countries. Exports to Germany and Turkey - the main driver of the good trade performance in the first half of 2011 - were the most severely affected. Moreover, as expected, after a surprisingly good performance in 2011, a downward adjustment in exports of Bulgarian goods to Greece occured. These three countries are the main importers of Bulgarian exports.

In terms of goods structure, the decline in exports was broadly based across all Bulgarian export categories, namely industrial goods, commodities and machinery (in the case of exports to EU countries) and oil and oil products (in the case of exports to non-EU countries).

In the recent quarters, the prospects for domestic demand growth, including household consumption, continued to deteriorate in Bulgaria. This was primarily driven by a constantly deteriorating situation on the labour market and a weak supply of loans to households.

Despite a delayed response of the Bulgarian labour market to the economic crisis, in the years 2009-2011 employment fell by over 10% and the unemployment rate nearly doubled. The main reason behind this deterioration was the concentration of jobs created during the economic boom in sectors driven by domestic demand, such as construction and services. The fall in employment was deepened by the lack of wage adjustment in these sectors, that continued to grow faster than productivity. Limited wage adjustment in Bulgaria results, to a large extent, from structural factors[5], such as qualification mismatches on the labour market that contribute to persistently high levels of labour costs. Therefore, a rapid recovery on the Bulgarian labour market is unlikely which will weight on household consumption, not only because of reduced disposable income but also as a result of a high level of precautionary savings.

Another factor influencing private consumption is households credit growth. In the case of Bulgaria, it depends heavily on the inflow of foreign capital. Before the crisis, Bulgarian banks were borrowing funds abroad and were providing them to Bulgarian households in the form of loans. Today, however, most banks are trying to reduce foreign debt which results in a negative growth rate of consumer loans.[6] The increase in residents deposits resulting from increased precautionary savings reduces the effects of deleveraging in the Bulgarian banking sector only to a limited extent.[7]

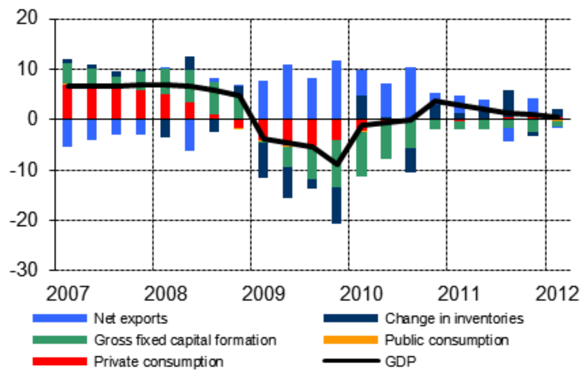
The abovementioned factors, namely high unemployment and low households credit growth will strongly limit the households consumption growth this year. The forecasting institutions expect that weak consumption, both private and public, will provide a very limited but positive contribution to GDP growth in 2012. Nevertheless, this will not be enough to offset the decline in net exports' contribution to GDP growth, implying a further slowdown in the Bulgarian economy. According to the European Commission, private consumption in 2012 will grow by 0.6% y/y, exports by 3.3% y/y and GDP by 0.5% y/y. The market consensus is a bit more optimistic and expects an increase in consumption by 1.2% and GDP by 0.9% y/y.

[5] Mitra P. Pouvelle C. *Productivity Growth and Structural Reform in Bulgaria: Restarting the Convergence Engine*. IMF Working Paper. May 2012.

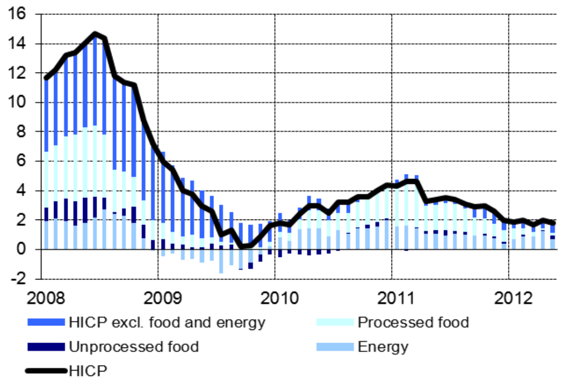
[6] Bulgarian Ministry of Finance. *Recent Economic Developments, Bulgaria – Selected Issues*. February 2012.

[7] EBRD Office of Chief Economists. *Regional Economic Prospects in EBRD Countries of Operations*. May 2012.

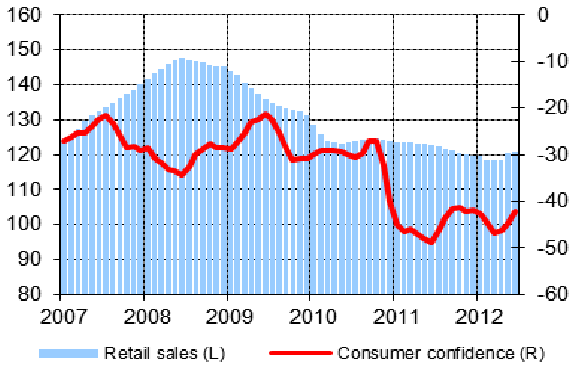
GDP and its components (in pp., y/y)



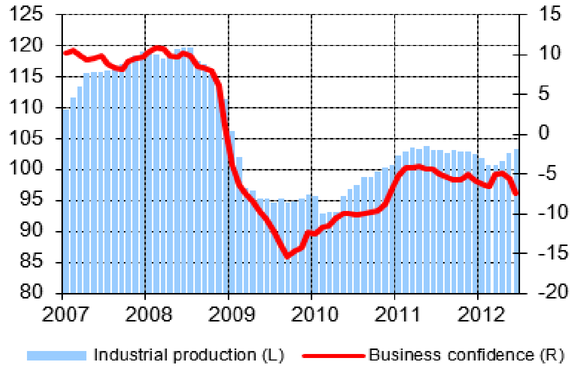
HICP and its components (in pp., y/y)



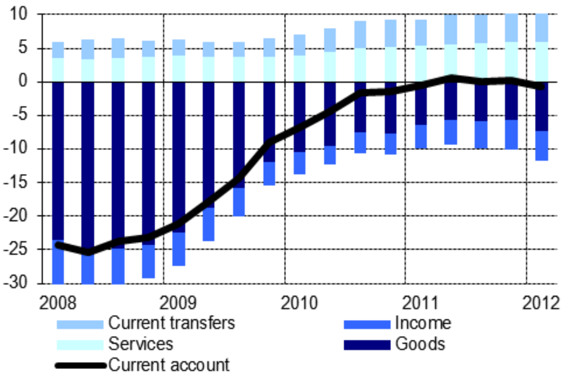
Retail sales (in %, y/y) and consumer confidence index



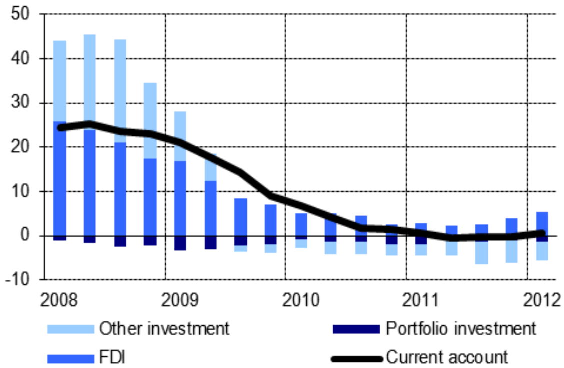
Industrial production (in %, y/y) and business confidence index



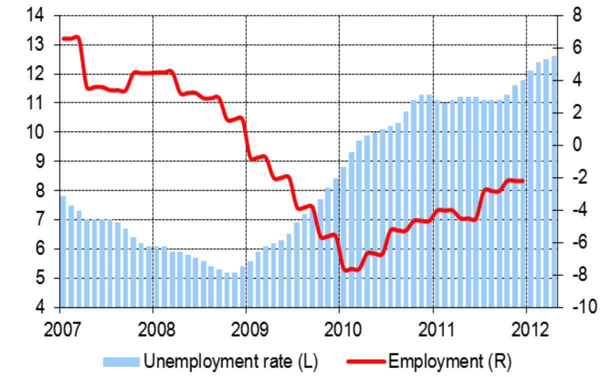
Current account balance (in % of GDP, 4q moving average)



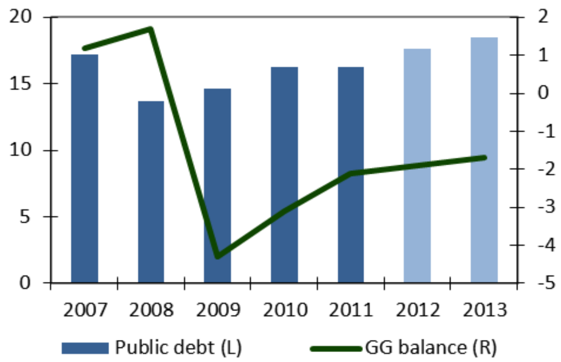
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

CZECH REPUBLIC

After a period of recovery in 2010 and the first half of 2011, in the second half of last year the Czech economy began to slow down rapidly. GDP (q/q) decreased in 2011 Q3 and Q4 which meant that at the end of last year, the Czech Republic entered a period of technical recession. In 2012 Q1, GDP in the Czech Republic decreased again. Its annual growth rate has already dropped to -0.7%, which was one of the worst results in the CEE region. Recession in the Czech Republic was mainly determined by weak domestic demand. Both private and public consumption, as well as investments declined over the last 4 quarters. In turn, exports were the only factor supporting economic growth.

The main reason for the weakness of domestic demand in the Czech Republic is the ongoing fiscal consolidation. The reduction of general government deficit in the Czech Republic in 2011 (to 3.1% from 4.8% of GDP) was mainly related to cuts in government spending (social transfers and current spending – including wages). At the same time, the Czech government increased excise duty, personal income tax (temporary reduction of tax-deductible costs aimed to finance the removal of the effects of flooding) and charges for the use of road network and taxed the free-of-charge right to emit carbon dioxide.

In 2012 and 2013, consolidation measures are to be continued, but due to the projected slowdown in economic growth. The Czech authorities forecast a stabilization of the general government deficit at around 3% of GDP. This year and in the next year, the public debt of the Czech Republic will remain significantly below the reference value (about 45% of GDP, as estimated by the EC).

At the beginning of 2012, the reduced VAT rate was increased (from 10% to 14%), gambling tax was introduced and government spending on wages was frozen. In March 2012, the Czech government adopted additional cuts in expenditures of government institutions (approx. 0.6% of GDP) in order to meet budgetary objectives in 2012. A month later, new adjustment measures were presented (approx. 0.5% of GDP in 2012 and 1.5% in 2013), focused on the income side. Changes in the tax system are to be temporary and will expire by the end of 2015. They include a rise in VAT rates from 2013 (by 1 percentage point, up to 15% – the reduced rate and 21% – the basic rate) and in personal income tax rates from 2014 (by 1 percentage point, up to 20%, with an additional increase by 7 percentage points for top earners). As far as the expenditure side is concerned, wages in the public sector will remain frozen. In 2013-2015, the rate of indexation of pension and disability allowances will be temporarily reduced. A public administration reform is announced for 2014, aiming to simplify its structure. The above measures will slow down the rate of economic growth. The Czech authorities estimate that the changes in VAT rates alone will translate into a weakening of the annual GDP growth in 2012 by approximately 0.2-0.4 percentage points, while in 2013 their impact will decline by half.

The risk factors to the achievement of the assumed budgetary targets in 2012 and 2013 arise from launching a voluntary capital-funded pillar within the pension system and a possible decision to return property seized after World War II to the Church (approx. 1.5% of GDP). The Czech Republic temporarily suspended (until June 2012) the submission of applications for reimbursement of expenditure under operational programs, following the European Commission's objections in relation to the system of auditing projects co-financed by the EU. As a result, some projects may eventually be financed entirely from national funds. In 2013, a voluntary capital-funded pillar of the pension system will start operating. The decrease in state budget revenues from contributions (0.5% of GDP in 2013) will be covered by increased VAT revenues. The authorities estimate that about 15% of the employed will join open pension funds. Higher participation would have a negative impact on the performance of the public finance sector.

The reasons for the weakness of domestic demand cannot be equated with the lack of stability of the financial sector, especially banks. Although the private sector loans growth rate declined significantly after 2008, the value of loans (except for consumer loans to households) continued to rise in 2011 and 2012 Q1. Its growth was even higher than in 2010. The reduction in the newly granted loans resulted primarily from low demand, mainly from households. To a lesser extent it was an effect of banks' supply constraints, as indicated by the Czech National Bank survey.[8] In the aforementioned period, the situation of Czech banks was relatively good. Liquidity and solvency ratios exceeded the required thresholds and banks did not have to restrict the supply of loans.

External demand was the factor that cushioned declines in domestic demand in the Czech Republic. It translated not only into an increase in exports, but also into a recovery of the industrial sector, especially of foreign markets-oriented industries. Given the weakness of households and the general government sector, private enterprises, especially manufacturers, reduced the decline in domestic demand. Investments of private, non-financial companies, especially in machinery and transport vehicles, were the only category of fixed capital formation that rose in 2011. However, the growth in business investment was not able to fully compensate for the decline in investments of households and the public sector.

[8] According to research conducted by the CNB and the Confederation of Industry, 85% of companies surveyed in 2011 Q4 assessed the availability of loans as "good", and the percentage of those expecting a deterioration in lending terms declined.

The increase in industrial production and investments contributed to higher employment in this sector. In 2011, industry was the only sector in which the number of employees increased.[9] Yet, this increase was markedly weaker than in 2010 and insufficient to offset the decline in the number of employees in other sectors of the economy. In 2011, the number of employees in the Czech economy decreased by 0.1%, despite a 1.4% increase in employment in industry.

Already in the first quarter of 2012, a clear slowdown in the Czech industry could be observed. Value added in the manufacturing sector which, in 2011, amounted to nearly 3 pp., dropped to 0.9 pp. in the first quarter of 2012. This decrease, amid the ongoing crisis in other sectors of the economy, was the main reason for the observed decline in GDP during this period.

The outlook for economic growth in the Czech Republic in the subsequent quarters of 2012 appears to be even more pessimistic. Significantly weakening demand from the euro area will probably lead to a further slowdown in exports and investment activity in the industrial sector. In turn, the ongoing consolidation of public finances and the expected further stagnation in the labour market will erode household disposable income (among others, due to VAT rates raised in 2012 and planned for 2013) and further limit their consumption. As a result, it is expected that after a slow recovery in 2010 and 2011, in 2012 the Czech GDP will shrink again.

Despite the deteriorating situation in the real economy, investors did not lose confidence in the Czech financial markets. In May 2012, when the information about the dissolution of the Greek parliament again caused turmoil in global financial markets, the Czech financial assets lost relatively less of their value than the assets of other countries in the region. In May 2012, the Czech koruna depreciated by 3.5% against the euro, which is two times less than the Polish zloty and more than three times less than the Hungarian forint in the same period. The yield on Czech bonds still remained the lowest in the region (at the end of June 2012 it amounted to 3.11% for 10-year bonds, as compared to 5.15% for Poland and 8.13% for Hungary).

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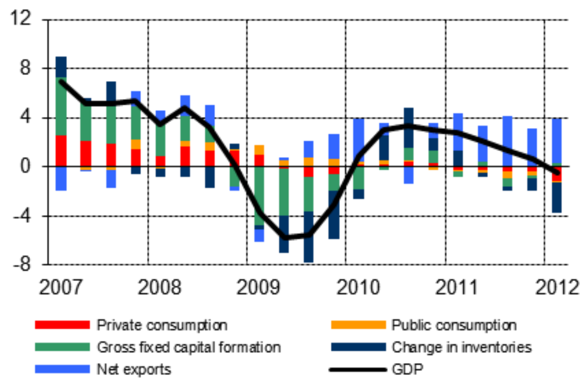
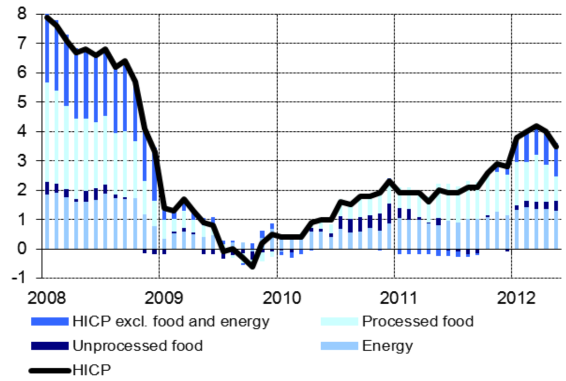
[9] A slight increase in employment was recorded in particular quarters in some market service sectors.

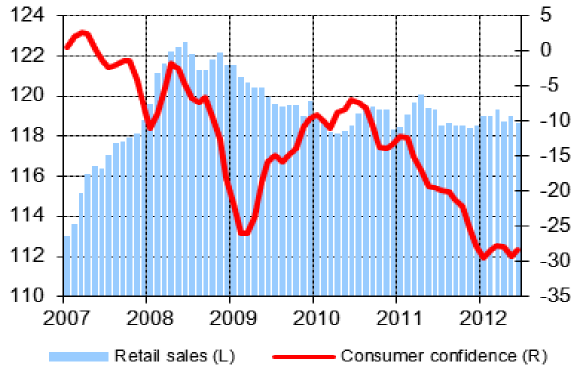
GDP and its components (in pp., y/y)



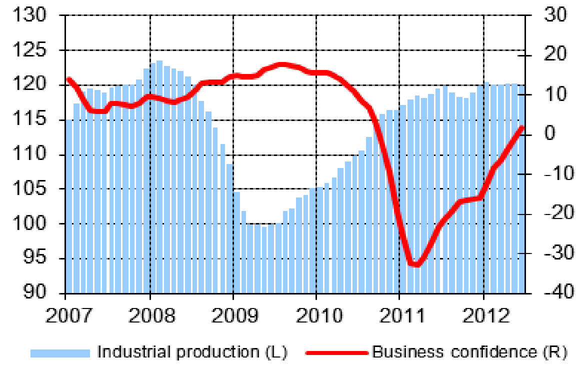
HICP and its components (in pp., y/y)



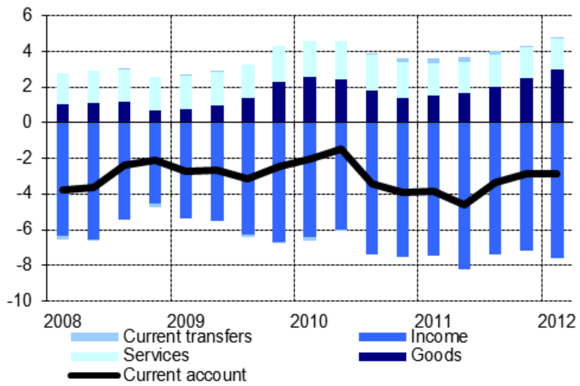
Retail sales (in %, y/y) and consumer confidence index



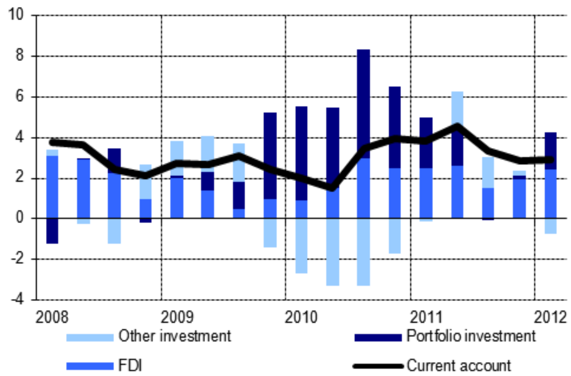
Industrial production (in %, y/y) and business confidence index



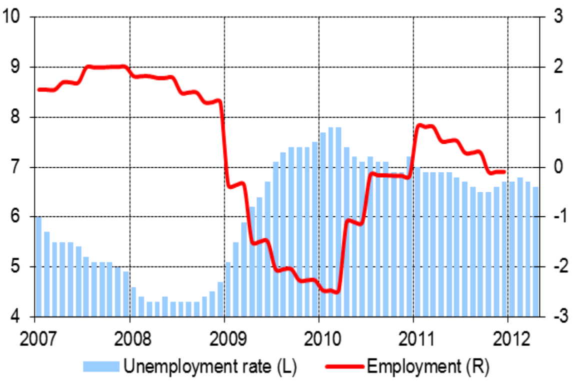
Current account balance (in % of GDP, 4q moving average)



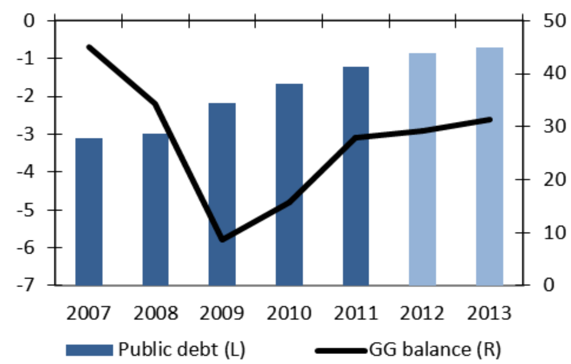
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

ESTONIA LITHUANIA LATVIA

In 2011, Estonia, Lithuania and Latvia were the fastest-developing economies not only in the CEE region, but also in the EU as a whole. In Estonia, GDP rose by 7.6%, in Lithuania by 5.9% and in Latvia by 5.5%. In 2012 Q1, q-o-q GDP increased again in all three countries, however the rate of this growth was lower than a year ago, which resulted in a slight decrease in the GDP annual growth rate. Yet, it was still the highest among the CEE countries and among all EU countries.

Despite a clear acceleration of economic growth in 2011, the Baltic countries have not yet been able to fully make up for the losses suffered in previous years. At the end of 2011, GDP was still 10% lower than in 2007, private consumption by nearly 20% and the gross fixed capital formation by more than 35%. This implies that in order to achieve the pre-crisis level, the Baltic economies would have to grow at a similar rate for two consecutive years, which will not be the case according to recent GDP estimates and growth forecasts.

In 2011, the economic growth in the Baltic countries, in contrast to other economies in the CEE region, was not based solely on rapidly growing exports, but also on domestic demand, particularly on investment demand, increasing at a double-digit rate. The growth in fixed capital formation was mainly driven by investments of private companies in equipment, machinery and means of transport. It resulted mainly from a rapidly growing foreign demand. An increase, albeit smaller, was also observed in investments of households and the public sector.

This implied that the rate of economic growth in the Baltic states, after a period of serious breakdown, approached the level observed before 2008. The foundations of growth in the Baltic states in 2011 were, however, different to those before the crisis.

In 2008-2009, the Baltic states experienced a severe economic crisis. In that period, GDP decreased by a total of almost 20%. On the one hand, the decline resulted from a severe deterioration in household and enterprise sentiment. Due to a burst of the housing bubble, households and enterprises practically resigned from purchasing durable goods and withdrew from new investments. On the other hand, recession was a result of a sudden stop in foreign capital inflow that determined the growth of domestic demand in the Baltic economies. At that time, private consumption dropped by nearly 25% and fixed capital formation by 50%.

The economic acceleration in 2011 resulted in a large part from the postponed purchases and investments. This was an effect of a significant improvement in households and enterprises sentiment which was influenced by several factors. First, the most severe fiscal consolidation measures were implemented in 2009-2010 and in the following year, their impact on the economic situation was much smaller. Second, the Baltic states recorded a marked improvement in the labour market situation. Compared with the turn of 2009 and 2012, the unemployment rate fell by around 5 pp., and the number of employees in the economy increased by almost 8% on average (however, the Baltic states were still far from reaching the pre-crisis levels of employment).

Another factor affecting the improvement in sentiment, mostly among entrepreneurs, was a relatively good economic situation of the main trading partners of Estonia, Lithuania and Latvia (Germany, Sweden, Poland and Russia) as compared to Europe as a whole. This resulted in a rise in new orders and a revival in the sector of industry. Additionally, an internal devaluation that took place in the Baltic states in 2009 and 2010 (unit labour costs declined by 10-20%) led to a recovery of competitiveness. Both these factors led to a significant growth in exports. In 2011, exports rose at a rate ranging from 13% y/y in Estonia to 25% in Latvia, which was much faster than in other CEE countries. However, in the second half of 2011, as well as in 2012 Q1, exports growth decelerated significantly as the crisis in the euro area intensified.

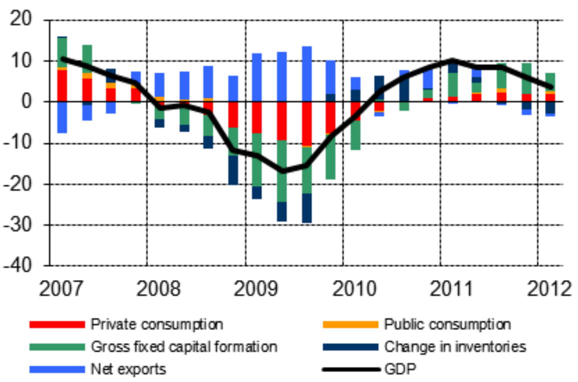
However, the main difference between the pre-crisis period and 2011 was the scale and direction of the inflow of foreign capital to the banking sector, which affected the domestic lending. In the years 2004-2007, loans to private sector grew at a rate of 50% annually in Estonia and Lithuania and 70% annually in Latvia. It was considered to be the main factor enhancing the economic boom. In 2011 and 2012 Q1, the situation changed radically. In all countries, strong deleveraging in the private sector was observed. In 2012 Q1, all Baltic states recorded a decrease in the nominal value of loan stock: by 5% y/y in Estonia and Lithuania, by 9% y/y in Latvia. This concerned almost all categories of loans. However, the greatest drop was observed in the value of consumer loans to households. At the same time, an outflow of foreign capital from the banking sector was observed in these countries (withdrawal of deposits and repayment of loans). This fact seems to have had a decisive impact on the decline in the supply of loans in the Baltic states. Until 2008, not even a half of lending in these economies was financed by the inflow of domestic deposits. Therefore, the remaining part was financed by inflows of foreign capital. Given the lack of it and in the face of significantly stricter regulations concerning the banking system,[10] banks in the Baltic countries were forced to restrict the supply of loans.

[10] The tightening of regulations was necessary due to, inter alia, a forced nationalisation in 2008 of a Latvian bank, Parex, and a bankruptcy of a Lithuanian bank, Snoras, and its Latvian subsidiary, Krajbanka.

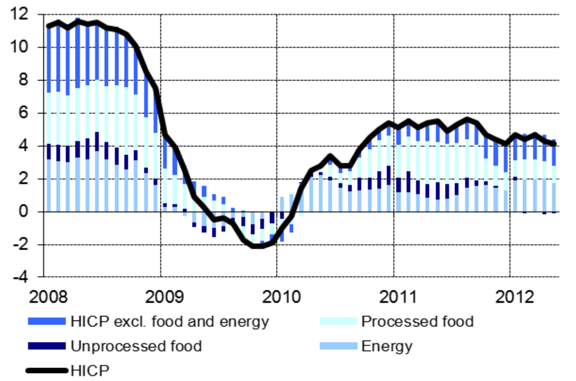
Therefore, it seems that the economic acceleration that took place last year in the Baltic states is not based on sound foundations, primarily due to a strong deleveraging of the financial sector and increasingly difficult access to funding for enterprises. Already in the second half of 2011, the growth rate began to decline, which was also confirmed by preliminary estimates for 2012 Q1. Also, GDP growth forecasts for 2012 and 2013 indicate a marked slowdown in economic growth (an average of 2.1% in 2012 and acceleration to 3.6% in 2013), however, such results will still be one of the best among the CEE countries. There will still be stimuli affecting the growth of domestic demand in the Baltic states, resulting primarily from the projected increase in public expenditure (investments in the modernization of the energy sector and adaptation to the requirements of Energy and Climate Package). The increase in pensions in Estonia in April 2012 and the reduction of the basic VAT rate in Latvia in July 2012 should be conducive to the growth of household consumption. On the other hand, investments of the private enterprises are to be reduced considerably. The main reason for the expected economic slowdown in the Baltic states, as in other countries of the region, will be the deepening crisis in the euro area and the resulting decline in the growth of exports. Already in 2012 Q1, its growth rate fell to 4.3% y/y compared to nearly 25% y/y in the preceding year, and the EC forecasts indicate a further slowdown in exports, particularly in Estonia, to an average of less than 3% y/y in 2012.

It seems highly unlikely, however, that the situation that took place in 2008 and 2009, when the Baltic states experienced a stronger decline in GDP than anywhere else in the world, will repeat itself. Now, after a series of structural changes, the Baltic economies are much more resilient to external shocks. In 2009-2010, a number of adjustments was made, including major savings in the public sector, accompanied by a reduction of employment and wages in the private sector. This led to productivity growth, decline in unit labour costs and thus an increase of the Baltic economies competitiveness. It became noticeable already in 2011, when the growth in exports became the highest in the CEE region. The Baltic states significantly reduced their current account deficits. In 2011, Estonia managed to maintain a surplus generated in 2010. In Lithuania and Latvia, the surplus turned into deficit (3.2% and 1.2% of GDP, respectively), but its size was incomparably smaller than in 2007. Direct trade and financial ties of the Baltic states with the euro area, especially with its peripheral states, are definitely weaker than those of other countries in the region. Therefore, the direct effects of the euro area crisis should not be as easily translated in the situation in Estonia, Lithuania, and Latvia, as it may happen in the case of other economies in the region.

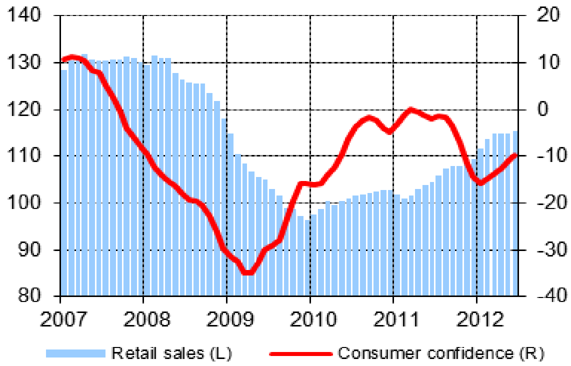
GDP and its components (in pp., y/y)



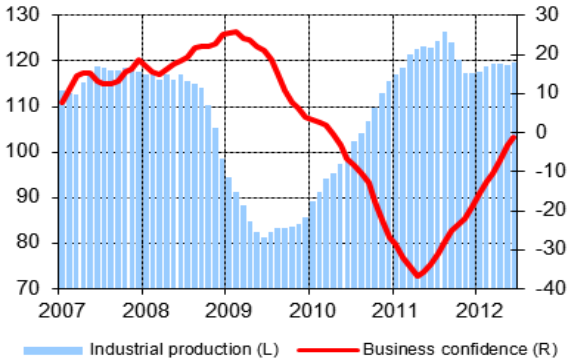
HICP and its components (in pp., y/y)



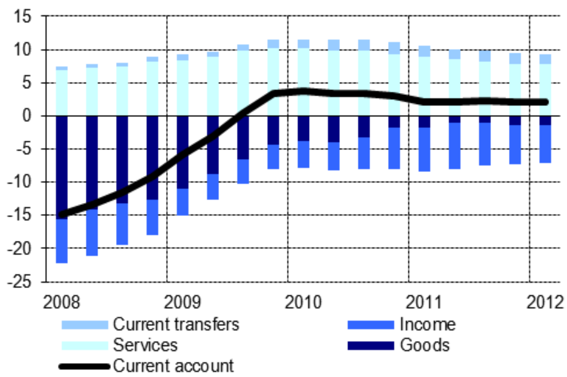
Retail sales (in %, y/y) and consumer confidence index



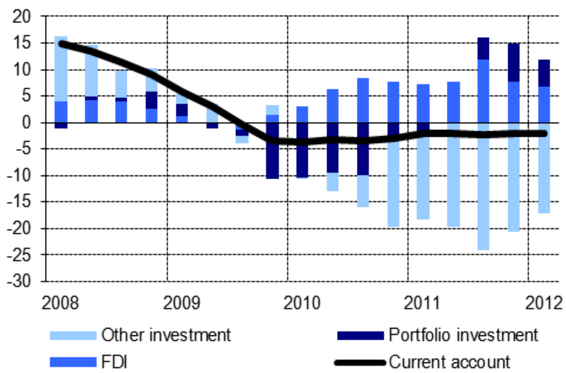
Industrial production (in %, y/y) and business confidence index



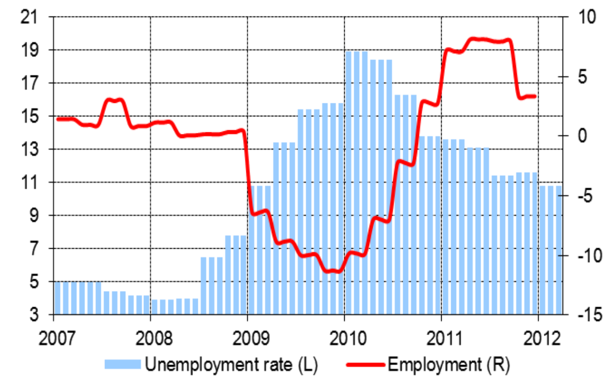
Current account balance (in % of GDP, 4q moving average)



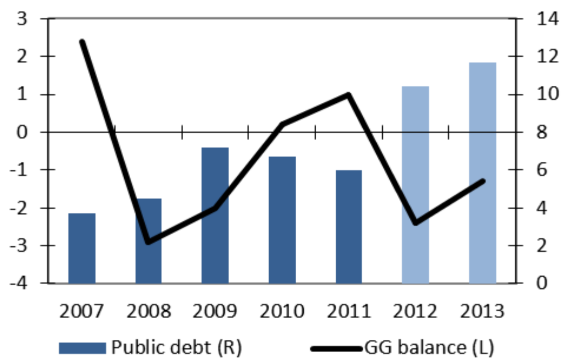
Foreign capital inflow (net, in % of GDP, 4q moving average)



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

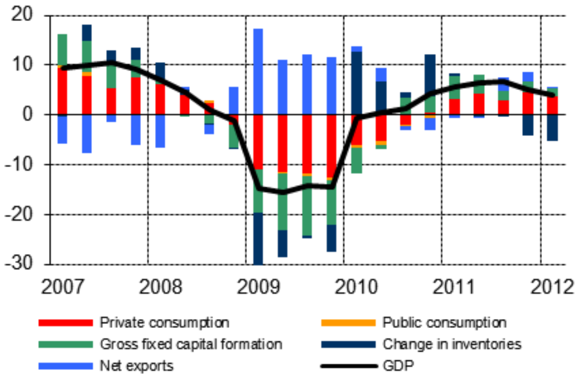


General government balance and public debt (in % of GDP)

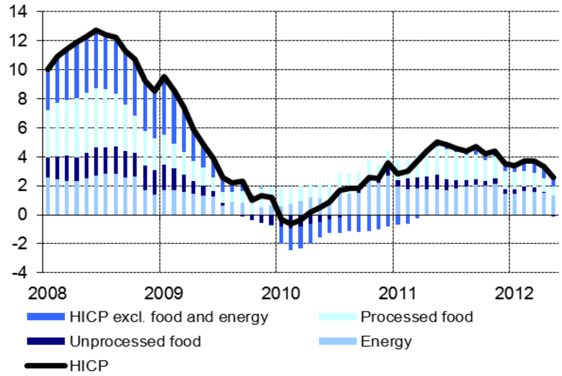


Source: Eurostat, CSOs

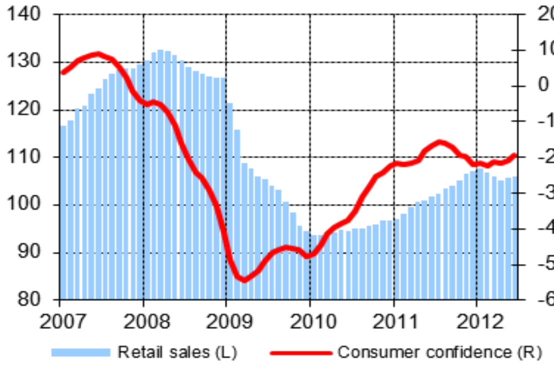
GDP and its components (in pp., y/y)



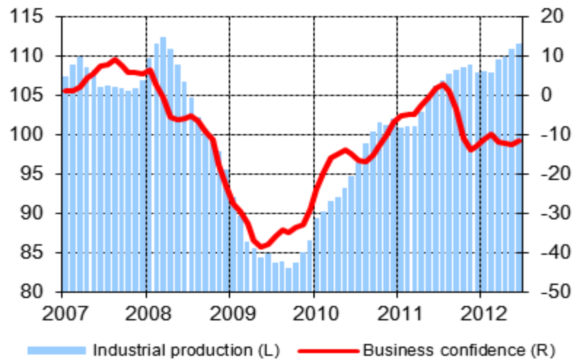
HICP and its components (in pp., y/y)



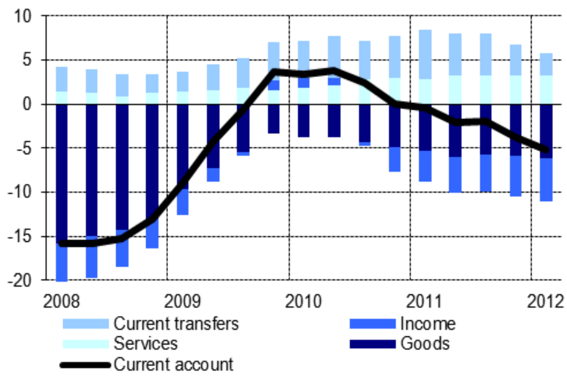
Retail sales (in %, y/y) and consumer confidence index



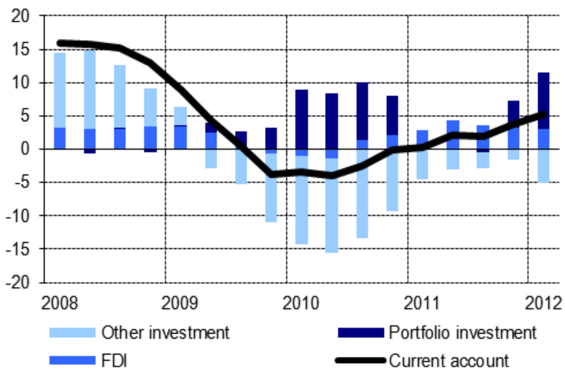
Industrial production (in %, y/y) and business confidence index



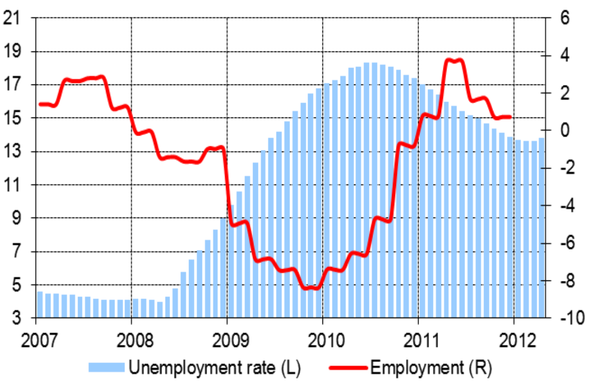
Current account balance (in % of GDP, 4q moving average)



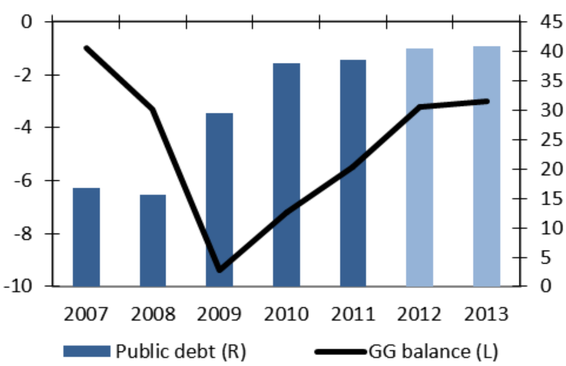
Foreign capital inflow (net, in % of GDP, 4q moving average)



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

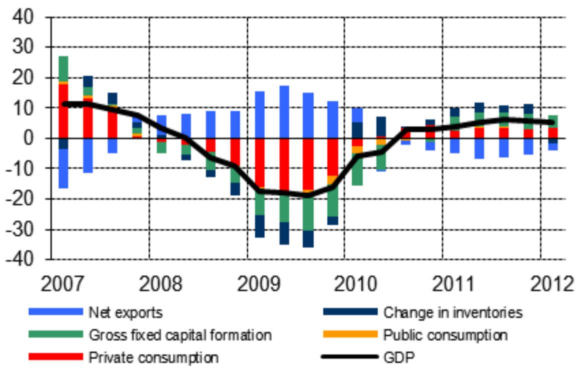


General government balance and public debt (in % of GDP)

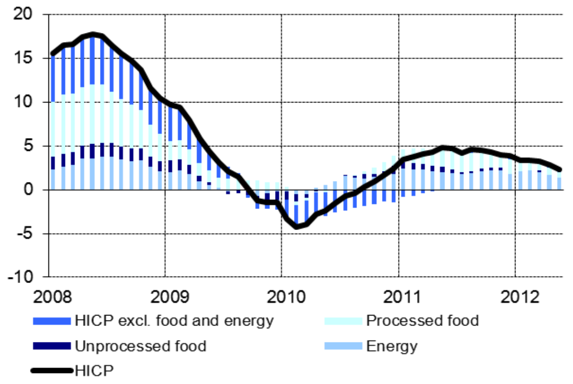


Source: Eurostat, CSOs

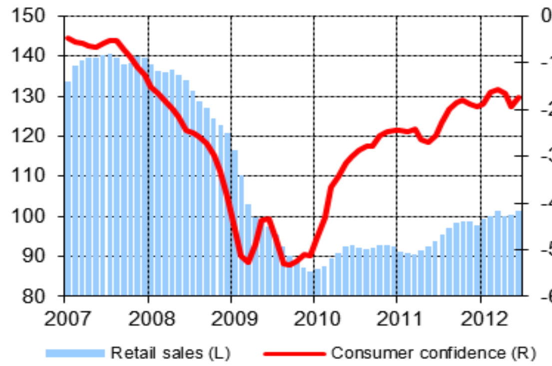
GDP and its components (in pp., y/y)



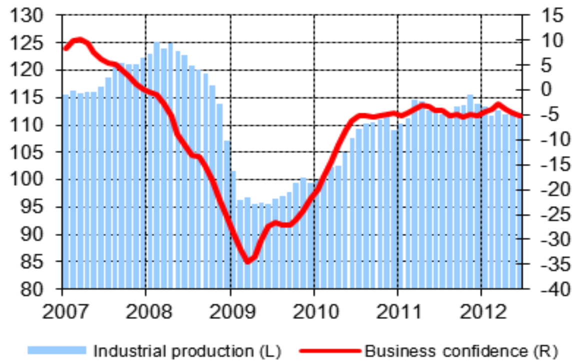
HICP and its components (in pp., y/y)



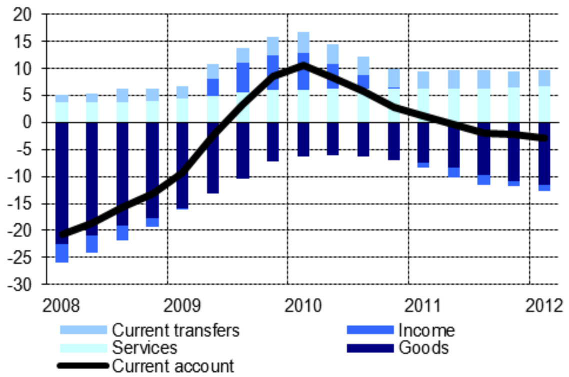
Retail sales (in %, y/y) and consumer confidence index



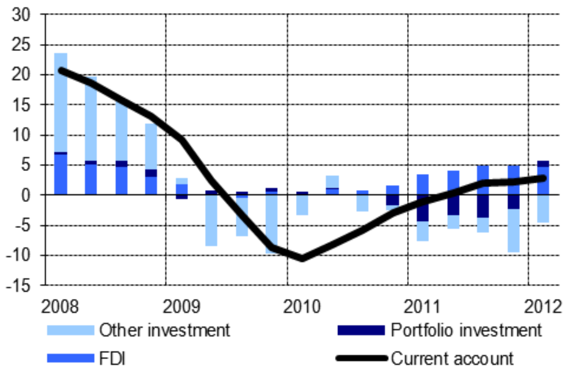
Industrial production (in %, y/y) and business confidence index



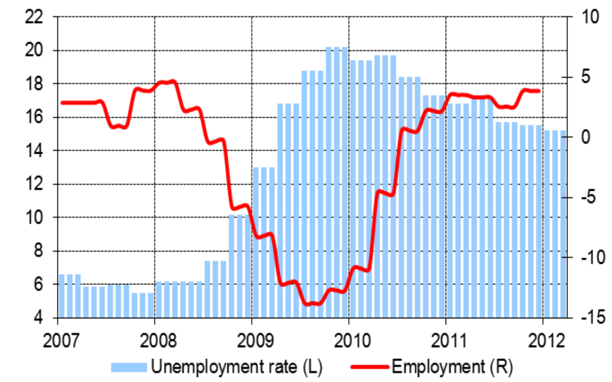
Current account balance (in % of GDP, 4q moving average)



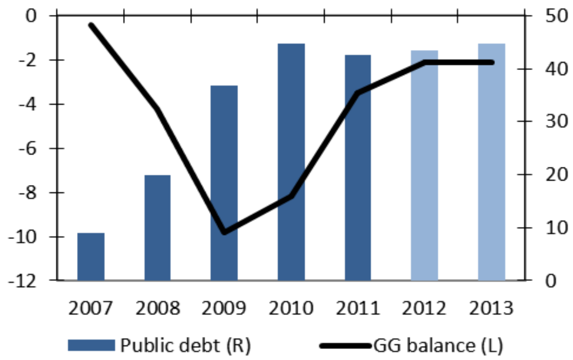
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSO

ROMANIA

Romania, alongside with Bulgaria, was the country with the slowest pace of entering the period of recovery after the crisis in 2009. Only in 2011 Q1, the annual growth rate of GDP rose above zero, but in the first half of 2011 it was still the lowest among the CEE countries (1.5% y/y). The situation changed significantly in the third quarter of 2011, when Romania recorded a marked increase in GDP growth. After an increase of 1% on a quarterly basis, annual GDP growth was 3.2%. It moved Romania from the position of an outsider to one of the top performers in the region in terms of GDP growth rate. This increase was driven mainly by two factors: an exceptionally good harvest in agriculture and phasing-out of the effects of fiscal consolidation, carried out in Romania in mid-2010.

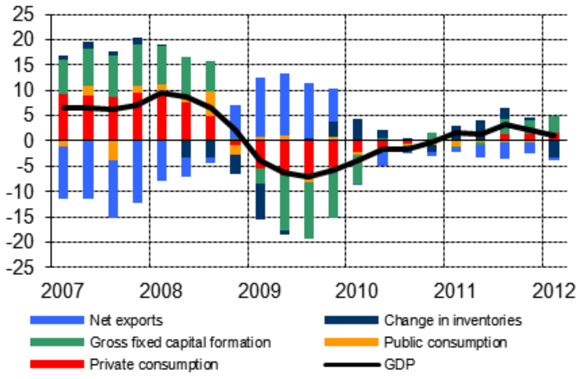
In Q3, as compared to preceding quarters of 2011, there was a sudden increase in domestic demand. Private consumption increased by nearly 2%, and investments by over 5% as compared to 2011 Q2. Given the structure of generating value added, this increase resulted primarily from a clear increase in value added in agriculture which accounted for nearly half the increase in value added in this period (1.5 pp.), and its annual growth rate was 19%. Therefore, the acceleration of economic growth in Romania in the second half of 2011 is, to a large extent, attributable to exceptionally good harvest in agriculture. This factor seems to be particularly important, given the structure of Romanian economy which differs significantly not only from the euro area economies, but also from other countries in the region. Agriculture in Romania is a very important sector of the economy, much greater than in other CEE countries. In 2011, its value added accounted for 7.4% of total value added in the economy, which was over twice as much as the average result in other countries in the region (3.6%). Given the number of people working in agriculture, even greater disproportion emerged. In Romania, they accounted for almost 1/3 of all employees (30.1% in 2011), while in other countries of the region the average percentage was 8.5%. Exceptionally good harvest in 2011, especially in comparison with much worse result in the previous year, clearly contributed to the increase of income of the agricultural population in Romania. It was therefore the main factor contributing to higher private consumption.

Another factor affecting the increase in the domestic demand growth was phasing-out of the effects of fiscal tightening that took place in mid-2010 and was one of the requirements for obtaining financial aid from the IMF and the EC. At that time, the VAT rate was raised (from 20% to 25%), public sector wages were reduced by 25% and the contribution of state enterprises to the state budget was increased. These measures resulted in a marked decline in real household income, as well as a decline in the value of own funds of companies which led to a decrease in domestic demand and later than in the rest of the region recovery from the first phase of the crisis. In the second half of 2011, the phasing-out of the effects of fiscal consolidation was noted which had a positive impact on consumption, but mainly on private enterprises investment. In 2011 Q3, it rose by 5.3% compared to 2011 Q2 and its annual growth increased respectively to 11.2% from -1.4%. Increased gross capital formation in Romania was primarily attributable to public investment which rose by 36% y/y in 2011 Q3 (the low base effect). Private investment also increased, albeit much slower.

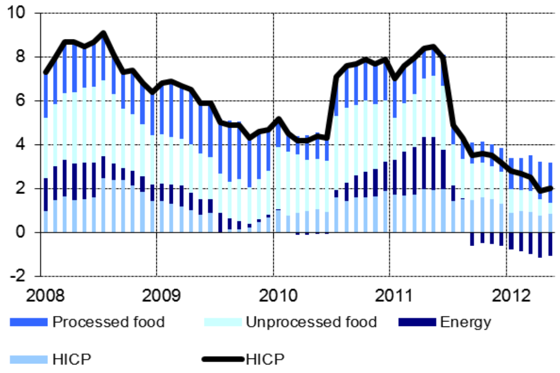
The effects of a good harvest in agriculture, as well as the phasing-out of the effects of fiscal tightening, were significant, albeit short-lived. The increase was temporary especially in the case of private consumption which declined considerably over two subsequent quarters, returning to the mid-2011 level. Due to the above and as a result of cuts in government consumption expenditure, in 2011 Q4, the rate of economic growth slowed down to 2.1% and in 2012 Q1 dropped to a mere 0.8% y/y (with a q/q decline in both quarters).

Forecasts for the second half of 2012 indicate a slow recovery of domestic demand in Romania, with the persistence of a negative contribution of net exports to GDP growth. Slow improvement in the labour market, a marked decrease in inflation as well as the increasing, albeit at a slow pace, lending will contribute to higher household disposable income which should translate into a growth in consumption. The increase in household expenditure and the implementation of infrastructural investments, postponed due to fiscal consolidation, should be the main drivers of growth in Romania in the coming quarters.

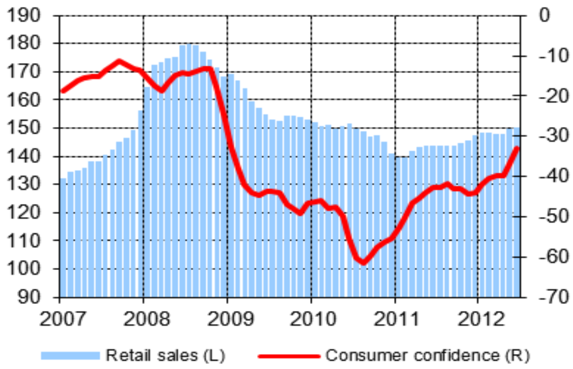
GDP and its components (in pp., y/y)



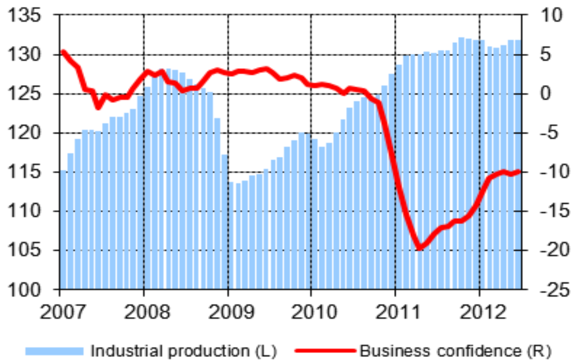
HICP and its components (in pp., y/y)



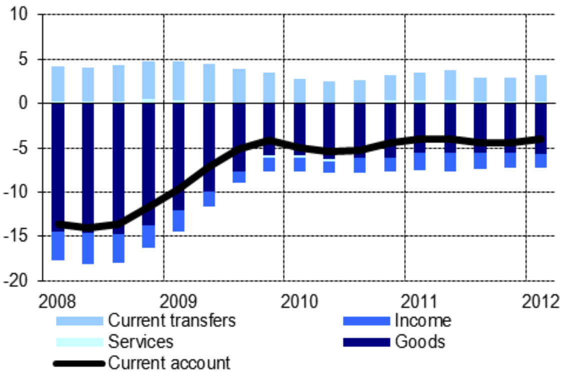
Retail sales (in %, y/y) and consumer confidence index



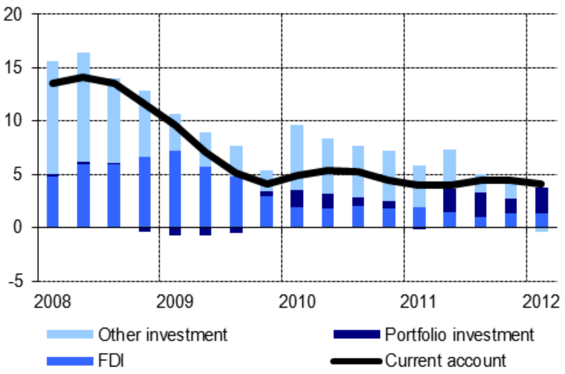
Industrial production (in %, y/y) and business confidence index



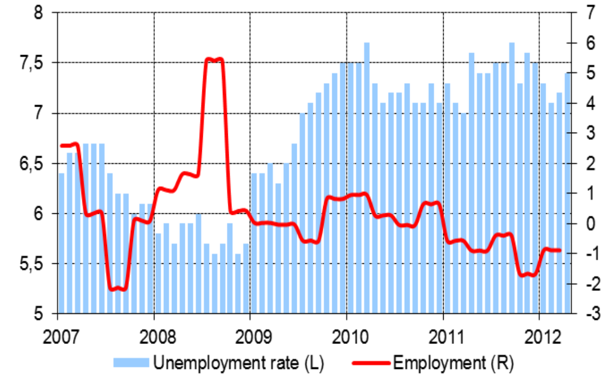
Current account balance (in % of GDP, 4q moving average)



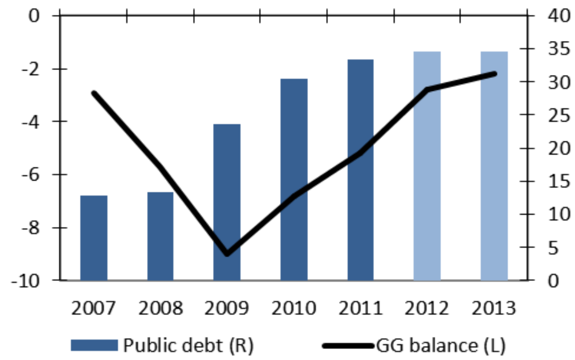
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

SLOVAKIA

According to forecasts published in May and June 2012, the slowdown in Slovakian economy in 2012 is likely to be relatively small. Moreover, Slovakia is also one of the few economies in Central and Eastern Europe, for which forecasting centres have recently increased the growth forecast for this year, mainly due to faster than expected growth in exports. Thus, the remarkably pro-export specialization will probably continue as a factor contributing to economic growth, even despite the expected significant reduction in demand from Slovakia's major trading partners.

The stabilization of economic growth at the beginning of 2012 had a large impact on the upward revision of macroeconomic forecasts. In 2012 Q1, gross domestic product increased by 3.2% y/y – a similar rate as in 2011. The structure of economic growth also remained unchanged. GDP growth in the first three months of 2012 resulted from a continued increase in the surplus in foreign trade. The growth in trade surplus in Slovakia was an effect of a continued upward trend in exports (although growth rate was slightly lower as compared to previous quarters). It was accompanied by a further fall in imports, which mainly resulted from declining household expenditure and a further decline in inventories. On an annual basis, household spending declined practically for a tenth consecutive quarter. On the other hand, the upward trend in fixed capital formation continued. As in the previous year, its growth was primarily connected with a relatively high activity of the export sector.

Despite a strong decline in demand in the major export markets at the beginning of 2012, Slovakian exports increased at a relatively high growth rate (as compared to other CEE countries). Eurostat estimates that during the first three months of this year, the value of Slovakian exports increased by 8.2%, i.e. almost twice faster than in other CEE countries. The growth in exports was noticeable both to the euro area and other countries.

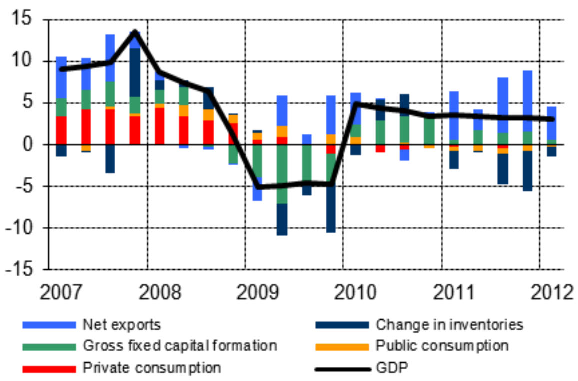
The source of export growth in Slovakia was supply rather than the demand factors. A characteristic feature of Slovakian exports is its strong concentration within the global value chains, indicating a dominant role of international corporations in Slovakian exports. The inflow of foreign direct investment to the manufacturing industry which took place after the first phase of recession in the euro area, allowed to maintain a large role of innovative manufacturing in the growth of exports. As a result, export growth in Slovakia is far ahead of demand growth in export markets. New products in the export offer (in 2012 they included new models of cars and telecommunications equipment – mainly mobile phones) are conducive to a higher increase in sales in each category of Slovakian exports than in the majority of other CEE countries. At the beginning of this year, the persistently high growth rate in exports of final goods offset the declining rate of growth in exports of intermediate goods (including, in particular, steel products) which was a common in the countries of the region. At the same time, international corporations operating in Slovakia can relatively easily reorient the geographical structure of exports. It resulted in an increased share of countries with a high demand growth (emerging markets) in Slovakian exports.

The export potential of Slovakia will continue to grow dynamically. In the first half of 2012, more corporations announced their plans to increase investments in the country, including the largest Korean automotive company, Kia.

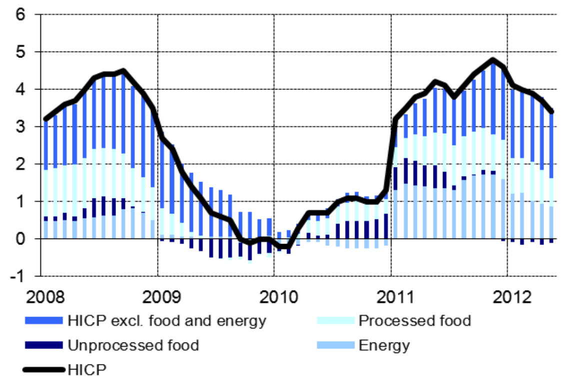
However, the good performance of the export sector had only a slight impact on the domestic situation of the Slovakian economy. Despite exports growth, employment in the manufacturing sector practically had not changed (which resulted in productivity growth in the export sector and lower unit labour costs). It has not affected the growth in wages. In this situation, the unemployment rate in April 2012 stood at 13.7% and was one of the highest in the region (it was also about 0.5 pp. higher as compared to April 2011). The real disposable income declined as a consequence of a slowdown in the growth of nominal wages.

According to the forecasts of the National Bank of Slovakia (NBS), in 2012 GDP in Slovakia will increase by 2.5%. Economic growth will not only be a result of growing exports, but also the effect of a rise in domestic demand. The National Bank of Slovakia expects that household spending will increase by 0.6% in 2012. The negative impact of cuts in public spending, associated with a strong reduction of budget expenditure in 2011, is also likely to phase out. It seems that the new Slovakian government will significantly limit the scale of budget expenditure cuts. The growth in investments will remain relatively low and the increase will primarily be generated by foreign companies. It is expected that from 2013 the increase in demand in major export markets will be a significant growth factor.

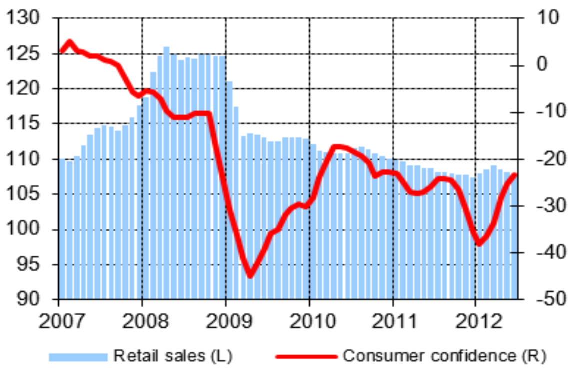
GDP and its components (in pp., y/y)



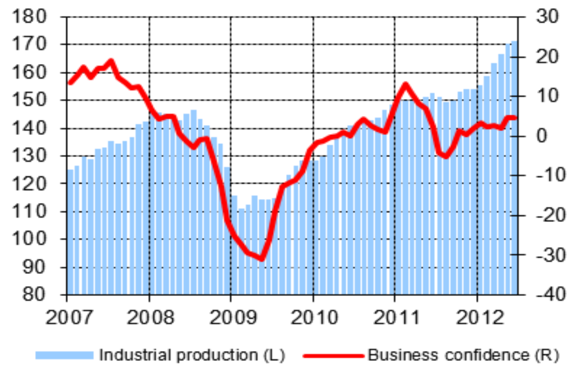
HICP and its components (in pp., y/y)



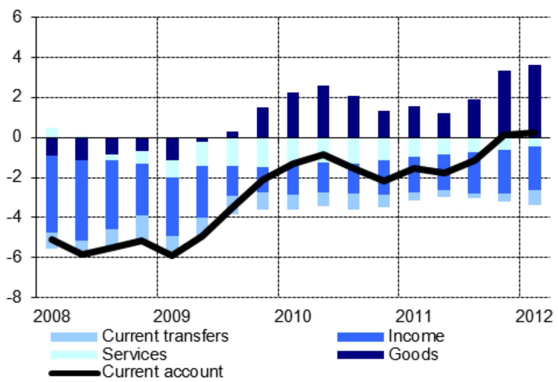
Retail sales (in %, y/y) and consumer confidence index



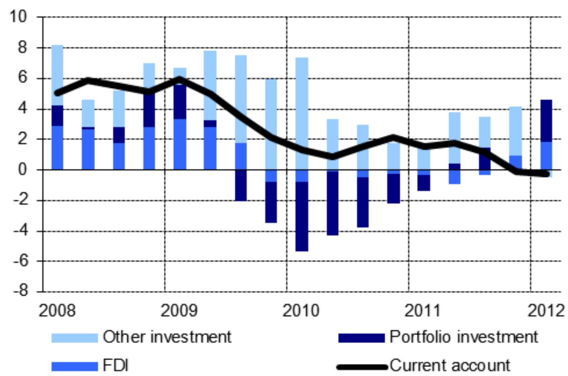
Industrial production (in %, y/y) and business confidence index



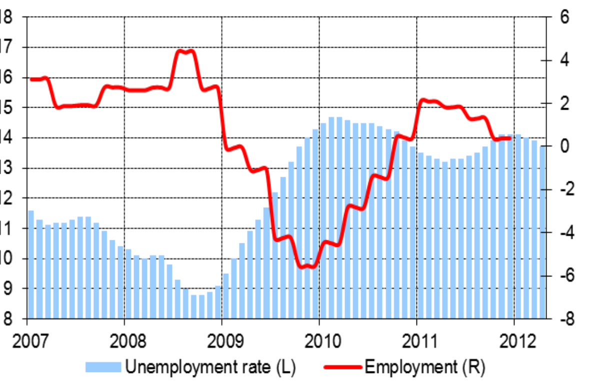
Current account balance (in % of GDP, 4q moving average)



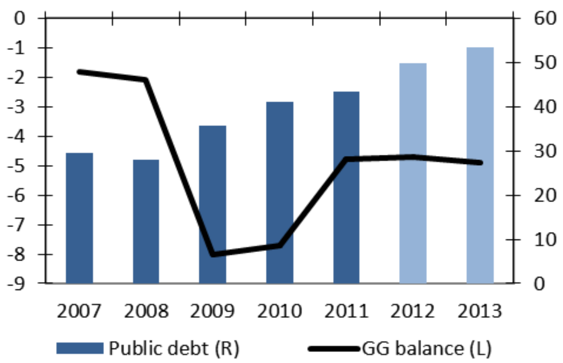
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

SLOVENIA

Slovenia was the only economy in the CEE region that recorded a decline in GDP in 2011 (by 0.2%). Apart from Greece and Portugal, it was the worst result among the 27 EU countries. Although the unexpected increase in private consumption in 2012 Q1 (by 2.9% q/q) led to an increase in the annual rate of economic growth, it still remained negative (-0.8% y/y).

Weak economic growth of Slovenian economy results from the fact that by 2011 Slovenia had not recovered from the effect of the bursting of the real-estate bubble. The crisis in the construction industry (value added in construction decreased by 20% in 2011 and 15% y/y in 2012 Q1), observed in recent years, was still the main cause of weak domestic demand, especially in gross fixed capital formation.

At the same time, Slovenian exports did not increase as fast as in other countries (6.8% versus 10% in the CEE region as a whole) which, with a relatively high growth of imports, implied that the contribution of foreign trade in Slovenia in 2011 amounted to only 1.5 pp. — twice smaller figure than in Hungary and the Czech Republic that were also coping with domestic demand crisis. Low increase in exports was accompanied by the weakening of the industrial sector, especially export-oriented manufacturing industry. In 2011, it decreased by 4.3%, which resulted primarily from a declining demand for Slovenian automotive industry products.

One of the reasons for the relatively weak growth in Slovenian exports over the last few years is the persistently low competitiveness of the Slovenian economy. Although productivity in the industry has been gradually increasing since 2009, the increase in the competitiveness of other CEE economies was much higher in this period. No nominal decrease in wages in the private sector was observed in Slovenia, while in the Baltic states such a decrease was the basis for the internal devaluation. In turn, in the second half of 2011, Poland, the Czech Republic, Hungary and Romania experienced a strong depreciation of national currencies against the euro (this did not apply to Slovenia, which is a member of the euro area) which also contributed to increased price competitiveness of exports of these countries. For Slovenia, price competitiveness is important due to a small share of high-tech goods and knowledge-based services in total exports.[11]

The forecasts for 2012 indicate a further slowdown in exports, thus a reduction in the positive impact of net exports on the economy, due to a weakening demand in the euro area. Additionally, the turmoil associated with the economic and political situation in Greece led to a further depreciation of currencies of the CEE countries (PLN, CZK, HUF, RON) against the euro in 2012 Q2, which makes the Slovenian competitive position in the region even worse.

In the first quarter of this year, Slovenia saw a marked increase in domestic demand. However maintaining this trend seems very unlikely, especially when taking into consideration the need to take more decisive actions related with the fiscal consolidation.

Despite continuing consolidation measures, Slovenia (as well as Cyprus) was the only EU country where the general government deficit increased in 2011 (from 6.0% to 6.4% of GDP). The main reason for this increase was capital support provided to one of the commercial banks and to state enterprises, amounting to the total of approximately 1.3% of GDP.

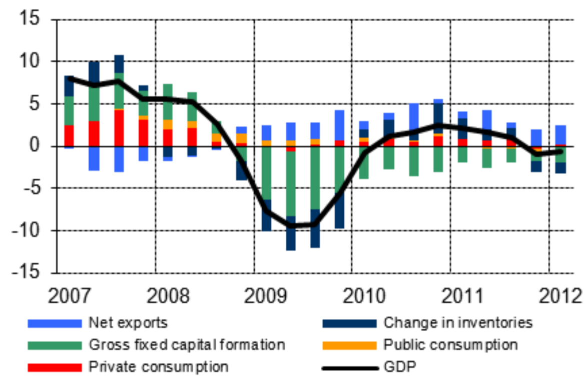
The new Slovenian government has prepared a package of adjustment measures (around 2.3-2.6% of GDP) that involves the reduction of public deficit to 3.5% of GDP in 2012 and 2.5% in 2013, i.e. within the deadline resulting from the excessive deficit procedure imposed on Slovenia at the end of 2009. The package provides for a further reduction in government spending, primarily the reduction in certain non-salary-related allowances and benefits and fixed capital formation. Savings obtained in this manner are estimated by the Slovenian authorities to amount to approx. 1.1% of GDP in 2012 and 1.7% of GDP in 2013. The cuts will also apply to social expenditures (pensions as well as health, unemployment and family benefits) amounting to approximately 0.4% of GDP in 2012 and 0.6% of GDP in 2013. These measures have been approved by social partners. At the same time, the projected increase in tax burden will not be significant. A proposal concerning an increase in excise duty and capital tax rates (from 20% to 25%) was assumed. Furthermore, additional taxes will be introduced (on ships, motor vehicles, and real estate). However, in order to stimulate economic growth, a gradual reduction of corporate tax rate is expected (from 20% to 15%) along with the introduction of tax reliefs in corporate and personal income tax for entities engaged in research and development activities. In its spring forecast, the European Commission estimates that the measures provided for in the consolidation package will be insufficient to reduce the fiscal imbalance to the level of less than 3% of GDP in 2013 (3.8% of GDP) which results, among others, from adopting a more pessimistic scenario of the macroeconomic situation. A risk Slovenia may be facing is the need for banking sector recapitalisation. The European Commission also forecasts that in 2011-2013, Slovenian public debt will increase to a higher level than in other countries of the region (by 10.6 pp. up to 58.1% of GDP).

[11] The share of high-tech goods in Slovenian exports over the recent years amounted to about 5% of total exports, which was the worst result among the CEE countries. For example, in the Czech Republic it was three, and in Hungary more than four times higher.

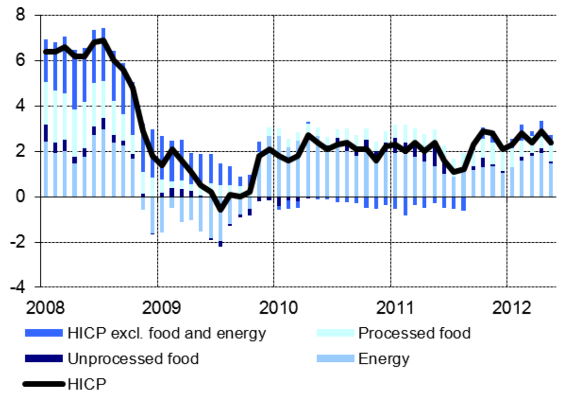
A Social Pact for the years 2012-2017 is also being developed in Slovenia. Among measures proposed in the Pact, the government are a reform of the health sector and the pension system. The proposed changes to the pension system include the same proposals that were rejected in a referendum in mid-2011 (prolonging retirement age, changing benefit indexation rules). This time, political parties have agreed to changes in the law that would prevent a rejection of laws in a referendum on, inter alia, issues related to the implementation of the budget act and situation of public finances.

Uncertainty over the form of adjustment measures in connection with early parliamentary elections in mid-2011 and the worsening of growth prospects, difficult situation of the banking system and high level of corporate debt led to a downgrade of Slovenia' rating and significantly increased interest rates on Slovenian bonds. Due to being a member of the euro area, Slovenia continues to have an investment rating (as in the case of the Czech Republic, Slovakia and Estonia, Slovakia it is one of the highest ratings in the region). Yet, it was downgraded at the turn of 2011 and 2012 and the ratings agencies do not rule out the possibility of further downgrades of Slovenian bond ratings.

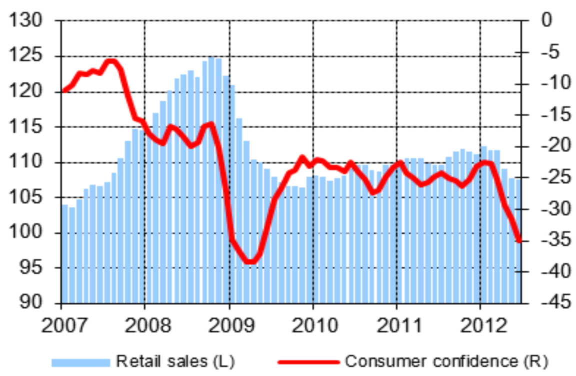
GDP and its components (in pp., y/y)



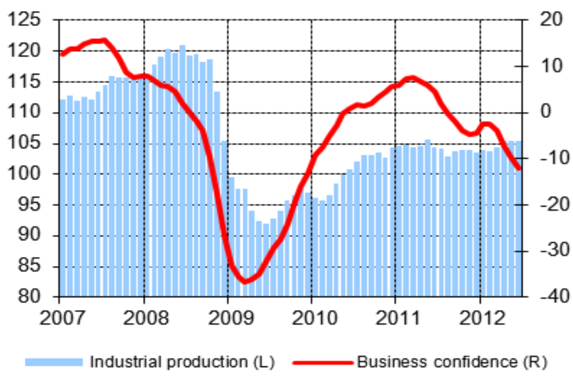
HICP and its components (in pp., y/y)



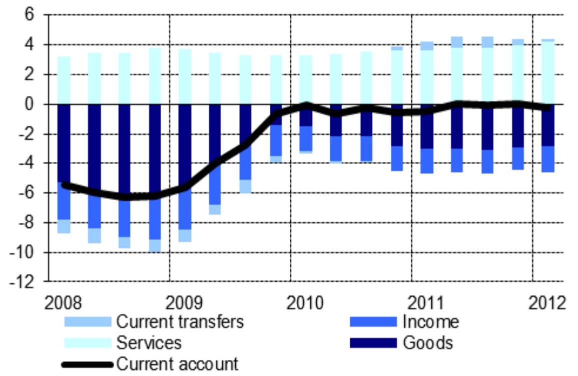
Retail sales (in %, y/y) and consumer confidence index



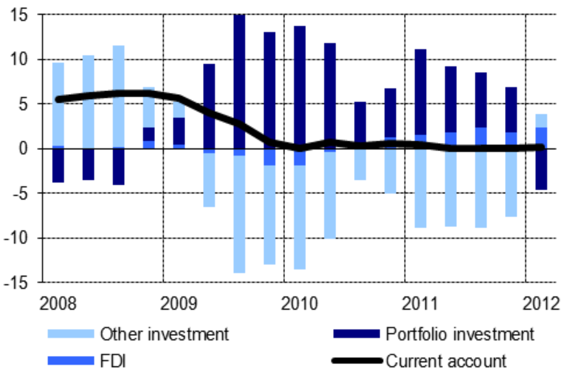
Industrial production (in %, y/y) and business confidence index



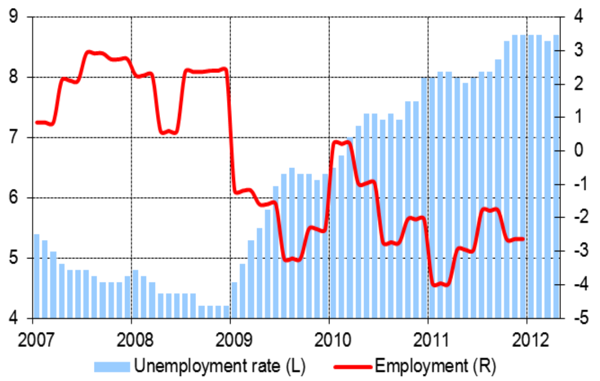
Current account balance (in % of GDP, 4q moving average)



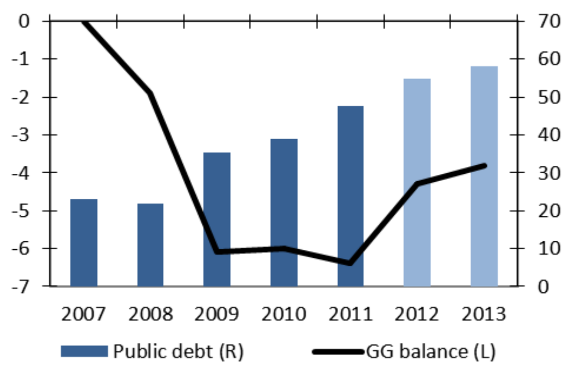
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

HUNGARY

In 2011, for a second year in a row, Hungary recorded positive GDP growth (1.7% y/y against 1.2% y/y in 2010) driven by exports sector benefiting primarily from a good situation in German industry. On the other hand, domestic demand continued to adversely affect the growth rate of the country's economy. In the second half of last year, however, there was a marked slowdown in exports growth (in that period, its volume increased by 5.9% y/y after rising by 11.0% y/y in the first half of 2011).

Preliminary data published by Eurostat show that in 2012 Q1, Hungary's GDP declined in real terms by 1.4% y/y (-1.2% q/q), after an unexpected increase by 1.2% y/y (stabilization in quarter-on-quarter terms) in 2011 Q4. The decline in GDP was driven mainly by fixed capital formation of enterprises, decreasing since the beginning of 2011. Furthermore, a positive exports growth strongly decelerated again in the first three months of 2012 (1.8% y/y). The median of external forecasts indicates that in 2012 the Hungarian households will again curb consumer spending and companies will continue to reduce investment outlays, albeit probably at a slower pace. Therefore, it may be expected that in 2012 Hungarian economy will enter a shallow recession.

The expected drop in private consumption will primarily result from lower real disposable income (due to, inter alia, the persistence of a relatively high inflation rate) and the lack of prospects for significant improvement in the labour market in the near future. Moreover, it should also be noted that in Hungary, part of the indebted households decided to participate in a government program that enables a one-off repayment of a foreign currency mortgage loan on preferential terms (at a fixed exchange rate, lower than the market rate). This is likely to translate into a reduction in consumer spending, especially on durable goods.

The ongoing fiscal consolidation in Hungary including reduction of budget expenditures, will probably negatively affect the public sector investments. The expected decline in public investments may, at least partially, be offset by new investment projects financed from the EU funds.

Private sector investments are also likely to decrease. This will result mainly from weak domestic demand and lower external demand. Additionally, investment activities in Hungary may not only be muted by temporary crisis-related taxes introduced in 2010 (tax on financial institutions and on telecommunications, energy and retail companies[12]), but also by the announced new fiscal burdens[13]. On the other hand, despite the introduction of these measures, the automotive industry expects a recovery in investments in the coming years. At the end of March 2012, the German concern, Daimler AG, launched a new Mercedes factory in Hungary. In 2013, in turn, another German concern (Volkswagen) plans to expand its existing Audi production facility.

Despite a weak private consumption and low investment activity at the beginning of 2012, inflation in Hungary still remained above the central bank's medium-term target (3% y/y). In May this year, prices of consumer goods and services (according to the HICP methodology) increased by 5.4% y/y. This was caused not only by the still low exchange rate of the forint which clearly weakened against the euro and dollar in the second half of 2011, but also by the effects of high energy prices in 2012 Q1. The elevated price level in the Hungarian economy is also connected with an increase in VAT rate from 25% to 27%, i.e. the highest level acceptable in the European Union, introduced in January 2012. Preliminary estimates show that this increase added a total of 1.1 pp. to consumer price index in the period from January to February 2012[14].

Looking ahead, an important issue for the Hungarian economy is the financing of lending activity by local banks. This issue plays a crucial role for at least two reasons. First, the Hungarian banking sector is dominated by foreign capital, which means that a portion of funds used for a credit to the private sector (households and firms) comes directly from parent companies in Western Europe. Moreover, given the ongoing process of deleveraging in the European banking sector, a reduction or even stop in foreign capital inflow to Hungarian banks can be expected. In the period from mid-2008 to the end of 2011, liabilities of Hungarian banks to European banks declined by over 35%, which was, apart from the Baltic states, the largest adjustment in the region.

Second, the observed increase in resident deposits in the Hungarian banking sector may be insufficient to compensate for the expected lower inflow of external funds. Moreover, available data show that households that have joined the government program have primarily used their savings (funds on bank accounts and term deposits, securities held, etc.) to repay their foreign currency hous-

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[12] According to the so-called Széll Kálmán's Plan, these taxes will be in force until the end of 2012.

[13] In April 2012, the Hungarian parliament passed the so-called Convergence Program (commonly known as Széll Kálmán's Plan 2), which provides for the replacement, from 2013, of the aforementioned crisis-related taxes with new ones. http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2012/01_programme/hu_2012-04-23_cp_en.pdf

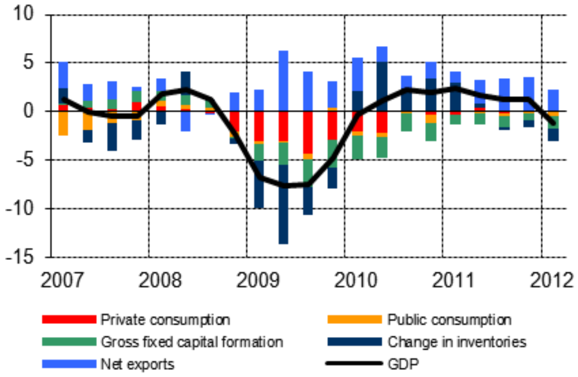
[14] A detailed description of methods used to estimate the effects of VAT increase and its results can be found in the March Inflation Report published by the National Bank of Hungary. http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_infrep_en/mnben-inflation-20120329/infl_jelentes_201203_en.pdf

ing loans[15]. Consequently, it should be expected that in 2012 the growth in lending activity in Hungary will decline which should also be a barrier to the recovery of domestic demand.

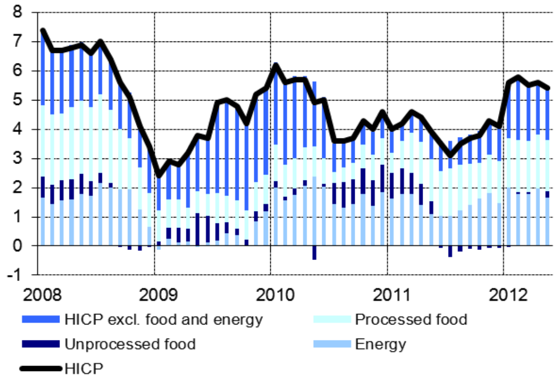
In the face of increasing risk of a stop in foreign capital inflow or even its outflow from the Hungarian banking sector, the issue of possible financial assistance from the IMF and the EC becomes particularly important from the viewpoint of maintaining stability of the country's economy. It may be assumed that the agreement between the Hungarian government and the IMF/EC on the establishment of a credit line would help increase the country's resilience to potential external shocks and reduce the cost of debt financing in international markets through a decline in the country risk premium. Conditions for obtaining the aforementioned assistance include, among others, a reduction of the general government deficit and ensuring conformity of the proposed legislative changes in Hungary with the current legal system in the EU (this refers to, among others, provisions of the central bank act which, in the EC's opinion, limit its independence).

[15] see also Report on Financial Stability, April 2012, National Bank of Hungary.

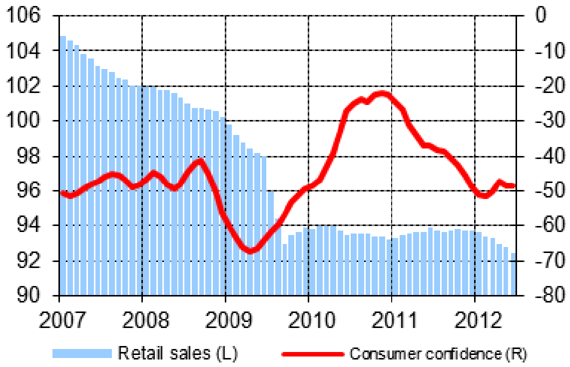
GDP and its components (in pp., y/y)



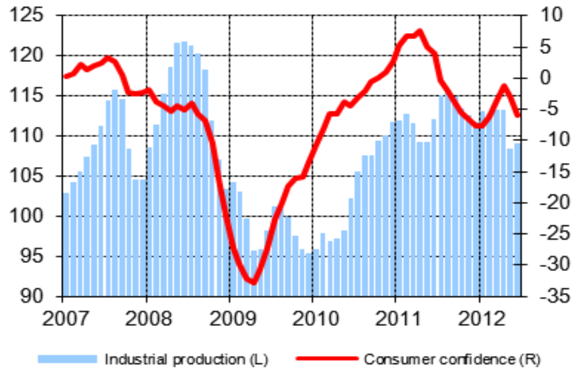
HICP and its components (in pp., y/y)



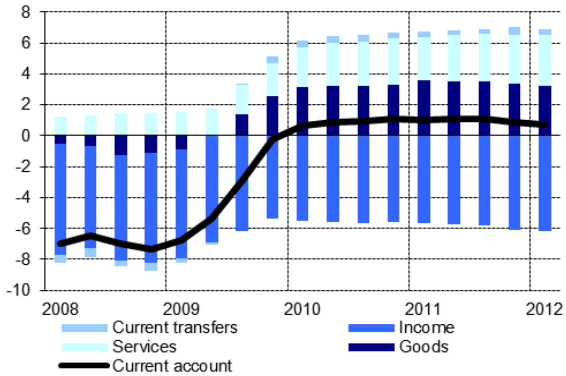
Retail sales (in %, y/y) and consumer confidence index



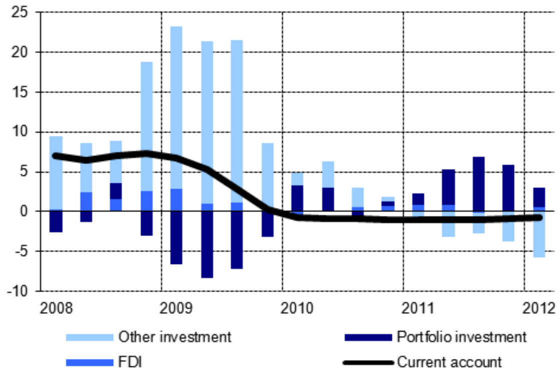
Industrial production (in %, y/y) and business confidence index



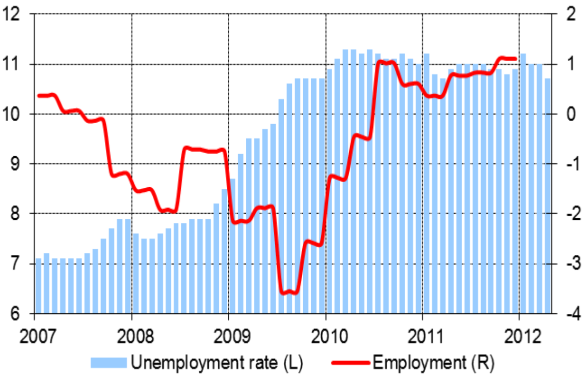
Current account balance (in % of GDP, 4q moving average)



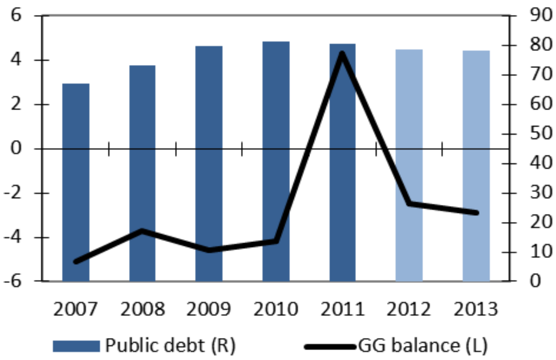
Foreign capital inflow (net, in % of GDP, 4q moving average)



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



General government balance and public debt (in % of GDP)



Source: Eurostat, CSOs

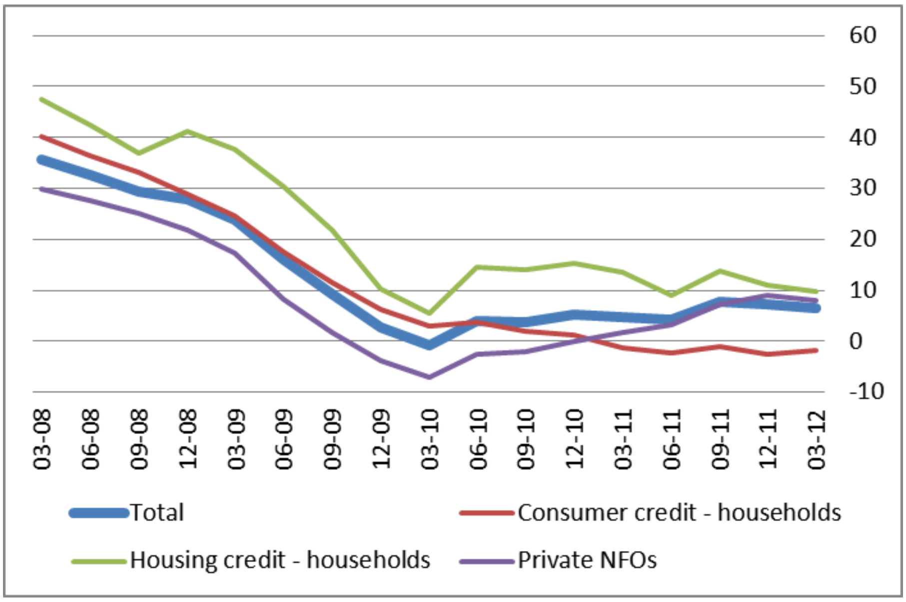
Appendix 1

Deleveraging in Central and Eastern Europe economies

The Central and Eastern European countries (CEE) owed their rapid growth in the post-accession period largely to the liberalization of financial markets and opening their markets to foreign institutions, mainly from Western Europe. Attracting foreign capital into the financial sector contributed to a rapid increase in lending activity that financed the increase in domestic demand. Such rapid growth in lending resulted in the emergence of unstable credit booms (especially in the Baltic states, Bulgaria, Romania and Hungary). As late as in 2008, the value of loans to the private sector in the region grew by more than 30% y/y, and in Bulgaria and Romania their growth rate exceeded 60% y/y.[16]

This situation changed dramatically at the outbreak of the global financial crisis. As a consequence, capital inflow to the banking sector in the CEE countries decreased significantly which was conducive to a sudden slowdown in lending. In early 2010, the annual lending growth in the whole CEE region was already negative. The slowdown and subsequent decline in lending were caused by both supply and demand factors. On the one hand, banks, in response to the tightening macro-prudential regulations, limited inflow of foreign capital, as well as deteriorating loan portfolio, significantly tightened the criteria for granting new loans. On the other, the deteriorating financial situation of economic entities in the region, accompanied by the deteriorating sentiment of households and enterprises, as well as the increasing costs of the existing loan repayment, has resulted in much lower interest in increasing financial liabilities.

Figure 1. Credit to private sector growth rate (in %, y/y)



Source: EcoWin Financial, Central Banks

The slowdown in lending growth affected all types of loans. However, across the region, only the value of corporate loans declined in nominal terms. In 2009-2010, annual growth of loans to households remained positive. This concerned both consumer loans (which resulted mainly from their relatively high supply in Poland, the Czech Republic and Slovakia) and housing loans.

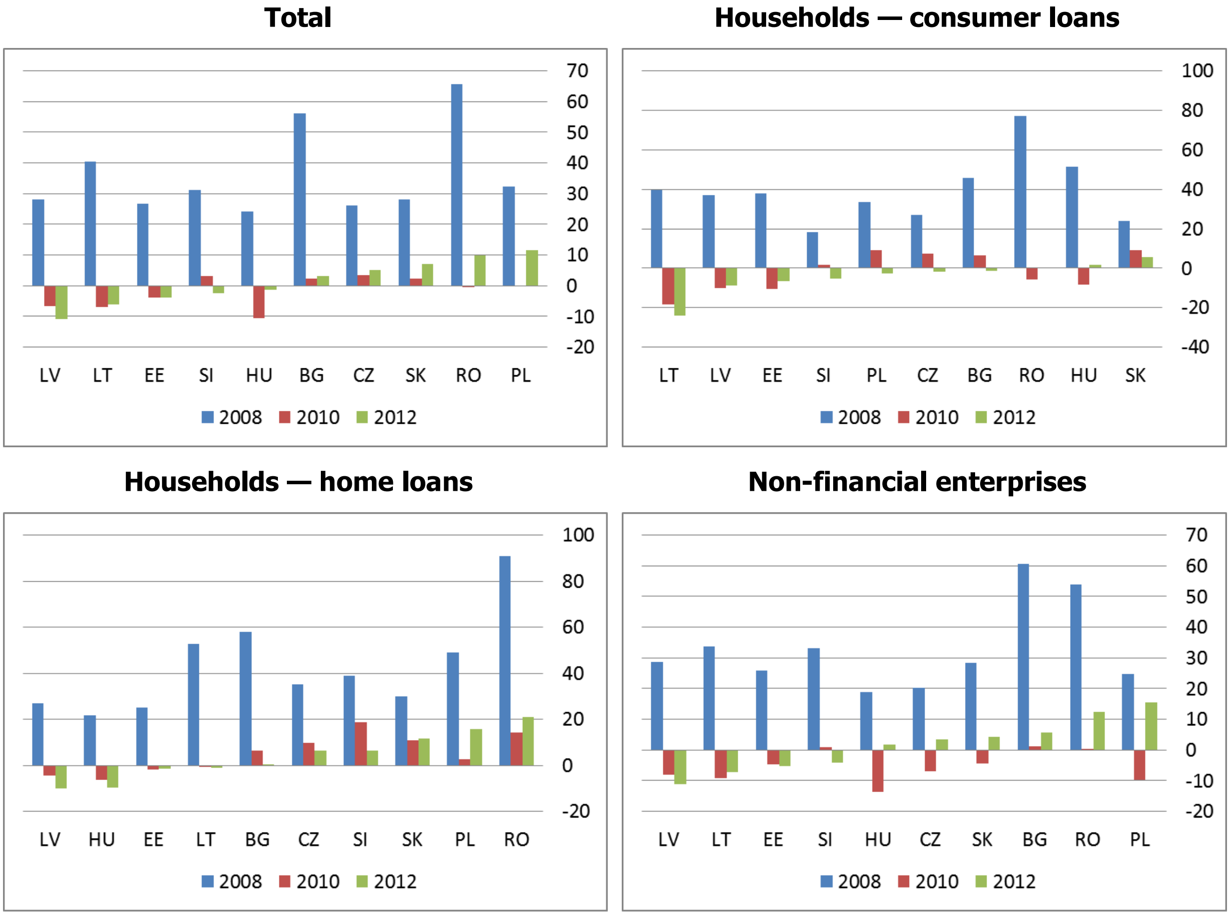
In the second half of 2010, the growth of lending in the region began to increase slowly. However, the situation was not homogenous both in terms of geography and the borrowers characteristics.

In 2011, relatively strong foreign demand contributed positively to the economic situation of enterprises, especially in the manufacturing sector. Growth in new orders and thus in the volume of output encouraged manufacturers to look for external sources of financing, both of their current operations and investments.[17] The annual growth of loans to non-financial enterprises, that in 2010 Q1 was neg-

[16] In 2006 and 2007, equally high growth (50-70% y/y) was observed in Estonia, Latvia and Lithuania.
[17] In a number of countries of the region, investments of private enterprises, especially from the non-financial sector, were the only category of expenditure on fixed assets that increased in 2011.

ative or close to zero for all countries in the region, in 2011 Q4 significantly increased for most of them,[18] and in Poland and Romania it even reached double-digit levels. The weakening economic conditions in industry, especially in the export-oriented sectors, caused by the deepening recession in the euro area, contributed to a slowdown in corporate lending in 2012 Q1. Thus, the projected further weakening of growth in Western European countries may be one of the reasons for a slower recovery in the corporate lending in the region.

Figures 2-5 Loans growth rate (y/y, in %)



Source: EcoWin Financial, central banks

The situation in the household loan market was different. In the case of housing loans, an increase in their growth could be observed across the region. However, the situation was clearly different in each country. A sharp increase in the value of housing loans could be observed in Poland and Romania, somewhat smaller in Slovakia, while in other countries the consumer loan growth rate declined between 2010 Q1 and 2012 Q1. In the Baltic countries and Hungary it remained negative during the entire period.

Since the outbreak of financial crisis in 2008, a sharp deterioration in consumer sentiment could be observed in the CEE region. It resulted from the persistently adverse conditions in the labour market, fiscal consolidation, high inflation resulting from rising food and energy prices. Additionally, depreciation of national currencies (especially in Hungary, Romania and Poland) resulted in an increased foreign currency debt burden on household budgets. All these factors contributed to the reduction of household real disposable income and, consequently, resulted in small interest in taking new loans, especially for consumption expenditure. Combined with the tightened credit policies of banks, the annual growth of consumer credit decreased steadily since 2008. Since early 2011 it has been negative in the whole region. In 2011 and early 2012, the decrease in value of consumer loans was recorded in almost all countries of the region, except for Slovakia and Hungary. An increased interest in this type of loans in Hungary seems to be particularly surprising. It should not, however, be explained

[18] Negative growth of lending to private enterprises was still observed in the Baltic states. Slovenia, however, noted a steady decline in the value of loans, resulting from: bad financial situation of the largest state-owned Slovenian banks and a crisis in construction in 2011.

by increased consumer spending of Hungarian households, but rather treated as a result of taking out new loans to repay FX housing (under a government plan which fixed exchange rate of the Swiss franc, euro and yen for the earlier repayment of mortgage loans). The above hypothesis is confirmed by data showing a clear decline in the value of mortgage loans in Hungary in 2011 and 2012 Q1.

Figure 6. Foreign claims of CEE banks

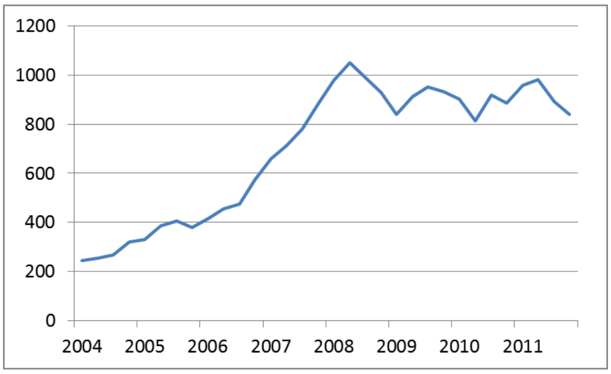
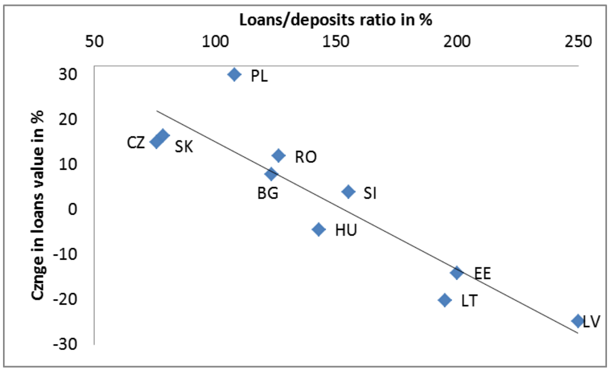


Figure 7. Credit growth and loans/deposit ratio in 2008

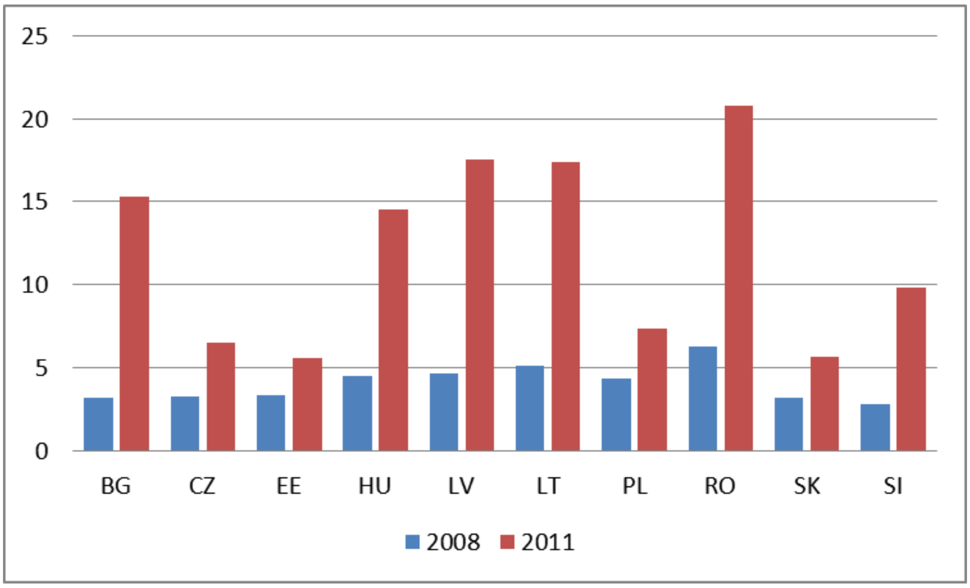


Source: EcoWin Financial, Central Banks, BIS

Deleveraging of individual CEE economies did not proceed at an equal pace. The strongest and continuing decline in the value of loans to the private sector took place in the Baltic states, while in Poland, the Czech Republic, Romania and Slovakia lending in 2011 and in early 2012, grew relatively fast (albeit much slower than before the outbreak of the financial crisis). One of the reasons for these changes is the structure of financing of the banking sector in each country. Until 2008, the Baltic states based their lending on loans and deposits of foreign financial institutions, which exceeded even the value of domestic deposits (the ratio of loans to deposits in Latvia in 2008 was around 250%, in Estonia and Lithuania – around 200%.) At the same time, in the Czech Republic and Slovakia, the value of domestic deposits exceeded the value of loans. In Poland both of these figures were similar. Therefore, the freezing and even the outflow of capital from the banking sector (debt repayment, withdrawal of deposits by non-residents), observed in recent years in all countries in the region, most heavily affected banks operating in Estonia, Latvia and Lithuania. In addition, the scale of capital outflows from the banking sector in the Baltic states was twice as high as in other CEE countries. Between 2008 Q2 and 2011 Q4, the value of Western European banks claims decreased by 39% in the Baltic states and by 18% in other countries in the region. These factors led to a situation where even in a period of strong recovery in domestic demand and a clear improvement in corporate and household sentiment in the Baltic states, local banks did not have sufficient funds to increase lending.

Another factor affecting the reduction of loan supply in the CEE countries is a significant deterioration of their portfolio after 2008. The value of non-performing (NPL) or impaired loans rose significantly in all countries. The largest increase took place in the economies where the growth of lending before 2008 was the highest, i.e. in the Baltic states (except for Estonia), Bulgaria and Romania. The largest increase in the NPL value was observed in 2009. In subsequent years, it grew much slower. NPL ratio increased significantly only in Hungary, Slovenia and Bulgaria, i.e. the countries whose economies were recovering from the crisis at the slowest pace. In other countries, the NPL ratio did not show a clear upward trend, and in the Baltic states it even declined markedly in 2011.

Figure 7. Non-performing loans as % of total loans



Source: EcoWin Financial, central banks, Unicredit

Despite the banking crisis in the euro area, the situation in the banking sectors of the CEE countries in 2011 and early 2012 was not bad. In spite of a gradual decrease in the exposure of Western European banks to the banking sector in the CEE countries, observed since the second half of 2011, the growth of lending in most countries was slowly increasing. Projections of international financial institutions[19] assume that a slow growth in lending will also be observed in the coming quarters, however, a return to the situation before the outbreak of the crisis seems unlikely. Deleveraging of large banks in the euro area, given their dominant role in the region remains the greatest threat to the stability of the banking system in the CEE countries.

One form of response to this threat was the so-called *Vienna Initiative 2*, adopted in March 2012. It refers to activities undertaken in 2009 by international organizations (including EBRD, IMF, EC) in order to persuade commercial banks not to restrict their activities in the countries of Central and Eastern Europe. This time, however, the situation is definitely different, as European banks are required to meet new capital requirements (as part of the CRD IV directive) that assume, inter alia, improvements in capital adequacy ratios. Thus, limiting of new financing for subsidiary banks operating in the CEE region seems rather inevitable. The point is, however, that activities of central banks and financial regulators in Western Europe should be coordinated to avoid massive and disorderly withdrawal of foreign capital from the banking sector of the CEE countries. In other words, *Vienna Initiative 2* is to lead to the point in which national supervisors of Western European banks are not solely driven by their own interest, as this would have dramatic consequences for subsidiary banks operating in Central and Eastern Europe[20].

[19]Inter alia, CEE Banking Outlook; Banking in CEE: the new "normal", Unicredit, January 2012

[20] In 2011, the Austrian financial regulator and the central bank ordered local commercial banks to make their subsidiaries operating in Central, Eastern and Southeastern Europe finance their lending with deposits obtained from local businesses. In other words, both institutions recommended that banks in Austria reduce the scale of their activities in, among others, the countries of our region by limiting new loans to local subsidiaries.

Statistical Annex

1. National accounts

Table 1. Produkt krajowy brutto (w % do analogicznego okresu roku poprzedniego)

	2010	2011	I 2011	II 2011	III 2011	IV 2011	I 2012
Poland	3.8	4.3	4.6	4.5	4.0	4.2	3.8
Czech Rep.	2.3	1.7	2.8	2.1	1.3	0.6	-0.7
Slovakia	4.0	3.3	3.5	3.4	3.2	3.3	3.2
Slovenia	1.0	-0.2	1.8	0.6	-0.2	-1.5	-0.8
Hungary	1.2	1.7	2.4	1.7	1.4	1.2	-1.4
Estonia	3.1	7.6	9.5	8.1	8.1	5.1	3.7
Lithuania	-0.3	6.0	5.6	6.5	6.7	5.2	4.4
Latvia	1.3	5.0	3.3	5.2	5.8	5.7	5.6
Bulgaria	0.2	1.8	2.8	2.1	1.4	0.9	0.5
Romania	-1.3	2.1	1.6	1.4	3.2	2.1	0.8

Source: Eurostat

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

	2010	2011	I 2011	II 2010	III 2011	IV 2011	I 2012
Poland	3.2	3.1	3.5	3.6	2.8	2.5	2.2
Czech Rep.	0.2	-0.6	-0.6	-0.5	-0.7	-0.7	-2.9
Slovakia	-0.3	-0.4	-0.4	-0.1	-0.7	-0.2	-0.2
Slovenia	0.7	-0.2	0.1	0.4	0.4	-1.8	3.2
Hungary	-2.1	0.0	-0.5	0.7	-0.3	0.1	0.0
Estonia	-1.9	4.2	3.5	3.9	4.7	4.6	3.2
Lithuania	-0.1	6.1	5.1	7.0	4.9	7.3	5.6
Latvia	-4.5	4.4	3.2	4.9	5.3	4.1	5.4
Bulgaria	-1.2	0.2	-0.3	-0.1	0.5	0.8	0.7
Romania	-1.7	1.3	-0.7	0.0	3.0	3.1	0.8

Source: Eurostat

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

	2010	2011	I 2011	II 2010	III 2011	IV 2011	I 2012
Poland	-2.0	8.1	7.3	7.1	8.3	9.5	7.6
Czech Rep.	-3.1	-0.9	-2.0	1.6	-2.6	-0.6	1.0
Slovakia	3.6	5.7	2.3	7.5	6.2	6.8	2.7
Slovenia	-7.1	-10.4	-7.9	-13.3	-10.7	-9.5	-11.5
Hungary	-5.6	-5.5	-5.3	-6.1	-6.0	-4.5	-7.0
Estonia	-9.2	26.8	21.9	16.5	35.2	33.2	16.8
Lithuania	-19.5	17.2	28.7	21.4	9.4	11.8	7.1
Latvia	0.0	28.6	30.6	30.5	25.8	28.0	37.6
Bulgaria	-16.5	-7.9	-6.7	-7.0	-7.4	-10.5	-5.4
Romania	-13.1	4.4	-1.6	-1.4	11.2	9.8	11.9

Source: Eurostat

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

	2010	2011	I 2011	II 2010	III 2011	IV 2011	I 2012
Poland	10.2	7.6	9.2	4.5	8.8	8.2	1.6
Czech Rep.	18.0	11.1	18.4	12.9	8.5	5.2	6.5
Slovakia	16.4	10.8	18.5	13.5	5.9	6.3	3.2
Slovenia	7.7	7.8	9.7	8.3	6.7	6.4	1.7
Hungary	14.1	8.4	13.6	8.6	6.8	5.0	1.8
Estonia	21.7	24.9	35.7	32.3	25.1	10.1	6.5
Lithuania	10.3	14.6	22.9	17.1	12.7	7.4	0.4
Latvia	17.4	13.1	15.5	14.8	11.9	10.5	10.0
Bulgaria	16.2	12.8	21.9	13.5	5.3	11.9	-0.1
Romania	13.1	10.5	21.4	8.2	9.6	4.0	-3.3

Source: Eurostat

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

	2010	2011	I 2011	II 2010	III 2011	IV 2011	I 2012
Poland	10.7	5.8	8.4	4.4	5.5	5.1	4.1
Czech Rep.	18.0	7.5	16.0	9.8	3.6	1.5	3.9
Slovakia	14.9	4.5	11.3	10.7	-1.9	-1.1	-1.3
Slovenia	6.7	5.6	8.6	5.0	5.4	3.3	-0.3
Hungary	12.0	6.3	13.7	6.7	3.7	1.7	-0.4
Estonia	21.0	27.0	37.0	30.4	30.0	13.4	10.0
Lithuania	8.6	13.6	24.2	18.1	9.1	5.1	-0.2
Latvia	17.9	20.6	23.4	25.9	20.4	13.8	10.4
Bulgaria	4.5	9.0	13.5	8.7	8.9	5.2	0.0
Romania	11.6	11.5	16.2	10.1	12.9	7.0	-1.7

Source: Eurostat

2. Business cycle and economic activity indicators

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

	2010	2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012
Poland	10.7	7.3	9.4	9.8	8.8	5.6	3.9	5.0
Czech Rep.	9.8	6.7	3.6	4.4	0.8	1.0	2.7	2.2
Slovakia	18.9	7.4	1.3	2.5	5.0	9.2	12.0	10.7
Slovenia	6.4	2.8	0.5	-3.4	0.9	-0.7	0.1	3.7
Hungary	6.5	7.9	0.8	1.1	1.0	-2.0	5.6	7.7
Estonia	20.0	17.6	2.2	0.0	-0.6	1.5	-5.9	-4.0
Lithuania	13.9	9.0	8.4	3.6	8.9	7.8	8.4	3.9
Latvia	10.2	5.7	3.3	6.9	-1.7	-3.7	0.6	-3.0
Bulgaria	2.0	6.1	1.5	0.7	-3.1	-3.3	-2.1	-1.3
Romania	5.6	6.1	3.9	1.9	1.5	-0.6	1.2	2.6

Source: Eurostat

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

	2010	2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012
Poland	6.2	0.1	0.3	-1.5	2.8	-1.7	1.8	0.9
Czech Rep.	-1.1	0.4	-0.1	1.3	0.1	-1.7	0.5	-2.5
Slovakia	-2.2	-2.3	-2.2	-2.8	-0.1	0.2	0.1	-1.8
Slovenia	-0.3	1.8	1.3	1.1	3.8	-1.3	0.9	-3.3
Hungary	-2.3	0.2	0.8	1.3	0.2	-0.4	0.9	0.6
Estonia	-0.5	4.3	6.5	7.5	14.7	14.5	8.9	8.6
Lithuania	-6.7	8.3	11.2	11.8	10.2	4.9	4.8	3.5
Latvia	-2.2	4.3	7.6	6.3	15.2	10.1	10.4	7.9
Bulgaria	-7.0	-1.8	-4.0	-2.4	-3.2	-6.6	-2.6	-1.9
Romania	-5.8	-2.3	3.2	8.2	7.4	3.0	3.1	3.4

Source: Eurostat

Table 8. DG ECFIN consumer confidence indicator

	2010	2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	-18.8	-23.7	-33.0	-28.7	-28.6	-24.4	-27.1	-28.8
Czech Rep.	-10.5	-20.9	-31.2	-27.5	-26.3	-29.6	-28.1	-30.0
Slovakia	-20.4	-28.1	-40.3	-37.5	-31.7	-31.4	-21.6	-23.3
Slovenia	-24.1	-24.6	-18.5	-24.3	-25.1	-26.3	-36.6	-31.9
Hungary	-29.4	-39.2	-51.8	-54.1	-49.0	-47.4	-45.9	-51.9
Estonia	-6.7	-4.9	-15.6	-14.8	-13.8	-12.9	-11.5	-8.1
Lithuania	-32.4	-19.3	-25.2	-19.9	-22.2	-21.3	-21.7	-19.5
Latvia	-29.7	-22.0	-19.4	-17.5	-11.6	-18.1	-19.9	-19.8
Bulgaria	-40.6	-40.2	-44.2	-40.2	-43.2	-43.6	-42.8	-42.5
Romania	-54.6	-44.1	-43.1	-39.9	-38.2	-41.6	-39.6	-29.4

Source: European Commission

Table 9. DG ECFIN business confidence indicator

	2010	2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	-13.0	-12.6	-14.2	-13.1	-14.0	-13.9	-15.3	-16.0
Czech Rep.	3.5	5.6	-0.1	-0.1	1.3	1.6	-1.9	-3.3
Slovakia	1.9	3.2	3.5	5.9	-1.9	3.9	4.3	5.3
Slovenia	0.0	1.5	-2.2	-0.8	-4.0	-7.1	-10.6	-11.4
Hungary	-1.9	-0.3	-7.2	-7.3	-3.7	0.0	0.0	-8.6
Estonia	0.5	6.9	0.8	-1.2	1.0	3.9	-0.8	-2.4
Lithuania	-13.1	-4.8	-7.6	-11.8	-9.9	-13.8	-12.9	-10.7
Latvia	-7.5	-4.5	-5.7	-2.8	-3.1	-2.6	-6.0	-5.1
Bulgaria	-9.1	-5.0	-7.3	-6.8	-5.8	-2.7	-6.1	-7.9
Romania	-8.3	-1.7	-3.6	-1.7	-1.3	-0.9	-0.5	-0.9

Source: European Commission

Table 10. PMI in manufacturing

	2010	2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	53.5	52.3	48.8	52.2	50.0	50.1	49.2	48.9
Czech Rep.	56.8	54.9	49.2	48.8	50.5	52.1	49.7	47.6
Hungary	52.8	52.1	48.5	49.8	50.3	57.9	47.1	52.2

Source: EcoWin Economic

3. Prices

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	3.8	4.4	4.5	4.1	4.4	3.9	4.0	3.6
Czech Rep.	2.6	2.9	2.8	3.8	4.0	4.2	4.0	3.5
Slovakia	4.6	4.8	4.6	4.1	4.0	3.9	3.7	3.4
Slovenia	2.9	2.8	2.1	2.3	2.8	2.4	2.9	2.4
Hungary	3.8	4.3	4.1	5.6	5.8	5.5	5.6	5.4
Estonia	4.7	4.4	4.1	4.7	4.4	4.7	4.3	4.1
Lithuania	4.2	4.4	3.5	3.4	3.7	3.7	3.3	2.6
Latvia	4.3	4.0	3.9	3.4	3.3	3.2	2.8	2.3
Bulgaria	3.0	2.6	2.0	1.9	2.0	1.7	2.0	1.8
Romania	3.6	3.5	3.2	2.8	2.7	2.5	1.9	2.0

Source: CSOs

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	7.4	7.8	7.1	6.9	5.6	4.3	4.2	
Czech Rep.	5.5	5.5	4.5	4.1	3.6	3.0	2.2	1.7
Slovakia	3.0	3.2	2.5	2.5	4.0	4.3	3.9	
Slovenia	3.1	2.9	2.6	1.9	0.7	0.6	0.7	1.3
Hungary	7.5	7.9	7.4	7.8	7.6	7.4	7.0	
Estonia	3.6	3.1	3.2	4.0	4.4	4.4	3.5	3.3
Lithuania	9.8	9.1	8.9	10.3	10.2	10.0	5.7	3.9
Latvia	11.6	10.9	9.6	9.9	8.3	7.2	6.9	5.6
Bulgaria	6.5	5.9	4.1	5.3	4.6	4.6	5.0	
Romania	7.5	7.2	6.7	5.4	5.5	5.2	5.3	

Source: CSOs

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	3.8	4.4	4.5	4.1	4.4	3.9	4.0	3.6
Czech Rep.	2.6	2.9	2.8	3.8	4.0	4.2	4.0	3.5
Slovakia	4.6	4.8	4.6	4.1	4.0	3.9	3.7	3.4
Slovenia	2.9	2.8	2.1	2.3	2.8	2.4	2.9	2.4
Hungary	3.8	4.3	4.1	5.6	5.8	5.5	5.6	5.4
Estonia	4.7	4.4	4.1	4.7	4.4	4.7	4.3	4.1
Lithuania	4.2	4.4	3.5	3.4	3.7	3.7	3.3	2.6
Latvia	4.3	4.0	3.9	3.4	3.3	3.2	2.8	2.3
Bulgaria	3.0	2.6	2.0	1.9	2.0	1.7	2.0	1.8
Romania	3.6	3.5	3.2	2.8	2.7	2.5	1.9	2.0

Source: Eurostat

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	-1.8	0.3	2.0	1.8	2.6	1.9	0.5	0.1
Czech Rep.	0.9	-0.1	-1.0	2.3	3.1	3.7	3.6	5.1
Slovakia	1.7	1.3	-0.6	-1.1	-2.0	-1.2	-2.1	-1.4
Slovenia	5.1	1.1	0.7	0.1	2.3	1.8	3.1	0.9
Hungary	-1.7	-0.8	-0.7	-0.3	0.7	0.9	0.0	2.8
Estonia	2.1	0.9	-0.1	2.4	-1.1	-0.1	-1.9	-1.4
Lithuania	2.8	2.9	2.6	3.1	2.4	3.2	1.1	-1.0
Latvia	2.6	2.7	-0.8	-0.1	0.5	1.3	-0.5	-0.4
Bulgaria	1.5	1.0	1.2	0.4	1.0	0.5	0.6	2.5
Romania	-3.0	-3.3	-3.9	-5.1	-5.4	-6.3	-7.3	-6.7

Source: Eurostat

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	6.0	5.7	5.7	5.5	5.6	5.1	5.2	4.8
Czech Rep.	7.2	7.1	7.2	7.5	6.8	8.1	6.5	4.3
Slovakia	7.3	6.4	6.8	6.3	6.0	6.9	5.8	4.8
Slovenia	5.3	6.3	6.5	5.2	4.3	4.7	4.9	4.3
Hungary	5.6	6.0	6.5	8.5	9.0	8.8	9.4	8.9
Estonia	6.7	5.7	5.2	4.9	5.9	5.9	4.9	4.9
Lithuania	6.1	6.5	5.4	5.0	4.6	4.2	3.8	2.7
Latvia	8.1	7.0	8.1	5.5	4.4	4.7	4.3	3.2
Bulgaria	4.5	3.9	3.6	3.2	2.1	1.4	0.6	0.8
Romania	5.7	5.4	5.3	4.9	4.5	4.5	3.4	2.4

Source: Eurostat

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	10.1	11.4	10.0	9.2	10.0	9.4	9.8	9.4
Czech Rep.	7.7	9.0	8.2	9.4	10.0	9.6	9.6	9.1
Slovakia	12.1	12.0	11.2	8.3	8.5	7.0	6.6	6.1
Slovenia	8.5	8.6	6.9	6.8	8.5	9.5	10.1	7.8
Hungary	10.5	11.7	9.6	11.9	10.7	10.6	11.7	9.9
Estonia	11.5	10.6	9.2	12.9	13.1	13.3	13.7	11.8
Lithuania	13.2	14.0	9.6	8.7	10.1	9.4	9.0	8.1
Latvia	14.5	14.1	11.7	13.1	13.9	13.0	10.5	8.5
Bulgaria	8.0	6.6	3.3	5.0	6.6	6.4	9.4	5.3
Romania	9.0	8.5	7.3	7.0	7.6	7.3	6.0	6.6

Source: Eurostat

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	2.3	3.0	3.2	2.8	2.8	2.5	2.7	2.4
Czech Rep.	0.2	0.4	0.5	1.5	1.8	1.6	1.9	1.9
Slovakia	2.4	3.0	3.0	2.9	2.9	2.9	3.1	3.0
Slovenia	0.8	0.8	0.1	0.7	1.2	0.3	0.7	0.8
Hungary	2.0	2.2	2.2	3.5	3.9	3.5	3.3	3.1
Estonia	2.7	3.1	3.2	3.0	2.8	3.0	2.9	2.9
Lithuania	0.9	1.0	0.9	1.1	1.6	1.8	1.7	1.7
Latvia	0.2	0.2	0.8	0.4	0.3	0.0	0.5	0.7
Bulgaria	1.5	1.3	1.3	0.9	0.9	0.8	1.1	1.3
Romania	2.5	2.7	2.8	2.9	2.9	3.2	3.5	3.7

Source: Eurostat

4. Balance of payments

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

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Poland	-3.7	-4.3	-4.6	-4.7	-4.9	-4.6	-4.3	-4.4
Czech Rep.	-1.5	-3.4	-3.9	-3.8	-4.6	-3.3	-2.9	-2.6
Slovakia	-0.9	-1.5	-2.1	-1.5	-1.8	-1.1	0.1	0.3
Slovenia	-0.7	-0.3	-0.6	-0.5	0.0	-0.1	0.0	-0.4
Hungary	1.1	1.1	1.2	1.3	1.4	1.5	1.4	
Estonia	3.3	3.3	2.9	2.1	2.0	2.3	2.1	2.3
Lithuania	5.3	3.9	1.5	1.4	-0.7	0.1	-1.6	-3.5
Latvia	8.5	6.0	3.0	1.2	-0.4	-1.8	-1.2	-2.0
Bulgaria	-4.3	-1.2	-1.0	0.1	1.0	0.6	0.9	0.0
Romania	-5.4	-5.3	-4.5	-4.0	-4.0	-4.4	-4.4	-4.1

Source: Eurostat, Central Banks, NBP EI calculations

Table 19. Poland: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-2614	-5187	-6297	-3134	-3354	-4488	-4959	-3623
Goods	-1622	-2475	-3347	-1893	-3139	-2303	-2808	-2073
Services	848	357	601	953	1533	1131	718	940
Income	-3129	-3459	-3457	-2915	-4127	-4022	-3376	-3464
Current transfers	1289	390	-94	721	2379	706	507	974
Capital account	1060	1282	2838	1659	1404	1456	3552	1297
Financial account	4571	11657	2975	11568	4660	491	3000	4365
FDI	-19	-427	-115	1846	-106	1800		-1584
Portfolio investment	3348	7074	2117	1678	4404	4248	1045	3975
Other investment	1307	4904	1233	8106	396	-6461	186	1473

Source: Eurostat, Central Banks, NBP EI calculations

Table 20. Czech Rep.: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-1098	-4270	-1392	932	-2337	-2360	-688	1417
Goods	893	-181	179	1382	1204	322	917	2667
Services	969	613	682	582	836	769	516	518
Income	-3213	-4608	-2337	-1167	-4595	-3351	-1977	-1819
Current transfers	254	-93	85	135	218	-102	-144	51
Capital account	378	587	243	28	-4	114	448	22
Financial account	972	5549	1891	-1022	3428	387	789	88
FDI	1179	1511	535	539	1418	-177	1264	690
Portfolio investment	1937	3133	367	-1637	1208	-76	718	1008
Other investment	-2171	936	1079	-52	597	744	-855	-1742

Source: Eurostat, Central Banks, NBP EI calculations

Table 21. Slovakia: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-94	-704	-496	1690	-267	-295	383	285
Goods	592	-38	80	-450	363	423	1094	-1638
Services	-260	-188	-124	666	-165	-135	-40	451
Income	-354	-243	-304	874	-398	-425	-431	1269
Current transfers	-72	-235	-148	600	-68	-158	-240	203
Capital account	178	477	346	-341	664	-155	873	-873
Financial account	-902	462	310	631	855	684	1009	-2847
FDI	244	-336	-325	351	-158	69	570	-659
Portfolio investment	-957	-345	983	942	11	376	-38	7
Other investment	-188	1143	-348	-661	1002	238	478	-2194

Source: Eurostat, Central Banks, NBP EI calculations

Table 22. Slovenia: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-107	-61	-62	56	73	-91	-36	-77
Goods	-225	-185	-447	-227	-219	-214	-383	-237
Services	341	341	314	316	399	358	370	380
Income	-182	-226	-116	-85	-143	-238	-84	-202
Current transfers	-42	8	188	52	36	3	61	-17
Capital account	11	24	-37	-7	-6	-8	-82	6
Financial account	280	206	35	55	-239	-77	-89	163
FDI	100	82	358	-9	240	246	161	212
Portfolio investment	509	-51	392	2592	-300	-440	-15	-936
Other investment	-214	171	-689	-2457	-177	108	-236	848

Source: Eurostat, Central Banks, NBP EI calculations

Table 23. Hungary: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	435	302	226	342	502	439	149	
Goods	909	560	886	1339	1064	838	795	
Services	786	910	593	455	1091	989	689	
Income	-1462	-1316	-1278	-1419	-1743	-1591	-1565	
Current transfers	202	147	26	-34	90	202	228	
Capital account	530	513	207	453	319	695	686	
Financial account	215	-1269	85	2221	681	953	-1740	
FDI	-459	426	990	-209	-619	-530	1240	
Portfolio investment	-873	-1013	-262	3522	2119	1696	-1556	
Other investment	1547	-682	-643	-1092	-820	-214	-1424	

Source: Eurostat, Central Banks, NBP EI calculations

Table 24. Estonia: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	43	238	153	-118	36	292	131	-86
Goods	-134	-31	35	-129	-43	-37	-12	-175
Services	355	450	293	211	336	430	263	253
Income	-227	-218	-321	-225	-289	-168	-251	-175
Current transfers	50	37	146	25	31	67	131	10
Capital account	74	91	276	187	114	160	209	87
Financial account	47	-829	-740	-105	-170	-285	-392	12
FDI	290	175	427	186	391	850	-194	18
Portfolio investment	-279	-237	22	213	-38	435	542	-118
Other investment	24	-784	-1190	-474	-510	-1583	-732	85

Source: Eurostat, Central Banks, NBP EI calculations

Table 25. Lithuania: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	342	-92	208	-74	-246	143	-305	-676
Goods	-268	-401	-305	-428	-474	-254	-354	-571
Services	243	299	243	241	295	317	260	198
Income	-94	-230	-197	-275	-345	-235	-304	-423
Current transfers	461	240	468	388	278	315	92	120
Capital account	202	87	271	184	85	325	173	28
Financial account	-533	-3	-469	-118	193	-449	85	647
FDI	-99	448	178	157	341	210	49	289
Portfolio investment	70	216	-217	-118	-87	154	1225	1242
Other investment	-646	-299	-183	-183	-85	-346	-238	-1250

Source: Eurostat, Central Banks, NBP EI calculations

Table 26. Latvia: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	243	-16	-39	29	-57	-279	66	-142
Goods	-271	-379	-342	-372	-477	-647	-495	-569
Services	292	282	267	280	340	320	378	363
Income	61	-44	-167	-15	-118	-76	22	-83
Current transfers	161	125	202	136	198	124	161	148
Capital account	62	96	55	5	20	320	80	1
Financial account	-271	-189	-29	-119	92	-4	-29	217
FDI	84	103	160	249	258	340	195	148
Portfolio investment	37	-106	-185	-504	219	-229	49	188
Other investment	-496	190	-116	-245	-262	9	-1161	291

Source: Eurostat, Central Banks, NBP EI calculations

Table 27. Bulgaria: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-329	1295	-848	-88	9	1155	-715	-439
Goods	-877	-202	-1040	-202	-697	-220	-856	-819
Services	401	1477	110	139	482	1510	156	80
Income	-289	-379	-213	-366	-445	-474	-359	-300
Current transfers	436	398	295	341	670	339	344	601
Capital account	-90	178	140	16	47	126	306	21
Financial account	437	-868	67	-59	-443	-1178	327	-105
FDI	381	278	448	-86	85	302	904	452
Portfolio investment	-318	-50	-150	-181	-9	-234	67	-375
Other investment	-5	-364	-167	-445	-420	-747	-364	-352

Source: Eurostat, Central Banks, NBP EI calculations

Table 28. Romania: balance of payments (EUR million)

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Current account	-2385	-935	-786	-967	-2450	-1641	-937	-629
Goods	-2285	-1641	-2017	-990	-2509	-1823	-2200	-1184
Services	45	168	228	-20	106	-23	313	12
Income	-728	-812	-261	-696	-991	-497	-184	-602
Current transfers	30	64	91	104	64	34	189	448
Capital account	583	1350	1264	740	945	702	1136	1146
Financial account	3045	277	855	1696	1946	864	343	-386
FDI	1012	1158	-215	473	443	606	376	433
Portfolio investment	-186	-564	246	438	2637	-314	-921	1840
Other investment	847	1707	476	1925	777	-863	245	-864

Source: Eurostat, Central Banks, NBP EI calculations

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

	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011	I 2012
Poland	33.6	29.7	30.1	29.4	29.6	31.0	31.7	
Czech Rep.	46.0	45.8	45.1	42.7	41.6	40.8	42.9	
Slovakia	3.3	3.1	3.3	3.1	3.1	3.5	3.6	
Slovenia	2.0	1.8	2.0	1.8	1.8	1.8	1.8	1.7
Hungary	24.8	24.3	24.4	25.5	26.2	27.8	28.7	28.1
Estonia	15.8	12.9	11.2	13.3	12.9	13.5	13.9	13.7
Lithuania	19.2	20.8	20.7	20.6	19.5	21.5	25.1	24.2
Latvia	19.3	21.1	19.4	18.3	18.8	19.4	16.5	17.9
Bulgaria	32.5	34.7	35.0	33.5	33.9	36.1	37.7	36.9
Romania	39.4	39.3	38.9	38.1	38.5	38.1	37.8	39.3

Source: Eurostat, Central Banks, NBP EI calculations

5. Interest and exchange rates

Table 30. Main policy rates (end of period)

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75
Czech Rep.	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Hungary	6.00	6.50	7.00	7.00	7.00	7.00	7.00	7.00
Romania	6.25	6.00	6.00	5.75	5.50	5.25	5.25	5.25
Strefa euro	1.50	1.25	1.00	1.00	1.00	1.00	1.00	1.00

Source: Central Banks, EcoWin Financial

Table 31. 3m Interbank rates (average)

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	4.80	4.94	4.98	4.99	4.97	4.95	4.94	5.05
Czech Rep.	1.17	1.15	1.16	1.17	1.20	1.23	1.24	1.24
Slovakia	1.59	1.47	1.36	1.13	0.98	0.78	0.71	0.67
Slovenia	1.58	1.48	1.43	1.23	1.05	0.86	0.74	0.68
Hungary	6.12	6.41	7.07	7.54	7.42	7.29	7.24	7.21
Estonia	1.59	1.47	1.36	1.13	0.98	0.78	0.71	0.67
Lithuania	1.87	1.87	1.78	1.48	1.43	1.31	1.28	1.24
Latvia	0.99	1.27	1.86	1.79	1.31	1.19	1.00	0.94
Bulgaria	3.68	3.64	3.64	3.34	3.19	2.91	2.71	2.59
Romania	6.21	6.26	6.30	5.51	5.04	4.50	4.37	4.94

Source: EcoWin Financial

Table 32. Exchange rate vis-a-vis EUR (average)

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	4.35	4.43	4.47	4.37	4.18	4.13	4.17	4.29
Czech Rep.	24.80	25.47	25.50	25.51	25.00	24.65	24.78	25.30
Hungary	296.74	308.62	304.71	306.36	290.39	291.83	294.43	293.43
Lithuania	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45
Latvia	0.71	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Bulgaria	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Romania	4.32	4.36	4.32	4.34	4.35	4.37	4.38	4.44

Source: Eurostat

Table 33. Exchange rate vis-a-vis EUR (in %, y/y – growth means depreciation)

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	10.2	12.2	12.1	12.4	6.4	3.0	5.4	9.1
Czech Rep.	1.2	3.5	1.5	4.6	3.1	1.1	2.2	3.9
Hungary	8.4	12.0	9.9	11.4	7.2	7.8	11.1	9.9
Lithuania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Latvia	-0.5	-1.1	-1.7	-0.6	-0.7	-1.3	-1.4	-1.6
Bulgaria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Romania	1.1	1.5	0.8	1.9	2.5	5.0	6.9	7.9

Ź ródło: Eurostat, NBP EI calculations

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	-9.6	-11.0	-10.7	-11.8	-7.1	-4.5	-7.2	-10.6
Czech Rep.	-1.3	-3.0	-0.9	-4.6	-3.9	-2.7	-4.2	-6.0
Slovakia	0.5	1.0	0.9	0.5	-0.2	-1.0	-1.3	-1.2
Slovenia	0.3	0.6	0.7	0.1	-0.3	-0.8	-1.2	-1.2
Hungary	-7.8	-10.7	-8.4	-10.9	-7.6	-8.7	-12.0	-11.2
Estonia	-0.1	-0.1	0.4	-0.3	-0.8	-1.4	-2.1	-1.9
Lithuania	0.8	1.0	1.3	0.7	-0.1	-1.0	-1.4	-1.0
Latvia	1.0	1.8	2.8	1.2	0.5	0.5	0.1	0.7
Bulgaria	1.5	1.7	1.7	0.7	-0.1	-0.5	-0.9	-1.2
Romania	0.1	0.5	1.0	-1.2	-2.4	-5.4	-7.2	-8.3

Source: BIS, NBP EI calculations

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

	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012	05.2012
Poland	-9.2	-9.9	-9.4	-10.9	-5.8	-3.6	-6.1	-9.8
Czech Rep.	-2.5	-3.8	-1.6	-4.2	-3.3	-1.9	-3.7	-5.5
Slovakia	1.6	2.3	2.2	1.3	0.5	-0.3	-0.6	-0.6
Slovenia	-0.3	-0.1	-0.4	-0.6	-0.3	-1.4	-1.4	-1.5
Hungary	-7.5	-10.0	-7.6	-8.8	-4.9	-6.4	-9.6	-9.0
Estonia	0.6	0.6	0.9	1.0	0.4	0.1	-0.9	-0.7
Lithuania	1.2	1.5	1.2	0.9	0.4	-0.4	-1.1	-1.3
Latvia	1.7	2.3	3.6	1.6	0.8	0.7	0.0	0.3
Bulgaria	1.2	1.1	0.9	-0.5	-1.4	-2.1	-2.5	-2.5
Romania	0.0	0.3	0.7	-1.9	-3.2	-6.2	-8.6	-9.3

Source: BIS, NBP EI calculations

6. Labour market

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

	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2010	III 2011	IV 2011
Poland	-0.8	0.9	1.1	1.1	1.9	1.0	0.5	0.7
Czech Rep.	-2.5	-1.1	-0.2	-0.2	0.8	0.5	0.3	-0.1
Slovakia	-4.5	-2.8	-1.4	0.4	2.1	1.8	1.3	0.4
Slovenia	0.2	-1.0	-2.7	-2.0	-4.0	-3.0	-1.8	-2.6
Hungary	-1.3	-0.5	1.0	0.6	0.4	0.8	0.8	1.1
Estonia	-9.8	-7.0	-2.2	2.8	7.1	8.1	7.9	3.4
Lithuania	-7.4	-6.6	-4.7	-0.8	0.8	3.7	1.7	0.7
Latvia	-10.9	-4.6	0.6	2.2	3.5	3.3	2.6	3.9
Bulgaria	-7.6	-6.7	-5.3	-4.7	-4.0	-4.5	-2.8	-2.2
Romania	-0.9	1.3	-0.3	0.7	1.7	-2.4	-2.2	-0.2

Source: Eurostat

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

	09.2011	10.2011	11.2011	12.2011	01.2012	02.2012	03.2012	04.2012
Poland	9.8	9.9	10.0	10	9.9	10	9.9	9.9
Czech Rep.	6.5	6.5	6.6	6.7	6.7	6.8	6.7	6.6
Slovakia	13.7	13.9	14.1	14.1	14.1	14	13.9	13.7
Slovenia	8.3	8.6	8.7	8.7	8.7	8.7	8.6	8.7
Hungary	10.9	10.9	10.8	10.9	11.2	11	11	10.7
Estonia	11.4	11.6	11.6	11.6	10.8	10.8	10.8	
Lithuania	14.7	14.4	14.1	13.9	13.7	13.6	13.6	13.8
Latvia	15.7	15.5	15.5	15.5	15.2	15.2	15.2	
Bulgaria	11.1	11.3	11.6	11.8	12.1	12.4	12.5	12.6
Romania	7.7	7.3	7.6	7.5	7.3	7.1	7.2	7.4

Source: Eurostat

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

	II 2010	III 2010	IV 2010	I 2011	II 2010	III 2011	IV 2011	I 2012
Poland	14.2	7.3	8.8	4.9	6.0	2.4	6.0	2.4
Czech Rep.	5.3	8.0	7.5	8.5	8.6	7.0	8.6	7.0
Slovakia	-0.2	4.0	3.9	2.6	3.8	5.2	3.8	5.2
Slovenia	-0.5	-1.1	2.7	2.5	2.9	2.5	2.9	2.5
Hungary	4.5	-2.2	-4.0	0.1	7.9	8.0	7.9	8.0
Estonia	-2.4	-0.1	1.3	-0.5	-3.6	-1.6	-3.6	-1.6
Lithuania	-6.1	-2.3	1.4	0.9	2.6	3.8	2.6	3.8
Latvia	-7.6	-2.7	1.2	4.1	4.7	5.7	4.7	5.7
Bulgaria	10.8	11.6	9.4	7.1	9.8	7.3	9.8	7.3
Romania	3.0	-1.8	-1.8	-4.7	3.5	9.8	3.5	9.8

Source: Eurostat

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

	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Poland	12.4	11.4	3.6	5.9	-2.0	-1.5	-1.5	-3.7
Czech Rep.	3.7	2.6	5.5	5.8	-0.4	0.3	1.1	1.8
Slovakia	-9.4	-7.5	-1.5	0.9	-0.7	1.1	2.1	-0.6
Slovenia	0.2	-4.5	-4.9	-1.7	1.8	4.0	5.6	5.9
Hungary	12.7	3.1	-3.6	-5.9	-1.0	3.1	3.7	6.2
Estonia	-10.1	-10.6	-8.5	-2.8	-9.1	-10.8	-8.9	0.7
Lithuania	-10.7	-9.7	-11.1	-3.1	0.9	0.1	-0.3	0.7
Latvia	-20.7	-13.3	-2.8	-1.1	-3.7	-3.5	-3.7	-1.1
Bulgaria	4.5	4.3	6.2	1.1	4.4	7.2	6.1	8.1
Romania	2.5	-3.8	-7.4	-8.1	-3.7	0.9	6.5	7.5

Source: Eurostat, NBP EI calculations

7. Public finance

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

	2007	2008	2009	2010	2011	2012p	2013p
Poland	-1.9	-3.7	-7.4	-7.8	-5.1	-3.0	-2.5
Czech Rep.	-0.7	-2.2	-5.8	-4.8	-3.1	-2.9	-2.6
Slovakia	-1.8	-2.1	-8.0	-7.7	-4.8	-4.7	-4.9
Slovenia	0.0	-1.9	-6.1	-6.0	-6.4	-4.3	-3.8
Hungary	-5.1	-3.7	-4.6	-4.2	4.3	-2.5	-2.9
Estonia	2.4	-2.9	-2.0	0.2	1.0	-2.4	-1.3
Lithuania	-1.0	-3.3	-9.4	-7.2	-5.5	-3.2	-3.0
Latvia	-0.4	-4.2	-9.8	-8.2	-3.5	-2.1	-2.1
Bulgaria	1.2	1.7	-4.3	-3.1	-2.1	-1.9	-1.7
Romania	-2.9	-5.7	-9.0	-6.8	-5.2	-2.8	-2.2

p – European Commission Spring 2012 forecast
Source: Eurostat (Spring 2012 fiscal notification), European Commission

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

	2007	2008	2009	2010	2011	2012p	2013p
Poland	45.0	47.1	50.9	54.8	56.3	55.0	53.7
Czech Rep.	27.9	28.7	34.4	38.1	41.2	43.9	44.9
Slovakia	29.6	27.9	35.6	41.1	43.3	49.7	53.5
Slovenia	23.1	21.9	35.3	38.8	47.6	54.7	58.1
Hungary	67.1	73.0	79.8	81.4	80.6	78.5	78.0
Estonia	3.7	4.5	7.2	6.7	6.0	10.4	11.7
Lithuania	16.8	15.5	29.4	38.0	38.5	40.4	40.9
Latvia	9.0	19.8	36.7	44.7	42.6	43.5	44.7
Bulgaria	17.2	13.7	14.6	16.3	16.3	17.6	18.5
Romania	12.8	13.4	23.6	30.5	33.3	34.6	34.6

p – European Commission Spring 2012 forecast
Source: Eurostat (Spring 2012 fiscal notification), European Commission

Table 44. Excessive deficit correction period (EDP)

	Year
Poland	2012
Czech Republic	2013
Slovakia	2013
Slovenia	2013
Hungary	2012
Estonia	Not incl. in EDP
Lithuania	2012
Latvia	2012
Bulgaria	2011, EDP ends in Summer 2012
Romania	2012

Source: European Commission

8. Forecasts

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

	2011	European Commission		IMF		Consensus forecast		Domestic sources	
		2012	2013	2012	2013	2012	2013	2012	2013
Poland	4.3	2.7	2.6	2.6	3.2	2.8	2.9	2.9	2.1
Czech Republic	1.7	0.0	1.5	0.1	2.1	-0.5	0.3	0.0	1.9
Slovakia	3.3	1.8	2.9	2.4	3.1	1.9	2.4	2.5	3.1
Slovenia	-0.2	-1.4	0.7	-1.0	1.4	-0.8	0.9	-1.2	0.6
Hungary	1.6	-0.3	1.0	0.0	1.8	-0.9	1.1	-0.8	0.8
Estonia	7.6	1.6	3.8	2.0	3.6	2.2	3.3	2.6	3.6
Lithuania	5.9	2.4	3.5	2.0	2.7	2.8	3.1	3.0	3.5
Latvia	5.5	2.2	3.6	2.0	2.5	2.8	2.9	1.3	2.7
Bulgaria	1.7	0.5	1.9	0.8	1.5	0.8	1.9		
Romania	2.5	1.4	2.9	1.5	3.0	1.1	2.4	1.7	3.1

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

	2011	European Commission		IMF		Consensus forecast		Domestic sources	
		2012	2013	2012	2013	2012	2013	2012	2013
Poland	4.3	3.7	2.9	3.8	2.7	3.8	2.7	3.9	2.7
Czech Republic	2.1	3.3	2.2	3.5	1.9	3.3	2.2	3.6	1.5
Slovakia	4.1	2.9	1.9	3.8	2.3	3.4	2.7	3.5	1.7
Slovenia	2.1	2.2	1.7	2.2	1.8	2.2	2.0	2.3	1.7
Hungary	3.9	5.5	3.9	5.2	3.5	5.6	3.8	5.3	3.5
Estonia	5.1	3.9	3.4	3.9	2.6	3.5	2.9	3.9	3.2
Lithuania	4.1	3.1	2.9	3.1	2.5	3.0	2.6	2.9	2.7
Latvia	4.2	2.6	2.1	2.6	2.2	2.6	2.5	2.4	2.0
Bulgaria	3.4	2.6	2.7	2.1	2.3	2.8	3.2		
Romania	5.8	3.1	3.4	2.9	3.1	3.0	3.7	3.0	2.9

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

	2011	European Commission		IMF		Domestic sources	
		2012	2013	2012	2013	2012	2013
Poland	-4.3	-3.9	-4.2	-4.5	-4.3	-2.1*	-1.3*
Czech Republic	-2.9	-3.2	-3.2	-2.1	-1.9	-2.2	-1.9
Slovakia	0.1	0.2	0.2	-0.4	-0.4	1.6	1.0
Slovenia	0.0	-0.4	0.7	0.0	-0.3	-0.1	1.3
Hungary	1.4	2.2	3.7	3.3	1.2	2.8	4.0
Estonia	2.1	-0.3	-0.3	0.9	-0.3	-2.6	-0.3
Lithuania	-1.6	-2.0	-2.1	-2.0	-2.3	-3.0	-3.3
Latvia	-1.2	-1.8	-2.6	-1.9	-2.5		
Bulgaria	0.9	0.6	-0.3	2.1	1.6		
Romania	-4.4	-5.0	-5.0	-4.2	-4.7	-4.6	-4.9

* - combined current and capital account balance

Sources for tables 45-47: European Commission (04.2012), IMF (04.1012), Consensus Economics (06.2012) Narodowy Bank Polski (07.2012), Ceska Narodni Banka (05.2012), Narodna Banka Slovenska (06.2012), Magyar Nemzeti Bank (06.2012), Comisia Naţională de Prognoză (05.2012), Banka Slovenije (04.2012), EestiPank (06.2012), Latvijas Banka (04.2012), Lietuvos Bankas (05.2012)